

FINTECH ONE-ON-ONE PODCAST 304-KIRILL BENSONOFF

Welcome to the Fintech One-on-One Podcast, Episode No. 304. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Before we start this episode, I want to tell you about a brand new event from LendIt Fintech, Fintech Nexus, the Dealmaker Summit will be the first major in-person fintech event of the past 18 months, a hand-curated audience of venture capitalists, bankers, fintechs and debt investors will be meeting face-to-face at an event 100% focused on doing deals. It will be happening in Miami on September 1st and 2nd. You can apply to join and find out more at lendit.com

Peter Renton: Today on the show, I am delighted to welcome Kirill Bensonoff, he is the Co-Founder and Head of Product at New Silver. Now, New Silver is a really interesting company, they're a tech-forward fix & flip lender, they also have other lending products, but we're really focusing on the fix & flip space, we're focusing on that combined with Decentralized Finance because they did the world's first DeFi real estate transaction earlier this year.

So, I wanted to get Kirill on the show to talk about why go into DeFi, why be a trailblazer here and how the mechanism works, how investors were able to participate, how they are able to really close millions of dollars in financing through DeFi. So, we talk about how that works and he also provides what he thinks the future holds for DeFi and for New Silver. It was a fascinating interview, we hope you enjoy the show.

Welcome to the podcast, Kirill!

Kirill Bensonoff: Hey, Peter, thanks for having me.

Peter: My pleasure. So, let's get started with a little bit of background. I mean, you've been an entrepreneur for a while, sounds like you've done a few different things, why don't you give us some of the highlights to date?

Kirill: Oh, yeah. I've done a few different things, that's for sure. So, like you said, I started my first company while I was in college, it was web hosting company that kind of got me started as an entrepreneur. I came to this country as a teenage immigrant with my parents and certainly I always was interested in doing my own thing so that kind of lead the spark. And then post-college I had an IT services company that focused on money services, we're one of the first money services company in the area. And then, under that we spun out a software company that was just really young software startup that was acquired fairly early on.

We had a couple of other things in between and what I've been involved with now is New Silver. New Silver is a loan originator in the fix & flip space, tech-forward loan originator and we're doing a bunch of interesting things I think to make the lending process faster, easier and less costly for everyone.

Peter: Right. So, what was sort of the genesis behind New Silver? Can you tell us what you saw and why it started out.

Kirill: Absolutely. So, I became familiar with fix & flip investing some years ago through a friend of mine and I kind of always liked it. I mean, there is a great yield and secure and buy real assets, it brings value to real estate entrepreneurs who basically own very small businesses and individuals who come from trades, who come from various backgrounds and who can essentially earn a very, very nice income if they put their minds to it. So, I was very intrigued by what was going on there and I was looking into it and I looked at the technology initially and I thought that the technology behind the lenders today was a little bit dated, a little bitsubpar to what I've seen in the consumer lending world.

By the way, I had no experience in fintech, with little experience in fintech and no experience in lending prior to New Silver, no formal experience. So, we positioned initially as a potential technology startup, but then, you know, for various reasons we thought that we could do a lot more being the lenders ourselves. There's a lot of very interesting things there so we decided to build the product, test the product and lend our own capital.

Peter: Maybe you could tell us a little bit about the....breaking down the different type of loans you do, what are the loan terms, that sort of thing.

Kirill: Sure, absolutely. So, our bread and butter is the fix & flip loan. It's basically bridge loan that's usually 12 months in duration, but it can go up to 24 months and the purpose of the loan is for someone to buy a property, typically a residential in a one to four family, but we do larger as well that is in some condition that needs a rehab essentially we acquire the property, rehab the property and resell it so we do a majority there. We lend for new fix & flip projects, we do refinances and we lend it for ground up construction which is very similar except that either they're buying land or they already own land or they're going to essentially demolish the house and build a new structure.

And then, we also do a 30-year rent loan, this is what is called in the industry a DSCR loan, it's kind of similar to what a bank would do for an investment property except the difference is that it's an asset-based loan so we don't really look at what the income, what the losses are in the individual or the company. We just look at the asset, make sure that the value is there, make sure it's profitable. That we could do in conjunction with a partner typically, so, yeah, those are the four products that we have.

Peter: Right. How have you funded these loans historically?

