



## **PODCAST TRANSCRIPTION SESSION NO. 268-MATT POTERE**

Welcome to the Lend Academy Podcast, Episode No. 268. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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Today's episode is sponsored by LendIt Fintech Digital, the new online community for financial services innovators. Today's challenges are extraordinary with the upheaval affecting all areas of finance. More than ever before, we need to come together as an industry to learn from each other and make sense of this new world. Join LendIt Fintech Digital to connect and learn all year long from your peers and from the fintech experts. Sign up today at [digital.lendit.com](https://digital.lendit.com)

**Peter Renton:** Today on the show, I am delighted to welcome Matt Potere, he is the CEO of Sunlight Financial. Now, they're a really interesting company and as the name suggests, they are focused on solar financing although they do more than that now which we get into. It's interesting to me because they're focused on the point of sale space, they're focused on renewable energy. These are two really major growth areas of the economy right now and we talk about what that means for Sunlight Financial and they runway that they have.

We talk about how they underwrite their loans and obviously the loan terms and the different ways that they're able to, you know, justify to the consumer. This is actually.....you know, consumers can take out these loans and actually be better off financially even if they just didn't install solar so that's an interesting proposition in and of itself. We talk about their capital providers and how they're funding these loans, the technology they're using, the underwriting process and much more. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Matt!

**Matt Potere:** Hey, Peter, thanks for having me.

**Peter:** My pleasure. So, I'd like to get this thing started by giving the listeners a little bit of background. You've had a pretty interesting career working at some of the largest financial institutions in the country so why don't you give us just some of the highlights of what you did before Sunlight Financial.

**Matt:** Yeah. So, I have always been an entrepreneur at heart, actually started my first business when I was five years old reselling my parents groceries to the neighbors door-to-door (Peter laughs). So, it was a terrific business and had great margins, unfortunately, my total addressable market was six houses so it really never scaled beyond that. I've always had this entrepreneurial bug; I had landscaping businesses, I sold t-shirts in college and then after college, I joined the MBNA, the old monoline credit card issuer and I learned all about consumer finance.



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And even more important, I think then the consumer finance background and the experience it gave me was I learned how important a really strong culture is. MBNA was just a terrific place to work and to learn how to really treat customers and teammates in a way that differentiates the company. So, it was a wildly successful company and was really impactful to me and how I viewed the role of a company in society. And then since then, I've been a lender in just about every consumer credit asset class from mortgage to home equity, to auto, I spent some time in small business lending at big companies and at small companies and tried to take that background to Sunlight and it's helped influence how we approach the business.

**Peter:** Okay, okay. So then, maybe we should just....for those people who don't know, maybe we should give the listeners a little bit of background about Sunlight Financial, how do you describe it, what does it do exactly?

**Matt:** So, we are a point of sale finance platform and we provide financing to homeowners when they want to go solar, they want to put rooftop solar on their homes or make improvements to their homes and we do that through our network of contractor partners. We have about a thousand solar installers and home improvement contractors that we work with and it's very typical whether we work is if you're thinking of going solar and for instance you had Tesla come out to your home and they explain to you all the benefits of going solar for you personally, once you decide that you're ready to move forward, Tesla or the solar installer will introduce you to Sunlight and we will provide the financing. We make it a really streamlined, simple process for the homeowner and for the sales person in the home,

**Peter:** Okay. Well, we'll dig into that in a little bit, but before....I want to take a step back for a second because the point of sale lending space is hot today. I mean, you've got... on the consumer side especially, you've got all these buy now pay later, I mean, we're seeing massive funding rounds, massive valuations so there's an acknowledgment, I think, that this point of sale lending is really being disrupted by tech, I mean, the tech players are really making a big impact here. So, maybe, I'd love you to sort of .....just take us through some of the history of that, this segment, and why you think it has exploded in popularity recently.

**Matt:** Yeah. We definitely think this is a long term secular trend, but if you step back point of sale lending has been important for as long as there have been merchants. Store owners used to provide credit to their customers and then in the 1960's credit cards came along and point of sale financing was through a credit card that allowed customers to buy something now and pay for that at a future income and allow merchants to sell more. That's the fundamental value proposition.

Over the last 15 or so years, as you mentioned, technology has gotten a lot better and so that that's allowed is point of sales platforms provide financing much more simply, much more streamlined and tailored to specific industries and there's a lot of value to that. It means that the credit products align better to what customers are trying to buy, it means that customers get a better experience than they would otherwise get, it means sales people are merchants, can sell more than they otherwise could.



