Joe Ehrhardt:

So we've talked to many banks. I don't understand the difference between this and a consumer app. That's an education right there. From a marketing standpoint, the digital ability to onboard somebody quickly makes or breaks this type of product.

James Robert Lay:

Greetings and hello. I am James Robert Lay. Welcome to episode 259 of the Banking on Digital Growth Podcast. Today's episode is part of the Exponential Insight series, and I'm excited to welcome Joe Ehrhardt to the show. Joe is the founder and CEO at Teslar Software. Today, I'm looking forward to talking with Joe about the massive growth opportunities for financial brands, especially for community financial brands, to create and capture by simply transforming their past perspectives about indirect lending. Welcome to the show, Joe. It is good to share time with you today, buddy.

Joe Ehrhardt:

Thanks, James. Appreciate it, man.

James Robert Lay:

Before we get into talking about future growth opportunities for financial brands through indirect lending, I always like to start off on a positive note. What's been going well for you, personally or professionally? It's your pick to get started.

Joe Ehrhardt:

For me, we were very blessed last year as a company, personally, and we got to spend this year picking up the pieces of chaos from last year. That was great. Breathe a sigh of relief. So to me personally, slowing down a little bit, enjoying the moment, has been a great thing of 2022. It's also helps that COVID is not in the mix much.

James Robert Lay:

Absolutely. I think when you come out of running hard, you come out of running fast, it can feel like a bit of chaos. But one of the very first steps that is needed to get to that next level of growth, whether it be personal growth, professional growth, is just calm things down. Then, when you calm things down, that's where you gain clarity. That's where you begin to see new opportunities. This is where the subject of indirect lending comes into play. Because indirect lending, it's always been a bit of a tricky perspective for financial brands, especially community financial brands, who typically have shied away from thinking about offering indirect lending as a growth channel. Why is this? What have they been avoiding?

Joe Ehrhardt:

Yeah. I think there's a couple of things. First, we've got to redefine too, what indirect always looks like. Everyone knows what an indirect loan is, technically, right? It's where another party is gathering the data, essentially doing the loan, sending it back to you. Everyone thinks car loans. That's the first thing that you got to think about is everyone goes, "Auto, auto, auto, maybe boat, boat or trailer." But what about a lot of other items that I want to get into, that are more impactful, more important to the consumer?

That honestly, in my opinion, and I'll describe more as we get into it, the community bank could solve a need there. Honestly, we probably are going to rename the product from indirect to what we call

community lending or something else because indirect has such a negative vibe on it. We're not trying to solve auto lending. What we're trying to solve is, think about yourself. You're a father of four. Let's say tomorrow, all of a sudden one of your kids needs braces or they need something that's going to cost two, three, four, five, $6,000. You need a new HVAC. You need new tires on your car.

James Robert Lay:

Right.

Joe Ehrhardt:

These are things where most Americans, even if they had the money in their bank account and they could write a check, they would be financially smarter to borrow the money so they have a savings account. But the problem is, most of the ways to get that money today is through a Wells Fargo credit card, a Synchrony credit card, 24% interest rate, 25 [inaudible 00:04:11], when down the street is a community bank that could lend a much better rate, non-daily compounding. It's a simple, straight loan. That'd be a much better product, but the community banks don't know how to do it.

James Robert Lay:

Yes.

Joe Ehrhardt:

[inaudible 00:04:23]. That to us, when we say indirect lending, we're talking about, how can we interject the community bank at the HVAC facility and say you have a better product?

James Robert Lay:

As you're talking through this, you're really hitting close to home. I know we both have four kids, as we were talking about before we hit record. You mentioned braces. That conversation is now coming up in the Lay household. I'm not really feeling it right now, but I agree with you. Words have power. Indirect lending has that negative connotation, back to your point, and if you think about transforming that, I think you framed this community lending, as you're talking through, I almost think that this is lending for when life happens. Your AC unit goes out, your HVAC unit goes out. Lending when life happens, we've got that. We've got you covered.

A lot of this comes back to the point of past perceptions. Financial brands, I do believe, are letting those limitations, really the beliefs rooted in the past, they're costing them hundreds of millions of dollars in loans and even deposits. That's where partnering with local businesses, back to your point, to offer financing to customers for, we'll call them these more of medium-size purchases, lifestyle purchases, banks, financial brands can extend their present even that much further into the community and drive more loans, drive more deposits back to the institution. What's your take on this? What are the opportunities here?

