



## **PODCAST TRANSCRIPTION SESSION NO. 199 - BERNARDO MARTINEZ**

Welcome to the Lend Academy Podcast, Episode No. 199. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of the LendIt Fintech Conference.

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Today's show is sponsored by LendIt Fintech Europe 2019, Europe's leading event for innovation in financial services. It's coming up on the 26th and 27th of September in London at the Business Design Centre. We've recently opened registration as well as speaker applications. You can find out more by going to [lendit.com/europe](http://lendit.com/europe)

**Peter Renton:** Today on the show, I'm delighted to welcome Bernardo Martinez. He is the Head of Funding Circle's US operations, he's officially the Managing Director of Funding Circle US. We wanted to get Bernardo on the show because he's been in the job now a little bit over a year, he took over from Sam Hodges, I think it was April of 2018, and I wanted to get him on the show to talk about a variety of things.

We actually...we do cover a lot of territory in this interview, we talk about the lessons he's learned, what he brought over from PayPal, we talk about why banks aren't lending to small business, we talk about who he sees as his main competitors, the competitive landscape in the US. We talk about his recent op-ed in American Banker discussing the SBA Guarantee Program, we talk about the Canada expansion, what he's doing on the regulatory front and much more. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Bernardo!

**Bernardo Martinez:** Thank you, 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 so why don't you tell...I know you're originally not from here, so tell us a little bit about your background, how you came to be in America and what you've done in your career to date.

**Bernardo:** Yeah, thanks Peter, I've been actually in the United State since 1997, I moved from Venezuela to do my graduate degree at Duke University and after that I spent most of my time in the financial services industry working in areas like Bank of America, actually went abroad to work in a local bank in the Caribbean managing American Express as an international operator and prior to joining Funding Circle, I spent almost three years actually working with PayPal managing the US Business Lending Division for them.

**Peter:** Okay so then, what are some of the...you know, PayPal Working Capital, it's got some decent scale these days, I know you were sort of in charge of building that up so I'm curious about what are some of the lessons you learned at PayPal that you've really brought over to Funding Circle.



**Bernardo:** Since I joined PayPal, back then, I think the one thing that I was able to learn a lot was how important the customer experience is as part of the lending process and how you can actually create a true conversion as you create a transparent product and an easy process. So I think that's the biggest learning that I took from PayPal and that's one of the things that I'm very focused on since I came to Funding Circle a year or so ago, trying to replicate some of those learnings and trying to put it here in practice and basically bring the product up to par and improve upon what we've got today.

**Peter:** Right, right. Okay, so you've been a bit over a year in the job, I know you replaced Sam Hodges who we had on the podcast a few years ago, so tell us about how the year has been, maybe start with what's been the biggest challenge for you over the past year.

**Bernardo:** As you would imagine, coming from a different type of lending environment of short term lending, I moved to Funding Circle which is more of a long term lending sort of provider so I spent the last year really learning our processes and understanding our weaknesses and opportunities and I would say one the biggest things I've learned is we have a tremendous opportunity to focus on partnerships.

I feel pretty good that after that first year we're starting to see a lot of that focus on partnerships. It came to fruition, as you know, we signed at the beginning of the year, with Stripe, a partnership and most recently, we did a partnership with LendingClub. I feel pretty good the first year of learnings here have resulted in a good outcome that started this year.

**Peter:** Right. Okay, so we will talk about some of those partnerships in a little bit, but before we do that, I actually want to get to sort of the details of your loan offerings, just so everyone is clear, I know these are longer term loans, but why don't you give the listeners...what are the range of interest rates, loan sizes, loan terms, that sort of thing?

**Bernardo:** You think about us, we are offering installment term loan products that have monthly payments, it basically goes from \$25,000 to \$500,000, from six months up to five years. On average, our loan size is \$130,000 and actually our average APR is around the low teens so it's a little different from what you see in the industry today with some of the alternative lenders.

