On Deck Capital, Inc. (NYSE: ONDK)

Second Quarter 2018 Earnings Conference Call

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Steven Kwok, *KBW*

John Hecht, *Jefferies*

Vincent Caintic, *Stephens*

Melissa Wedel, *JP Morgan*

Priscilla Russo, *Morgan Stanley*

Andrew Eskelsen, *Compass Point*

David Scharf, *JMP Securities*

PRESENTATION

Operator:

Good morning. My name is Jessica, and I will be your conference operator today. At this time, I would like to welcome everyone to the OnDeck Second Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. We ask that you limit your questions to one question and one follow-up question before re-entering the Q&A queue. If you would like to withdraw your question, please press the pound key. Thank you.

Stephen Klimas, Head of Investor Relations, you may begin your conference.

Stephen Klimas:

Thank you, Jessica. Good morning and welcome to OnDeck's Second Quarter Earnings Call. By way of introduction, I joined OnDeck in July to lead the Investor Relations effort, and I'm looking forward to working with each of you.

This morning, I am here with Noah Breslow, our Chief Executive Officer, and Ken Brause, our Chief Financial Officer. Our earnings release was issued earlier this morning and is available in the Investor Relations section of our website.

Certain statements, including our financial guidance for the third quarter and full year 2018, are forward-looking statements. They are not facts and are subject to material risks and uncertainties described in our SEC filings. These statements are based on currently available information and we undertake no duty to update them except as required by law. Our actual results could differ materially and adversely from those anticipated. Today's discussion is also subject to the forward-looking statement limitations in the earnings release.

During this call, we will use terms defined in the earnings release and refer to non-GAAP financial measures. For definitions and reconciliations to GAAP, please refer to the earnings release and the appendix of the presentation posted on the Investor Relations section of our website.

With that, I'll turn the call over to Noah.

Noah Breslow:

Thank you, Steve, and we're glad to have you at OnDeck. Thank you all for joining us on our call today.

Since OnDeck made its first loan back in 2007, I am proud to announce that we have now originated over $9 billion of loans to small businesses and are on track to surpass $10 billion this fall. This is a significant milestone for our company and reflects the important role we play in helping small businesses thrive.

Our second quarter results reflected continued execution of our 2018 strategic priorities. As a reminder, these priorities are to grow responsibly, strengthen credit management, invest in our high growth areas, enhance our product offerings and drive operating leverage.

We had a busy quarter and accomplished a lot.

We grew our unpaid principal balance over 3% in the second quarter with continued strong performance in originations by our strategic partners and funding advisors and in our international businesses. New business activity is solid, and we remain on track to achieve our full year origination and portfolio growth targets.

Originations of $587 million were up 26% from the same quarter last year. Business activity was strong as the number of loans closing in the quarter increased sequentially, while average loan size dipped, primarily due to an increase in the proportion of new customers. Increased activity from new borrowers is a real positive as they result in a stronger renewal pipeline later-on.

Revenue grew faster than assets, driven by higher yields and improved portfolio performance.

Credit quality remained strong as our investments and risk management continue to drive improved credit performance. We enhanced our decisioning-models and collections practices, and overall portfolio quality metrics reflects the composition of our portfolio and favorable economic conditions.

We were very active in the capital markets in the second quarter. We closed four transactions aggregating to approximately $400 million of committed funding, including a term securitization and three revolving credit facilities. These transactions refinanced existing debt at significantly better spreads, improving our cost of funds rate and adding capacity to support our global growth.

As a result of these accomplishments and strong execution by the entire OnDeck team, our second quarter results exceeded our guidance and we delivered record profitability. Specifically, we generated $96 million of gross revenue, $6 million of net income and $10 million of adjusted net income, all of which compare very favorably to the prior and year-ago quarters.

We also continued to make progress in our strategic initiative that position us well for the future. We remain on track to announce our second OnDeck-as-a-Service bank partnership this year and have a growing pipeline of major banks interested in our solutions. Sales cycles are long but interest in leveraging our platform is accelerating.