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And then from a credit standpoint, when you sell something in a specific industry to a specific consumer purpose, you get credit performance that looks more similar and so you have less subsidy of high credit quality borrowers to lower credit quality borrowers and that allows for better pricing. And so this technology allows us to bring much more specific tailored financing in these specific industries.

**Peter:** Okay, okay. So, it's interesting.....you've obviously seen your name, Sunlight Financial....I know you've moved...sounds like beyond just solar, but, you know, renewable energy is big business these days and, you know, I just see some people in my neighborhood putting solar panels up and it's another growth industry. So, you've targeted on this, I mean, I guess maybe why focus on solar and just tell us a little bit about the state of that, the solar financing market.

**Matt:** Yeah. So, we stood at the intersection of two really rapidly growing trends so the point of sale lending that we talked about and then the boom in residential solar. So, just a little bit of context, solar's growing about 10% a year and has been for the last ten years, actually, in the last couple of years it's been even more rapid than that and so it's growing really fast, but it's still pretty early days. Less than 2% of US households have solar on their roofs, there's a lot of runway here. When you often think about somebody going solar, in the past you would think about somebody who is really focused on the environmental benefits and those environmental benefits are very true, but we are past the early adopter stage.

It's no longer the tie-dye shirt and Birkenstock sandals who wants to go solar because it feels good. It still has all those benefits, but now it's got real economic value to consumers. And so the fundamental value pitch to a consumer is you can go solar now with no money out-of-pocket and save money that first month and save significant money over the life of the solar system and that's driven tremendous growth in solar as this economic benefit has kicked in and it's great for the industry because that's how you get mass adoption. So, we've seen great growth and we expect that to continue to be the case.

**Peter:** Right, right. So, I know you touched on it, I want to dig into how the process works and, you know, like you said you said you partnered with over a thousand solar installers and contractors, you know, let's just say you talked about the example of, you know, sounds like you're working with Tesla as well. Someone wants to put solar on their house, they go online and they do some research and the price is going to be whatever, depending on the size of the house, obviously, but it's, you know it's more than \$10,000 typically and most people don't have that kind of money just sitting around so tell us a little bit about how the loan process works.

**Matt:** Yeah. So, that sale often happens literally at the kitchen table. Customer decides to go solar, they go online or a sales person knocks on their door, one of their neighbors refers the homeowner, sales person explains to the customer and tailors the system, gives them a sense of what the system will look like on their home, how much power it will produce and gives them a sense for their saving, both in their first month and over the life of the system.



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A typical solar system is in the neighborhood of \$30,000 for the typical household so it's a fairly large ticket from a point of sale perspective and our loans provide 100% financing of the \$30,000, we offer a loan tenors from ten years to 25 years and the interest rates are very attractive for homeowners. Customers pay anywhere in the 2 to 6% APR so the rates are really attractive and, as I mentioned earlier, the fundamental value proposition to the homeowner is you can buy the system, \$30,000 system, you own it and increases the value of your home. You put no money down to own it and over time, the cost that you're paying for the loan, in this case the financing, plus whatever residual utility bill you have is less in most cases than your prior utility bill.

And what we've seen as a long term trend in the US is the cost of power has continued to increase and so not only are you saving money in the first month, but over time as the cost of power continues to increase, you save more and more money every month. A typical customer can save over the life of their solar system can save \$30,000, \$40,000, \$50,000 so it's significant savings. There's a terrific value prop and again, you do that without putting any money out.

**Peter:** Right, right. I don't know, it was on NPR, I remember, it was an interview with some guy in New York, I think it was on Long Island, and he was the epitome of a non-environmentalist and he drove like a Hummer, I think, and he said, yes, I'm doing this for the money, that's the only reason I'm doing it. The environmental benefit I couldn't care less about.

So, interesting that it's got to this stage now because I actually put solar panels on my first house back in 2006 and, unfortunately, we moved and we are thinking about doing it again in the new house, but, back then...I mean, there was a lot of government incentives, but it wasn't that efficient. I mean, we didn't save, we were doing it, we were one of like....we were doing it for the environmental reason not for the financial reason, but it feels like now it's completely changed.

**Matt:** Yeah. We, obviously, love the environmental benefit, but consumers can do it because it feels good in their heart and it feels good in their pocket and that's how you get massive option.

**Peter:** So then, tell me about....like you said this loan, I didn't realize your interest rates are so low so are you taking interest....like is this an asset-backed loan, like are you taking a security interest in the solar panels themselves, I mean, how else are you able to get those interest rates so low?

