



PODCAST TRANSCRIPTION SESSION NO. 193 / ANTHONY NOTO

Welcome to the Lend Academy Podcast, Episode No. 193. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of the LendIt Fintech Conference.

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Today's episode is sponsored by LendIt Fintech USA 2019, the world's leading event in financial services innovation. It's going to be happening April 8th thru 9th, at Moscone West in San Francisco. We're going to be covering digital banking, blockchain, financial health and, of course, online lending, as well as other areas of fintech. There will be over 5,000 attendees, over 250 sponsors and registration is now open. Just go to lendit.com to register.

Peter Renton: Today on the show, I'm delighted to welcome Anthony Noto, he is the CEO of SoFi. Now I think pretty much every listener has heard of SoFi, they really are one of the highest profile companies in all of fintech, they seem to have more news than pretty much any other company, I see them in the news pretty much every week, it seems like, these days and they're really pushing the envelope.

They're moving from just focusing on the lending side of the business to a really fully diversified financial services company. Now I wanted to get Anthony on the show, he's been in the job now for over a year and I wanted to talk about, you know, how the last year has been, where the focus is today, what are some of the things that he's excited about, what are some of the things they're working on and we go through all the various different pieces of the SoFi business. It was a fascinating interview. I hope you enjoy the show.

Welcome to the podcast, Anthony!

Anthony Noto: Thank you for having me.

Peter: Okay, so I'd like to get this thing started by giving the listeners a little bit of background about yourself. You've certainly had an interesting career with some pretty high profile positions so why don't you give us some of the highlights.

Anthony: I've been fortunate to be part of some great organizations with, you know, phenomenal cultures and really well known brands or products. I spent just about four years at Twitter prior to coming to SoFi first as a Chief Financial Officer and then as the Chief Operating Officer. We accomplished a lot of great things at Twitter and really restructured them and turned around the company and really proud of what the team was able to accomplish there and be a part of that team.

Prior to being at Twitter, I spent two different distinct tours at Goldman Sachs, four years from 2010 to 2014 in banking as the Head of Global Technology Media & Telecom Banking and the first nine years in banking, 1999 to 2007, as an Equity Research Analyst focused on technology



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and media companies, initially just on the Internet and then adding entertainment companies and then distribution companies like Satellite and Cable.

In between those two experiences, I was fortunate to spend three years at the National Football League as the Chief Financial Officer.

Peter: Okay, so you've been at SoFi now for just a bit over a year and I'm curious to sort of get your take on how it's been and how has SoFi changed over the last 12 months.

Anthony: Sure, I'm really proud of the fact that we've made, since we spoke last year, and where we are now and having a couple of important things that tied back to our 2018 priorities and what we're focused on in 2019, if I could. The number one priority when I arrived at the company was to ensure that we stabilized the core lending products in anticipation of an interest rate environment that would be quite (garbled) over the coming years and we focused on per loan economics, variable profitability so that the loans can be durable as interest rates increase and the economy slowed.

We meaningfully improved the approval and economics on a variable profit basis over the course of the year focusing on better efficient pricing, a tighter credit model focus and then really fine tuning our marketing initiatives to ensure that we're getting high quality credit, but also managing customer acquisition cost.

On the operation side, there is an opportunity, not just to drive up efficiency in our operational co-spaces, but also to improve the value to our members that were applying for loans and shortening the time to fund and really drive meaningful increases in time to fund across personal loans and student loans in the order of magnitude on personal loans of 50% and about 30% on student loans.

In addition to that, we made a really tough decision to pull back a little bit on our home loan business or mortgage business as the experience that we were operating under wasn't up to what we thought was adequate for our members, and so we've made a number of different decisions that put us in a great position now in 2019 to really step on the gas and double that business. So that was the number one priority and I feel like the team had to cover up the ball.

Number two was really accelerating our path to providing a border array of products. Our Mission is to help people achieve financial independence and realize their ambitions and we think in order to do that, we have to help our members, current members and new members, get their money right across borrowing, saving, spending, investing and protecting.

