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Building Spring Oaks Capital During a Pandemic: A Conversation with Marcelo Aita

Transcript of conversation between Stephanie Eidelman, CEO of The iA Institute
and Marcelo Aita, Executive Chairman of Spring Oaks Capital, LLC
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Stephanie Eidelman

Hi. I'm Stephanie Eidelman, CEO of insideARM and the iA Institute. I hope you are all safe and healthy. One of the things I spend a lot of my time on is managing our Innovation Council. Even before the pandemic, organizations in the Innovation Council understood that their ability to survive would depend on thinking differently and being at the forefront of communications, analytics, payments, and compliance technology. Last fall we started an article series called Thinking Differently, to feature thought leadership in these areas by our staff and by members of the Council. We've now expanded this series into video format, as I interview various members of the Council to share with you how they are thinking differently about their businesses, and about the future of the industry. I hope you'll listen in.

Today I'm joined by the Executive Chairman of Spring Oaks Capital and one of the founding members of the Consumer Relations Consortium, Marcelo Aita. Marcelo and I literally hit the streets together back in 2012 as we founded the CRC and began holding meetings with our very first consumer groups. So he holds a special place in my heart. What's also interesting is that Marcelo is in the process of founding a brand new company, which is a unique position to be in today. And that's what we're going to talk about. Marcelo, thank you for taking the time to be here virtually.

Marcelo Aita

Glad to be here Stephanie. Thank you for having me.

Stephanie Eidelman

Let's get right to it. I've known you for many years. You spent almost 20 years at one of the world's largest banks. Then ran a national collection agency and debt buying business for nearly a decade. How did Spring Oaks Capital come about?

Marcelo Aita

Spring Oaks Capital became an opportunity to start a debt buying company with a clean slate. No legacy systems, no portfolio baggage, no sacred cows, no limits to our creativity. As soon as it became obvious who was going to get involved it became an opportunity of a lifetime. Initially we were going to call the company "Four Knuckleheads and a Laptop" but the name was taken!

Stephanie Eidelman

That would have been excellent. I'm glad to see you guys don't take yourselves too seriously! But all kidding aside, when people in the industry heard about the founding partners of this team I have to tell you many were amazed. How did this group of talent manage to come together at the same time, in the same place?

Marcelo Aita

I'm still amazed myself that our four founding partners actually came together as we did. If you think about it I was the only one that didn't have to quit a job. I had recently finished waiting out my non-compete. The rest of the guys had to leave highly coveted positions.

Tim Stapleford and I have known each other for more than 20 years. His breadth of experience and background is unbelievable. He started his career on Wall Street at Merrill Lynch then went on to co-lead the most successful chapter 13 bankruptcy debt buying business we've ever seen… eCAST and Max Recovery purchased tens of billions in consumer debt portfolios generating billions of dollars in return for the company. Shortly after JPMorgan Chase acquired them he was tapped to run the business on his own. In 2014 he left Chase to run Cavalry Investments one of the largest privately owned debt buyers in the country and left them for Spring Oaks Capital.

I met Andrew Blady when he was a partner at Eastburn & Grey prior to joining us in 2009. We worked together for nearly 10 years and he left NCB shortly after I did and went to work at Sessions, Fishman, Nathan & Israel were he served as senior counsel representing several debt buyers for the past two years. He is a subject matter expert when it comes to consumer law in the debt collections space and in compliance management systems. As you know he has done a tone of work with the Consumer Relations Consortium on CFPB matters as well. But most important in my opinion is that he has really developed into a business problem solver. Not every great attorney can be a great business leader but Andrew is exactly that. That's what you need everyone on the team to be when you have a small core team.

Now our biggest coup yet was pulling Jay Collins, a senior collections recovery executive, out of Bank of America. Not only because he had 20 years at BofA through the MBNA acquisition but, and don't tell him this, he easily had another 20 years' worth of runway ahead of him! Jay managed collection call center operations, agency networks, legal networks, you name it. He is an operator with a long proven track record and an exceptional leader.

Lastly, we are lucky enough to have Walter Menezes once again to provide his experience and guidance by joining our Board. Walter spent several years on the Board of NCB while I was there. He is a former Wells Fargo executive and HSBC Group Executive who ran their Global Credit Card Business as well as North America's Auto Finance business. Walter has a deep and broad background in credit risk management, consumer finance, and collections. Walter has been a personal mentor of mine since I met him in 1997. A brilliant individual to have in your corner.

