



# LEND ACADEMY

## **PODCAST TRANSCRIPTION SESSION NO. 244–SCOTT STEWART**

Welcome to the Lend Academy Podcast, Episode No. 244, this is your host, Peter Renton, Founder of Lend Academy and Co-Founder of the LendIt Fintech Conference.

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Today's episode is sponsored by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. It's happening on our new dates of September 30 and October 1, at the Javits Center in New York. This year, with everything that's been going on, there will be so much to talk about. It will likely be our most important show ever, so come and join us in New York to meet the people who matter, to learn from the experts, and get business done. LendIt Fintech, lending and banking connected. Sign up at today at [lendit.com/usa](http://lendit.com/usa)

**Peter Renton:** Today on the show, I am delighted to welcome Scott Stewart, he is the CEO of the Innovative Lending Platform Association, also known as the ILPA. Now, they're a trade organization that is focused on small business lending, they have some of the leading online small business lenders and the largest players in the country as members. I wanted to get Scott on the show because, obviously, small business lending is front and center of the entire economy right now.

We need to be getting the money out to the small businesses for the PPP, the Paycheck Protection Program, we talk about that in some depth. Scott talks about what his members are doing there, we don't just talk about the PPP, we also talk about other initiatives they've been working on such as the SMART Box initiative, we talk about how they're interacting with some of the other associations, what's Scott's view of how the PPP has been handled and what more the government can be doing and much more. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Scott!

**Scott Stewart:** Thank you very much, Peter, great to be here.

**Peter:** Okay, my pleasure. So, I want to get this thing started, you know, to give the listeners a bit of background about yourself. You've had an interesting career, looks like in and around Washington, why don't you tell us the highlights of your career to date.

**Scott:** Sure. I, actually, consider myself a recovering politician (Peter laughs) and somebody who worked for a long time in both politics and then in the energy sector, in oil and gas, and I think that, you know, I took a detour along the way, after the financial crisis, and actually joined the family business which was an insurance business. It turns out, I was really terrible at slinging property and casualty insurance policies, I was really, really bad at that so, my friends said to me, come back to Washington.



# LEND ACADEMY

I had a good friend, Eric Hoplin of the Financial Services Roundtable and he said, it's time for you to come back, I have a job for you, it's not the right job, but it's a place for you to get back here and start up again. And so, I became Director of Membership at the Financial Services Roundtable which was a trade association which represented all the CEOs of the largest financial services firms in the country, meaning the banks, the insurance companies and the asset managers, the card companies.

I did all sorts of things for them, including managing the completion of their massive new office build out, I did all the technology build for that and helped with the design of those things. I upgraded all of the stuff from gigantic desktop computers to Microsoft Surface Pro tablets so we could get everybody to be more secure, more efficient and more mobile, and along the way, I met some really interesting leaders.

I met a guy by the name of Steven (inaudible) who's an international leader on Artificial Intelligence and emerging technologies and he introduced me to Klaus Schwab's Fourth Industrial Revolution which completely opened up my whole view of the world. Alison Hawkins and I, she was the Director of Communications at the Financial Services Roundtable, she's now with Wells Fargo, we cooked up a new fintech program for the Roundtable to explore a long term future at the confluence of finance innovation and technology.

I think we're looking at ten plus years into the future, what is our world going to look like in terms of Artificial Intelligence, block chain technologies, big data and so on and we began to think about that in a way that culminated into the Fintech Ideas Festival which we hosted in San Francisco in 2017. It was a small, small event, 110 CEOs out of 200 participants that included Satya Nadella from Microsoft, Ginni Rometty from IBM, Brian Moynihan from Bank of America, Ajaypal Banga from Mastercard, Dan Schulman from PayPal, Michael Tipsord from State Farm. Along with a whole bunch of what are now my members which is.....Carl Fairbank from Breakout, Rob Frohwein from Kabbage, Jim Salters from The Business Backer and we had a global array of experts on financial technology.

We had them sit into curated small group conversation to talk through what our long term future is going to look like when we start taking this magic elixir of Artificial Intelligence and block chain and big data and many other things and putting it all together in terms of financial services and I think I got noticed along the way. Rob Frohwein from Kabbage actually said it was the greatest event of its kind that he had ever attended. Now, I personally think that LendIt, on the larger side of things, is the greatest event of its kind, but for the small scale and CEO-exclusive focus, it was an amazing experience and I was really lucky to be a part of it, and I got noticed at ILPA.