We've primarily been a lending business up until the point when I arrived in March and I really wanted to ensure that by the end of the year we are in a position to be able to offer SoFi Money which is now available to everyone to help on spending, saving and paying and also launch SoFi Invest which delivers on the investing component of getting your money right and they were also able to integrate in on the insurance side and to protect some partners. So we now



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have SoFi Money that's available to everyone through the mobile application. SoFi Invest is available to everyone through the mobile application, in addition to insurance.

The team did a phenomenal job of not just building the right roadmaps to get us to this point, but actually, you know, building the code, deploying it and really building an integrated mobile experience. Our mobile application has been re-launched, the rating had been a 2.8 in the IOS Store when I started; it's now a healthy 4.9 and 5.0 scale in the IOS Store. The mobile app is ranked in the top 80 under finance category and in the Google Play Store it's ranked on the top 60.

We're really proud of that and we're seeing meaningful downloads per day organically on the mobile application which is helping fuel the demand for SoFi Money and SoFi Invest and ironically, even for our loan business so we're really excited about that. And then our third priority, just to hit on very quickly, was to build the foundation of what the membership experience will be like and to build the principles of what we mean by member experience and we were able to do that in the first half of our position and we will start to see that unfold in the mobile app throughout the year, as well as behind the scenes in how we approach pricing, customer service, member events and member services & benefits.

The last thing, which, you know, was probably the most critical to the company's long term success was working out our culture and making sure this was the place that people really wanted to work. We feel passionate about our Mission, we established 11 Core Values, they've been shared throughout the company, they're integrated into our day-to-day functions and business, as well as evaluation of talent and retention of talent and promotions and we just scratched the service on the possibilities, but I'm really proud of what we have accomplished on the cultural side as well.

Peter: Okay, okay. So there's a lot there to unpack and I want to actually spend a little bit of time on the different segments here. Starting off with student loans, because that's really still been....I imagine it's still sort of the biggest part of your business, but you guys invented student loan re-financing and, you know, you guys are, by far, the largest I think in the entire country, banks and non-banks, as far as everybody goes. Is this still the main engine of your growth as far as revenue goes and if so, like how do you continue to grow, you know, to what's becoming a fairly mature segment.

Anthony: Yeah, I'd made a couple of points. We are more diversified on student loan re-financing from a member activity standpoint. It's going to be the case that will have more members and SoFi Money and more members in SoFi Invest and SoFi Advice than we have them either student loan re-financing or personal loan re-financing. We're not there yet, but by the end of the year we're going to be pretty diversified across all over those different products.

Quite frankly, I anticipate that we'll be relatively even across all those products by the end of the year and as 2020 unfolds, it's likely going to be the case that we'll see SoFi Money and SoFi investing larger than the number of members in student loan re-financing as well as personal



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loan financing. But, today, student loan re-financing is still a significant percentage of our overall revenue. I was referring before to the number of members that we have and that and personal loans are the two biggest drivers of revenue in totality. They're both expected to grow quite meaningfully in 2019.

We expect to see an acceleration in our revenue growth given that we focused on quality in 2018 over quantity to ensure that our loans are durable. Now that we have that right quality measured by variable profitability and return on equity, we can really step on the gas within the credit and quality box that we've created. So, we expect decent growth from both those businesses today and an acceleration overall in revenue because of the opportunity we have to grow each of those businesses.

Peter: Right, and then you said....you mentioned before with mortgages, obviously mortgages....the loan sizes are much larger, is this something you're also going to be trying to grow significantly in 2019?

Anthony: We think we have an opportunity to double the loan volume within home loans or mortgages and that will be a nice increase in revenue relative to 2018. Our members really want to have a relationship with us beyond one product; we're seeing the cross buying already happen. On average, it's been the case historically that about 40 to 50% overall mortgages are actually taken out by existing members. We're seeing some really interesting trends of cross buying in our other products that we're excited about and I think we'll create a competitive advantage for us over time.

Peter: Okay, so let's switch to SoFi Money and full disclosure, actually, I am a SoFi Money customer, I joined the waiting list as soon as I could and I opened my account, I think it was in January and I do....I think you've done a really nice job there and having a pretty compelling offering.

