Welcome to the Fintech One-on-One Podcast, formerly the Lend Academy Podcast, Episode No. 299. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

(music)

Today's episode is brought to you by LendIt Fintech, the world's largest digital media and events company dedicated to all things fintech. LendIt Fintech offers programs throughout the year to the fintech community such as engaging webinars, white papers, a weekly news show, a daily newsletter and our newest offering, Fintech Features, a program that helps fintech companies amplify their announcements. Find out more details on all these offerings at lendit.com

Peter Renton: Today on the show, I'm delighted to welcome Catherine York Powers, she is the CEO and Co-Founder of Constant AI. Now, Constant AI are focused on loan mitigation primarily right now and we talk about what they're doing in some depth there. I mean, they have an automated system which really is quite sophisticated and something that helps automate the manual process that come with sort of a loan modification, but really help with .....it's a better experience for the borrower.

So, we talk about how they do that, we talk about their movement into loan servicing, why they decided to do it, talk about the different lending verticals. Obviously, the impact of the pandemic where there has been huge numbers of requests for loan modifications and what that impact had on, not just Constant's business, but on their clients' businesses as well. And we also touch on what it's been like for Catherine as a Black, female entrepreneur in fintech and her experience there and what we can do as an industry to be more welcoming. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Catherine!

Catherine York Powers: Thank you for having me, great to see you.

Peter: Likewise, okay. So, you've got a pretty interesting background, I would say it's not a typical fintech entrepreneur background. Why don't you give the listeners some of the highlights of what you've done in your career to date.

Catherine: Yeah, sure. So, in my earliest days I was a political activist, I worked for the Democratic National Committee registering voters in black and brown neighborhoods. I later worked on legislation to create empowerment zones, to promote economic development in distressed communities and this four-year period at the beginning of my career really left an impression on me. But, though I've moved from politics into a career of running P&Ls in different companies and later in M&A, that work taught me that you can do well by doing good and that's a major theme not just throughout my career, but for Constant as well.

Peter: Okay. So then, what was it that led you to decide to found Constant? Was there an aha moment, what was the trigger there?

Catherine: Actually, I was coming off an exit with Sam Edison, that was where I was running their M&A program in the solar energy space, and I knew I wanted to do something in energy efficiency in that space and we had a background working on finance just as a part of financing, solar installations and so forth. So, I knew I wanted to do something there, but given my background that I just talked about, I wanted it to be in responsible lending, something of that nature. That's what we did, we set out to be responsible lenders in the home efficiency/home improvement space and to us that meant extraordinary transparency for borrowers, self-imposed rate caps, no fee spikes when promos ended, that sort of thing.

Not long after, we secured our loan purchase partner, we decided to build a self-service hardship relief platform because we knew that along the way borrowers would struggle, whether it was related to, in this case, the pandemic, but related to a disaster or something else or just something happening in their life. We wanted them to have a similar experience that they had at origination and self-service, getting help within minutes, not having to wait on a phone channel to receive an answer from their financial institution.

Peter: So, it sounds like you pivoted away from lending per se and really became a software company, I guess. What was the reason behind that?

Catherine: Yeah. So, we actually were....we built our origination platform, of course, that was for ourselves and as we started building out the last mitigation platform and talking to our peers in the industry, we realized that this could be useful for other financial institutions and that was the reason why we decided to focus all of our attention on that platform. We always imagined that we would expand that into loan servicing, loss mitigation really is some place, I guess, parent/child relationship, but we decided that we needed to use all the resources in our company and focus on that one thing and do well at it which is why we made that decision.

We made it before the pandemic, we already built the platform for ourselves, but we knew that there was going to be a lot of work behind making sure that we had, for example, an admin panel where the application could be branded to that financial institution where they could set up their complicated credit policies and so forth. So, we set about doing that end of 2019/early 2020 and, of course, COVID-19 hit in the first quarter and we were poised and ready to go with that platform.

Peter: Right. We'll talk about that in a little bit, but I want to first get a sense of what the loss mitigation, you know, procedure looks like typically, what it has looked like to most lenders. Can you sort of describe what you see out there in the market.

Catherine: Yeah, sure. It really is by loan type so in a firm mortgage it's pretty prescribed given that loan modifications, in many ways, were born out of the Great Recession. So, a mortgage loan modification is highly manual and touches multiple departments. There's, typically, an inbound request for help which goes to the phone channel then a hardship application is pushed out to the borrower with the requirement to not just fill that out.

