Welcome to the Fintech One-on-One Podcast, Episode No. 329. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Peter Renton: Today on the show, I'm delighted to welcome back Jason Wilk, he is the CEO and Co-Founder of Dave. Jason was on the show back in 2019, but I wanted to get him back on because a lot has changed since then. They're in the process of going through a SPAC merger, where they will become a public company and so we talk a little bit about that. We talk about the different features that Dave offers today, in particular, the bank account, we go into some depth about what their bank account is all about and how they're getting people to sign up for it and we talk about the financial health of their customers.

We talk about overdraft fees because they've been such an important part of the movement to eliminate overdraft fees or at least reduce them and we talk quite a lot about that. We talk about how they've been able to create a company that was one of the fastest growing neobanks in the country and yet have raised such little capital, we go in-depth on that. We talk about their SPAC, the relationship with Victory Park that actually goes back quite a long time and then what's on top for next year and beyond. It was a fascinating episode, hope you enjoy the show.

Welcome back to the podcast, Jason!

Jason Wilk: Thanks, Peter, good to be back.

Peter: Okay. So, a lot has happened since we last had you on, it's been over two years ago. Why don't you just give us some of the highlights of how Dave has grown and changed since 2019.

Jason: A lot has changed. We, obviously, are on the precipice of going public here in the next several weeks which we're very excited about. Now, that really changed the game for us in terms of united capital we'll have in the company, we've been a very capital efficient business, we've only raised $61 Million of primary capital to date which is far less than our peers and we're able to acquire millions and millions of customers. For us, we're very excited to have the capital to grow the business, keep growing the team. We're about 250 "Dave's" now which we're excited about, we think that there's a meaningful M&A opportunity out there for us to have that public currency.

We waited a couple of deals that got very close to over the last two years and lost out both times to companies that had public currency to give away from their acquiring companies so that was quite frustrating. But, also we think that as we're trying to win primary account status with our members having that stock ticker and giving people the trust and comfort that they're banking with a public company has an intangible effect as well that we're excited to explore.

Peter: Right, right. And you have a public stock ticker that is your company name, right, I think it's going out as Dave?

Jason: Yes. VPCC right now, but it will be a DAVE ticker so that's what we've always wanted. We've been in contact with NASDAQ for a few years about that just to make sure no one ever takes it and for the majority of the time, it's been owned by, I believe, Dave's Barbeque (both laugh) barbecue retailer and they finally relinquished it and now traded under the name of, I think it's…. barbecue is the ticker so we are a fortunate beneficiary of that.

Peter: Right, right, that's great. Let's get right into it and talk about the Dave bank account. I don't think it was live last time we chatted, if it was it was just in its infancy, but you just said in the intro there that you're really focusing on having to be the primary account, maybe tell us some of the features of the Dave account.

Jason: Yeah. So the Dave bank account is the primary focus for the company at this point. Actually, our advance service is so critical to the success, but we feel that that product really works very well in tandem with a no-fee bank account.

Peter: Right.

Jason: And today, the history of the business obviously was we would help you avoid overdraft fees at your existing bank. So, you come in, you connect your Chase or Wells account with a bill and we'd send in money to help you cure the negative balance and we are certain we will have a major impact on people's financial health by doing so, but nothing better than if we were to offer our own account. We can literally save our customers $400 a year in bank fees by coming over and switching their accounts to us so that's been really the primary shift of the company to focus on our account.

Our bank account comes with no minimum balance fees, no overdraft fees so those are the two primary ones that our customers are mostly getting hit with, but we also have some really unique features around there which will predict your coming bills. We submit your rent and utility payments to the credit bureaus so you can actually boost your credit score just by paying your cellphone bill or your rent on time which is very cool. And then, we also have our well known Side Hustle feature which gives you access to a bunch of different opportunities to make money on the side. We have 35 partners there from DoorDash to Instacart and more.

Peter: Right, right, okay. So, let's talk a little bit about the Side Hustle thing. I think you had when we chatted, but it didn't seem to be as much of a focus. I've seen you talk about it in the press before and I think it's in your deck for your SPAC merger so maybe talk about what is the Side Hustle or just describe how it works.

Jason: Ultimately, we're trying to build products that big banks would never do and so that really started with disrupting overdraft, helping people understand what bills are coming up and really using data to the customers' advantage to help them have a better experience. Helping people earn money was something that we thought was a fairly unique opportunity that we thought that major banks were not offering and so Side Hustle was born. We saw that there was an explosion of the gig economy happening, we could see in our own data that we had quite a few members driving for Uber and Lyft as a way to supplement their income and so we figured why not launch our own marketplace to expose all these great opportunities that were out there.