But, what I do want to know is like obviously this is a product that is competitive out there, but you've got a lot of competitors as well. Two questions, one, how are you actually going to make money on this product because you are giving very high interest rates and you're can't hold deposits yourself, as least as of yet. I guess maybe we'll start there, how are you planning on making money on this product?

Anthony: Yeah, I'd make a couple of points. First, I'd say we're looking at all of our products holistically, our products are member relationship and how those relationships translate into our overall business model and putting revenue and cost. So there's an inter-relationship between all of our products that we'll focus on over the long term.

But just to answer your specific question, SoFi Money, there are two primary revenue streams that we generate from SoFi Money today and there could be more in the future. The first primary revenue stream is the interest that we make on your deposits through a partnership that we have and that's pretty common of both existing banks and new bank competitors, and the second revenue stream we generate is an exchange rate on your debit transactions. We do not



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charge any other fees from an account fee standpoint. ATM's are rebated so you have complete access to your money to spend where you want and to be able to spend as much as you want.

The important thing about our product is that we're giving you a really high interest rate at 2.25% and no requirements on direct deposit or advance minimums and you have access to that cash when you need it, where you need it to be able to pay, whether it's person-to-person payments, Bill Pay electronically, Bill Pay...we'll send a check for you, you can transfer money in and out of the account to your other accounts and you have the functionality of a debit card, ATM card and, of course, the integration with Apple Pay and Samsung and Google Pay. So we're trying to give you the best of both worlds as it relates to how to manage your money and spending, saving and paying.

Peter: Okay, okay, that makes sense. So when I...I opened up my SoFi Money account which I have right now and you can see you're pushing other products here. Right underneath it is SoFi Invest and I want to get to that in a second....like obviously the student loan product/personal loan product, they're fairly high margin products and you talked about it yourself and you already said that you expect large numbers of people signing up here, do you expect significant cross sell between SoFi Money and then your loan products?

Anthony: Yes, absolutely, we're already observing...today, we're not trying to bring any new product marketing in the app to a SoFi Money member or SoFi Invest member and people are using the application assigned for those products by using those products. They're becoming aware of other products and then they're using a second product. So it's very small numbers in total, but the observation on a percentage basis is much better than we thought it would be and it's very encouraging.

So our strategy is to really put the member at the center of what we're building and deliver to them the best borrowing or saving or spending or investing or protecting experience that we can. Our hope is that as we do that and they become comfortable with the brand and they trust the brand, they'll be aware of the other services that we're offering across those five activities and then they'll consider those brands when they're making that choice and they're really signs that that's working.

Peter: Okay, so then with SoFi Invest....actually, I can see there's a button on your Home Page with SoFi Invest so it's clearly something you're also pushing hard and it seems like.....you know, you've launched a brokerage business. I mean, I feel like in the last month there's been news coming out of your page almost every week pretty much where you've got the brokerage business, you're talking about zero fee ETF's, you're talking about crypto trading in partnering with Coinbase.

So maybe let's take a step back and say, what is SoFi Invest kind ofwhat are you trying to achieve? Are you trying to be the one-stop shop so no one ever has to go to Schwab or Fidelity or Vanguard, whatever, what are you trying to achieve with SoFi Invest?



Anthony: Yeah, so I tie it back to our overall job to be done and then our Mission. When I mention job to be done, I'm really applying to our differentiation the concept that Clayton Christensen used in his book, *Competing Against Luck*, in that we ask ourselves, why will a member hire us versus others and we think our job to be done in that hiring decision by a member is to help them get their money right. If we help them get their money right they'll reach financial independence and realize their ambitions.

In order to help them get their money right, we're focused on all the activities that you do with the money as opposed to products or businesses and those activities are borrowing, saving, investing, spending and protecting. So our initiative behind SoFi Invest is to help people invest better and get the money right because they're investing better in addition to their other activities. We think about within that category of SoFi Invest we want to offer a fast, easy to use solution; the fastest place to open an account, the fastest place to fund, the fastest place to buy a stock or an ETF or to invest in a Robo strategy, the fastest place to sell, the fastest place to do research; always accessible, always convenient.

