



LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 280-THEA MASON

Welcome to the Lend Academy Podcast, Episode No. 280, 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 USA, the world's largest fintech event dedicated to lending and digital banking. LendIt's flagship event is happening online this year on April 27th to 29th with the possibility of an exclusive VIP in-person component. The verdict is in on LendIt's 2020 event that was held online with many people saying it was the best virtual event they'd ever attended. LendIt is setting the bar even higher in 2021 so join the fintech community at LendIt Fintech USA where you will meet the people who matter, learn from the experts and get business done. Sign up today at lendit.com/usa

Peter Renton: Happy New Year everybody and welcome to the first podcast of 2021. We have a number of fantastic guests planned this year and first off the rank is Thea Mason, she is the Head of Consumer Deposits, Digital Payments and Student Lending at PenFed Credit Union. Now, I wanted to get Thea on the show because I think some of the things that PenFed are doing are really interesting, they're one of the largest credit unions in the country now, but they've got a pretty small branch footprint very much focused on digital initiatives, digitally serving their membership base.

So, we talk about that in some depth, we talk about the different verticals that Thea is responsible for, we talk about partnering with fintechs and what they're looking for there. We also talk about the pandemic and some of the changes they've implemented there and the increase in fraud and how they're combating that and we talk about what's going to be coming down the pipe this year. It was a fascinating interview, we hope you enjoy the show.

Welcome to the podcast, Thea!

Thea Mason: Thank you, Peter, great to be here.

Peter: Okay, my pleasure. Let's just get this started. You've had an interesting career working in the traditional banking sector as well as credit unions so why don't you just give us some of the highlights of your career to date.

Thea: Okay. Well, I got my start in banking at Capital One and I worked with some of the lending businesses there like the auto finance business at Capital One and then I moved over to work with the....running Strategy and Marketing with the original group at Capital One that stood up the direct bank which was, at that time only the second Direct Bank in the US following ING Direct which was the first.



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I've done other types of roles in financial services and now, most recently, I've been at PenFed Credit Union for almost five years now and I head up the deposits business for PenFed as well student loan refi business and lastly, I recently took on managing what I call digital payments which is our ACH, wires and bill pay team.

Peter: Okay, interesting. So, maybe just tell us a little bit about PenFed. I mean, it stands for Pentagon Federal Credit Union, I believe so what's its mission and how are you sort of serving your members?

Thea: Sure. Well, basically, I would say PenFed's mission is to empower the members of our community to achieve their financial well-being. So, that's really where the heart of PenFed is and we're really focused on our membership because like a credit union, as all credit unions, we are owned by our members, we don't have shareholders.

So, that's kind of the orientation of PenFed and we are in many, many different consumer lending spaces. We have a mortgage business, home equity, auto finance, credit card and personal lending business as well as a deposits business where we offer savings, checking and CD accounts.

Peter: I was reading that PenFed is really open to anybody today, right, you don't have to have a military background or anything, tell us a little bit about that, who's your target audience, I guess.

Thea: Oh, yeah, absolutely. So, PenFed has....you're absolutely right, we were originally called Pentagon Federal Credit Union and our core membership for many, many years was the military or retired military in the US. Several years ago, we merged with another credit union and they had what's called an open charter and as part of that merger, we ended up taking over that open charter which really enables us to offer membership to anybody.

We do not have to be part of like a select group of people where most credit unions are really built around like one or two types of organizations or groups that you have to be a part of in order to join a credit union. We are really open to anybody who wants to become a member and I think we are still continuing our focus on military and former military, but now are really able to open up to a broader group of members.

Peter: Right, right, okay. So then, we're recording this just before Christmas, it's going to be out in the new year, but I'd love to kind ofas we're winding down the year, just get a bit of a sense of how this year has been for PenFed and for the credit union space, in general.

Thea: Well, you know, I think we really have been impacted much the way many financial services institutions are when the pandemic hit. I think, credit unions....one of them were impacted similar to banks. We all had to make a lot of pivot very quickly to make sure that we were providing our members access to services that are very, very important financial services as best we could. So, we really were very fortunate because we already have a pretty solid infrastructure for self-service and we have an online banking capability as well as mobile



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banking and that really helped us support our membership when, you know, they couldn't move about freely and go visit our branches.

One of the unique things about PenFed is that we are a nationwide organization so we do have a little over 50 branches spread across the country. As a national organization, it's relatively a thin branch network so we've always been at the forefront of having that technical capability for our members to access us through self-service and we also have a number of call centers throughout the country where members can call-in and get financial support as well. You know, we were very fortunate that we were able to really pivot those employees to move from the service centers they worked in and continue to maintain the security that really is essential in financial services by having them work from home.

Peter: Right, right, interesting, interesting. So then, you mentioned a few of the different categories that you're responsible for, it's interesting when you go to your website I see you're leading off with online savings in bright red on your home page here.