We are readying for launch our next major lending product. We completed the exploratory phase and are now finalizing our go to market strategy.

We also continue to bolster our international operations, which present attractive opportunities for growth and profitability. Second quarter volume in our international operations increased approximately 60% from a year ago, and the local credit facilities we established this quarter enable us to fund these businesses more efficiently while mitigating the effect of currency fluctuations.

We continue to invest and grow and improve the core lending business. We are introducing new product features such as extended amortization terms for select line of credit customers, and we are seeing good usage of our instant funding capability through debit card networks, which provides immediate access to funding and is improving our customer experience.

Driving operational excellence also remains a key focus. The consolidation of loan operations in Denver is progressing well and will result in lower costs and better effectiveness with our sales team. We continue to advance our technology and risk management capabilities and we have made great strides reducing our real estate footprint and associated costs. All of these enhancements facilitate our ability to grow prudently and drive operating leverage.

Finally, a few words on the macro environment. The overall economic backdrop continues to be strong. Small businesses are healthy, and confidence remains near cyclical highs. That is translating to capital investment and hiring among our customers and solid loan demand and credit performance in our portfolio. The SMB lending market remains competitive but rational. Borrowers have options today. So, we must continue to be innovative and differentiate ourselves through our products and our customer service in order to win our clients' business every single day.

Lastly, the success and growth in online lending is capturing the attention of politicians and regulators. Just last week the U.S. Treasury issued a very constructive report on the industry and the OCC opened the doors to a fintech charter. While the regulatory landscape will evolve over time, the focus on the sector speaks for the growing importance of the online lending model.

Now, I'll turn the call over to Ken to walk you through the financials.

Ken Brause:

Thank you, Noah, and welcome to Steve, and good morning everyone. As Noah stated, our financial results were strong and reflect continued progress on our operating and strategic initiatives.

We had a record quarter driven by portfolio growth, margin expansion and improved credit costs. Net income was $6 million or $0.07 per diluted share compared to a slight loss in the first quarter, and adjusted net income also improved from last quarter to $10 million or $0.13 per share.

Year-to-date, net income was $4 million and adjusted net income was $60 million or $0.21 per diluted share.

Gross revenue increased 6% sequentially to $96 million as asset growth and higher effective yields resulted in improved interest income.

We grew the loan UPB 3.4% since last quarter to just over a billion dollars, with growth across the portfolio. Balance sheet growth has been driven by strength in originations as well as our decision to maximize economics by holding and funding loans rather than executing marketplace sales.

The effective interest yield increased 50 basis points since last quarter to 36.1%, primarily reflecting pricing increases in late 2017 and earlier this year. We expect EIY to remain around the current level in the second half of the year as most of the portfolio has already repriced.

Turning to funding costs, interest expense increased slightly sequentially, driven by higher debt balances to fund growth while our cost of funds rate improved to 6.6% as the benefit of our new debt facilities more than offset the impact of higher market interest rates. As Noah mentioned, we were very active in the capital markets during the quarter closing four transactions that will result in over $4 million of annual interest expense savings going forward.

As a reminder, in April, we closed a $225 million term loan securitization and a $100 million three-year credit facility with the subsidiary of an insurance company, both of which we highlighted on our last call. In June, we established local currency facilities of roughly 75 million in Australia and 50 million in Canada. The cost of these facilities is very attractive. The securitization has a 3.75% fixed rate, and the $100 million revolving credit facility is priced at one-month LIBOR plus 200 basis points, the tightest spread of any of our current debt facilities.

Given the improvements in our effective interest yield and costs of funds rate, our net interest margin increased to 32%, up from 31.3% last quarter and 29.3% a year ago.

Moving on to credit, overall portfolio quality was generally stable. Provision expense decreased $3 million from the first quarter to $33 million, and the corresponding provision rate improved from 6.1% to 5.7%. Loans past due 15 days or more are essentially unchanged since year-end, despite retaining more 90-plus loans in-house for collection in lieu of selling.