Second is selection and so we're focused not on just offering Robo advisory strategies, but also offering single stocks, ETF's and our own ETF's, for that matter, to fill-in a void where our direct target of millennials and Gen Z may have an area or pick an interest that's not been met by this selection that's being offered by others across the investing universe. So the first is fast; the second is selection; the third is content and the fourth is convenience.

As we release the content which are broad strategies; everything from education to helping for planning and so we do provide on the platform, on the mobile app articles and blogs about investing, about dollar cost averaging and to educate our members. In addition to that, within the app, you can click on the Membership tab which is right on the Home toolbar in the bottom next to the Home tab and choose to sign-up for a certified financial planning session with one of our certified financial planners.

You can schedule that right in the app and use your phone to conduct that conversation and so it's not just the products that we're offering in a fast way, but also supplementing the content across the spectrum of everything from quotes and news about companies, the news about business, to regional content to also live on planners.

And then last, convenience, we want people to be able to access their accounts from any device at any time. There are a number of other convenience factors that we'll add-in over time in addition to the other four differentiators that I mentioned.

Peter: Right, right. So I want to switch gears a little bit and talk about regulation, you know, you guys...it was before your time at SoFi, but you had an ILC application out there which you guys pulled and clearly, you're sort ofyou are entering into so many different areas of financial services and I'm sure it would be nice to have access to the banking system directly. So where are you at with bank charters today?



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Anthony: Sure, 2019, and we have five priorities. The first is to build a mobile first/member first experience and drive the penetration of SoFi Money, SoFi Invest and SoFi Advice. Our second key priority in 2019 is to build out a membership experience more broadly and more overtly to members as they come on the platform. Our third is to continue to drive efficiency and effectiveness of our lending platform and as we relate to that, we will evaluate different ways to lower our cost of funding and financing.

We're really fortunate today in that we have a three-layered approach to financing the loans. We have our own capital which is, as it has been publicly reported, \$2 Billion of equity has been raised. In addition to that, we have partnerships with a number of banks, over 20 banks that provide us nearly \$6 Billion of warehouse facilities and we also have a very important unsecured line of credit that's over \$500 Million. There is an opportunity for us to lower our cost of funding by building a deposit business and having the company as a whole being an IDI, insured deposit institution.

There are a couple of paths to go down to relate to that. We've evaluating those paths, whether it's national banking charter or an ILC and the team is in the process of really thinking through all the strategic implications of either one. We haven't made any decisions either on either one or actually going forward to try to become an IDI type of company, but it's clearly an opportunity for us to meaningfully lower our cost of funding by 50%.

Peter: Sure, sure. Okay so then, when you look at the broader market today you've got all these different...you know, challenger banks, neo banks I guess you call them, like Chime, Stash, Varo and many others coming; Europeans coming, Revolut, Monzo and N26 and then you've also got the big banks. Many of them are putting out digital offerings directly to sort of the target market of millennials and Gen Z. So who do you see as your main competitor today and how are you differentiating?

Anthony: Yeah, I don't think about it in that construct. I think about it in the construct of who provides better borrowing, who provides competitive abilities to spend to be able to invest, to be able to protect. So we think about those activities because those activities are trying to help our members do better and, as you can imagine, there's a long list of companies under each one of those five activities. So there's no one competitor, it's we're competing against that activity which is offered not just by traditional banks, also fintech companies and then what I'd say is increasingly and probably non-fintech companies.

Peter: Okay, okay. So basically then if you look at obviously the SoFi Invest, you've got to make something really compelling because you've got people offering free stock trading now, there's free mutual funds, I know you guys have the free ETF's so we're looking at that specifically then and it's a very sophisticated space already with many homely entrenched players.

I mean, like the zero fee ETF, you know, got a lot of publicity, I'm just curious about how you sort of make a dent in the millions and millions of customers out there. As you know, it's not easy to get people to switch, are you focused primarily then, with this particular product, on



people starting like an investment program for the very first time, are you trying to get people to switch, or both?