Everyone knew about Uber and Lyft, but no one knew if DoorDash or Instacart or these other cool things are coming to your town and given our wide footprint across anywhere from banking deserts to major metropolises is it's impossible to keep track of all the new opportunities coming to your area. We think a lot about helping our members earn more money in a business and you can do that by cutting down their exposure to fees or you can do that by actually by putting more money in their pocket from earning to .....some of them were exploring more about being here in the company.

Peter: Right, right, that's great. I always think that avoiding fees is great for people's financial health, but what they really need more than anything, it feels like, is more money. Can you give us some metrics around it like how much are people engaging with them?

Jason: It's significant and through COVID we saw a huge uptake in that product as well. We processed over…I think it's about 4 million job applications for that product at this point and we could track the pre and post application process from their finances and members have earned hundreds of millions of dollars in income that otherwise they didn't have access to prior to finding this feature.

Peter: So, who is coming to Dave today, is it still the same type of person that you've always had or maybe you just describe who that person is.

Jason: We are banking the every day American consumer that is living paycheck-to-paycheck and that paycheck-to-paycheck, the tradition can be pretty broad from an income perspective. And so, while I would say today we're mostly serving customers who are the most impacted, the highest need members who are paying the most in bank fees, we think those are really the first early adopters that are willing to take the leap to digital banking because they are being so screwed by fees. If you're tired of being charged $40 fees on buying a $5 cup of coffee, that's why they came over to Dave.

I think as we become more of a household name, we'll start to move up the income scale and move into folks that are most slightly impacted, just having a very non-impactful relationship with their bank, they're not getting much out of it other than it's a place to, you know, sort of move money around. We think there's so much more to create a superior experience for folks that are living paycheck-to-paycheck that they've never had access to before. A lot of our customers have been used to banking at the corner store or buying their bank off of J-Hook at Walmart, we're now providing them with an amazing experience and as we become a more household name, we think that our income scale at Dave can go from those making $10,000 all the way up to those making $150,000 a year, if they need help we can provide a great product to them.

Peter: Right, right. So then, we've gone through this pandemic where we've had a lot of government support and you keep hearing about how a lot of the people living paycheck-to-paycheck have actually paid down debt and actually had a relatively……better time than they have historically, how have you been tracking the financial health of your customers, you know, since the start of the pandemic?

Jason: We've seen the government support make a major shift in our customers' finances. Before that, you see the average customer cannot afford a $400 emergency that's why they're coming to the overdraft product we offer in general, but there is a.….and there was a time I recall a couple of weeks ago about how the average checking account balance across the country is over a thousand dollars for the first time in history and all that government support is really what's causing it.

And so, it's been interesting to see and you've seen balances go up, we just launched a savings product called Goals which we're seeing already millions of dollars of deposits into that product already. Had we launched that pre-pandemic, I don't think you would nearly see that without the support and now, obviously, we're seeing inflation being a major result of all this government money coming into the system as well.

Peter: Did you see less usage of the overdraft product over the last 18 months because of that government support?

Jason: Yeah, absolutely. Every time a trillion dollars of money hits the system (Peter laughs), the need for overdraft protection certainly goes down and as we see months progress and go beyond, you know, the demand for that product then goes back up as those people get back into more of their habits, but, you know, we also see just general demand for that product go down. Customers really banking with Dave is, as I said at the beginning of the call, our average member when they first joined Dave and we could see their connected account, the average is $400 a year they're paying in fees to the bank. And so, if we can put that back in the members' pocket, the reliance goes down on the overdraft product, but our goal is that we have a much longer relationship with that customer over time as we do things to add to their financial opportunity.

Peter: Okay. So then, you've got the overdraft product, early direct deposit, you've got the credit building thing you mentioned, Side Hustle is there, what is the most popular with your customers today?

Jason: Well, checking their income and expenses is certainly something that's very popular. We get a lot of interaction with those that want to know what bills are coming up, that was the original feature of Dave and that's one of the reasons why I built the company. I was so fed up with my bank telling me what my current balance was, but not letting me know what transactions I had coming in the future which could leave my balance to end up in a negative state and so that predictive feature is very impactful for people. The overdraft product is still hugely popular with a significant amount of our customers engaged with us on a monthly basis and then now, we're seeing just that if you will check in their debit card balance, and swiping their card becoming the most popular feature quickly.

Peter: Right, right. So then, it feels like this year there's been a lot of movement on the overdraft front like you're starting to see banks either saying that they're moving away from overdrafts so they're doing things that are actually healthy for their customers, this just wasn't being talked about two and a half years ago. When you started Dave it feels like you were pioneer here and really shining the light on overdrafts and how there's a better way so what do you make about all of the movement of banks, you know, and some of the biggest banks in the country are really starting to make moves where they're trying to minimize the overdraft impact on their customers.