Joe Ehrhardt:

The way we stumbled into it is a twofold. One, I personally was trying to get a loan for a pool. Now, that's a bonus thing in life. That's a benefit. This happened right before the pandemic, so I had good timing...

James Robert Lay:

Perfect timing.

Joe Ehrhardt:

... [inaudible 00:06:13]. One week before COVID hit, actually, the pool got finished. Realistically, there was not a lot of options for lending. Now, pools are a more complicated loan, but it got us to thinking about, how did people borrow... There's Buy Now, Pay Later. That's like $1000 dollars, $2000 [inaudible 00:06:29] loans. But what about those bigger ones where you need to borrow the money, but boy, it's dominated by high rate cards? Then we thought to ourselves, "Wait a minute, who banks all these HVAC companies, these funeral homes, the jewelry stores, the medical offices?" Well, community banks do.

James Robert Lay:

Yeah.

Joe Ehrhardt:

So the community bank can lend and help them borrow money, but they fail to let the consumer of that business borrow from them. They let those funds go outside of the state, outside of the community.

James Robert Lay:

Yep.

Joe Ehrhardt:

So we looked at it and said, "Hey, why don't we go to our banks who are already banking these HVAC companies and say, 'Listen, it's kind of indirect,'" which is why I think we want to change the name to community lending, and we're going to say, "You can offer this HVAC company a lending solution. You can put in only the products that you're going to lend for. You can make it super simple. They don't have to get rid of high risk lending. Maybe Wells Fargo's a good fit for those that don't have good credit scores. But if they could come into your office today and you would write them a loan, why can't you do it remotely from the HVAC company or from the person's house, mobile-friendly, let the HVAC person fill out an invoice?"

James Robert Lay:

Right.

Joe Ehrhardt:

"Why can't you do that?" Then last but not least, a lot of banks will say, "Well, Joe, the reason we couldn't do that is it costs so much to book one of these loans."

James Robert Lay:

Yeah.

Joe Ehrhardt:

I said, "Listen, we process Teslar, we processed 20 plus percent of all the [inaudible 00:07:47] last year. Efficiency is our name." I said, "That's what we're going to give to you. We're going to give you a tool that can allow you to process these cost effectively." But that doesn't mean they're credit writing and that's one thing we have to teach the banks, like, "Your credit standards don't have to decrease."

James Robert Lay:

Yeah.

Joe Ehrhardt:

In my opinion, everyone wins. The HVAC company's happy because they give a better solution when it made sense, the consumer's now banking with a local bank that's down the street, they've got a better product even at today's rate of 12 to 13% compared to a [inaudible 00:08:20] capped credit card, if the state has a [inaudible 00:08:21] limit of 20, 25%, it's all around a better product. It's even more important as people's savings accounts are getting smaller, and of course, rates are rising.

James Robert Lay:

Yes. Well, I think such a tremendous opportunity is education here to provide clarity for community financial brands that this is even a possibility. Because once again, perceptions are rooted in the past. As you look ahead towards the future, you use the key word, efficiency. This is a capability upgrade. That's where things like digitization and automation can positively impact the community lending process here. Dollars stay local. They don't go out of state, they don't go out of even the local community for that matter. What do you see as an opportunity to provide education, not just to community financial brands into the opportunity, but I think for community financial brands to then educate their community, whether that be small to mid-size businesses offering some of these mid-size loan products, back to your point, like a pool for example. Then for them to help also communicate people in the community that this is a viable path forward to get what they need, when they need it, when it matters most, i.e., braces, in my particular case here.

Joe Ehrhardt:

So I think the first struggle that we're going to face, as you mentioned, is this is an educational sale that we'll have to go into community banks and say, "You've got to lose some of your negativity," because so many community banks today, if they want to stay relevant, they believe they're only path to success is commercial lending [inaudible 00:10:08]. Wee got to say. "You're dropping the consumers." Because they're a great, great asset.

James Robert Lay:

Yeah.

Joe Ehrhardt:

We've got to first educate them that there's a way to do it efficiently and without the losses. Secondly, once they understand the product, they then to your point, have to educate the business. So take an HVAC company. They have to say, "Okay, I know maybe you get a $300 kickback on the other credit person, but your customer, to really treat your customer right, you just want to put the HVAC in. But one of these is 24% if they get paid off in six months, but they probably can't.

James Robert Lay:

Yep.