Net charge-offs increased 30 basis points sequentially to 11.2%. That's a significant improvement from a year ago, and its coming off a multi-year low. This level of loss reflects our progress in credit risk management, improvements in collections and the currently strong economic environment.

The allowance for loan losses increased $5 million sequentially to $124 million and the reserve ratio is now 12.1%. The increase in the allowance was generally consistent with our loan growth rates.

Turning to operating expense, total operating expense was $45 million. Our second quarter expenses included a debt extinguishment charge of $1.4 million related to the securitization refinancing we completed in April. Excluding noteworthy items, operating expense increased $4 million sequentially, driven by investments in our strategic growth initiatives, technology and analytics. G&A expense was impacted by movements in foreign exchange rates, and also includes an increase in the cost of reserves for unfunded commitments, reflecting the growth in the line of credit products. As a percentage of gross revenue expenses were 46%, up from 44% in the first quarter but improved from 48% a year ago.

A few words on the balance sheet. Liquidity remains strong as we ended the quarter with $74 million of cash and equivalents. In addition, we have approximately $400 million of available borrowing capacity, under our nearly $1.2 billion of committed debt facilities. OnDeck shareholders equity increased 3% sequentially to $272 million, and book value per diluted share grew to $3.46.

Moving on to guidance. Given our strong results this quarter, we're increasing our guidance for the year. We are now calling for gross revenue between $380 million and $386 million, net income of between $10 million and $16 million, and adjusted net income between $30 million and $36 million. This guidance is based on assumed annual origination and UPB growth of between 10% and 15%, and a provision rate near the low end of the 6% to 7% guidance range.

Our third quarter guidance is for gross revenue between $95 million and $100 million, net income between $2 million and $6 million, and adjusted net income between $6 million and $10 million.

With that, let me turn the call back over to Jessica, so we can take your questions.

Operator:

Thank you. At this time if you would like to ask a question, please press star, followed by the number one on your telephone keypad. We ask that you limit your questions to one question and one follow-up question before re-entering the Q&A queue.

Your first question comes from the line of Eric Wasserstrom from UBS. Please go ahead.

Eric Wasserstrom:

Thanks very much. Ken, obviously you haven't been there very long but certainly enough time to get yourself ingrained in everything that sort of OnDeck is doing. How would you prioritize the top two or three key optimization opportunities from here? Then I have a quick follow-up, please.

Ken Brause:

Well, it's a tough one to bring it down to two. I think the top priority remains growing the core business. I think we've got a very profitable core lending business that we continue to improve the efficiency and optimize across several dimensions, so I think continuing to bring that value to fruition is priority number one. I think that's followed by some of the strategic growth initiatives as we discussed, whether it be OnDeck-as-a-Service and additional products or new markets, I think looking to the future is probably priority number two. You asked for two, but I'll give you three. The third one I'd say is looking at balance sheet optimization and how we continue to improve the liability profile and other ways to improve the efficiency of the balance sheet, particularly on the right-hand side.

Eric Wasserstrom:

Great. That actually anticipated my follow-up, which is what kind of milestone should we look for over the next two, three, four quarters in terms of balance sheet opportunity for you?

Ken Brause:

I think the milestones will be continuing to see what we do with the funding profile. Again, we had the four transactions that we closed in the second quarter. You can look at what remains outstanding and see there are still a few facilities that have higher than the average cost of funds and that we should be looking to find ways to reduce those and improve both the maturity profile in terms of length and also look to see if we have opportunities to mitigate some of the interest rate risk we have from being a primarily floating rates borrower, as well as looking at the leverage ratio and if there are ways that we can figure out the optimal level of that and ways to achieve it.

Eric Wasserstrom:

Okay. That's all. Got it. Thanks very much, Ken.

Ken Brause:

Thanks, Eric.

Operator:

Your next question comes from the line of Steven Kwok from KBW. Please go ahead.