Write a hardship letter, provide financial documentation showing that there is a hardship, that gets sent back to processing then goes to credit underwriting because they have to do the analysis to see what offer would be available to that borrower, if anything. An offer is created, sent to the customer and then there's that back and forth of signing of documents and, traditionally, that process has been very, very manual and even some folks in the industry who are working to automate it...their focus has been on borrower input, you know, a screen where they can input information. But, they're still taking that back, putting it into a fulfillment queue on the backend and having to do all the work that I just described manually.

Peter: Right. I mean, obviously, it's somewhat complex and as you say, there's a lot in there. What about for like an auto loan or a personal loan, is it different there?

Catherine: Yeah. It's interesting and for auto and personal you mostly have seen in extensions and deferrals only, there's a reason for that. It makes sense to invest in the cost of a mortgage loan modification because, well, you know, an average house is 250, 300 thousand dollars worth of an asset and you can afford to, for that investment, in structuring a loan modification.

With auto and personal loans being much smaller, it's harder to make the case to do that. So, typically what you've seen are the use of extensions and deferrals where it's skip a pay, skip a pay for two, three, four months, in most cases interest is still accruing, the payments get tacked on to the end, it's a real easy one-size-fits-all structure. But, we also had auto lenders get very interested in loan modifications or more complex loan modifications because we made them affordable for non-mortgage loans.

Peter: So, let's talk about that. You talk about automated loss mitigation and you mentioned how manual it is in mortgage loans, how does your system work? How have you automated this process?

Catherine: Sure. So, if a borrower is ....it goes into their normal loans servicing platform or they may be invited into an email campaign or a link on their financial institution's website, they click through that and click on Hardship Relief and it goes into a flow of questions that get to the specific nature of their issue. Right now, we're asking whether it's COVID-related or non-COVID related. Frankly, there are a lot of non-COVID related hardships still happening and then we get down into questions that ask about the severity and duration of the hardship.

It's really important information when you think of financial institutions trying to figure out what their loan reserves should be like, loan loss reserves should be like. Nobody had that information, they were guessing based on what was happening in the economy and with employment stats. So, they go through that process, we then pop up a video recorder so they can record their hardship, we do a speech to text transcript of that, some keyword phrase extraction for collections later, that's necessary. Then we go into the credit analysis where we ask them for their stated income, but we also ask them to connect to open banking, either through DirectID or Plaid.

We're able to grab all of that rich information about what's actually happening today, not days ago, which is what a FICO would show, what's happening today, but we also layer that in with the credit pull and we crunch the numbers and we come back with the offer that's available to them. It might be a few-month extension, it might be a full on loan modification, it could be a step-up modification where you pay small amounts until you get up to your old payment. And what's happened in the background is the financial institution has input their entire credit policy, what offers are available, who their integrated partners would be so we've done all of that work in the back so that the customer can actually get an offer within three to five minutes based on that borrower input and the use of the integrated partners.

Peter: Interesting. And so, are you able to automate the mortgage modifications as well as the other verticals?

Catherine: Absolutely. We're able to do it across all loan debt types so a personal secured, unsecured, auto loans, mortgage, etc. which is really important because if we have a banker/credit union client and they have multiple loan types, they don't want to have different solutions for different loan types.

Peter: Right, right. It's really interesting, like the video piece is interesting. Maybe talk a little bit about that, why you decided to put that in and is that something that is a friction point or how has it been implementing that?

Catherine: We actually give the client the ability to use it or not.

Peter: Okay.

Catherine: Since it's definitely new, but most are using it, customers seem totally fine with that versus having to write a handwritten letter, you know, something that we're looking at in the future. It's looking at sentiment analysis to help with that because we want to fully understand the hardship and make sure we're providing the right solution helping our clients to inform them on what that output might look like, but we've had I think really good success with it.

Peter: What about integration, how do you interface with the lender's existing like loan servicing platform, is this something that just sits on top of that? I mean, is implemented on a case by case basis, how does it work?

Catherine: Yeah. So, we actually show up as an embedded date link within the loan servicing platform so our borrowers would go in through their typical online banking platform, single sign-in, access their loan and we would show up as an embedded link. They would click through that link and they would come to us so that's how we connect. On our servicing side of the business we are able to connect via API or in some cases batch file processing.

Peter: So, let's talk about that servicing side of the business. Can you say more about that?

Catherine: Yeah. It's new-ish, I'll say. Our mission is to modernize loan servicing and loss mitigation. What we've found when we were providing loss mitigation for clients is that their servicing platforms look like they were built in the 20th century (Peter laughs) and some of them even had a more modern look. But, frankly, they all did the same thing which was to allow borrowers to make a payment or see their statements or some variation of that which we thought was a....real missed the opportunity to connect with borrowers in a meaningful way and retain them which, of course, is a huge issue right now, as far as retention especially around mortgage. We're over 70% of folks who are now with a different service than they were before they started the pandemic.