Joe Ehrhardt:

It's going to be 24% after that, compounding daily. It's going to be horrible financially. This is a better product. Give them both though. Because some may not qualify for the other. It does nothing but help you because you're better serving your customer...

James Robert Lay:

Yes.

Joe Ehrhardt:

... and their financial health. So it's going to end up being a multi-part education, going to educate the bank that this is good for your community, you've got to educate the business to say, "This is good for your consumer." We're not the first one to see this, right? I mean, Wells Fargo and Synchrony [inaudible 00:11:07] their credit cards, they know this market, they know it's a great market. But even like a Cross River Bank [inaudible 00:11:12] Lending USA...

James Robert Lay:

Yep.

Joe Ehrhardt:

... now, they're targeting to be national.

James Robert Lay:

Yes.

Joe Ehrhardt:

Our challenge is where we're trying to go at it is to say. "We are a provider for you, the bank...

James Robert Lay:

Yes.

Joe Ehrhardt:

"... to target your community."

James Robert Lay:

I'm going to take it this even further.

James Robert Lay:

Because we're talking about staying local, and if you're a community financial brand, opening up digital advertising, digital marketing potential, so for example, when someone is searching for local swimming pool company, well, you can serve up ads to get the financing to get the pool regardless of who you go through there. So there's that type of a play, back to the point of jewelry. It's really lifestyle lending, but it's keeping it at that local community perspective. Then education, I think education's going to be key in all of these different areas, whether that be with the financial brand, but I too think the financial brand, if I think about the SMB relationship, they can go in and coach these small businesses on how to offer lending and offer maybe one, two, three different paths forward for consumers.

That gives people choices and options. What we have found over the years is when you give people two or three possible paths, it increases the likelihood of a sell because it gives that consumer a sense of control and agency. So I'm 100% following you here. What are the dangers? What are the roadblocks that could hold a financial brand back from going down this path? Is it only perceptions rooted in the past or are there other things that we need to consider as possible challenges that need to be overcome in the present moment to reach this future state?

Joe Ehrhardt:

Well, I think one of it is people don't understand the user experience, back to your digital growth part. So one of the challenges that we hear from banks already is like, "Hey, I have a consumer app." It's like, "Whoa, whoa, whoa. Back up." If somebody is [inaudible 00:13:52] and they had a death in the family and they're at a funeral, they go in there at the funeral home, the only thing in our solution that that person needs to tell us is if they're not comfortable giving their information to the funeral home, we will send them a link, they fill out their personal information, we'll keep it separate from the funeral home, but the funeral home takes care of everything else.

James Robert Lay:

Yeah.

Joe Ehrhardt:

Now, that's a massive difference between a consumer app or I'm going out my way, I'm applying for generic credit. So the very first thing that we have to do that's a roadblock to us in banks is to explain to them, "If you're just making a consumer app, you're a failure at this. It's not going to work." We want to make it almost, I mean, no one likes the car-buying experience sometimes. Typically, you fill out a little bit and they run it to 30 banks. Now, the rest of the process is a mess. But this is the same thing here is we want to have it a tandem entry...

James Robert Lay:

Yes.

Joe Ehrhardt:

... where the partner's filling out everything they need. You're just filling out your personal information and we're keeping that separate so that you don't have to worry, "Does the funeral home have my social security number?" "No, they don't."

James Robert Lay:

Right.

Joe Ehrhardt:

"Your bank does." So one of the key things we did in PVP we're doing here is making it so that each site, even though they may only run five a month, maybe it's five a year, we spin up a separate instance, we call it, and you use the technical or there's a lot of things that actually makes us work. But one that's branded for this funeral home and if a bank banked five of them, they've got five different instances, it has five different products, five different questionnaires, what is their agreements? That's a key thing to us to make it customized, but at the same time, feel personalized to the business.

James Robert Lay:

Co-branded experience I think is a better way to think about this. It allows what's, again, back to your point of what you mentioned before, this is the efficiency and this is the ability to scale that. So once again, it creates a new business development opportunity locally to either establish, deepen and expand relationships with these local businesses. It's almost like a triple bottom line. Consumers win, these small businesses win, and the bank wins as well, right?

Joe Ehrhardt:

Absolutely. I think you've got a great point there. One of the biggest challenges though, hands down, is letting banks know that the end user is the ultimate decision-maker. If you make it challenging at all, they will go somewhere else. So we've talked to many banks, like, "I don't understand the difference between this and a consumer app." I was like, "Well, that's got to be where you got to be. That's an education right there." Back to from a marketing standpoint, obviously digital growth, you know this, the digital ability to onboard somebody quickly makes or breaks this type of product.