Steven Kwok:

Good quarter guys. Thanks for taking my questions. Just first on the competitive environment, can you just talk about what you guys are seeing there and then just as a follow-up around your APRs and effective interest yields, it seems like that continues to have an upward trajectory to that. How should we think about that heading into the back half of this year? Thanks.

Noah Breslow:

Thanks, Steven. This is Noah. I can talk quickly about the competitive environment. I think overall, we're seeing it's competitive out there, but it's also a rational environment, much more rational than it was 18 to 24 months ago. CAC trends in the quarter were stable. We were really pleased by the sequential growth in new customers that we saw in the quarters. So, we really overall, think this is an environment that OnDeck can do very well. On the EIY trends, I'll turn it over to Ken.

Ken Brause:

Sure, and thanks, Steven. As it relates to APRs, the APRs are a function of the pricing increases we put through, as I mentioned, last year and earlier this year, as well as changes in mix, so the type of product and the channel in which that the new products are coming through. That obviously turns into EIY. We saw the improvement sequentially and from last year. My comments were that there's not much room to go much higher from here given what we see today, but the other contribution to EIY is the improvement in credit and as we continue to see higher percent of the book performing, that will have a modest benefit to EIY.

Steven Kwok:

Great. That leads into my second question just around credit metrics, highly stable on a sequential basis. Any thoughts around how we should think about it for the second half? Is there any seasonality that we should be mindful of?

Ken Brause:

I wouldn't necessarily describe the credit as seasonal, but I think as with anything else you'll see variation around the trend line. Given the strong performance of the economy and the strong performance of these metrics, there could be variations quarter-to-quarter. I think overall, we are pleased with the progress that we are seeing with many of the initiatives that we have put into place and we think will continue to have benefits throughout this cycle, and I did guide to the low end of the 6 to 7% provision rate.

Steven Kwok:

Great. Thanks for taking my questions.

Ken Brause:

Sure.

Operator:

The next question comes from the line of John Hecht from Jefferies. Please go ahead.

John Hecht:

Good morning guys, and thanks for taking my questions. First, clearly strong growth in volumes and your loan balances. I'm wondering what color can you give us about it - is that sort of organic in the sense it's your core traditional customer base, is it just a higher demand for capital now that your business conditions are strong, or is it in part related to just the ramping of the bank partnerships? How do we think about the context there?

Noah Breslow:

Yes, in our lending business, I think it's really more the classic kind of OnDeck customers. I think if anything, we feel that we've improved slightly the credit quality of our customers over the last year. Their FICO scores have gone up if you look at them on an aggregate basis. What you're seeing I think is just we have three channels to market, our strategic partners, our funding advisors and our direct channel, and we think there is still great growth opportunity in all three. We rolled out a new direct marketing model that sort of helped us a little bit by the end of the quarter. In our indirect channels, we are seeing strong growth, strong ability for us to compete in those channels which are a little bit more competitive in some ways. Really, we don't view this as a deviation from our historical strategy, and we think we can grow that core business, as Ken mentioned, for years to come.

John Hecht:

Okay. It seems pretty broad in terms of the kind of the sources of upside and the loan volume.

Noah Breslow:

Yes.

John Hecht:

Second question is you guys have addressed the yield in terms of the re-pricing upward. Any other things to think about in terms of the loan terms that's worthy of the discussion?

Noah Breslow:

I think the yield is probably the most noteworthy trend. I think from a duration perspective, we're really trying to stay pretty stable. If you look at where we were a couple of years ago, kind of at the end of 2016, we had gotten above 13 months in terms of average term; now we are down a month or two from that and that's probably where it will stay. I will say in our line of credit product, we all rolling out some different amortization options there. But really, we are talking about going from a 6-month amortization to a 12-month amortization option. It's really not a term that we're unfamiliar with. Overall, I think the shape of the book from a duration point of view will hold steady, while those pricing changes that we implemented over the last kind of 6 months to 12 months will ripple through the book as we go through the year.