Jason: We are seeing a more friendly overdraft becoming table stakes for customers, we like to pat ourselves on the back (Peter laughs) for changing an industry. If that's all we ever did as a company, you know, three guys getting into a room to reflect about overdraft, creating this business, you know, that's a pretty cool thing that we could change the space, but there's just so much more to continue disrupting the industry.

You know, the big banks have not changed their ways, you do see some commercials like with PNC, I believe, they have some sort of low balance savings, but they still charge the fees, they just make sure they don't rear your transactions in a negative way that ultimately incurs $100 of overdraft fees in a single day. So, there's still a long way to go even though, at least from our peer set, we've made sure that really overdraft is a table stakes-type of service.

Peter: Yeah. You're kind of a digital bank or a neobank today that doesn't have any, kudos to you guys for really being first there, but I think that is now a real change that you guys have really pioneered. So, I want to switch gears a little bit and talk about the financial health of the American consumer.

It's obviously done a little bit better with the government support, but assuming we're coming out of the pandemic, assuming that there's going to be no more major government….I know a new law that was passed does extend some of the child tax credits through the end of next year which I think will be really helpful for many people. But, what's it going to take and what are your thoughts on the tens of millions of people that are living paycheck-to-paycheck, we just want them to have a bit more stability long term, how do you feel like that is going to happen?

Jason: We are expanding our products, you know, consistently because I think where we started with the business was helping people sort of get more stable, but I think if you really want to have a banking customer long term, you need to then create opportunity for them. So, we're looking at a wide array of new features that helps our customers actually double down earning more money, whether that's through interest or investing or…….there's a wide array of things I think you can really do to help people, but also it's been great that we disrupted overdraft.

But, if you look at just sort of where fees and interests are really spent for financially vulnerable folks that are living paycheck-to-paycheck, overdraft's about $20 Billion a year, short term credit…the average Americans paying about $300 Billion a year in fees and so there's just a lot to disrupt still in the space. It's going to take us time and that's one of the reasons why we wanted to go public because we think it's a good investment towards being now and grow with this business that is just ripe for disruption across a wide array of their products.

Peter: So, when you say that $300 Billion in fees and a lot of that is obviously pretty high interest-type products that feels like a bigger problem than the overdraft problem.

Jason: From a sheer dollar perspective, it certainly is and if you look at those that are financially healthy and have high credit scores, the amount of money they're paying annually on fees is below $60 Billion and if you look at minorities, you know, minorities that eventually will end up paying off 30% of their income is going towards bank fees and interest for credit. I mean, it's crazy.

Peter: Right, that's where we still have work to do. It's one of my favorite topics, particularly like the small dollar loans, I feel like there's so much room for better products still even after, you know, a decade of fintech movement, we still got a lot of ways to go.

Anyway, I want to talk a little bit about just the neobanks in general, it feels like there's more niche-kind of neobanks coming up every month and it feels like that, you know, you talked about the banks are really getting the message that some of the things they have to change, but still the vast majority of Americans still bank with a large bank. Sometimes, they'll have a large bank and they'll have a neobank, that's what I do, and what are your thoughts on banks actually changing here and making neobanks less relevant or do you feel like that neobanks are always going to be, you know, one step ahead.

Jason: I think the neobanks will always be one step ahead. I think the banks have a major advantage that even though people are fed up with the fees, there is something trustworthy about keeping your money with an established institution. And so, while there is an explosion of neobanks and there's a neobank for every particular niche at this point, it feels a lot like the early days of social networks where like there's a social network for anything, you know, one or two players ultimately arose as the ultimate destination.

So, I think where we see something pretty similar in the neobanking space, but, ultimately, again, I know this is why we're interested in getting public is I think the winners will be able to create a household name and build that trust for consumers because the ultimate people who are going to switch over their primary account status or transact with a neobank, it's going to be that very, very early adopter.

We want to start getting those that are comfortable with moving a significant portion of their paycheck over is going to be someone you've seen seven or eight times in market, someone that your friends and family are using for validation and with that in mind, there's only going to be a handful of winners or less, in my opinion. And there'll be this massive group that may get 100,000 or 200,000, you know, customers in total, but it will top up.

Peter: Right, right, that makes sense. So then, is it always primarily trust, you know, we obviously need to get the word out. I'm thinking about like going public, obviously you talk about it, it does build a lot more trust and financial services is built on trust, is that the primary reason to go public or is there more to it?