Kirill: Yes. I mean, when we started the business, we learned that there was a lot of interesting dynamics. So, we raised a little bit of capital, our own money, a little bit of friends and family types of capital and we would essentially fund the loan with the capital and then we develop a few partnerships and then we would sell the loan off to one of these partners. There are a number of companies out there that were aggregators essentially and buying up loans from originators like us and then they

need to securitize and we're doing something else with them with a bigger volume. So, that was our model from the beginning.

Peter: Right, okay. We're going to get into the new model here in a little bit, but before we do that I do want to just sort of get a little bit of your background. I know you've been interested in crypto for some time so why don't you just tell us a little about what your interest is there, how long you've been following the crypto space and that sort of thing.

Kirill: Yeah. So, learned about cryptocurrencies I think back in 2013 and actually bought Bitcoin, I remember, inI live in Massachusetts and I went to Cambridge. I think it was a student from MIT that I met. We met online on a platform for these types of transactions, we met in person basically and I bought, I can't remember, one or two Bitcoin out of this person and he transferred it to me in my wallet, I brought cash. (Peter laughs) So, that was my first Bitcoin transaction. We met in a bar and it was a little bit of a strange transaction, but, you know, it worked and I was really interested in where this is all going so I continued to pay attention.

I wasn't really a big investor in crypto at that time, I mean, there wasn't really much available other than Bitcoin and then other things coming out as well. I've always kind of read news and kept an eye on it. I thought that there were some interesting dynamics there. And then 2017 or so, myself and a partner, we tried to do a startup in the crypto space which didn't work out, unfortunately, but that kind of gave me I guess a closer hands-on view at the positives and the negatives that go on in the space. So, I kind of continued on from there, but after that we started New Silver and really I continue to be interested in cryptocurrency, but New Silver was not a crypto currency related business at that time. I mean, it's still really isn't, but we introduced some components which I'm sure we'll talk about.

Peter: Right, right. I do want to get into that, but maybe we can start that process by talking about Decentralized Finance or DeFi because this is really what we're really talking about here, sort of DeFi for real world assets/ Did you sort of first hear about DeFi and think aha, we can take advantage. How did sort of the genesis come around with sort of the DeFi world and the hard money lending world.

Kirill: Yeah. I thought.... there wasn't that specific thought, but when I learned about DeFi I thought that at some point this is going to encompass other assets, the real-world assets, non-crypto assets and this was, way before, maybe 2017 or so, but I always thought that this was potentially a way to do some interesting financing. You know, I knew some folks in the industry and I met some folks at MakerDAO around that time and we started talking about what can be done and their interest in exploring so that kind of sort of started the conversation way back then.

Peter: Right, right. Maybe you could explain to the audience what exactly MakerDAO is and also it's token, Dai, which is part of, you know how you're gathering investment capital, but explain what MakerDAO is.

Kirill: Sure. MakerDAO, DAO stands for Decentralized Autonomous Organization, so it's really not a company or an entity of any sort. They did have a foundation, but they, I believe, have dissolved it recently so it's really a truly decentralized entity that at its core what it does is it takes in....the way they

started out is they would take Ether as collateral and they would lock it into what they call a vault and out of that collateral they would issue a stable coin called Dai. A stable coin has two or probably more flavors, the most common flavor today is collateral-backed stable coin like USDC or Tether or USDT or a number of others and what they do is they essentially take in collateral in Fiat currency, US dollars or what have you and then issue a one-to-one stable coin backed by that collateral.

So, in theory, if you have one USDC, you can go to Circle and then trade that one USDC for \$1 so that keeps it on par with dollars. Now, Dai and MakerDAO are, I believe, super innovative and I think what they've done is as close to genius as it gets, in my opinion, so they've developed an algorithmic non-collateral-based stable coin. They take collateral and then they issue Dai, that's like 50% or some amount of loan to value and then they get paid interest rate, small interest rate because of the whole ecosystem that exists.

There's a lot of things I don't know, I don't put myself out as a MakerDAO expert, but they built up a fairly large ecosystem and they've done a fair amount of collateral, it's in the tens of millions, I haven't looked recently, and I think there's like 4 Billion Dai out there and because of the arbitragers and other folks involved and the trust that's placed in this organization, Dai mimics or stays close to being one-to-one with the US dollar. They've lost this peg to the dollar a couple of times in these super liquid events that took place over the years, but it quickly recovered and they've handled all the issues very, very well so it's one of the largest market cap stable coins and it's not backed by Fiat currency.