**Matt:** So, the way the loans are structured is the loans are secured against the panels themselves, not against the home so if you were to pull the title you would see that there is a lien on the panels for that particular home, but, fundamentally, it has a great value proposition to the homeowner. And so if the homeowner has a good reason to continue to make payments versus...they only have a \$100 that month, you can pay your solar loan and continue to save money or, you know, you can spend it some other way.



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That value proposition to the homeowner has allowed credit quality to be terrific. I mentioned all the asset classes I've been a lender in and this is the best credit quality I have seen across any of those asset classes. So, it is truly a high-end borrower who performs very well from a credit perspective.

**Peter:** Right. So, that's how you're able to get the rates so low because you've got a high-end borrower. Obviously, these are homeowners, right, so they already have.....

**Matt:** Right, by definition.

**Peter:** ....by definition so they've really already passed that hurdle, interesting. So then, let's switch gears a little bit and talk about the solar installers, the merchants that you're using because obviously they....you know, you're not the only solar financing company in the country. So, what's the benefit to them of using Sunlight Financial?

**Matt:** So, fundamentally, what they want is to sell more solar and they want to give their customers that terrific experience. That's their goal and so we wake up everyday to help them do that. As part of that kitchen table sale, if you think about what solar's doing, they spend about an hour explaining to their customer why going solar is beneficial to them and then they trust Sunlight to hand.....they hand that customer off to Sunlight, they trust us to handle them with care and to help facilitate that sale and so we make that process very simple.

First, we have a wide range of products for them, a wide range of interest rates and loan tenors so that they can compete in the various markets that they compete in. Our technology platform, which we call Orange, it's our proprietary technology, makes the process really simple. So, it's 100% digital process, there's never been a piece of paper in this business since we founded it and it's completely streamlined. So, if for some reason the customer needs to send us something, they scan and upload it.

Our installers and our partners can access the portal through a mobile app or they can go online and access it and we also give installers a view into the pipeline of all of their deals. And so, not only do we make it a simple experience at the front of the process, but when it's time for them to get paid our portal helps facilitate a very fast payment because they're managed in cash, but we want to make sure that they get paid quickly. And so, that end-to-end experience plus all of the sales tools that we give them helps them sell more solar and helps give their customers a great experience.

**Peter:** Okay, okay. So then, let's just talk about the ....like the payment you just said there, who are the capital providers here, I mean, do you work with a range of different banks, I mean, where does the capital come from?

**Matt:** Yeah. So, we have a network of partners, banks, credit unions and other institutional capital who buy these loans so we originate them on their behalf and from their perspective they get access to a terrific loan, terrific asset class at a great risk-adjusted return and they get to grow without spending any marketing dollars. The other thing they get by partnering with



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Sunlight is, you know, talked a little bit about my background and our team has a very strong credit and risk background.

So, our capital providers know that they can trust us to ensure that we're helping them originate loans in a way that's compliant and originating high quality credit. And so, we've seen a tremendous amount of demand from banks and credit unions and those other institutional capital providers who really want these loans. What's also interesting is since pandemic, we actually seen that interest increase.

Now, if you're a bank or credit union, you probably have more deposits now than you did pre-pandemic. You know, their balance sheets are very strong and they can't put that to work through autos which would be a traditional way. The mortgage market has grown a lot, but they're looking for ways to be able to get....and yields are very low so looking for ways to get an attractive asset with good risk-adjusted returns so we've seen a tremendous amount of demand from our capital providers over the last six months and really even before that.

**Peter:** Okay, okay. So then, let's talk about underwriting, I want to get into that for a little bit and you mentioned that this is the best quality credit that you've seen in your career, how are you underwriting these customers? What data do you use, what are you doing to kind of ensure that these loans are paid?

**Matt:** Yeah. So, the lesson learned from the financial crisis was... if we think about what happened there, lenders wanted a really simple experience for their customers because the mortgage experience was awful. And so, what they did to make that experience better was they just eliminated steps (Peter and Matt laugh).

**Peter:** Eliminated underwriting, yes.

**Matt:** That, unfortunately, created another problem that we all know about. So, our approach at Sunlight is we want that terrific experience and so what we've done is we've automated the process from the back end, we don't push the burden to the solar installer and we don't push it to the homeowner. We put the burden on our own technology and so when a customer applies, we do an instant credit check, we do an instant fraud check, we're validating title, we're validating the reasonableness of the income and we're doing that all in the background so when the customer gets approved, it wasn't fast because we skipped steps, it was fast because we automated them. And the result, as I mentioned, has been terrific, terrific credit quality and we are very mindful of making sure that we're originating high quality loans.

**Peter:** So then, what data are you using then, I mean, obviously you've got income data and obviously you're pulling credit reports, I imagine, on these, is there anything else that you're doing to kind of make sure that these are good?