John Hecht:

Appreciate the nice color guys. Thanks very much.

Operator:

Your next question comes from the line of Vincent Caintic from Stephens. Please go ahead.

Vincent Caintic:

Hey thanks, good morning. Just wanted to maybe go over the guidance. Nice raise there. If you can delve more deeply on what's driving the different components, on the revenue side, are you seeing more industry demand? Are you taking market share from other participants? Then on the credit side, if you could talk about is the improvement primarily you're underwriting has been doing well, but is the customer also getting better? Then maybe to wrap it all up, if you could describe what it would take to get to the different ends of the net income range you've provided. Thanks.

Ken Brause:

Sure, Vincent. I'll see what I can do. A lot of questions there. I think as it relates to revenue, obviously, we have a range of growth in originations in UPB. Again, I think, what's underlying our current guidance is the trends that we're seeing, as Noah just described, in terms of the acquisition of customers by channel both in terms of new and renewal. Again, our business is to serve a largely underserved population and we continue to reach out and try to improve that opportunity and continue to do business with customers through a renewal basis.

As it relates to credit, I think as I mentioned before, we think we're going to be in the low end of that 6% to 7% provision rate range. Some of the investments we've made, and I think also as Noah mentioned some of things what we're doing in terms of trying to offer more opportunities when our customers do get into a little bit of difficulty to help them manage through a tough period and therefore improve our credit performance, as well as a continued strong economic backdrop will help on that front as well.

In terms of the ranges of net income, it's all the above factors and how they play out. And to the extent, we can grow a little faster and we see a little bit better APR, it will help on the revenue front. If the credit trends remain strong, we could see again the provision at the low end of that range. Again, we'll always continue to look at opportunities to improve efficiency on the op ex side, and as well as, as I mentioned, looking to do some things to reduce cost of funds.

I think that the answer is we have a lot of levers that we can pull to try to get to the guidance that we've provided, and as we continue to execute, we'll do our best to try to do the high end of the bottom line range, but a lot of factors in there, some of which are under our control, some of which aren't. We just continue to work hard to get to the best results.

Vincent Caintic:

Okay, thanks. That's very helpful. Switching over to the bank partnerships, I look forward to hearing about the second one upcoming, but if you can maybe talk about the pipeline for that? I'm just trying to frame the opportunity there. Thanks.

Ken Brause:

Sure. Our pipeline has improved since the last earnings call. I think we view that improvement, both in the progression of deals that were already in the pipeline as well as the addition of new potential bank partners to that pipeline. I think what we're seeing is a range of projects that are now moving past the conceptual phase, and some of these banks are moving to actual kind of RFPs and formal processes and places where there are informal processes, those processes going to the later stages. Overall, we like that pipeline there.

As we said in the prepared remarks, we've made good progress and expect to announce that second OnDeck-as-a-Service bank partnership later this year and continue to achieve key program milestones in that relationship.

Vincent Caintic:

Great. Thanks very much.

Operator:

Your next question comes from the line of Melissa Wedel from JP Morgan. Please go ahead.

Melissa Wedel:

Thanks. A question for you about the impact of a new product rollout on marketing expense and G&A.

Noah Breslow:

Sure, yes, so, right now, I wouldn't worry about it from a modeling perspective. I think as with any new product, we're going to do a test and learn and it will be pretty immaterial to the financials for a few quarters for sure. Even then, I would sort of recall that we do have several channels that are not necessarily direct marketing channels but are indirect channels, and so we can source the product in both direct and indirect where we have the acquisition costs highly aligned with booking actual loans as oppose to say a direct marketing spend. I think we feel confident that our next major product won't sort of burden the sales and marketing line unduly.

I would also add that there's a huge cross-sell opportunity as we add more products to our lineup. We have made, as I mentioned in the prepared remarks, over $9 billion of loans. We serve ta lot of merchants, tens of thousands of merchants over many, many years. There is an opportunity to go back to a lot of those customers and offer additional products.