James Robert Lay:

That's right. I will tell you, because we conduct so many digital secret shopping studies for financial brands, there have been instances, there's that word again, in the past six months where we have looked at the quote, unquote indirect or consumer lending opportunity for a few key financial brands that are already thinking about this. Actually, these are community brands that are taking a more national perspective with niche lending opportunities, almost like a dealer direct point of view. There was one brand that we benchmarked this client against, this community institution against another national lender.

What we found is that this national lender was someone who would start the application, they would abandon the application. This one national lender followed up 15 times in 30 days with what we would typically call a sales qualified prospect because they showed intent to get a loan, but they didn't complete the application. I think that's another huge, massive opportunity. Back to your point, if you add any friction into the process, if we can build in the capability to follow up where there's a higher propensity for conversion and ultimately helping people to achieve whatever that end state is to solve the problems that they have in the present moment to provide them with a path forward to get to that bigger, better, brighter future. What's your take on that?

Joe Ehrhardt:

Yeah, no, I mean, absolutely. Anytime you have friction, it makes a challenge. Of course, what's the number one friction point in any online application? It's KYC, know your customer.

James Robert Lay:

Yep.

Joe Ehrhardt:

So that's another thing where the community dealing with their businesses, that's a first hurdle that passes. But those are things we're looking at. Everything from Trulio, Alloy, different ways we can pass that. But yeah, I mean, one of the biggest challenges is, "Okay, why did they stop?" All back to the conversion rate. Where did they drop out? Where's our bounce rate? What was our conversion rate at the end? Of course, to your point, what do you do when it happens? So not only is it, in my plan, do we need to... I like your idea of follow up 15 times. That seems like a lot, but a nice drip campaign.

James Robert Lay:

Yes.

Joe Ehrhardt:

But also why did you drop out?

James Robert Lay:

Yes.

Joe Ehrhardt:

What did we do wrong?

James Robert Lay:

Learn.

Joe Ehrhardt:

What did [inaudible 00:18:44].

James Robert Lay:

Yeah. I think the other opportunity that this opens up, and I appreciate you collaborating and almost co-creating on the fly with this, is onboarding. This provides a very unique opportunity. Because a lot of times when financial services, we think onboarding is just a new deposit or a new checking account. Well, this is a completely different onboarding experience that could be unique to each particular product line, which then would allow for deepen the relationship, share of wallet play, et cetera. This can, automation, efficiency, et cetera. The capability I would say wasn't even there 10 years ago. Now, it's here. Now, it's real. Now, it's time to scale.

As we start to wrap up here, you started your journey and I think this is really important because this is really good context. If you think about where you've been personally, you started your journey as a teller at Arvest Bank and you were working on the amazing sharp machines back then, and now you've been leading Teslar since 2008. If you think about this experience and the potential growth opportunity from where you started to what you're seeing today, what are you feeling most hopeful, excited, and energized about?

Joe Ehrhardt:

Well, I think there's... So first off, I'm going to do it. I'm going to be the opposite, answer the opposite, and say, "What am I most worried about?" As a person who serves community banks, worked in community banks, I'm worried that community banks could get replaced. So I spent all my career working on commercial real estate lending solutions, which is what Teslar's bread and butter is, because that's where those banks thrive and live.

James Robert Lay:

Right.

Joe Ehrhardt:

But I know for a fact, if I've learned one thing through life, diversification is critical.

James Robert Lay:

Yeah.

Joe Ehrhardt:

I think community banks have dropped the consumer side. They have become way too automated, too much of just an algorithm, go in and only if it's super simple and it costs too much money. So where I'm most excited about is after PVP, I think community banks have realized that digitization works.

James Robert Lay:

Yes.

Joe Ehrhardt:

That they can do a high volume of it, they can trust it, everything. I mean, we did everything from getting the promissory note signed to moving the money to boarding the account. So now, taking that the next step forward, even in commercial lending, we do that today, but take it even to consumer to say, "Hey, we can do that same thing and we can do it safely without increasing the bank's risks dramatically." I think that's most exciting to me because I want community banks to survive. Honestly, if they don't take care of consumers, I don't think they will.