**Peter:** Right, right. And then what about the other side of the business, I've spoken with Samir Desai many times and he's spoken at LendIt saying he's very much a proponent of the pure marketplace so I'd love to get some sort of some sense of the investors that you're dealing with. I mean, you don't have to name names obviously, but like what are the types of investors that you have in your platform today, are you still doing the fractional loans to individuals. Just tell us about the investor side.

**Bernardo:** Yeah, from an investor perspective, we are primarily an institutional investor and what I mean by institutional there are twofold. One is our asset managers as well as sort of banks so those are the majority of our funding today. As you know, last year we signed a deal with Alcentra for \$1 billion and purchase over three years and also we have been working with INTRUST since actually a year and a half ago, doing the same thing on the institutional side.



To your question about fractional, we do have fractional today, it's not something we are growing at this point, but we're investing some time to think through how we can make it bigger in the foreseeable future.

**Peter:** Right, right. Okay, so then I was reading...I think it was last week or the week before, you released a report with Oxford Economics talking about, you know, basically small business lending, the state of small business lending basically and I was struck by the fact that small business lending is just 0.7% of bank balance sheets, that's...I mean obviously, they're smaller loan sizes, but...let's talk about banks. I know you're partnering with banks on a lot of your initiatives, but are you finding that your customers no longer consider banks a viable lending option?

**Bernardo:** What we're finding is in our service is like 72% of our customers actually came to us first because they found us to have a great process and a great product for them and the ones who didn't come first to us, they kind of found that the bank process are not up to speed to what the market is offering so they spend almost eight hours just completing the application without really knowing what the end decision will be. So I think that small businesses, in general, are starting to move toward alternatives beyond banks to really facilitate their capital access and we are pretty happy to see that our borrowers are starting to see us as a great choice.

**Peter:** Right, so you said your borrowers are going to you first, how are they finding out about you? I mean, I know you've got some recognition obviously, everyone in fintech knows you, but the average borrower, I imagine, still has...isn't aware of Funding Circle, the majority of them, I imagine, so how are you getting the word out, how is it that such a large percentage come to you before a bank?

**Bernardo:** A few things, I think number one, as you know, we have done...the way we approach our marketing is twofold. Number one, we use direct marketing as an approach and we do direct mail... print in order to reach out to customers. So some of them are going directly through as a response of our direct marketing processes.

In addition to that, we have done partnerships with LendingClub, but also with portals like Credit Karma, NerdWallet and Fundera that actually aggregate a lot of offerings. We compete in those lead aggregators marketplaces and customers see us there and basically come to us directly. Again, I think that two prong approach help us get the word out and enable those customers to access us directly.

**Peter:** I'm sure there's a subset of your customer base that would have received a bank loan had they decided to go down that route. Do you have some sense of...I mean, obviously you're going to be more expensive than a bank, I imagine, for most of those, but how do your interest rates compare to what the banks are charging today?

**Bernardo:** I would not consider ourselves more expensive. I think we're affordable and we're close to a bank. I think the main difference is actually how long is the process going to take and how transparent and easy the process is when you compare us to banks. So we feel that for like



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the best rate, you know, best risk rate, we're pretty competitive with banks and the reality is we can basically finish a loan from start to finish between five to seven days, while a bank may not be able to respond within that time frame.

So I feel pretty good that what we offer our customers is affordable, it's transparent and is the right...it fits what they're trying to do and the majority of the banks, at the end of day, we know they're very focused on their existing customers and they don't necessarily actually have the right processes for those customers so I think we [inaudible] in that regard.

**Peter:** Right, right. Okay, and so there are obviously others that are out there in the marketplace apart from banks. I mean, I'm just curious when you're competing for customers. It's interesting that now that LendingClub is not originating loans themselves, it feels like there's not that many offering term loans, but you obviously have...you know, PayPal has got a large and growing business, Square is as well although they're sort of for micro businesses.