Jason: It's capital trust and having the currency to continue to growing our fast moving team here.

Peter: Right. So, obviously capital is important like we've seen how in the crypto space it's obviously some, in the fintech space, more generally, their names on sports arenas, are we going to see a Dave stadium coming down the track?

Jason: You never know, you never know (Peter laughs). There is something about that, many will say that that's a waste of money, but others will say that doing things like that can be some of the best brand exposure and trust building that you can do.

Peter: Yeah, I've come around. I thought it was a waste of money initially, but now, having seen like SoFi being out there on TV every single week in the football season, brand awareness, it feels like, it's such a great way to do it. But anyway, it's really fascinating to me, you mentioned this in the intro, that you've raised just over $60 Million of equity funding, many of your competitors they do many times that every time they raise money in their own Series E or F or whatever.

It's curious to me that you haven't done that. You know, I think there's not many companies or maybe there might be one more that is bigger than Dave, I mean, is it really word-of-mouth that you've focused on to try and grow north of 10 Million [customers] now, is that the main driver of the growth of your customer base?

Jason: It is still the biggest source of traffic process, organic word-of-mouth, which we think has been helpful for us. Paid advertising is certainly important and some of our peers have done a good job with that, but, ultimately, you can only spend so much per month while it's hitting the same level of efficiency. So, we've done a very good balance of growth between word-of-mouth and paid ads that works really well for us and it hasn't required a significant amount of capital.

Now, I think there's a lot of reasons we can put more money to work effectively, but it's going to come a lot more strategically than just putting more money in a Facebook machine, that's proven to be a very competitive place to go for our customers. We think there's a better way to go about that which we're excited to explore right now.

Peter: Right, right, okay. Can you maybe just take us through the ways you're generating revenue today, I mean, is the tipping thing still there, I mean, interchange, what are the different ways that you are generating revenue?

Jason: Right now, we're generating revenue, we still have a $1 per month subscription fee, we also derive revenue from interchange on every Mastercard debit swipe so making about 1 to 1.5% on every swipe, we make money out of referral fees for Side Hustle and then on extra cash we have built-in optional fees like tips so customers can opt to pay us an optional fee if we help them avoid overdraft which is something that our customers have come to love. For every percent that someone tips us, we actually buy budget meals of Feeding America, we've donated millions of meals to date, so far, which is awesome. It's a great way for the company to give back, but it's also a great way for our members to give back when they're also in the time of need.

Peter: Right. Are they avoiding overdrafts fees like do you have stats there around……you said you had like $400 annually before they start with Dave and obviously some people, they need the emergency overdraft, but they still might end up overdrawing, do you have any stats around how your customers are avoiding overdraft fees?

Jason: It's about a billion dollars in overdraft fees saved, so far, from members and that's one of the reasons why we have dug in so hard on Dave because whenever we cut down in overdraft fees significantly for people at their external bank, but then we give people a two-day banking which doesn't have overdraft fees at all, you start to see that plummet down to zero. Even though if we would use our overdraft at their existing institution, you still see them incurring some fees, we can't prevent everything. That's we're just trying to really improve products at this point.

Peter: Right, right. So then, you're moving people into your own product, but, I imagine, the big thing is getting their paycheck into there, right, because one thing to open up a Dave bank account, but what you really want is the payroll going in there, right?

Jason: Any kind of repeat funding activity receives a huge driver of long-term retention for the customer.

Peter: Right, okay. So, I want to talk about the SPAC merger, I know that there are certain things you can't say, but one of the great things about a SPAC is that you can talk about the future which I know you can't do if it's a regular IPO, but Victory Park is very well known in the fintech space, they've been a real early supporter of many companies in the space so tell us a little bit about your relationship there because I believe that you've had quite a long relationship with those guys, tell us how that developed.

Jason: Yeah. So, Victory Park, they came recommended to me even before I started the company. I was really thinking about this new idea called Dave and I wanted to disrupt the overdraft and I have this model for it and one day was tapped by miles like how can I afford to cover up all these overdraft advance for people. And so, some guy introduced me to Victory Park, I think that was in 2015 or right around that time, got introduced to Brendan Carroll who's actually the CEO of the SPAC we're going live with. So, he's been privy to this idea since the very first day I thought of the idea which is pretty cool to see and with the evolution of the company.

And then the other main partner, Jason Brown, ended up randomly being a member of the same tennis club that I play in. So, I've been in a Friday doubles group with Victory Park for the last four or five years as well and they've been amazing for advice, but also they've been an equity investor and a debt investor for the company for quite some time too. So, when it came to going public, there was obviously a wide range of SPACs sponsors you could go with, but we wanted people that knew the business, cared about the space, cared about financial inclusion and also understood the regulatory landscape as well. They were much more financially motivated, Victory Park had a lot more to bring to the table.