Peter: Interesting. So, let's talk about the pandemic a little bit here. Maybe, firstly, I'd love to get your sense from where you stand, I mean, we look across different lending verticals, what has seen sort of the most uptake, you know, in loan modifications?

Catherine: Yeah. Not surprisingly, the loan modification tsunami that folks have been talking about hasn't actually happened yet.

Peter: Right.

Catherine: But, many feel like it still will. I think you're still seeing some financial institutions holding on to their loan loss reserves, they are releasing some in some cases to balance their net income, but we have done a good job, I think, in this country bridging folks through most of the pandemic with stimulus and payments accommodations and a variety of other things. But, at some point, it will end, we cannot continue doing this and there will be a need for, I think, mass numbers of loan modifications. So, what we've been helping our clients with is the short-term forbearances or short-term deferrals which at the very beginning of the pandemic really, you know, resulted in thousands and thousands and thousands of calls to the phone channels and even for those who put an online form that said, would you like an extension or deferral.

They said, yes, it still is getting kicked to the back office for processing. So, I would say, it's really reflecting what you saw across the industries, mostly auto and mortgage, you know, less on personal loans. I think folks were looking for accommodations from the credit card side which we weren't supporting, but auto and mortgage were really....and some recreational vehicles and boats was really where you saw most of the traffic.

Peter: Right, right, So, I mean, it's interesting you have this platform ,set up, so I presume you had a number of clients in place before 2020 hit. What was that like in the early days because we did hear of, you know, people rushing to their mortgage servicer, rushing to, you know, for auto loans to try and get this like....because we didn't know how long it was going to last. You know, someone just lost their job, let's try and skip a few payments, what was that like for your clients?

Catherine: Yeah. Interestingly, we were able to I think reduce a lot of the phone channel and the scrambling around and, frankly, the potential for non-compliance risk and you're probably going to see a lot more discussion around that over the next 12 months, the things that financial institutions did to scramble to get help out quickly. There were some messes along the way because they were mostly manual so we were able to take that manual process and automate it and help with some of that compliance risk as well as getting it across to customers fast, that was a big deal. You know, we were also trying to sell into the market and help other financial institutions, but, frankly, early on it was hard.

Peter: Yeah.

Catherine: Everybody was trying to figure out how do you take your entire team and make them work from home or allow them to work from home, how do you leverage the opportunity around PPP and then PPP Two and the idea that they were refis so loan volume was down. Elsewhere, you had this real opportunity to grab some income so it was like income grabs and also trying to manage the chaos. You know, it wasn't until summer/early fall that we started getting more traction and, frankly, folks believing that the pandemic wasn't going to be a V-shaped recovery, that this actually might go on for much longer and that there might be a need for investment and, you know, a more automated solution.

By the way, we happened to really launch and expand during the pandemic, but hardships aren't cyclical, you always have a portion of your customers that will be dealing with hardships in addition to your typical, you know, every year disasters, weather events, those sort of things that happened which is also why we wanted to expand into servicing because we wanted to help with that K-shaped recovery because there are plenty of, as we know, plenty of solvent customers as well as those struggling borrowers.

So, on the bottom part, the K, we're still able to support them, support those struggling. At the top of part of the K, we're now able to help deepen those relationships for customers and help retain them by helping borrowers self-serve more through more modernized servicing and helping them manage their debt better, helping banks and credit unions expand their share of wallet, those sorts of things.

Peter: Right. And so, that brings me to the next question. You talked about banks and credit unions, what type of lender are you really focused on, I mean, is it the smaller end of the spectrum here, you're talking about sort of mid-sized banks and credit unions, what about the fintechs? How are you sort of marketing your services right now?

Catherine: Yeah. Our focus on, especially with the servicing applications, has been with the mid-market banks and credit unions because we focus heavily on finding ways to personalize upsell activity to help them create or expand share of wallet. A lot of the fintechs, you know, the larger fintechs are supporting various types of debt and they are definitely targets for us, but those that are just in single verticals, that aspect of the business may be less interesting to them.

But, we're on the loss mitigation side, we're definitely targeting fintechs and also that mid-market bank and credit union. I mean, we've got, as you would expect, a number of conversations going with much larger financial institutions, but in terms of our sales and marketing efforts, we're really focused on that middle market financial institution.

Peter: Right, right. So, tell us about the upsell opportunities and what....I mean, obviously if it's doing loss mitigation and I'd love to know what your perspective is, is there an upsell opportunity there, is it really on the loan servicing side you're focusing on the upsell, how are you approaching that?