**Peter:** Right, right, okay. Thank you for that plug there. So, why did you decide to take the job there. You know, the ILPA sort of was a pretty fledgling organization when you joined, so what was the impetus to take the role on of CEO?

**Scott:** You know, I was really ready for a new challenge. I had built something pretty important that I thought Financial Services Roundtable and Kabbage and OnDeck had....I knew a bunch



# LEND ACADEMY

of the leaders there pretty well and they approached me and said, look, we're ready to formalize this organization, the Innovative Lending Platform Association, into a real trade association. We need someone to build it and to harness the power of the members together and I think that I've been pretty successful in that. I started with seven members, we now have twelve and we represent, I think, some of the bigger brands in the online small business lending space.

**Peter:** So then, what's the mission of the association exactly?

**Scott:** You know, our members are completely united to a commitment to the health and success of America's small businesses and we are dedicated to advancing the best practices and standards that support responsible innovation and access to capital for small businesses. So, what does that mean in reality?

It means that we are committed to disclosing the terms of all of our lending agreements to the small business borrowers so they fully understand what they're taking out, in terms of their access to capital and credit, and we're interested in serving them. If you take a look at what happened after the financial crisis, banks and financial institutions of all kinds really fled this marketplace for small business lending and we've been there, we've been there to help them from the very beginning.

**Peter:** Okay. So maybe, one of the initiatives that the ILPA put out fairly early on, I think it was probably after you got there, I'm guessing, was the SMART Box initiative which I know you just sort of referenced there like the importance of transparency and some of those concepts are being taken up by the states, so maybe just give a little background about that, that specific initiative and how it was successful.

**Scott:** Sure, sure. It, actually, started before I came on board, it started in 2016. A couple of the original members of ILPA got together, I think it was Kabbage and OnDeck and a couple of others came together, and decided that it was the right time to have some self-regulation in the industry and they came up with this concept called the SMART Box which is straightforward metrics around rate and total cost and it's a single-page form that comes as part of all the loan documents for our members that shows total cost of capital, APR, monthly cost and cents on a dollar along with any potential pre-payment penalties.

It has been remarkably successful and a lot of folks that have been looking at it, I think, are...they're concerned about certain aspects of it, but I think it's become a real selling point for our members to say, look, we're showing you absolutely every detail in a single, easy to get at TILA-like format and you can see what's happened recently in the states. You've got.... California passed 1235 a couple of years ago and then the California DBO came out and looked at...if imitation is a serious form of flattery, we ought to be very flattered because the form that they came up with to capture all of their disclosures is a box, looks pretty much exactly like the SMART Box. (laughs)

**Peter:** Right.



# LEND ACADEMY

**Scott:** So, we ought to be pretty flattered about that. We've been carrying that message to New York as well, we have model disclosure legislation that's going to be introduced in both the Assembly and the Senate there that will really codify these disclosures to really give small business borrowers confidence in understanding what they're taking out, in terms of their access to capital and credit.

**Peter:** Right, that makes sense. So, given your situation, given the position of the ILPA mission to help small business and.... obviously today, probably as never before, at least in our lifetime, have small businesses been suffering like they are right now.....no, I should preface this by saying we're recording this on April 14th, it's going to be published on April 24th and ten days right now feels like an eternity, so we need to keep that in mind when they listen to this that this is April 14th, but I wanted to maybe get your perspective on the PPP.

Some of your members have been very active, I know, OnDeck just came out yesterday, they're starting to offer PPP loans, Kabbage, Lendio. Brock Blake has been one of the real champions from the get go of the whole program, he has been very active. Maybe of you can just describe how ILPA and your members are approaching the PPP.

**Scott:** Sure, sure, and I appreciate you mentioning a couple of our members there, Brock Blake of Lendio, fantastic CEO of an amazing company and certainly, Kabbage, OnDeck, Fundbox, BlueVine, BFS are critical brands that can be moving capital very, very quickly along with the Innova small business brands, and The Business Backer and Headway Capital, BreakOut, Mulligan Funding and 6th Avenue, they can all be moving capital very, very quickly. We were involved in the development of the CARES Act, we are paying attention to it and working on it, we've been working with the Charter Department on the SBA on the program.