Anthony: They are core target and I use the word core purposely. Our core target for SoFi Invest is a new or beginning investor. And our goal, our goal is to help educate them on the benefits of investing to get their money right, our goal is to help educate them on how to actually invest and to, over time, become more confident in what they're investing in and what they expect from a performance and a risk standpoint.

One of the reasons why we're offering, you know, we're in the path of offering stocks and fractional shares and one of the reasons why we're offering unique ETF's and one of the reasons what we're not charging for trades or charging on the ETF's that we've announced and also offering Robo advisory is to make sure that as we start to drive a connectivity point between us and a potential investor, new or beginning, that they have the broad selection they would consider.

Some want to buy stocks, some would prefer to start with the Robo account, some would prefer to buy a small amount of something that they already buy as a consumer, but actually the cost of one share is too high relative to what they would like to pay. As an example, Amazon is a company that has stock priced for one share is a really meaningful amount of investment and so being able to buy that in a fractional share is unique.

So we want to help these new and beginning investors, take the money that's sitting in their cash account or their money account that's not earning interest, that's not really compounding over time and solely educate them on buying things that they like and being confident in what investing really means and taking them from some that's very familiar like in the case of a consumer that spends a lot of money on an Amazon and having them become an owner of one of those companies that they spend a lot of money on and then over time as they get confident and understand what investing means, bringing them along the path of a more diversified portfolio and at a risk adjusted return that meets their individual long term financial goals.

The fact that we have stocks or we have fractional shares, we have ETF's, we'll soon have our own ETF's and we have Robo and there's no charging for trading or commissions is actually very unique, reduces the friction and gives them the assortment they would consider across the range of things that they would do first.

Peter: Okay, so I want to get back to the lending business for a second and talk about securitization. You know, I went back and looked at some of the numbers from PeerIQ last year and you guys were more than 50% of the total volume that went through in the online lending space in the securitization markets in the....you know, talking about consumers and student loans. So do you still look at securitization as really the absolutely critical funding source as you thought when you look at expanding and increasing the volume of the loans you put through?



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Anthony: You know, we're evaluating the varied different types of financing sources for the loans. You know, we obviously cannot use SoFi Money deposits or SoFi Invest deposits for financing source without a bank license at SoFi, either an ILC or a national charter so at some point, if we have an IDI organizational structure and a charter we could consider that, but until we do, it's really not even a question.

Peter: Okay, okay, fair enough. So then you haven't mentioned it...I presume this is not on the horizon, but I know the listeners will want me to ask this question, IPO plans for 2019, anything, where are you at with potential future IPO?

Anthony: It's not a priority and we have no plans as it relates to that.

Peter: Okay, okay, fair enough. So then I feel like you've got so much that you're trying to do here, you know, it feels to me, the news comes out all the time, I'm curious to see....like as you're managing the different areas of your business, I mean, where do you spend your time personally? Are you really.....and obviously you've got a strong investment background with Goldman Sachs, obviously you spent time at Twitter, but like what areas of the business are you most connected to right now?

Anthony: I don't think I would highlight one area as it relates to the businesses or being more connected than the others. They're all in different stages of business formation so I'm spending equal parts on all the five different areas that I mentioned. Outside of the day-to-day running of those businesses, I'm spending a significant amount of my time on recruiting great talent. We're hiring a significant number of people in 2019 and one of the major areas of focus within is we're re-hiring these great product engineering and design people.

We've launched a lot in a year and we have very ambitious clients that continue to shift more and more innovation every week and so that's the area of the company that I'm most focused on, attracting and retaining great talent. I'd say the second area outside of the businesses and attracting and retaining great talent is on partnerships. We teach you partnerships as they can accelerate the path for and making sure that we have the right top-to-top relationships with key partners, both current partners and future partners.

And then, last, really focused on building out the best culture in the world, our goal is to have the best culture in the world and we do not believe it takes any special type of innovation or technology or access to capital to get there. It really requires leadership, alignment and accountability and we're committed to having the best culture in the world and making sure those three things are true and so I spend a lot of time on that as well.