Peter: Right, right. So then, why did you decide to sort of go this route where you can, you know, you're really putting....we'll get into the details in a sec, but what was in it for you? Why did you decide to go to all this work and all this trouble to fund these loans through DeFi?

Kirill: That's a great question. I think the short answer is because I believe that's the future, in some way or another, I don't know if it'll be Dai or it'll be something else, but I believe that.....not that, again, not that Fiat and the sort of traditional financing will go away. I do think that the two are merging, are going to continue merged, but I thought that it took us a lot of work and it still continues to be a ton of work to, you know, utilize this ecosystem, it's not as easy in a lot of ways compared to what we had done before. It may not be as easy as it would be to go to like a bank or a fund and get financing and funds are in your bank because we work with Fiat currency with our borrowers.

But, what I envision happening at some point, and maybe sooner than later, is that A) this is going to allow us to do a lot more automation, right, so, hopefully soon we'll be able to originate a loan and then essentially you'll place the collateral and get the loan from Tinline, from MakerDAO, in essence, and potentially other investors very, very quickly.

I also envision the transparency of the whole process will greatly be improved by being on the blockchain so in the not too distant future you will be able to open....so our loans are basically an NFT (Non-Fungible Token), they are blockchain assets in the form of NFT. You'll be able to look at this NFT and maybe learn about how this loan is performing, maybe learn about, you know, what the yield has been, what it's going to be, etc. etc. and maybe this loan can be transferred to another party or a third

party. So, I do believe this is going to make everything a lot faster, a lot more transparent and eventually it'll be more convenient for everyone.

Peter: Right, right. That is a potential. So, let's talk about sort of the mechanisms that you funded these loans. I have a MetaMask wallet and I'm on Centrifuge right now and I'm actually looking at your...New Silver 2 deal here so maybe explain, you decided to put this on Centrifuge and I'll link to all these in the show notes, but just explain the mechanism of how, what's sort of the pool, what was involved in the pool and how it sort got on the Centrifuge and got funded.

Kirill: So, the Centrifuge folks are a group of very smart people and they've developed the software that basically, you know, seeks to bring real world assets to the blockchain and so they've developed a product called Tinlake which enables their asset originators, we're one of them, to take a loan that we had closed in the real world and turn that into an NFT, turn that into a blockchain asset, that NFT. And there's the legal side, you know, the traditional legal side to it as well, it's not just blockchain at this time, but perhaps eventually it will be.

This NFT represents the collateral, represents a loan which then gets locked into Tinlake and then out of that equal either people or entities, again, entities loosely, but MakerDAO Decentralized Entity, perhaps others in the future can participate and essentially invest Dai. There's a couple of different ways to invest, they have a senior tranche called Drop so that the senior tranche has more protection, more funds in front of it and it pays a fixed interest rate and then there is a junior tranche called Tin which is a separate tranche, much riskier investment and that pays a variable interest rate.

So, people can go to Tinlake and if they choose to invest, they can invest into one of these tranches, they invest in a whole pool not on a particular loan and there's the whole bunch of other stuff there, but at the end of the day, we pledge the collateral as the asset originator and then we can get a loan from Tinlake which can consist of the MakerDAO funds plus some funds that individual investors can contribute.

Peter: Right, right. I'm looking at it right now and this was an offering that seemed like it was 5 Million Dai, 5,000 Dai which is basically \$5,000 minimum investment and I noticed that you reduced the APR, it was I think at 5% and now it's at 4% so tell us a little bit about what happened there.

Kirill: Yeah. I think the reason for that is there's quite a lot of demand, I mean, right now, the pool is closed, it's oversubscribed so we're not taking on new investors right this moment. There's so much demand out there and the reason for that is that we want to be able to reduce the rates that we originate at, that we offered to our borrowers so, basically, bringing forward the best borrowers to increase origination volumes and, you know, in turn lock the collateral into Tinlake and have a little bit of room to play with there.

You know, reducing the Drop rate helps that a little bit, I don't think this is going to be a permanent reduction by any means. On top of the interest rate, Centrifuge also has reward tokens that they pay out to all of the investors that invest in either tranche and, you know, they reward everyone for participating in the ecosystem.