From my perspective, I can't say the design is exactly what we would have wanted, however....I mean, think about the challenge that the Congress dumped at the doorstep of the SBA. Last year, SBA did a quiet \$20 Billion in loans over the course of the year. Then Congress said, well deliver \$349 Billion in loans in just a couple of months, there are no additional resources and do your best. That's a really, really, really tall order and it's difficult to imagine what they could have done perhaps differently. I think all of our members are very likely, if they haven't already, they are very likely to be applying to become direct lenders through the PPP program.

I think it is important for SBA to entertain those applications very, very quickly and to authorize those small business lenders to move into the system. It's a difficult process, though, if you look at the way that they have initially designed it. You go through the 7 (a) standard process which includes a trip through E-Tran, I don't know if you know how that process works, but you have an application that comes from a borrower into your system, you create an alternative application called the Lender Application that you send to the SBA through this E-Tran system, you get into the queue.

At the end of that queue, at the end of that glorious rainbow there is a human which is.....you know, unfortunately, these people have to be working like mad trying to turn around these



government guarantee numbers and then send them back to the lender and then the lender disburses the funds to the borrower at a manual and very slow process that is very, very difficult to manage. There are a series of things that I think they could probably have done differently. If you want me to go into that, I certainly can.

**Peter:** Yeah, let's just hold that for a second.

**Scott:** Sure.

**Peter:** I think you mentioned that most of your members are going to be applying. So, the application process itself.....I guess let's just start there because....this only came out, I think it was Wednesday night, I believe, of last week, so it's been out like five and a half days, the actual way to apply. I know that some of your members have been applying, others have already set up bank partnerships to actually originate loans right now. Hopefully, by the time our listeners listen to this in ten days time, there will be dozens of fintech lenders that will have been approved. That remains to be seen, but I guess....what's your view on the application process itself, how should that have been handled differently?

**Scott:** You know, we don't know how they're looking at each application and I think that part of the concern....I, actually, was detailed to FIMA during the Katrina and Rita disasters years ago, the hurricanes, and this is, I think, an interesting analogy, but I was detailed to the team that was trying to get debit cards into the hands of those victims that were affected in the Gulf Coast.

Lots of people in the team were consumed with the concern that there was going to be waste, fraud and abuse in the system. I think the same thing is really going on here with potential for additional lenders such as online and alternative lenders to enter the PPP system. There is a concern that there is going to be this kind of bad actor that is able to get through. I think that's possible, but at this point, who cares.

**Peter:** Right.

**Scott:** I mean, like the house is on fire, the world is on fire, we have got to get these dollars into the hands of the small businesses. Here's what I would recommend and this is just not my members, this just got off at the top of my head, just approve everybody to become an additional lender as, you know, they come in the door with a very short and very sweet contract that says, if you lied to us in your application, or if you abuse this system then your entire c-suite goes to prison (Peter laughs).

That should pretty quickly weed out the really bad actors, right, so you're going to have a lot less waste, fraud and abuse and get these actual good actors, like our members from the Innovative Lending Platform Association, into the mix to be able to lend at speed to really small businesses that the banks are not equipped to lend to.

Because of what happened after the financial crisis, they really left this entire marketplace behind, either due to regulation, or to their risk committees, they're not in a place where they're



# LEND ACADEMY

lending \$10,000 to local businesses any longer. They're just...it's not their bailiwick and so, we're there and we're absolutely ready to get going, they just have to let us in the door.

**Peter:** Yeah, and I feel like that's what....I mean, it's a shame really that this wasn't really done ahead of time. As soon as the CARES Act passed, I would have liked to have seen the SBA and Treasury get together and say, right, who is best equipped to move this quickly? Well, you've got a whole bunch of really established online lenders that do things in an automated way, many of them do things in a 100% automated way so, let's just get them involved right off the bat. So, when it kicked off on Friday, April 3rd, we could have had all of these online lenders be approved because I think there's been so much panic and distress go on Twitter and look at the hashtag #ppploans, particularly on April 3rd, 4th, 5th and 6th, that opening few days.