Melissa Wedel:

Okay. Got it. Thank you. I guess second question would also pertain to the G&A line. We've seen that tick higher in the first half of '18 compared to full year '17 in terms of percentage of gross revenues. Just want to get some color on that. Is that driven by bringing some recovery efforts in-house or additional bank partnership upfront costs? What's behind that? Thank you.

Ken Brause:

I'll take that, Melissa. So that is one of the reasons, yes, there is some more expense to do some of that work in-house. The other two items that I've mentioned were the impact of foreign exchange fluctuations, which runs through that line, and the other is the increase in the provision for unfunded commitments. Again, that does not run through the provision line, that runs through the op ex line for G&A, so as we grow the line of credit products and we build that reserve for unfunded commitments that's in that line as well. I'd say from a forward-looking point of view, given we put those two new local currency facilities in place, we know our exposure to foreign currencies is down so that impact should be muted going forward. Those are probably the main reasons.

Again, we also did point out that there was the charge this quarter for the debt extinguishment that was in that line as well of $1.5 million.

Melissa Wedel:

Okay. Got it. Thank you.

Operator:

Your next question comes from the line of James Faucette from Morgan Stanley. Please go ahead.

Priscilla Russo:

Hi, Noah and Ken. This is Priscilla calling in for James. Just a couple of quick questions. In terms of the collections and bringing them in-house, have there been any positive surprises or negative surprises as you've been doing that over a past couple of quarters? Then following up on OnDeck-as-a-Service, are there any updates that to your originations that you've been seeing through JP Morgan? Any color on that would be helpful.

Noah Breslow:

Yes, so I think on the collections front, the surprises have been mostly positive although I am not sure I would characterize them as surprises. I think we decided to apply more investment and effort into that part of our business and we're seeing strong results. The recoveries have been trending up nicely over the last year or so. You've also got, I think, as you look at the vintage curves—and these will be out in the 10Q when we file that—really nice kind of performance of those vintage curves now from the later vintages in 2017. So no, overall, I think we see a strong trend there. I think between improving collections, we've also made some nice improvements in our fraud area recently, and so this should all sort of bear positive fruit that kind of snowballs over time. Some of these loans as we hold them on our balance sheet for longer periods of time, we can work them and achieve a better collections result, also put our customers into different workout options that they may not have had before, which is a win for the customer and a win for OnDeck. So, overall, strong there.

I think on overall trends in the OnDeck-as-a-Service business, in the second quarter you did see other revenue tick down slightly. Part of that is due to the mix of states in which we originate, so actually it has nothing to do with our partnership with Chase and sort of more to do with the OnDeck lending business. A small part of that was due to a planned slowdown at Chase to implement a regulatory requirement on their side, but on the flip side we do see that volume ramping back up again in the back half of the year.

Priscilla Russo:

Great. Thank you.

Operator:

Your next question comes from the line of Michael Tarkan from Compass Point. Please go ahead.

Andrew Eskelsen:

Hi guys, this is actually Andrew on for Mike. Just one question from me and it's in regard to the fintech charter. While it's still early, how can we think about that opportunity for you, and what could that do for you operationally?

Noah Breslow:
Yes, so we're excited about the OCC's move here and we applaud the efforts to create kind of a national framework for licensing online lenders and really, other types of fintech companies.

We have a regulatory framework that has worked very well for us for 11 years, and so I don't want to sort of detract from any of that, but I think having this fintech charter available is an interesting option. It's one that we're going to study going forward, but we've made no decision at this time as to whether that's a path we might take.

Andrew:

Okay. Thank you.

Operator:

If there are any additional questions at this time, please press star, followed by the number one on your telephone keypad.

Your next question comes from the line of David Scharf from JMP Securities. Please go ahead.