Thea: I think that's just today (laughs). I literally think that just happened today.

Peter: (laughs) Well, it's there in bright red talking about 0.6 annual percentage yield, digital access. So, of the different areas, what's the main focus? Are deposits like a really strong focus for you right now, given this bright red box on your home page?

Thea: You know, that box...switches product all the time (laughs) so I wouldn't say there's one product that PenFed focuses on. We really are focused on meeting all our members' financial services needs so luck of the draw for me, I run the deposits business, every once in a while. The products that I manage get featured on the website for a few days and then it will disappear.

And, you know, come next week it will be credit cards, a lot of wonderful credit card offers, very generous cash back cards. We have very competitive rates really across all our lending products, auto finance, personal lending as well as student loan refinancing so in addition to our very meaningfully-sized mortgage business and home equity business. So, we all, as product owners, hope to have our products featured periodically on the home page to attract more interest.

Peter: Yeah, yeah. I also saw when I was doing some research for this interview, you've got sort of like a PenFed personal loan product, was featured as best product for loans up to \$20,000 so that's interesting. Is that part of your portfolio as well, the personal loans?

Thea: Unfortunately, not, I don't have that, but, you know, we've got a couple of people like myself that are kind of product leaders and there's another individual that runs a particular product set.



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Peter: Right. So, maybe we can just talk about...I want to talk about the products that you're responsible for. I mean, what are some of the things.....you know, it sounds like PenFed is well-positioned better than most credit unions to really take advantage of the fact that people were working from home, people were doing lots of, you know, business online, as far as banking goes. So, did you like.....were there certain projects this year that you fast tracked or what digital initiatives did you kind of roll out this year that maybe you might not have if but for the fact we are in a pandemic?

Thea: That's a great question. So, Peter, at PenFed, as I said, we've always had a strong digital presence, but we are working very hard to continue to develop and evolve that presence so that we can provide more services and better services to our members through self-service, whether it's on their phones or on their laptop or on their tablet. So, and there's projects, you know, sort of behind the scenes as well as things that are very obvious to our members.

We have, actually, a multi-year initiative going now that we kicked off in the middle of this year where we are looking to transform our whole user interface, you know, behind the log-in for members so that we can upgrade it, make it much more mobile friendly and still there's been kind of project little by little moving in that direction this year. The bulk of those things will really start to pick up next year as we continue on digital transformation.

Peter: Okay, that makes sense. So then, I want to talk about partnering with fintechs. I know that PenFed is, obviously, a pretty sizeable organization, how are you partnering with fintechs today and maybe can you give us an example or two, that would be really helpful.

Thea: Oh, yeah. So, we've got a whole bunch of different kinds of things we're doing with fintechs. One thing that we're doing is like in the personal loan space, also in the student loans refi space, we work with fintechs who are, you know, effectively marketing their specific product in the marketplace and then they function as a kind of....providing us leads...to our website so that's one relationship. We have a whole bunch of other relationships that are more backend-oriented, for example, we're trying to create a smoother process for our members and for new members to join PenFed and apply for our products.

As you know, there are lots of processes that banks have to go through to verify identity. If you're applying for a lending product, maybe you...particularly, if it's a refinancing, we need to gather information about the loans that you currently have so that we know what your pay-off balances are and so there's a number of fintechs in that space who have solutions on identity verification or helping us connect to the members' institutions to get that financial information we need.

We're working with fintechs...there's new rules that are recently put in place by NACHA, the National Association of Clearing House for electronic payments, where you have to verify a user's third party account before you could take money out of that account. We're working with a fintech right now so that we can enable our members to instantly verify those accounts as opposed to....traditionally, what we've done is use kind of a micro service approach. We've got a



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lot of different opportunities and we're always looking for fintechs who have solutions that are state-of-the-art so that we can implement them as opposed to building our own technology/

Peter: So, what is your approach then, I mean, what's the philosophy around building your own versus taking on technology and partner with a fintech?

Thea: Well, to be honest, we're actually working at transforming.....you know, I talked a lot about our digital interfaces, but part of that is also transforming the way our entire tech set is set up so that it can be much more API-enabled. So, we have an all-course system, I think we're.....no plans to talk that out, but building kind of that middle layer between our forces and fintech solutions is a big part of our transformation and what we're working on is to be in a place where we can easily connect with fintech technology so that we don't have to build it ourselves.

You know, PenFed is the second largest federal credit union in the country, but that's still ...so while we're very large, we're a credit union and when you compare us to say the top ten banks, we're relatively small. We don't have the technology resources and teams to build these solutions, we are very eager to partner with fintechs that are working on solutions to help us better serve our members and really see that as an opportunity that we want to continue to grow and foster.