I mean, people were just beside themselves because, you know, Bank of America was saying, you have to have a loan with them to be able to apply....I mean, the other big banks just said, no, we're not ready and you see that there's already billions and billions being processed, oh, my god, we're going to miss out. The small business owners are freaking out and I think the online lenders could have really done a service for the whole country, if they were up and running by then, but.....

**Scott:** They certainly could have, but, you're right, you're absolutely right, they certainly could have, but let's give SBA two seconds of coverage here. I mean, considering the magnitude of the challenge, they did what they knew which is, okay, let's ramp up what we know how to do and we'll get to the fintechs eventually. It's unfortunate they didn't do it right upfront, but, you know, they kind of have like three people running around over there, they're trying to figure out how to make this happen. To move \$349 Billion out the door really, really quickly, it's tough, and the SBA should have used us by.....do I really lay huge blame at their feet, I don't think I can.

**Peter:** Right. I understand, I mean, they've got a tiny budget, they're one of the smallest budgets of any of the government department so they had a monumental task to do. To be honest, they're not doing a terrible job, money is flowing. I've been paying attention the last few days and there is money flowing and there's a website that I saw on Twitter yesterday about status, you could put in the status of your PPP and it seems like the average time to get funds is 6.8 days, I believe, from actual sending of the application, so, money is flowing which is good.

Now, on that point, I'm just....I mean, if you talk to your members because a lot of these...I mean, your members don't have access to unlimited capital and they're not a Bank of America, or a Chase, so is that something that you're hearing as a constraint there where these members can't....like if Kabbage and OnDeck both wanted to put through \$25 Billion in PPP loans, they wouldn't be able to, right. What are you hearing on the constraint on that side?

**Scott:** The liquidity problem is significant, and on the 6.8 days to get the funding, that is light years slower than what our members could be doing. Our members could certainly be underwriting and moving loans within, you know, hours, 24 hours, but there is a constraint that is very, very serious which is this liquidity question because our members don't have unlimited





# LEND ACADEMY

access to billions and billions of dollars to lend to this program and hold these loans for the eight weeks that the SBA says we need to hang on to them for.

The Treasury and the Federal Reserve have announced a system, at least we have a term sheet on what it's going to look like as an offtake as a secondary market that they're going to create, a special purpose vehicle. Take these off the hands of the banks and of the fintechs and I think that's critically important. We've been hearing rumors that this is going to be a 5-day offtake period which may end up being too slow, you know, okay, our members will make whatever they can make in terms of loans within a few hours and then wait for five days, offload them all and do it again. That seems to be too slow.

You would think that there is going to have to probably be some sort of interim step where they can offload this into a facility either run by.....we've been hearing rumors that Goldman, Bank of America and a few others are giving the other to try to create an immediate term secondary market where we can drop them into that sort of a process, they can hold them for the five days and then move them into the Treasury facility, the Fed facility. I think that, one way or another, in real-time, the Federal government is going to have to take these loans off of our hands, there's no other choice.

It's not just us, you look at what all of the banks have been saying, they don't have unlimited liquidity to be pouring out these loans on behalf of the government. They want to do it, they want to help, they can help as much as possible, but they've got to find a way to put this on to the Federal government's books sooner than later.

**Peter:** Yes, it would great if that happens within 24 hours and who knows, by the time we publish it may have happened. Another question I've got is there are other, obviously, organizations out there, there's the Marketplace Lending Association, there's the Small Business Finance Association and others, how much are you interfacing with the leaderships of those organizations and providing a united front in Washington right now?

**Scott:** You know, I know the majority of these fintech trade leaders pretty well and we really do our best to find areas of common ground because we have such this great membership in different focuses, but we found a great way to collaborate on things like the Madden versus Midland fix and the valid when made problem. The entire working group worked pretty well together on legislation, and then on the FixIt, the OCC and the FDIC from a regulatory perspective.

But, if you look at how diverse the membership is....you have Stephen Denis with the Small Business Finance Association primarily focused on merchant cash advance providers, you've got Nat Hoopes with the Marketplace Lenders Association focused on consumer lenders, Brian Peters with Financial Innovation Now on the larger tech players, Scott Talbott over at the Electronic Transactions Association with their diverse membership, including banks and card companies.