Stephanie Eidelman

So clearly you have a team with a lot of big bank experience having worked for decades at some of the world's largest banks. How do you handle the transition to now being an entrepreneur?

Marcelo Aita

Stephanie, that's a great question. You're right that we have an abundance of experience in senior executive roles at large financial institutions. But three of us have also spent a combined 25+ years running relatively small privately owned debt buying businesses. There is no substitute for that type of experience. I'll tell you a funny story to illustrate the point. In 2008 I went from managing thousands of employees across a dozen call centers to running a relatively small family owned collection business with a couple of hundred people. But all of the sudden the breadth of scope of the job expanded from what I would consider a specialized function to a Jack-of-all-trades role. I remember shortly after joining NCB as their President & CEO in 2008 our building manager comes into my office and says, 'Marcelo, looks like we have a problem with the cooling tower on the roof and it may need to be replaced.' I said, John, let me get back to you on that I'm kind of busy right now. I had no idea what he was talking about. I remember walking over to one of the owners that hired me to run their business and asking, 'What the heck is a cooling tower?". It's a silly little example but it goes to illustrate that when you're a CEO of a business unit at one of the world's largest banks you have "people" that take care of those decisions. When you manager a small business you have to love getting involved in the granular detail. That level of involvement is what makes the transition successful and at the end of the day it all comes down to leadership, teamwork, and execution.

Stephanie Eidelman

I can completely relate. As the owner of a small business myself, I often marvel at the range of things I need to be an expert at – or at least get involved in – from employee benefits to company vision to emptying the dishwasher. So you have the management talent, you have experience on the sell side of the business, you have obviously purchased a ton of debt portfolios over the years… what are you and the team focused on right now?

Marcelo Aita

We started by putting our own seed capital in the business. Over the past six months or so we focused on establishing the business, getting off the ground and operational. We leased a wonderful contact center facility in Chesapeake Virginia… BTW, one of the absolute best locations in the country for contact center talent. Purchased our first two portfolios in December. Hired our first class of associates in January. Hired our second class on March 30th and we just closed on our third portfolio.

Back in December we started working with Chartwell Financial Advisory, a team of investment bankers out of Chicago that both Andrew and I worked with previously. We are currently working with them to secure a $25 - $35 million portfolio acquisition credit facility from institutional lenders. Even in today's environment, in the middle of a pandemic, we have received interest from a few sophisticated lenders that understand the counter-cyclical nature of our business and the potential that lies ahead for us. We've received a couple of term sheets and wouldn't be surprised if we close a deal with one of them over the next 30-60 days.

At the same time, we are marketing a Private Placement Offering to individual qualified investors with consumer finance backgrounds within our business contact networks.

Stephanie Eidelman

A quick question, why the two sources of capital?

Marcelo Aita

Well they each serve slightly different purposes and really work together to leverage our business model. The institutional credit facility will provide us with a significant level of funding that allows us to take advantage of what is, and will increasingly become, a buyer's market out there. The Private Placement Offering serves two purposes. The obvious one is that it provides more patient capital by issuing preferred notes that mature in 2025 with attached warrants. More importantly, however, is that we are only soliciting individual accredited investors that ideally have a consumer finance or debt collection background. Many of our former colleagues, whether they were at HSBC, Chase, Bank of America, Household, or Bear Stearns have a lot of experience to offer. This gives us an opportunity to bring great minds together to share great ideas and collaborate in a way that is intellectually engaging.

Stephanie Eidelman

I noticed some of the LinkedIn Posts recently pointing out that you are trying to raise $10 million through the PPO at a 10% interest rate with 10% warrants. I see that there is a minimum investment amount of $100,000. Can anyone really invest? Aren't you concerned some of your competitors may figure out a way to invest just to get the inside scoop on what you guys are up to?

Marcelo Aita

Actually not anyone can invest. But, if there are any collection agency owners watching… if they ever wondered what they're missing on the debt buying side of the business, tell them to give me a call if they're interested in dipping their toes in the pool!

Stephanie Eidelman

That's a generous offer. You're not worried about them stealing your secret sauce?