Then you've got OnDeck and Kabbage, I'm sure there's some overlap there but maybe you can tell us...you know, when you're in the market I'm sure you're talking to your customers and asking them who else they're considering, I mean, who are the names that come up, are they some of the companies that I mentioned, do you still consider those direct competitors or not?

**Bernardo:** At the end of the day when I look at the marketplace, I think there's three main competitors in our market. I mean, banks are certainly one, as you said, and in banks I actually think there are two components, sort of the big banks and the regionals and community banks. So those are sort of the ones that we compete with.

I would say community banks are the ones we see most of the time. When it comes to sort of the non-bank players, I think there are two categories and you kind of mentioned sort of a captive network which are really the PayPals', the Squares' of the world and I think what's different about us and why we're winning in certain cases for customers is they are really focused on the short term and they are really...in a way, they're offering a very specific use case which is inventory financing for the most part.

In our case, as our loans have so much range from six months to 5 years, they can use it for multiple use cases, not only for inventory financing, but they can use it for debt consolidation or capital expansion. So we're winning in the sense that our product has more flexibility and at the end of the day, that's more important so that's one way how we're kind of winning against sort of the captive networks in that process.

When you look to the alternative lenders, you know, in general speaking terms, they also focus on short term and they tend to have a higher rate, interest rate, compared to ours. So we feel that we have a better product and therefore, we are able to sustain not only the multiple use cases that we offer, but also a better rate for them so that's how we're winning in those spaces as well.



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So we feel pretty good with our positioning and we're starting to make good traction. As you saw lately, we released our stats and we actually have done more than \$2.2 billion in originations and we have served more than 13,000 customers since we started.

**Peter:** Right, which I know. I think you mentioned as well, it's more than the vast majority of banks are doing so you certainly have reached some significant scale there.

I want to actually switch gears a little bit, I was fascinated to read your op-ed from earlier this year in American Banker, it's been something that's been really on my mind as well and just to summarize for those who don't know, you had this op-ed...basically it was talking about the SBA, the Small Business Administration, and how...you know, they have this loan guarantee program that's really important, that has really led to a significant number of banks actually offering small business loans. They have not expanded it with very few exceptions to the broader fintechs like yourself so I'm curious if you had any feedback from that, from the SBA, I mean, what are your conversations like there? Are we going to see an SBA-backed Funding Circle loan anytime soon?

**Bernardo:** We're working with the regulators in that regard, we haven't had specific feedback but there's a lot going on?, so we feel pretty good about that. The really important part of this type of program is we have done this in other countries so we have programs like these in the UK, Germany and the European market, we feel pretty good that we can actually enable governments to impact directly small businesses when times are tough and I think our platform is unique in that regard that we can do that.

So we are trying to basically to partner with the SBA or any other government agency to help set up portals like the ones we have done in other countries because we feel that it's an important part of our mission in our platform. So yeah, nothing to share at this point, but I think there is a lot of dialogue going on in terms of what we can do and how we can do it. I'm pretty hopeful that we can do something

**Peter:** Right, so on that, I know your operation really well and I know in the UK you've got the British Business Bank that actually invests directly in the loans and I think the European Investment Bank is doing it in Germany, I believe or it might be Germany and in the Netherlands, maybe you can correct me there, but these initiatives are actually government funds going directly into the loans themselves as an investor on the platform which is different obviously to what the SBA does. Are you saying that you're also talking...I mean, I don't know in the US any government investing directly in any platform, are you having those conversations as well?

**Bernardo:** No, I don't think we're not having those conversations yet, but I think what we're trying to tell the regulators or trying to start having those dialogues is about how we can basically, either leverage the [inaudible] structure that they have in place and how we can work through it. We don't have to mimic necessarily what we have done in the European markets, but



definitely, we would like to have...being a partner of the government to help the small businesses in the market and I think that's what we're trying to work through it.