Then you've got the US Chamber of Commerce, Tom Sullivan and (inaudible), now it's Julie Stitzel and I communicate with these folks as often as I can and we work together. We try to drive at least a united front on things like we've mentioned already which is liquidity challenges and the access to the PPP program, I think we're all on the same page there. They should let us in the door as soon as they possibly can to offer these PPP loans and they should fix the liquidity question in the background using a Special Purpose Vehicle through the Federal Reserve.

**Peter:** How much of your time, right now, is spent really on the PPP-type initiatives, is this like 100% of your focus, 50%, what are you focused on right now?

**Scott:** I would say working on this specific program really consumes an awful lot of my time, but there are quite a few things that are coming soon that we ought to be thinking about, the main street Special Purpose Vehicle which may be a way for my members and small businesses, potentially, to get access to some capital to prop them up and keep them lending. I think that's certainly a process that I'll be focusing on and thinking about, the Phase 4 when Congress comes together and thinks about either Phase 3.5, or Phase 4, what is that going to look like.

We think that sometime in the next week or so, Congress is going to add a whole bunch more in terms of dollars into the PPP program. They're talking about somewhere around \$250 Billion more to the program now, unclear whether that's going to be enough by the time they get around to it, but I think those are some of the areas.....for the moment, I think it's important for all of us to be focused on this catastrophe and preparing for, you know, what our world is going to look like afterwards.

**Peter:** Right, right, for sure. You just mentioned something there I want to touch on and that is the health of small business lenders in general. I mean, many of the fintech companies have stopped lending, there's been some layoffs that we've read about, how are you positioned as an organization to help your members, you know, through this because let's face it, there's not many small business loans happening right now beyond the PPP. So, how is that going to affect your members, you know, the health, the financial health of your members?

**Scott:** I think this is truly a black swan event, unlike anything that we've ever seen in our lifetime, so I think all of our members, along with smart companies everywhere were really prepared for a major national terrorist attack, a natural disaster, a major swift downturn in the economy, but I don't think anyone prepared for a global shutdown of the entire global economy in real-time immediately and revenues go to zero. I think that was a very.... certainly for my members, a major shock to the system.

I think they're muddling through, it's difficult, I think that my members, some of the largest players in the space, and so I think they have some of the resources to be able to withstand a shock like this, but I think that they need to get access to capital and maybe that'll be through the main street facility that'll be coming maybe in the next few weeks. I think a lifeline for them would be if they're able to lend through the PPP and give them that small sliver to keep on going





# LEND ACADEMY

and I think it's in the Federal government's interest to want that to be the case because you want innovation to be progressing when this is all said and done. You want the innovative companies to be still there, still working and still lending.

**Peter:** Right, right. Have you heard how quickly....like the origination fee now is 5% for sub-350 and 3% and 1% up to \$10 Million, but have you heard how quickly this money, the origination fees are going to flow in to the lenders?

**Scott:** I have not and I certainly wish I had a good answer to that (Peter laughs). If I had a good answer to that, that would be stupendous. I think the government's going to have to figure a way to get those fees to my members and to the banks relatively quickly in order to keep them alive and afloat.....

**Peter:** Right, right, for sure.

**Scott:**....so they can keep lending.

**Peter:** Okay. So then, we're almost out of time, but a couple more questions before you go. I'd like you to sort of step back for a second and think about the impact this crisis is going to have, particularly, I'm interested in the impact on the small business lending landscape over the medium to long term. What do you think is going to change?

**Scott:** I think, to begin with, small businesses around the country are completely devastated and it's going to take some time to unwind these extraordinary actions taken by the Federal government. You know, if you look at the CARES Act, the PPP program, the Treasury and the Federal Reserve Special Purpose Vehicle, we are really....hopefully, short term, quasi nationalizing America's small business economy and we hope that is a short term effort which is critically required.

I think on the small business lending side of things from a fintech perspective, I think that in the long run this is going to completely expose manual paper-based underwriting as completely antiquated. The fact that at the end of the E-Tran rainbow, the SBA is a human is unfair to the small business borrower. These things should be done in an automated way and much more rapidly. If you look at the systems that financial institutions are using currently, if you have ever taken out a mortgage...I actually applied for a mortgage with the bank I had been with for 20 years and they asked me to print out my last several months of bank statements and send it to them. I mean, this is completely bananas and I think those kinds of things are going to go by the wayside and that's going to change pretty dramatically on the small business lending side as well.