Peter: Okay, okay, that's really interesting. So then, can we just talk about the student loan refi business for a second because that's been in the news a lot lately as far as student loans with people being allowed to postpone payments. How is that loan book going, I mean, firstly, maybe I'd love to hear about your experience with some of your borrowers who are struggling, what are you doing as far as forbearance there and how has that product performed for you guys this year?

Thea: So, the business is 100% focused on refinancing our members' student loans, not originating student loans while people are in school. So, we have....it's a relatively smaller asset class for PenFed, but we have provided those borrowers essentially the same support we are providing all of our borrowers which is an opportunity, if they are struggling financially, to ask for a skip pay on their product and continue to ask for skip pay multiple times, if needed, if they are struggling.

In general, I would say, because PenFed has been largely a fairly conservative organization when it comes to lending, we have weathered the storm pretty well on that front when you think about our whole portfolio and, you know, again, because we're really very focused on members' service, it's a really core value of ours to work with our borrowers particularly during something like the pandemic who are struggling, to see if we can see them through this difficult period of time and then they can start repaying their loan once they're back up on their feet.

Peter: Right, that makes sense, that makes sense. So then, one thing I've always been curious about is we've seen this...we've had many people on the show this year and in the various sessions we've had at LendIt talking about fraud and there's been an increase in fraud attempts this year as the fraudsters try to take advantage of everyone being online as well. I'm just



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wondering if credit unions are a little bit different to a regular bank because you're really a membership organization, but has there been an increase in fraud attempts this year at PenFed?

Thea: You know, I think we have seen an increase in fraud attempts across the institution like the rest of the industry have. One of the things that I think all of us are feeling good about is over the last three years, three to four years, as we've moved the organization and evolved our technology, we did add a number of solutions, third party solutions, to help us manage those fraud attempts and be far more sophisticated about detecting them so I think that we're feeling very good about the fact that we have put in some of those solutions prior to this pandemic.

I do think the whole industry has seen an increase in fraud attempts and I think it's one of the challenges that all financial institutions face. What we found is we put a series of solutions in place and the fraudsters are always kind of one step ahead. Once they realize their regular pattern can be detected, they're working hard to come up with new ways to, you know, perpetrate, infiltrate our system one way or another, But, I think the good fortune is while we've seen an increase in attempts, we've been effective at detecting those and have minimized the impact to our members and to PenFed as an institution.

Peter: Right, right. And then, would you say...when you look at sort of the credit union space, in general, it's different to the traditional banking space in many ways, but what do you feel like is the challenge for the credit union space because, obviously, you're a bit different because you're the second largest credit union, federal credit union, so a lot of credit unions are small, what do you feel like is the biggest challenge for the credit union space right now?

Thea: Well, I think one challenge in the whole space is there are a lot of much smaller credit unions that were very branch-centric and didn't have the technology that they really need to support their members in a more remote way. So, I think there has been a number of smaller credit unions that have been challenged by that as their members are visiting branches less frequently.

We ourselves, depending on the location is, you know, all our branches are open, but some have reduced hours, many are pushing as many services as possible to kind of put through the drive-through, again, to make sure everybody stays safe. So, I think that's really been a big challenge for the smaller credit unions and then I think one of their challenges going forward is going to be, you know, keeping up with consumer expectations, keeping up with their members' expectations on the kind of digital experiences, our members are continually setting a higher bar for us and I'm sure that's happening across the credit union space.

Peter: Yeah. I think that's one of the stories that hasn't really been talked about enough this year is the consumer expectations. You know, it feels like to me that they've changed....I think people very much want a digital experience and obviously PenFed has been able to provide that even before the pandemic, but it seems like now that there's mobile that is really becoming bigger and you've got a broader cross section.



I know friends of mine who are explaining to their parents how to deposit a check with a mobile phone and you've got a whole new segment of the population suddenly has digital expectations as well. I mean, when you're designing digital products, what sort of population are you trying to focus on or how do you....I guess my real question is this, there's new people that have come on to digital this year, what are you doing specifically for those kinds of people?

Thea: Yeah, no, absolutely. I think all demographics has become more digital this year when it comes to their financial services and banking, in particular, and we ourselves are seeing higher usage of our digital platforms from our membership as I'm sure other institutions are as well. So, I think there's a couple of things, as people get more comfortable using...you know, we've always had mobile deposits, we've had it for a very long time, we have the basics that consumers are looking for, but there are new experiences out there that members are also looking for or going to start looking for.

So we try to focus on what are those going to be and which ones do we think our members will be most interested in and how we do we set ourselves up fast so that we could support those experiences as they come about. So, a lot of what I do and my peers and my team does is try to become a more sophisticated and educated about the tools out there that are evolving, what's happening in the tech space around financial services so that we can do the groundwork that we need to do and be ready to implement those services when our members are starting to ask for them.