James Robert Lay:

I appreciate that perspective. It's why you do what you do, it's why I do what I do, because I think community institutions are the backbone and that's what helps to create a strong, healthy, local, vibrant community for sure, 100%. I want to send the dear listeners off of something practical that they can apply, at least to get them moving forward because all transformation that leads to future growth does begin with a very small, simple step. What's your recommendation here? What's one small, simple thing that they can do to move forward and make progress, not on their indirect lending journey, but on their community lending journey?

Joe Ehrhardt:

Well, I think, man, just one thing. That's a hard question. I'm such a technical guy that I always say to banks, "If there's one thing you're doing today and you're doing it, you're so backwards, you need to stop." That is, if you still... You're going to laugh. If you still make me email or fax you something, you are way off the board. If your thoughts are email, call, or fax is the only way you can do anything with my bank, then you have not entered the digital revolution at all. So I think that's my first thing I always tell them is like, "Do you have any way to do anything? If I wanted to send you an appraisal that's 200 max, how do I pull this off?"

James Robert Lay:

Yep.

Joe Ehrhardt:

If you answer that question, you are on step zero.

James Robert Lay:

It's a great point. What is it going to take to shift, I would say, the mindset or the perspective of some of these community organizations because they have experienced some progress, but for some reason, and I think it's more human behavior than it is technological. It's like we fall back on what we know, we fall back on what is safe and that comes through experience. How can people continuously transform their mindset to see beyond the present reality into a future that is very intangible? Because back to your point, if you're making me fax or email, very antiquated, there's a lot more ways to communicate and

share documents, to share information, but it comes down to perspective. What's your recommendation to help transform mindsets internally to make this future state a reality?

Joe Ehrhardt:

Oh, that one's easy for me. I make our people do it all the time. The problem is it's easy sounding, but people don't like doing it, you eat your own dog food. If you work out of your bank and you've never opened a checking account on your own online banking portal or in your branch, or you haven't had your board members do it, and I don't mean to do it by, "Hey, email Cynthia," because you're a board member. I mean, [inaudible 00:23:59] don't have a clue who you are and fill that out. That's the easiest one. If you don't use your own stuff, it gets real easy to think it's okay, but you're blind to it.

James Robert Lay:

Yes. I'll add to that thought, don't just eat your own dog food. Go and try, sample others and go to a neobank, go to a neolender and open an account there. When I work with organizations, particularly at the board level or the C-suite, I ask, "Show of hands, how many of you ever applied for a loan or a depository account? A checking account? A spending account? Because the idea of checking is now becoming even more antiquated at another organization's? At a neobank or a neolender." In reality, maybe 5% have, and I'm like, "Look, I can sit up here and tell you and show you all these different experiences. But until you go and experience that yourself, until you understand what it, quote, unquote, feels like and then compare and benchmark that to your current reality, it's very hard to get that sense of feeling and emotion. Doing that speaks volumes." Show, don't tell, right?

Joe Ehrhardt:

Yeah, no, absolutely. It's funny, my folks laughed at me, but I bought a couch and financed it with Synchrony. They're like, "Why'd you finance a couch?" I wanted the experience.

James Robert Lay:

Yes.

Joe Ehrhardt:

I wanted to see what it was like, while we're building our stuff. So I'm with you, sample others too.

James Robert Lay:

I think that point, you've mentioned this a few times in our conversation, experience, inefficiency, experience. What is experience? Experiences, we define it here at the Digital Growth Institute are well-defined systems, processes that have been strategically mapped out, A, B, applied, and then C, this is the most important part of it all, continuously optimize based upon the knowledge, the data that we're gaining, the feedback that will result in either a positive or a negative emotion. So your example of getting a couch, financing that, learning about the experience is a great takeaway for us all. Joe, this has been a wonderful conversation today. Thank you for your knowledge, for your wisdom around how all of us can optimize not just the indirect experience, but the community lending experience going forward to capture new growth opportunities that we may or may not be thinking about. What's the best way for someone to reach out, say hello, and continue the conversation we've started here today, Joe?

Joe Ehrhardt:
Absolutely. They can reach out our website's, teslarsoftware.com. My email is simply joe@teslarsoftware.com. I check that myself. Feel free to email or call anyone on our team. We'd love to talk to anybody that's interested in what we're doing.

James Robert Lay:

Connect with Joe, learn with Joe, grow with Joe. Joe, thank you so much for joining me for another episode of Banking on Digital Growth. This has been a lot of fun today, buddy.

Joe Ehrhardt:

Thanks, James. Appreciate it, man.

James Robert Lay:

As always and until next time, be well, do good, and make your bed.