**Peter:** Right, right. Okay, so I want to talk about partnerships and let's start off with the LendingClub one because that's been in the news fairly recently and I wrote a piece about it. We had a conversation before that was announced and...you know, maybe tell us a little bit about the background of how that came together and just how you decided...obviously it's a pretty...it's a nice borrower stream for your guys, I imagine, but just tell us a little bit about how that process came together.

**Bernardo:** One of the things that I like about the LendingClub partnership is that if you go back into how the industry was kind of formed, you know, we have been working with LendingClub since the inception kind of advocating in the policy forums around transparency, responsible business lending and we have been working since the beginning of that, in those two topics, and I think when the opportunity came...it was pretty good to see how we can, both of us, including Opportunity Fund as well can partner together to really put our policy, sort of thought process into action with the partnerships.

So now you have the three of the major players that have been advocating for transparency and really pushing a lot of legislation around that...to be a responsible lender, to kind of offering a small business loan in what we truly believe is the most transparent, the most robust lending that we can offer to small business owners in America so it's fascinating how we move from policy to actually action so I'm pretty excited about that and I think the partnership will be a great success for all of the parties involved.

**Peter:** So I know it has only been a couple of week, I mean, I believe I think you went live, we're recording this in May 6th and I think it was just a couple of weeks ago that you went live, but are there any initial thoughts on the traction the partnership is getting?

**Bernardo:** I would say things are working well, I mean, we will not disclose any numbers, but I think in general the partnership is tracking expectations.

**Peter:** Right, right. Okay, so something that is curious to me and it's actually not unique to the US, I mean, you guys have done extremely well in small business lending in multiple geographies now, obviously the two biggest are the UK and the US and it's interesting to me that in the UK no other company has got significant scale when it comes to small business lending, online originators of small business loans and the same now, particularly with LendingClub sort of now moving to being a partner of yours rather than a competitor. No one in the US is really getting scale in the online space when it comes to small business lending, term loans I'm talking about obviously, why do you think that is?

**Bernardo:** At the end of the day, small business is a very different segment and I think that's one of the reasons why banks have struggled in the past. At the end, the key of this segment really requires a lot of focus so when platforms or companies decided to enter the segment as a secondary item with a more broader strategy, it's hard to make it work and I think that's



what...you know, we have decided a while ago that we want to focus on this segment alone and that's where we're putting our effort and energy so I think that's why we have been successful, is the focus that we have had and we will continue to have in the future. It's going to be the key differentiator for us from the rest.

**Peter:** Right, right. Okay, I noticed another thing you announced recently was expansion to an additional country, going to Canada. Now I'm curious about this because obviously Canada, directly north of the border here, but has a banking system probably more similar to the UK than it does to the US. So how involved is the US operation going to be in building that business or is it really going to be run out of the UK?

**Bernardo:** Well I think at the end of the day, we actually have somebody dedicated to the Canada business based in Toronto so at this point we decided to enter earlier in the year and I think we'll see operations up and running in the second part of the year. We have somebody dedicated, the person came from the UK, but at the end of the day, we're really focused on trying to build the Canada business from there.

**Peter:** So what you're saying is you're really building it internally. It's not like...there's no US resources going into building that Canada business.

**Bernardo:** We always have subject matter in the US that are helping them, but at the end of the day, it's a Canada led organization at this point.

**Peter:** Right, right. Okay, and speaking of geography, you guys expanded recently to the city where I live, Denver, Colorado, and you were kind enough to invite me to your opening party last year. You know, there's been a lot of talk in San Francisco really just in the last few months, you've seen a lot of people talking about companies leaving.

In the fintech space, there's a lot, I would even say most of the companies now that have scale have operations elsewhere beyond just the Bay Area and you decided on Denver. Maybe you can give us an update, I think the office...must be about a year since you opened that office now, tell us a little bit about, you know, who are you hiring in Denver, what's going on in that office?