Catherine: Yeah. It's really on the loan servicing side, on the hardship release/loss mitigation side, we're there to help those customer, but, frankly, having that be a part of the servicing application is really beneficial for borrowers that are looking to get an answer fast, self-serve, maybe avoid what may be a very embarrassing conversation about their financial situation. But we want to help banks and credit unions recover as well by looking at their solvent borrowers and finding ways to deepen that connection with them.

So, we have three primary goals with our servicing digital servicing application which is one, to help borrowers better manager their debt and increase those self-service capabilities, help our clients increase their share of wallet through, as I said, smart, personalized upsell activity and increase operational efficiency and three, encourage financial literacy and transparency which goes back to origination days with tips and videos. And so, on the cross-sell/upsell opportunity, within this servicing application and by the way, we're not the core provider, we are connecting into a core servicing platform, we are the digital front for that, but very easy to ask the question like would you like to lower your payments.

This is a non-solvent, hardship borrower which would lead to two things for us, one, grabbing a soft credit pull or maybe allowing them to connect through their open banking if they prefer to do that and we can help structure lower payments through a recast for a fee or refinancing which is more fee income to the financial institution. But, what we're rolling out right now, now that we've grabbed that soft credit report, we can see the loans that they have with other financial institutions and make suggestions for them to move those loans over to help increase share of wallet for banks, that's one opportunity.

One thing that we already have built and have deployed is allowing customers to, through our integration of Black Book, allowing them to see what the trade-in value would be for their vehicle or their boat recreational vehicle if they wanted to refi and allowing them to go all the way to the pre-qual process while they're right there on the servicing app. So, our goal is to go, you know, way beyond payments, finding real ways to engage, but allowing these opportunities to create revenue for banks and credit unions as well.

Peter: Right, right. So, I want to go back to the loss mitigation, the automated loss mitigation because it strikes me as something that is, you know, it's a no brainer. I would have thought for most lenders, you don't really want to have the cost involved having to go through this manual process. So, I'm just struggling to think about what is the argument against this, is it. I mean, is it just we don't want to change. I mean, when you go in there and you're pitching your service, what is the resistance point?

Catherine: Well, during this pandemic, it's been resources. We’ve got a lot of tech priorities right now and we can't fit this in all the while hiring, you know, 50 to, in some cases, 300 was one of the potential clients, we ended up pulling in, hiring more people to answer calls and help process these hardship requests. So, a lot of it is resources and a lot of it is just this is what we've always done so most financial institutions know how to respond to disaster for weather, government furloughs, etc. and that's always meant hiring campaigns and later, of course, people have to get let go.

So, you've got this up and down of activity that is fully avoidable through automation, but you're also extending this amazing service to your client that don't have to call, in the case of 2020, wait for days and weeks for an answer when they really badly need help which is also the case in a disaster or weather event. So, I think it's mostly been just this is what we've always done or I don't have a tech resource that I can give to you to help with that, what is fairly simple integration.

Peter: Yeah. Because, this seems like a bit of a no brainer to me. Anyway, I want to switch gears, if I may, and talk about your experience in business. I mean, there are not many like female entrepreneurs in fintech or in any kind of technology vertical. So, how have you found your journey here, obviously, you’ve had to break through some barriers, I mean, what's been your experience?

Catherine: Yeah. It's interesting, that usually isn't the first thing that occurs to me when I'm trying to do something new, in this case starting a company in the fintech space. I was actually surprised when Goldman made a big investment...or the commitment to increase wealth for Black women to learn that less than 1% of all founders are Black women, that was actually surprising for me. I mean, sure, throughout my career I have dealt with a whole range of microaggressions and other things, but I have been fairly successful in management positions in the C-Suite by I think just hard core perseverance, working hard or staying up later, that's always worked for me.

In the fintech space, I actually haven't had any issues, part of this is starting my own company and I get to say, along with my board, who we're going to hire and I'm able to implement all of the things that I want to around diversity and inclusion that are meaningful for me. I think the hardest part for women of color starting new businesses is access to capital. I was able to overcome that because I spent a lot of time, after my exit with SunEdison, cultivating relationships in my community with angel investors investing alongside them.

So, once I started my own business, I didn't have trouble with access to capital, but I realize and fully understand that that is the biggest barrier to most women of color, Black women starting their businesses, how do I go about doing this. And I really think that this starts with investors themselves, with venture capitalists, angel investors making a commitment to invest in this community and making it known, similar to what Goldman is doing, they obviously have a much bigger voice and pocketbooks to do this. I think there needs to be a commitment with written goals where someone is accountable for diversity and inclusion. Those are all important things, I think, that will help promote or increase that diversity in our business.

