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Office of the Vice Provost for Advances in Learning



MODULE 2 UNIT 1

Casebook Video 3 Transcript

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CHRISTOPHER MALLOY: Our next interview is with Ron Suber, who will be talking to us today about SoFi, but Ron is really one of the founders of FinTech here in the United States. He was one of the original founders of Prosper, which was a peer-to-peer lending firm similar to LendingClub, which we talked about earlier, and Ron is an investor in many FinTech companies and an advisor to many FinTech companies, and was one of the earliest investors in SoFi, which is the subject of our next case.

SoFi, as you will find out, is an interesting company that started in the student loan space by realizing that all borrowers in that space – while they were being charged the same rate – might not all have the same default risks. And so, Ron is going to guide us through an analysis of thinking through SoFi's model and how they plan to grow in the future.

What led you to decide to invest in SoFi?

RON SUBER: The world was moving from the sharing economy to the access economy, where we could start accessing things as consumers without going to the incumbents. And I saw how Uber transformed everything in the transportation world, and Airbnb transformed everything in the lodging world, and then with music, or Spotify, really took over iTunes. And you saw things like Slack and other tools this new generation wanted based on speed, and price, and the UX, and the experience, and that's what SoFi did.

SoFi was one of the early FinTech companies, led by great leaders, who captured the hearts, and minds, and wallets of young people in this country – and they're called HENRYs: High earners, but not rich yet – people who had money and had income and wanted something different, just like people wanted something different in transportation, lodging, and music. And so that's what really drove me to SoFi in 2012, where I invested in the equity, and the debt, and the securitizations, and helped advise them to really get to the people and satisfy them, and then deliver new products in addition to student loans.

What are some of the challenges facing SoFi?

SUBER: So, there's many challenges for every single FinTech company. For Uber, when they have too many drivers, or too many passengers, they have this surge pricing or delayed service. And so, they're looking for equilibrium, an equal left leg and equal right leg in alignment. And that's the same thing that's happened with every FinTech company.

Do you have the right number of borrowers and the right amount of capital at the same time, that's meeting the time, and duration, and risk, and rate, and yield that each side is looking for? So, when you have the right amount of customers, and the right amount of money, can you then convert the business and actually make it happen? Have the paperwork, have the money, have the contracts all meet at the same time? And then can you service it – having people pay and repay? And so, there's the willingness to pay and then the ability to pay. And so, as long as unemployment stays low, and the pricing credit risk and underwriting is accurate, and the two legs are the same size – the borrowers and lenders, or passengers and drivers – it all works very well.



And then the key is to get to scale, to get to escape velocity, have a brand, have people tell others when you're not there about how good you are. And then to make money, to have true earnings, growth in revenue, and true EBITDA, and then get liquid, whether its merger, acquisition, or IPO.

Where do you think SoFi will go next?

SUBER: So, I think SoFi will continue to develop its awareness. We call this EA and U, which is education, awareness, and understanding through branding, through marketing, through partnerships, through working with some of the incumbents to solve some of the issues that they're having; whether it be banks, or asset managers, or other wealth managers, or it could be some of the new neobanks or challenger banks. We see them doing lots of partnerships with other companies to help their customers and help SoFi as a company. They're absolutely executing at a level that's impressing even the naysayers from the early days.

Which lending sectors appear to be attracting the most investors?

SUBER: So, for me, as an investor in the equity and debt of FinTech companies, I particularly am leaning into trade finance, and invoice finance, and finance for this gig economy, for people who are freelancers and independents who have different needs for payroll, and cash flow, and taxes, as somebody working at a large institution getting a paycheck every two weeks.

I think there are still opportunities in fix and flip home lending on the residential side, on commercial real estate, on marine finance, and on litigation finance. So, for me, there are many, many opportunities, as long as you do the right due diligence, have the right structure of your capital, or your loan purchases, or your warehouse line, and working with the right companies who have enough equity to run the business, to pay the people, pay the real estate, pay the marketing, and grow.

You're either as excited as you've ever been, or as scared as you ever been, as an incumbent and in FinTech. And for me, I'm as excited as I've ever been.