**Bernardo:** Denver actually opened in August 2018 last year, so we're pretty excited about our Denver operations. I mean, we have had success hiring people and have a great team there so currently we're around 60+ number of people, predominantly, basically in sales and operations roles that we are focusing on there and I think we're feeling pretty good.

I think what is important for us is we're really committed to San Francisco long term, we truly believe that we're getting a lot of good talent as well here, different talents in different parts of the organization, but we feel that we're going to need presence in both places to be successful in the United States. So, you know, we feel that the decision we made last year was the right one and we feel pretty committed to that strategy at this point.



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**Peter:** So you're going to be growing the San Francisco office as well as the Denver office, is that fair to say?

**Bernardo:** It's fair to say, yes.

**Peter:** Okay, so I want to talk a little bit about government relations. We were both in DC a few weeks ago for the Marketplace Lending Association event and as you pointed out, you've worked closely... the founders of that organization were LendingClub, Prosper and Funding Circle, so I'm curious about what the level of engagement is with DC these days. Are you still talking directly with regulators, are you sort of leaving it to the MLA, I mean, what's your approach in DC these days?

**Bernardo:** Well we always leverage our associations to have a conversation on the specifics at the industry level, and we also have direct conversation for topics that are outside of the sort of scope of the MLA. As you know, in the MLA there's a lot of consumer sort of companies and not necessarily small business so we definitely have certain issues that are not necessarily relevant for the MLA.

We have two communication processes. One, through the MLA when it is necessary and some that are directed...that are trying to address our voices. One important part for us is that we also have a lot of dialogue at the state level. As you know, we're a little bit different than other platforms that kind of use a bank charter. We actually have our state license model so have dialogue at the state level as well and that's a lot of our focus these days is really having that dialogue at the state level.

**Peter:** Right, right. It's interesting because you talk to politicians, there's not many issues that are bipartisan, it seems like these days, but helping small business is one of them. Everyone at least wants to talk about doing the right thing for small business owners so are you finding that these conversations actually progress into...and you feel like your opinion is heard both at the state level and the federal level?

**Bernardo:** I think you are right. I think the reality is everyone wants to help small business owners succeed in the marketplace. I think we feel pretty good that every time we are trying to get our message across the different state or federal agents and regulators, we feel pretty good about it and how receptive they are of what we're doing and what we're trying to achieve. I think they are pretty open, as you said, they are very focused in trying to help their constituency so we feel we have the right message for them and we feel that we can make traction.

**Peter:** Right, and so you guys...there was a change in California, it was SB-1235, it came in around transparency because we have...there's the Truth in Lending Act that mandates a certain format of the way when you're taking out a consumer loan. There is no equivalent on the small business side, but SB-1235 is mandating that, will you support it? Were you part of the conversations when that was sort of getting passed?



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**Bernardo:** Yeah, we actually were one of the leaders behind that with LendingClub and Opportunity Fund as well. So this is a perfect example Peter, as I mentioned. This was something that we wanted to do because we felt it was right to have a framework that was about transparency and responsible lending and we kind of partnered with the regulators and they were waiting for us to come to the table and that's how things got passed.

**Peter:** Well, it hasn't been implemented yet, right, you're not actually having to...there's no sort of equivalent form that has been mandated yet, is that correct?

**Bernardo:** The legislation was passed and now it's being finalized with certain specifics around it, but sort of the ground principles were set, but I think at the end of the day...that's a good effort in how you can work with the regulators at the state level to kind of frame a good policy around transparency.

**Peter:** Right, right. So then that's sort of one win, but what are some of the other areas...when you are talking with regulators today, what are some of the changes you'd like to see that would make a difference for Funding Circle?

**Bernardo:** Well I think that the more that we can go to a sort of a federal type of commercial Truth in Lending as we did in California, the better it will be for us because that would create a national framework that is similar across all the states and every time you have a national framework it enables you to have simpler operations and it's easier to execute. It will also be more transparent, easier to communicate with customers so that's one item that we're kind of very focused on.