Peter: Okay, so then where are you hiring people? I mean, I know you've got the San Francisco office, Healdsburg, I think there's something in Montana, I think from memory, or Idaho, where are you hiring people today?



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Anthony: Yeah, geographically, we're hiring from all of our current locations across the eight different cities that we have physical locations in, we've had a small office in Seattle in addition to what we have already. As it relates to people, we've been really fortunate to be able to hire really experienced people from leading technology companies in the United States and the leading financial companies. I've been quite pleased with our ability to attract some people that have achieved significant things from the consumer Internet and technology world, in addition to getting some really experienced executives from the traditional financial world.

Rich Garside is the Head of Global Operations, thirty plus-year veteran from Citi; Assaf Ronen is our Head of Product who came from Amazon where he was a key leader driving the growth of Alexa Shopping; Tony Donohoe who came from Expedia as the Head of the Expedia brand CTO, he is our CTO; Michelle Gill is our CFO who was a Partner at Goldman Sachs and then was an investor in Structured Products at TPG.

We've also been able to hire great business unit leaders in each one of our business units from the walks of the financial services industry so I have been really pleased with our ability to find really talented experienced people across the big diverse area of industries.

Peter: Okay, okay, we're almost out of time, but what is the total head count today?

Anthony: We're about 1,400 people.

Peter: Okay, okay. Two more questions before I go, one real quick, are the challenges of SoFi had in 2017, do you feel like....obviously, it's well behind you now, are you still asked about that when you're talking to new hires, when you're talking to reporters or do you feel like it's now ancient history?

Anthony: I'm definitely not asked about that. I'm more asked about how do you build a culture, are you committed to build any culture, what's the mission of the company, is the company, as whole, passionate about that mission, where do you want to take the business over the next five to ten years as opposed to the next year.

I would say those are the three biggest focus areas for the people we're trying to hire, generally, and then when we get into specific cross functional areas and expertise like technology, there's definitely a focus on innovation and using new technologies and how to think about the impacts of those technologies over the long term.

And then on the financial side, without a doubt, there's questions about regulation and our ability to operate in a regulatory environment and as a regulated entity, which we already are, given that we have loan licenses by state, in addition to really understanding the amount of impact there's in the business because of regulation, all of which we think is reasonable and has allowed us to operate at a really high pace of growth.



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Peter: Okay, so last question, I'm sure you're going to tell me anything that hasn't been announced yet, but what part of your business should we expect the most future announcements this year? Where are you really focusing on innovating the most?

Anthony: I tie back to our priorities so number one is continue to innovate on being a mobile member first company with leading products in SoFi Money, SoFi Invest and SoFi Advice and so that's the number one priority and I would put that at the top of the list, but right behind it is building out the member experience in a transparent and more over way to the outside world. Third is our focus on ensuring that we continue to drive really fast, efficient and effective lending with our existing and new members. So those would be the three key business focus areas.

Peter: Okay, Anthony, let's leave it there. I appreciate your coming on the show today.

Anthony: Thank you very much for having me, really appreciate it.

Peter: Okay, see you.

SoFi is such a fascinating case study to me, you know, starting out as really a monoline lender in student loan re-financing and not just going into other areas of lending, but other completely different areas of finance. You know, I always thought that the secret to SoFi success was the fact that they were able to execute so well, particularly on the lending side of the business.

After talking with Anthony, you can really see sort of that military background which he didn't talk about, but you see that sort of no nonsense execution type mentality that Anthony is bringing to the table here. I think it is going to be one of the most fascinating things to watch over the next few years...is to see how SoFi evolves, can they be a success in all these different areas of their company. I'm certainly not betting against them, it's going to be interesting and I will be following along like everybody else.

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

Today's episode was sponsored by LendIt Fintech USA 2019, the world's leading event in financial services innovation. It's happening April 8th thru 9th, at Moscone West in San Francisco. It's going to be the largest fintech event held in the Bay Area in 2019. We'll be covering online lending, blockchain, digital banking and much more. You can find out all about it and register at lendit.com.

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