Peter: Right, right. So, are you optimistic then about ....I mean, fintech has...you know, finance is a very white, male dominated field, technology even more so and when you combine them, it hasn't been a good concept. As someone who organizes a conference, it's not easy to have a really fully diversified speaker roster, for example, it's just a very white dominated field. So, I'm curious to think what more can we do as an industry, do you think, to attract more people of color and one already who's into it.

Catherine: Yeah. Well, I think it's about pipeline so when there was an announcement about the Black, female CEO of Walgreen's, lots of fan fare, but for me, I saw this as an anomaly and it comes down to pipeline, right. So, if you're in sales you have a big top of the funnel and like if your goal is Black, female CEOs, well at the bottom you will have more coming out. We, as an industry, I think are not doing a good enough job making sure that that pipeline is full. So, for talking about, you know, within financial institutions making sure that we are promoting people into managers, managers into senior managers into the C-Suite and on up, many of those people leave their jobs and become fintech entrepreneurs.

I mean, in my own career I went through a number of corporate jobs before I decided to step out on my own so I think that within those larger organizations that commitment to fill the top of the funnel....because, honestly, if you look at the stats today, the ones that I mentioned to you that there are less than 1% of Black, female founders and about the same for Black, female CEOs if that's the outcome, that just means that the pipeline is woefully thin. And that means you have to have commitment from the top so boards and CEOs specific targets, a commitment to them and making sure that there is adequate funding and someone accountable to make sure that actually happens.

Peter: Right, right, makes sense. Okay, we're almost out of time, but a couple of things I want to get to. We haven't mentioned AI yet and your name is Constant AI so I want to at least address that. How are you using AI in your business?

Catherine: Yeah. So, our primary focus....we talked a little bit about the hardship video, our primary focus is on speech to text and keyword phrase extraction for potential collection stock off, that's where we're focused now. We originally set out to do a lot more in credit underwriting and it's interesting our President, Carissa Robb who's is a former Senior Vice-President of Loan Servicing for TD Bank and we've batted this around a lot. I know that there's lots of really good work being done here, but we feel that there is still too much risk for bias and disparate treatment.

I think that's why you're seeing lots of discussion in Washington right now around that. We actually just recently met with the CFPB to show them our product, lots of questions around the use of AI. We did the same thing with NCUA on the credit union side so we're continuing to look for ways, especially on the loan servicing side, we're really excited about that, to expand that, but we stopped short with the credit underwriting for those reasons. Right now, it's mostly around the borrower input and how to take that information that'll personalize the experience for the borrower.

Peter: Right, right, okay. So, last question, as you look ahead to this year and beyond, what are you working on that you're most excited about?

Catherine: Great question. It's that cross-sell and upsell opportunity that we talked about earlier. So, if you go into your bank account today, you're going in to check your balances and other things, but you may get ad pop-ups for different things and you don't know....the bank doesn't usually know whether that's personalized, whether that's something you want or need. We actually spoke with a credit union, they sent off 50,000 cards promoting auto loans, even to people who had auto loans. And so, our goal within that servicing experience which..... with a borrower could be years and years, right, originations at some point in time, you've got years with these guys, is finding ways to better personalize the experience, better personalize the offers and increase share of wallet for our customers while, of course, making sure that the borrowers have an amazing self-service experience, can self-serve whether they are really solvent and looking for new products or if they're experiencing a hardship.

Peter: Okay. We'll have to leave it there, Catherine, you're building a really fascinating company and I wish you all the best.

Catherine: Thank you.

Peter: Thanks for coming on the show.

Catherine: Appreciate it.

Peter: Okay, see you.

You know, when I look at this objectively, I feel like having an automated system for loss mitigation and for loan modifications, it feels like a no brainer to me because it's a better experience for the borrower. They get to avoid a somewhat embarrassing conversation, but they also get a quicker response and that's probably the most important piece, they don't have to sit and wait for days or potentially even weeks on a decision, that's on the one hand.

On the other hand, it saves money for removing these manual processes on the lenders' side of things. I mean, to me, it just feels like a matter of time before this is a standard. Everyone is going to have some kind of automatic loss mitigation system and I think Constant AI are in a good position to deliver on that.

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

Today's episode was brought to you by LendIt Fintech, the world's largest digital media and events company dedicated to all things fintech. LendIt Fintech offers programs throughout the year to the fintech community such as engaging webinars, white papers, a weekly news show, a daily newsletter and our newest offering, Fintech Features, a program that helps fintech companies amplify their announcements. Find out more details on all these offerings at lendit.com

(music)