In addition to that, we're kind of very vigilant on the CRA reform and we're also kind of participating around the IRS modernization which we feel is very important as we continue to provide lending to our customers because the easier we can get access to their data, you know, the easier for us to provide them processes and customer experience that makes it easier for them to get their loan. So those are some of the topics that we have top of mind.

**Peter:** Yeah, the IRS issue, I think your predecessor, Sam Hodges, wrote an op-ed on that many, many years ago and I know that others have mentioned that having sort of API access to IRS data would be a big thing. There's been movement on it in Washington, but nothing has actually happened yet, unfortunately.

Anyway, we're almost out of time, but there's a couple of more things I want to chat with you about. Firstly, so you look at your business today, you're a two-sided marketplace, you've got your borrowers and your investors, are they perfectly in balance today, is one side constraining growth over the other or where are you at?

**Bernardo:** I think with any marketplace, they are always balancing, and even if you look at banks, it's actually the same. I think at this point what we're trying to really get to is really the right balance from a growth perspective and risk/reward from investors and I think right now, we're at a good balance at this point of our journey. I mean, we'll continue to, depending on the



market, adjust those expectations, but we feel pretty good we have struck a good balance at this point.

**Peter:** Okay, just on that...I mean, the economy is still doing great, everyone keeps talking about the fact that there's going to be a recession, at some point and there will be at some point. Although we could be like Australia where I think they've gone 28 years without a recession so it's always possible that it is a long ways off, but are you adjusting anything for where we are in the economic cycle?

**Bernardo:** I think what we typically do, we have a robust risk process in terms of monitoring and stress testing our portfolios and I think we have shared with you and others how we have done that. When we see and observe something that goes outside our risk appetite, we tend to adjust, but generally speaking we haven't done anything right now that is cyclical in nature. We have been adjusting things that are not performing as we expected, as you normally would do in any lending product, if you see a cohort that is not performing as expected, you calibrate as you see fit, but from a recession perspective, we are not at this point worried about it but we will continue to monitor our portfolios on an ongoing basis.

**Peter:** Okay, so last question then. So what are you working on today that's most exciting for you?

**Bernardo:** I'll come back to the topic about partnership. We're really focused on our growth strategy on partnerships so I am spending a lot of my time thinking through what other types of partners do we want to work with and how we can accelerate those conversations in order to make those partners a reality. That's one of the key things that I'm working on today and I feel that we're making a lot of traction as we have seen in the last quarter and I hope we'll see more news in the foreseeable future around this partnership strategy that we have embarked on since I came in.

**Peter:** Okay, well I look forward to hearing more news on that and on that note, we'll have to leave it there. Thank you very much for coming on the show, Bernardo.

**Bernardo:** Thank you Peter for your time, I appreciate it.

**Peter:** Okay, see you.

**Bernardo:** Thanks.

**Peter:** You know one thing I appreciate about Funding Circle is that they really have maintained this laser-like focus on one product. They operate in multiple geographies, but they operate with this one product, term loans to small businesses, and there's obviously a lot of adjacent products they could go into and they have chosen not to. I mean, they did have property loans in the UK for a little while, but they have since gotten out of that business and they've maintained this focus and they've reached significant scale now in multiple geographies and



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really, they are one of the very few fintech companies, particularly on the lending side, to do that.

I think my sense is this kind of lending is difficult, these are 3/4/5-year loans to small businesses that's a very heterogenous group, there's not a lot that these companies have in common and I think it's difficult to underwrite these things. Obviously, banks have been doing it for decades, with the SBA's help. I wonder how much they would lend if they didn't have SBA guarantees in place. Funding Circle has done obviously without that and they continue to build their business in a significant way in multiple geographies.

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 Europe 2019, Europe's leading event for innovation in financial services. It's happening September 26th and 27th at the Business Design Centre in London. Registration is now open as well as speaker applications. Find out more by going to [lendit.com/europe](http://lendit.com/europe)

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