**Matt:** Yeah. So, we're using a traditional approach like...from my days at MBNA, they're credit card lenders, so we have application data, we're looking at the credit report and we're using this aggregated trade line data. So, we're not a FICO lender, we're looking at each of those trades





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and our proprietary models look at the combinations of those trades to help identify high credit quality borrowers.

**Peter:** Right, right, okay.

**Matt:** And then, as you mentioned before, we have a really strong positive select in the customer that are applying.

**Peter:** Yeah. So, what kind of percentage do you approve? I imagine it's probably higher than you would get in most asset classes.

**Matt:** Yeah, it's significantly higher than you'd expect so anywhere from 60 to 75% of borrowers get approved so it's a pretty significant approval rating. It's remarkable when you look at those types of approval rates and the credit quality that we get, it is truly remarkable.

**Peter:** So, what about when things have gone south, do you show up one day and just take off the panels, is that how it works?

**Matt:** So, first step, of course, is we're trying to work with.....

**Peter:** It's not the first step...

**Matt:** Yes, yes, the first step is work with the customer and the second step is they are making payments and so reminding customers and working with our capital providers to ensure that our capital providers are reminding customers that continuing to make repayments, in many cases, saves you money. And so very often, as we've had those conversations or our capital providers have had those conversations with customers and they're reminded of, wow, that \$100 payment is actually saving me money each month, that's enough to kind of change the perspective of who gets paid.

Additionally, if the customer doesn't make payments over time, we have the ability to turn the system off so those savings go away. I mean, then we do have a lien on the equipment so it shows as a lien if they want to refi their home and they want to sell their home, panels need to be paid off first and, of course, they can always be repossessed as well.

**Peter:** That sounds like that's the last resort for your guys.

**Matt:** That's right, that's right.

**Peter:** Okay, okay. And then, you know, I'm curious about.....this year you've had....you mentioned that people are still making payments, I mean, how has the pandemic impacted your loan book?

**Matt:** Yeah. So, I think about it from two perspectives. The first is what did it do to sales and the second is what did it do to credit quality. On the sales side, March and April were slow, they were slow across the industry, down 35/40%. Since then, we've seen an incredible....across the



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industry and for Sunlight in particular, we've seen incredible growth. June, July and August had record level of sales and we attribute that to the fact that customers, one....in a pandemic we have very little control of your life.

This is one thing you can control, you control how you produce power so give them some control. We're seeing customers make home improvement consistently across the US and so this is another type of home improvement that kind of fits that broader theme. And so, we've seen a tremendous amount of interest and, of course, it's an opportunity to save money. So, from the sales perspective, we are growing year over year at record levels month over month, we're very fortunate on that side.

The other side is, we're in the business of originating them, working with our partners who originate high quality loans and we always expected that the credit quality would be good through a cycle. I've lived through multiple credit cycles, the cycle we were in we've been saying for a long time is the best credit cycle we or our parents or our grandparents had ever lived through. We totally understood that and so we underwrote loans expecting that the economy would change and the credit's held up very, very well.

When you look at customers who ask for some relief on their payments, it's like a quarter of what we're seeing the rates for other assets, you know, a quarter of what we're seeing forbearance rates in mortgages. So, significantly lower forbearance rates, delinquency rates are actually down a little bit, loss rates are actually down a little bit so the credit quality has held up really strong. So, if you're one of our capital providers and you're looking for how to deploy capital, the asset's performing really well, you can grow your book with no marketing dollars and you get a nice risk-adjusted return.

**Peter:** Okay. So then, how are you getting the word out, I mean, are you .....your customers really, the contractor or the installer, the solar company, I guess, I mean, what are you doing to market to these people and how do you get the word out?

**Matt:** Yeah. So, it's interesting...in our business the sale happens after the sale, you know, signing up one of our partners to offer our loans and to use our platform, that takes some time to ...it's the B2B sales and enterprises....it takes some time to explain who we are and what we do, but that's just the start of the relationship. It's beyond anything else, it's a matter of trust, that sales person needs to trust. After spending an hour convincing that customer they want to go solar that they should hand them over to Sunlight and so you build that trust one customer at a time.

Our platform, as I mentioned, it makes it really simple, but at the end of the day, it's making sure we make that experience a really strong one and we're not perfect and so if we make a mistake, we own it and we fix it. That goes a long way and it helped us build a reputation as a true partner for our installers and our contractors.

**Peter:** So then, are you operating nationwide or what's your geographic footprint?





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**Matt:** We are wherever solar installers are and so we can be nationwide. Today, we're helping consolidate loans in about 40 states, I think we've done a loan in almost every state now. There are maybe one or two that we haven't, we've even done a couple of loans in Alaska which you wouldn't think of as a solar hotbed.