Marcelo Aita

There really is no secret sauce Stephanie. Debt buying takes four key ingredients: funding, people, product, and pricing. You need to know how to put the ingredients together. This business is all about leadership and operational execution. But getting back to your initial question, no, not anyone can invest. As I said before, we're looking for people with a consumer finance or a debt collections background that qualify as accredited investors. We want to create a unique opportunity where great minds can invest and collaborate in a way that is intellectually engaging. This is not a public offering and therefore it's targeted only to our personal business contacts which is why you saw our post on LinkedIn. We are being very careful to comply with all the SEC rules that apply.

Stephanie Eidelman

Okay, let's change gears. How do you think about the current crisis and the impact it will have on our economy and your business?

Marcelo Aita

That's another great question. I want to be sensitive about my answer so I don't come across like a horrible person. Look, purely from a business standpoint… a debt buying standpoint… an economic contraction represents significant growth opportunity for the next three, five, maybe even 10 years. You see we are a counter-cyclical business or a defensive business if you will. During times of economic expansion people have more disposable income and liquidation rates on debt portfolios tend to be strong. During economic contractions liquidation curves tend to flatten to some extent but supply increases exponentially.

It didn't take very long for our financial institutions to feel the impact of the beginning of an economic downturn. Only a few days ago some of our largest banks started to increase their loan loss reserves in anticipation of higher delinquency volumes and credit losses. That pattern will repeat itself across the financial industry. As lenders try to absorb increasing levels of defaulted debt they will move collection resources internally, increase outsourcing to collection agencies, and also bring a lot more paper to the debt buying market. Supply will undoubtedly out-pace demand and prices will decline. As a debt buyer, we can offer consumers something that lenders, by rules and regulations, cannot and that is TIME. Time to resolve their debt at a pace that is more manageable for each individual consumer.

Stephanie Eidelman

So you actually see more upside potential than downside risk?

Marcelo Aita

For a company like ours? Absolutely. You see, we are practically debt-free. We raised enough seed money to operationalize the business with an infrastructure built for growth. We don't have an inventory of accounts that were purchased at relatively high prices over the past couple of years. We don't have the weight of debt and financial covenants that were set pre-crisis. The market conditions prior to the crisis were fantastic. For a new debt buyer that is well capitalized the opportunity just got that much bigger. We are building from the ground up with eyes wide open in an environment that will have volumes increasing and prices falling over the next several years.

Stephanie Eidelman

As we start to wrap up here I just have one more question. You mentioned that one of the biggest advantages you had starting de-novo is that you are working with a clean canvas or a clean slate if you will. What are some of the ways you truly are thinking differently that will set you apart as you develop your business over the next three to five years?

Marcelo Aita

We have an opportunity to implement what we refer to as a "White Knight" operations. We get to define our culture and DNA from scratch. Starting with our hiring practices, the way we compensate our employees, the way we treat consumers. Everything starts with a clean slate. Our starting salary is $20/hr. We are paying nearly 100% of medical benefits for our employees. We don't focus on individual commissions and bonuses, that ultimately could drive the wrong behavior, but rather broader team goals and portfolio performance. It's very much in line with the way regulators in our industry wish everyone was structured.

Stephanie Eidelman

That sounds like a really progressive approach and one that would resonate positively not only with regulators, as we've heard during our CRC meetings with the CFPB, but also with employees, and lenders that want to sell you portfolios.

Marcelo Aita

That's right Stephanie. We have an opportunity to do things the way they should be rather than the way they've always been. We have the same attitude when it comes to technology. We're not interested in today's technology. We're interested in tomorrow's technology. We're most excited about envisioning what our space can look like in three to five years. There are some great new companies in our industry and on the periphery of our space that have made huge strides in technological development. We made a commitment to developing a digital-first platform that will include a state-of-the-art self-service portal. We are currently speaking with a couple of great companies, they happen to be part of insideARM's Innovation Council, that are focused on machine learning and artificial intelligence and their application to the debt collection space.

Stephanie Eidelman

Well this is great. I can't wait to watch your progress in the coming years, and I also look forward to the influence your team and others will have by participating in our Innovation Council. The whole idea of the council is to bring progressive thinkers together and figure out how to solve the complex problems faced by the industry. I think the next few years are going to bring some enormous change to debt collection as more companies figure out how to pivot coming out of this incredibly strange time we find ourselves in.

Marcelo Aita

Thank you Stephanie. I truly enjoyed speaking with you.