That's not to say that fintechs are going to be replacing, or supplanting the banks, banks are critical to this ecosystem and I think that you're going to need....you're always going to need a safe place to put your money. Over the next several years, you're going to see this, I think, great resurgence and an acceleration of innovation between banks and fintechs and there's going to be a cooperation and a collaboration that we really never dreamed of before. The real winners



# LEND ACADEMY

are going to be the small business borrower and innovation is absolutely going to be accelerating.

**Peter:** I really hope that's the case. I completely agree that this needs to happen and I hope this crisis provides an impetus for that. Last question, I'm just curious if there's anything else that you think the government should be doing to help small business beyond what they're doing right now with the PPP?

**Scott:** Sure. I think that they have got to, in a word, pull down the barriers to capital access and innovation. Take down barriers that are up currently and let innovation flourish. For example, we saw the real-time effects of the Madden decision increase bankruptcies and decrease access to capital and the effects it has made, we call it the development of capital desert in certain places.

We should have fintech charters as Congressman Patrick McHenry recommends, we should have innovation offices in every financial agency and then we should see the proliferation of fintech sandboxes around the country, both the state and federal level, with the government figuring out how to shoulder the short term liability cost associated with limited testing of new products.

Look, I think it's time to let the industry alongside traditional financial institutions price risk and move capital in real-time. I think it's time to harness the forces that are re-shaping our civilization today, and that's the Internet of Things, big data and machine learning on the way toward Artificial Intelligence, all enabled by block chain technologies. When you take that magic elixir of forces and you put them together, harnessing them with financial institutions and small business lenders such as our members, you're going to see an unimaginable change in the way that people access financial services.

If you look at some of the leaders in the space, somebody by the name of .....one of our great members Bill Phelan of PayNet, one of the leading figure in the space, describe us as on the road to one click credit. When you start thinking about your accounting system offering you an alert that says, look, in about three months, we're going to have a cash concern and so here are three, or four different ways that you can find access to capital and credit.

Beyond that, one step beyond that, you look at what Peter Domingos from the University of Washington thinks is going to happen, one of the globe-leading thinkers on Artificial Intelligence, through his book "The Master Algorithm." He actually thinks that at some point your algorithm is going to know you so well that those decisions of small business borrowers will not even be offered to you, they will simply appear. It will price and select the access to capital and credit and it will appear in your box. I think that's our longer term hopeful future beyond what this crisis is and hopefully, that's something that financial institutions and fintechs can work on together.

**Peter:** Well, that would be fantastic, a fantastic future, I hope we get there soon. Anyway, Scott, I really appreciate you taking the time today, you've got very important work to do right now and I appreciate taking time out of your day to talk to us.



# LEND ACADEMY

**Scott:** Thank you, Peter, really enjoyed it.

**Peter:** Okay, see you.

We can trace the rise of fintech certainly in the small business lending space to the financial crisis of 2008/2009 when banks pulled back from small business lending they let a lot of their long term customers down and people were ripe for alternatives and we had entrepreneurs, at that time, creating new companies, new ways of doing things. So, I often wonder, this is a more significant crisis, I would argue, than the Great Recession and we are going to have enterprising entrepreneurs all over the this country that are going to create new businesses born out of this crisis.

And, you know, we also have the entrepreneurial spirit of those companies that are already in existence and there's going to be a lot of new developments like Scott just talked about there from some of the incumbents. Once we get through this and it's going to be tough to get through this, but once we do, we are going to see, I believe, a rise of fintech 3.0 where we're going to have many new companies, many new ideas and I think the small business lending landscape, in fact I would argue, the entire financial landscape will look remarkably different then.

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

Today's episode was sponsored by LendIt Fintech USA, the world's largest fintech event dedicated to lending and digital banking. It's happening on our new dates of September 30 and October 1st at the Javits Center in New York. This year, with everything that's been going on, there will be so much to talk about. It will likely be our most important show ever. Come and join us in New York to meet the people who matter, to learn from the experts and get business done. LendIt Fintech, lending and banking connected. Sign up today at [lendit.com/usa](http://lendit.com/usa)

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