Peter: Right, right. So, if this offering is closed.....we're recording this on June 8th, this is going to be published on June 18th and so you said there is going to be another series that you're going to put on Centrifuge?

Kirill: It may be another series or maybe the same series the we just open up, but we will expect to open the pool up in the next couple of weeks again. You know, we're going to be working with MakerDAO, hopefully, soon to increase the debt ceiling. Right now, we have 5 Million that MakerDAO has essentially capped the maximum line of credit, if you want to call it that, so we hope to....as over time as we originate and as the relationship gets stronger, we hope to ask the community for an increase.

Peter: Right, okay. And then, inside the pool it says like there's 28 different assets, average financing amount 232,000 Dai (\$232,000) and average maturity at 12.4, I mean, is this sort of a pretty typical fix & flip type loans you've got in here?

Kirill: Exactly, yeah. We focus on sort of the middle-of-the road fix & flip projects, we try not to go too high or too low, the overall fees are serious that people need places to live in. Right now, there is a short supply of housing stock,, but even if there is not, the housing stock in a lot of areas in outdated and has been built, you know, hundred plus years ago in many areas. So, the fix & flip community has a huge part to play in revamping these homes and making them livable and at the same time earning an income while doing that.

Peter: Right.

Kirill: So, those are the typical loans, correct.

Peter: Okay, So then, can you explain how the cash flow works. I know there's other platforms out there that probably several listeners have invested in, we recently just had LendingHome on the show and with those investments you typically often get like a small interest payment every month and then the balloon when the maturity comes in. How do the cash flows work in this system.

Kirill: Yeah. It's a little bit different because when Centrifuge built the system, they I think tried to, you know, get as close to Decentralized Finance as possible. It's not always possible with these real world assets, but the way that it would work is if an investor invested the capital, whether if it's in senior tranche, Drop, they could thenthere's not a steady payment per se, but Drop, they invest in...let's say they buy 5,000 Drop and it's one Dai each and they keep it there for, I don't know, X amount of months so this Drop will appreciate in value. So, it's more of a net asset value calculation, right, so that when they redeem.....because Drop is basically a token so everybody would need to have a Metamask or some kind of a wallet to do this transaction, and then obviously Dai, so, you know, I can actually walk through the whole process.

So, if you have wallet like Metamask you'd want to seed it with some Dai and then if you go to Tinline you can essentially buy Drop tokens and then Dai would go to Tinline and then you would get the

Drop token into your wallet and then if you come back let's say some number of months later, the Drop should appreciate as the net asset value changes based on the fixed interest rates. So, a year from now, it should cost a dollar + 4% so \$1.04, I mean, it's not a simple appreciation so it'll probably be a little more than that, but, you know, based on the interest rate it would appreciate so when you redeem it you get more Dai back. That's the idea.

Peter: Yeah. Actually, as we've been talking here, I've been looking and the Dai has been appreciating in real time in your Drop tranche.

Kirill: That's right, that's right. That's another nice thing about it, it's actually real-time, it's basically built to calculate up to, I think it's, you know, some number of seconds that it changes.

Peter: So, can investors of these tokens.....are you locked-in until maturity, can you sort of sell these tokens at any time or how does that work?

Kirill: You can sell them at any time, but, of course, there should be enough capital to pull out your investment so it depends on what's available in Tinlake, it depends on like is the maker line open, you know, Drop investors may be able to pull out of there. Yeah, it depends on those factors so I think for the junior tranche the expectation is that they will hold the investment for a little bit longer, but for senior, for the Drop tokens which is what the majority of people are investing in, they can buy and sell fairly frequently. We've already seen many of both transactions take place.

Peter: Okay, okay, that's interesting. So, this is all run by Centrifuge, but I should actually note to the listeners....know that Jason Jones, one of the Co-Founders of LendIt Fintech, he is very involved in Centrifuge and he's the one that introduced us, Kirill, so I want to give him a shout out.

Kirill: Yeah, hey Jason.

Peter: So, Centrifuge, I'm just trying to sort of put it into traditional asset sort of world where people can understand. This is this on the Centrifuge platform, Tinlake, and are they kind of like the asset manager, what would you call Centrifuge with using an example from traditional finance.

Kirill: I don't know, actually, I'm not a finance guy, but they are the technology that enables the securitization, if you will. That's probably as close to that as anything else.