Peter: Yeah. Brendan is really well respected, I mean, we had him on a SPAC webinar we did early this year, unlike others, he's done many SPACs over the years. So, why did you decide to do the SPAC route though as opposed to the traditional IPO?

Jason: Well, we were actually exploring, either was it going to be a private round or was it going to be a going public transaction and ultimately, we had our mind on a price with a marquee investor with Tiger Global and they had said if we wanted to go the public route that they will be our anchor investor with a $150 Million check. In my opinion, there was no one more well respected in the space, they have the best fintech investments globally and we figured to get that kind of validation from a sophisticated crossover investor that this was the right time for us to go do it.

The company also has been very capital efficient to date, we weren't really burning much at all, margin has been profitable since the inception of the company and so raising a lot more private capital did make as much sense in terms of going public. And so, we had that validation from Tiger, we had a non-capital guarantee, we had the valuation set, that gave us a lot more comfort then going down the traditional IPO route where there's still a lot uncertainty around price until the very last minute and also uncertainty around the amount of capital. And so, we knew we had both of those going into this and Tiger said we could pick whoever SPAC sponsor we wanted and Victory Park was obviously the easy choice right for us.

Peter: So, how has this process been? I mean, I think it was almost June or July you guys went public with the announcement, how has the last four/five months been?

Jason: It's been slow, to be honest. (Peter laughs) One of the reasons why we do the SPAC is not the only reason, but speed is, you know, time and certainty of capital and forward looking projections and statements, speed is really one of those and I think it has been decided to do a traditional IPO, we will be looking probably at a similar timeframe at this point.

It's tough to say this has given us so much volume of companies going public right now the SEC is just backlogged. These guys are not paid for efficiency, right, they're paid just to make sure all of the boxes are checked and so they're not incentivized to move any faster or slow and so we've just been at the mercy of their ability to move through questions and get us approved.

Peter: So, I know you probably don't know the answer to this, but are you still on track for hopefully closing by year-end or is the SEC kind of pushing that out a little?

Jason: You know, it's going to be close especially with all the holiday season stuff, they're going to update, they'll go faster than otherwise. I can't say for certain what actual date it will be, but, you know, we are cutting it close.

Peter: Right, right, okay. So then, last question before we wrap. I went through your deck, you've got a lot of interesting things happening, a lot of growth on tap for next year and beyond, you know, I'd love to hear some of the highlights of what you're focused on in 2022 and beyond.

Jason: Yeah. So, for next year we are really focused on just making Dave a superior experience. I think with to date we've been a very basic experience for our customers, they come in, they have access check cashing, basic checking needs, access to overdraft protection, but we want to really make sure that our products are to exceed the overall experience of these major banks and that's going to be a big focus for us on 2022 and coupled with the strategy to become a household name. We think that that combination is going to be very effective to be an awesome business.

Peter: Right. Well, good luck with that, Jason, I hope the SPAC merger goes well and we'll be following along with great interest. You've already changed the finance world with what you've done with overdrafts and I'm excited to see what lies ahead. Thanks for coming on the show.

Jason: Thank you, Peter, great to be here as always.

Peter: Okay, see you.

It's really interesting to me that really in a span of, I don't know, about 12 months shall we say, we're seeing a whole raft of new public companies emerge in the fintech space, particularly in the neobank space, and Jason sort of, you know, shared the reasons behind what they're doing. I think it's interesting that, you know, neobanks are becoming the leaders of tomorrow, they're hard to ignore now. When you've got 10 million customers that is bigger than most banks in this country and they're continuing to grow, continuing to add new customers.

This reminds me of a conversation I had with Frank Rotman from QED the other day. He was talking about the market cap of banks and how if you add up all the banks it's trillions of dollars of market cap that exists and some of that market cap is moving to the fintech space. It could be a huge chunk of it and so we may end up with trillions of dollars of market cap in fintech companies over the next decade and it's super interesting. Digital banks are really being relied upon by more and more people and as they build up their trust and build up their capital, you're going to find them become, I would argue, dominant players in the banking space.

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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Today's episode was brought to you by LendIt Fintech LatAm, the region's leading fintech event. It's happening both online and in-person in Miami on Dec. 7th and 8th. Latin America is still the hottest region for fintech in the world and LendIt Fintech LatAm features the leading players in the region. So, join the LatAm fintech community this year where you will meet the people who matter, learn from the experts and get business done. In-person and virtual tickets are available at lendit.com/latam.