David Scharf:

Good morning. Thanks for taking my questions; most have been answered. I did want to follow-up on the credit discussion. I believe you've mentioned in your opening remarks that yield may have been impacted by a larger mix of new customers, first-time borrowers, and typically when we see that we see higher provisioning and allowance rates and that 5.7% provision rate, obviously, came in below your range, which speaks to just how well credit is performing. I'm wondering, that 6% to 7% range that you're still guiding to annually, should we be thinking of that as necessarily fixed in stone near term? It sounds like if you had a maybe consistent mix of new borrowers, we would be seeing something even lower than that 5.7%. I'm just trying to get a sense for, is that based on the current environment if there is further improvement in that, in these allowances and reserve rates?

Noah Breslow:

Yes, thanks David. I think a couple of comments there. There is a bit to unpack. You're right, the provision rate in a given quarter is a function of both what we call the front book and the back book. The front book is that a mix of new originations or originations that are happening in the quarter to both new and repeat customers. Obviously, the back book has a lot more to do with credit trends and the economy, how well borrowers are paying back, our collections from recovery efforts and so forth.

Actually, what we typically have seen historically is that our new customer—broadly speaking, new customers are slightly riskier than renewal customers, as you would expect. So, we did see a bit of a slight increase actually in our loss expectations for the very new customers we acquired in the quarter, but that was more than offset by better performance in the back book. And actually, we think what's also happening a little bit is our models are now digesting kind of the last 12 months of performance data and starting to update themselves to reflect what we do think is really an improved credit trend overall in the business.

Getting to your question on guidance and kind of that 6% to 7% range, I think what Ken said is that the guidance for the second half of the year assumes performance near the low end of that range. I think we get to 2019 and we watch these vintages sort of play out for another six months. I mean the nice thing about our model is that these are shorter term loans and we can see very quickly how we're doing. We can look again as we go into 2019 what the right range for the portfolio we expected to be. But overall, again, credit trends are strong, either stable or kind of improving in some metrics since last quarter. We're excited about where that part of the business is going.

David Scharf:
Got it, got it. No, that's helpful. Then as a follow-up to that, I don't know if this is a metric you've provided in the past, but can you give us some context of—for this most recent quarter and recent history, what percentage of origination volume consists of new borrowers to OnDeck as oppose to repeat?

Noah Breslow:

I don't have the exact number in front of me, but I believe it's very, very close to 50/50, and I believe that number is provided in the Q. Is that a fair?

Ken Brause:

Yes.

Noah Breslow:

Yes. Okay. So, good. You'll see it in the Q when we file, but it's actually been very stable in that area. I think this quarter in particular we were pleased with some new customer unit sequential growth that we saw in the business and that will lead to, we think, a nice effect on renewals. In some ways what we saw this quarter a little bit is an echo of the major credit pull backs we did last year. We had a little bit fewer renewal opportunities than we normally do because we did pull back on credit in the second quarter of last year. I think, as we kind of ripple through the book, as we go into next year, those trends will stabilize again and the new customer growth we're seeing today should lead to nice growth in renewals 6 to 12 months down the road.

David Scharf:

Got it. Great. Congratulations. Thank you.

Noah Breslow:

All right. Thank you, David.

With that, I just wanted to wrap up very quickly, but thanks to everyone for their questions on the call today. In closing, we're very pleased with our second quarter results here at OnDeck. We delivered record income and advanced our strategic priorities. We continue to invest in our business and expect the positive momentum to continue as we announced our second on OnDeck-as-a-Service bank partner, launch our major next lending product later on this year.

We have good visibility into the back half of the year as well and are well positioned to achieve the increased guidance we provided this morning. Moreover, we are confident we are taking the right steps to deliver continued earnings growth and further improve shareholder returns in 2019.

Our mission remains clear. We aim to create innovative lending experiences in financial products to help small businesses succeed, and we are committed to becoming the first-choice lending partner to underserved small businesses and a market leader with our OnDeck-as-a-Service platform.

Our second quarter results show that we are well on our way to delivering against our 2018 strategic priorities, and we look forward to speaking with you on the next call. Thank you all for joining us today.

Operator:

This concludes today's conference call. You may now disconnect.