Peter: Yes, but obviously has a lot in common with traditional securitization, you've got a junior tranche and a senior tranche. Junior tranche is potentially higher risk and higher reward which is obviously very similar to traditional securitization. Okay, so then, what are the economics for New Silver here, how are you getting paid?

Kirill: Sure. I mean, so when we originate a loan there is an origination fee typically, we keep the origination fee and then when we finance the loan with Tinlake there's typically a spread that we also keep. So, it's pretty similar to...that's essentially how we work with our previous partners so when people do the loan aggregation, loan buyers, they buy the note, they typically buy with a yield spread,

a cash that either they pay upfront or they pay as they get paid. In this model here we have a yield spread and basically we earn it as the borrower pays us and then we pay Tinline.

Peter: Right. So, is your intention to have your cost of capital here be lower than your cost of capital elsewhere so you can really pass on better rates?

Kirill: That's the goal, but like I said, I think cost of capital, it would certainly be nice to have the cheapest cost of capital out there, but whether or not this is feasible, I don't know. I think, it's not much less than it would be with the partners that we've worked with before, however, I do think it could be increased further over time, but also the fact that we can automate because we're building tech-forward. I think for us to be able to automate a lot of these transactions, I mean, we don't need to have a capital market per se, we don't need all these people doing manual tasks, that's huge.

Peter: No, I can see that, that would be huge. Remember, when this came out, I think it was in April, if I remember rightly, I watched a video on CoinDesk and they had the MakerDAO guy on saying this was the world's first ever real estate transaction conducted through DeFi and they were making quite a big deal out of it.

So, I guess you are a pioneer here, but what is the long game when it comes to DeFi and New Silver? Do you hope to be able to...you talk about automation which obviously is going to be a great benefit because this is all DeFi, all happens without human intervention, but is your goal to have, you know, all of your loans be funded through a DeFi platform in the long run?

Kirill: Yeah, absolutely. We're all in on DeFi and Tinline, Maker. I would love to, you know, be able to originate loans and make them as transparent as possible so that everyone knows exactly what the status of each loan is, each project, etc. and we're working towards that now, you know, that all of our loans go to DeFi.

Peter: Right, okay. Before we close, I do want to just ask you about your angel investments because I've seen that you're quite a prolific angel investor. So, maybe you could just tell us what kind of projects that you're interested in funding?

Kirill: Absolutely. So, I mean, yeah, I look at different types of projects. To be honest, I started out thinking more about enterprise IT and SaaS when I was in that game and knew a lot about it, knew just the updated state of affairs in that marketplace and I still do to some degree, but, honestly, lately I've been looking at fintech a lot more.

I am one of the founding members of an angel group called ChainReaction which started out in Boston, but I think we have members from a bunch of different areas now. As a group of investors we get, you know, three to five companies pitching after processing all the pitches every month and then we can make investments individually or as a group, however...so, I'm fairly active there, you know, have a network of people trying to pitch to me all the time. I don't have too much time for it, to be honest, but interesting projects come up so it's a lot of fun.

Peter: Right, for sure. Okay, we'll have to leave it there, Kirill, I really appreciate you coming on the show. Best of luck with the future of New Silver and DeFi.

Kirill: Awesome, Peter, thanks for having me.

Peter: Okay, see you.

In some ways, I'm reminded of the early days of peer-to-peer lending, sort of the example here of DeFi just really getting going in the space, but peer-to-peer lending, there were some early adaptors like myself who were willing to risk their money in something that did not have a long track record, it was all pretty new and clearly, DeFi is still pretty new, particularly DeFi for real world assets, like we have here, is brand new.

As Kirill said, this is was an oversubscribed offering, people are willing to give this a try and who knows, we could very well have this be a major part of finance in the long term and has to start somewhere and really it's starting right here with New Silver and Centrifuge and that is something that I'll be paying attention to closely. I might actually try and participate in a future offering that they have and we will be bringing you more and paying attention to this new trend as time goes on.

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

Before we go, I want to remind you about the brand new event from LendIt Fintech, Fintech Nexus, the Dealmaker Summit will be the first major in-person fintech event of the past 18 months. A hand-curated audience of venture capitalists, bankers, fintechs and debt investors will be meeting face-to-face at an event 100% focused on doing deals. It will be happening in Miami on September 1st and 2nd, you can apply to join and find out more at lendit.com

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