Peter: Right, right, that makes sense. So then, how do you go about educating yourself because, I imagine....obviously, there's a huge....I mean, everything to know about what's going on today is virtually impossible and there's just so much happening. I see it and try to keep up as much as I can, but it's a fire hose of new things that are being released and developed today, how do you try and stay up-to-date with what's needed, what could be useful for PenFed?

Thea: Well, you know, I think of myself, my team, my peers, we try to have a lot of different accounts at different places to see what our competitors are introducing to their users, that's one way a, of course, there's....we used to go to conferences where....and there's many excellent conferences in financial services where there's many, many fintechs as well as other innovative companies coming to the table talking about new services and capabilities they have.

We already have relationships with a number of third party providers, particularly on the technology front, they're always talking to us about what they're looking to introduce and then, of course, there's a lot, as you're well aware, there's a lot of press out there that are covering the innovation in the space and we really work hard to stay on top of that as well. And I think we try to be pretty proactive about reaching out to organizations that are building new technology, whether it's fintech firms or more established technology providers in the financial services space.



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We try to take the initiative and be proactive about learning about their solutions and then talking internally with our own technology team to talk about, you know, what are the challenges, what the hurdles might be if we wanted to implement some of those solutions.

Peter: Right, right. How much do you pay attention to the digital challenger banks that are out there, Chime and SoFi and MoneyLion, Dave, those sort of companies, how much do you ...really looking at them as kind of inspiration?

Thea: You know, I think quite a bit, to be honest. You know, SoFi, as you're well aware, is a very, very significant participant in the student lending space so we do spend a lot of time trying to understand what they're doing and the innovation they bring to the table. Chime is an innovator in the banking space and has really made a number of activities when it comes to opening an account and getting started with your account, really simple and easy for users.

We do look at those players in the space and see what they are doing and see what we can leverage and apply to PenFed to make PenFed.....you know, we want PenFed to be a great institution for our members, we want it to be user-friendly, we want our members to be able to access state of the art technology so we consider that a big part of what we do.

Peter: Right, right, okay, okay. So, we're running out of time, but a couple of things I want to get to before we close. We haven't talked about payments at all yet and I'd love to kind of get your perspective on what's new, what are you doing there that is new and interesting.

Thea: Yeah. So, what we're doing now is we're doing a deep dive into sort of P2P trying to understand the market there, whether bringing our members a solution like Zelle makes sense for PenFed, what roles some of the other P2P solutions like Venmo is playing and how active our members are in a new single kind of solution so we're spending a good deal of time. I don't have an answer yet what our strategy is going to be for, you know, person-to-person payments.

We're also trying to understand the landscape of the future so that we can make sure PenFed is really well positioned for our members in the future. The Clearing House has come out with the RTP payment infrastructure, the Fed is in the process of developing a real-time payment infrastructure as well that they anticipate will come out in the next two years.

What we're trying to understand is what will it take for PenFed to be able to support those new technologies so that our members can be supported by them and so we're spending a lot of time learning about them and understanding how they're evolving and getting a sense of when they'll start impacting the broader retail consumer population.

Peter: Right, right, okay. So, last question then. Again, this is the first episode for 2021 so I want to ask you what are your goals for this year, what are you focused on?



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Thea: Well, okay, I would say number one, one goal on the payment space is setting our strategy in person-to-person payments and how we want to approach that and beginning to execute on our chosen strategy, Number two is really pushing hard for this initiative that we have to re-platform a lot of our self-service activities into a new technology platform that will be a lot more user-friendly. You know, as a product owner, we spend a huge amount of time working with our technology team and partners helping to decide what that user experience should be so that it really meets our members' expectations.

And then, I think the third area that's become a big priority for us is we actually are looking to invest in our value propositions in the checking space. We want to introduce at least one, if not more than one, new value proposition in checking that we think will be more attractive to our membership base and really be able to provide that checking service to our members and expand the number of members we have with checking products at PenFed.

Peter: Right, right, okay. Well, that sounds like an admirable slate of products, slate of achievements for 2021 so I wish you all the best, Thea. Thank you very much for coming on the show.

Thea: Oh, well, thank you for having me, Peter, appreciate it,

Peter: Okay, see you.

You know, it's really interesting to hear Thea about their approach to partnering with fintechs and how they're really open to doing that and really looking for fintechs who provide really the best-in-breed technology and user experience. I think, sometimes, credit unions....you don't hear them as much of a focus for many of these Banking-as-a-Service/Lending-as-a-Service type companies.

I was just looking on their website and PenFed has \$25 Billion in assets and that is a very sizable organization and to have someone like that actively courting the fintech community is I think a call-to-action for many of us here. We should be putting, I think, a little bit more effort into really working more with credit unions than we do. I know there are fintech companies that are specifically working with credit unions, but I think there could be a lot more effort put in here.

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

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