**Peter:** (laughs) Well, it's certainly dark there a lot of the year.

**Matt:** Six months of the year.

**Peter:** They do get a lot of sun in the summer, I guess. There is that (laughs)

**Matt:** That's true.

**Peter:** Okay. So then, what about the scale of your business overall, I mean, was it 2014/2015 that you guys got started?

**Matt:** That's right.

**Peter:** How has it grown and what scale are you guys at today?

**Matt:** Yeah. So, as you mentioned, founded about five years ago, we've originated almost \$3 Billion in loans, we'll originate \$1 Billion this year alone. So, we've seen a really strong growth as we look out the next couple of years, we expect that growth trend to continue. We have offices co-headquartered in New York and Charlotte, we have just under 200 people, 200 teammates working at the company.

**Peter:** Okay, okay. I'm on your website on my other screen here and you talk about home improvement, is this like something that you're just getting into as I guess someone who has put solar panels on their house or is this a completely new line of business. I mean, how does that work?

**Matt:** Yeah. So, we always thought of solar as a type of home improvement. We really thought about ourselves building this point of sale finance platform so we like to do one thing at a time and do it really well. We've started and focused entirely on solar. Last year, we built a foundation for home improvement vertical and really what pushed us into that was many of our solar installers also have home improvement businesses, roofing or windows, and they wanted a similar experience for the home improvement, similar experience with similar products for their home improvement divisions. And so, we built a platform, built a foundation last year and this year we're scaling it so it's still relatively early days, but so far, so good, the feedback has been terrific at the market.

**Peter:** Right. So, you're using your same technology and are you....so this is going to be sort of the next step, it sounds like. You're going to be focusing on like a stand alone....I mean, I guess they go with each other, but having a new division that is really focused just on the home improvement space.



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**Matt:** That's right, that's right. There is some crossover with our solar installers, as I mentioned, but this is a home improvement, focusing on our home improvement vertical.

**Peter:** Right, right, okay, okay, that's interesting. And then....I mean, I look at this and there's obviously....I mean, are you competing now, are you trying to compete with like the GreenSkys of the world, I mean, who do you see as the market here or the competitor?

**Matt:** Sure, yeah. So, the contractors we partner with and the products that we offer do compete with the Green Skies of the World, that's right, and that's a pretty typical competitor for us.

**Peter:** Right, right, okay. You've got this really interesting platform, there are a lot of ways you can take this because you've got the technology platform. Like I'll leave it open-ended, maybe we can end with this, where are you taking this, is this going to be...I'll just leave it open-ended, where are you taking this company?

**Matt:** Yeah. So, I should say we always describe Sunlight as a 100-year company, we take a very long view on what we're building now and how we develop partnerships. And so, we want to do one thing and do it well and continue to add on to it. You're right though, the technology platform that we have works very well in solar, it scaled to home improvement and there are a number of other point of sale finance opportunities that we think we could extend the platform.

We went from solar to home improvement with a pretty small capital investment because of the way that we architected the platform and the contractor feedback has been terrific and they're really pleased with the experience we're able to give with our digital platform. And so, we're in two verticals now, I think if you look at a couple of years, you'll see us in some others, but we're not quite ready to jump into that next one just yet.

**Peter:** Okay. Well, it's a fascinating story. I certainly wish you all the best Matt, it's been great having you on the show today, thanks so much.

**Matt:** Thanks for having me, Peter, it was great speaking with you.

**Peter:** Okay, see you.

What seems to be getting most of the press these days is sort of lower ticket point of sale, the highly automated.....you know, the retail point of sale for the consumer, but this is an area where obviously has tremendous growth potential and Sunlight Financial have an opportunity here to really become a major player. We talked about GreenSky, public company doing many billions of dollars in loans and Sunlight Financial, obviously a lot smaller, but in an area that has I think tremendous, tremendous potential.

When you combine that with the runway of solar where 2% of the population or 2% of the houses have solar, that's obviously going to go to 10, 20 even 30% here in this decade. So, they've got a lot of runway, they've got a tech-enabled solution and it's really that kind of got a formula that is going to see them become a much, much bigger company than they are today.



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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 Digital, a new online community for financial services innovators. Today's challenges are extraordinary with upheaval affecting all areas of finance. More than ever before, we need to come together as an industry to learn from each other and make sense of this new world. Join LendIt Fintech Digital to connect and learn all year long from your peers and from the fintech experts. Sign up today at [digital.lendit.com](https://digital.lendit.com).

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