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SoFi Technologies

SOFI Q3 2024 Earnings Conference Call

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CORPORATE SPEAKERS:

Paulina Gutierrez
SoFi Technologies; Investor Relations
Anthony Noto
SoFi Technologies; Chief Executive Officer
Chris Lapointe
SoFi Technologies; Chief Financial Officer

PARTICIPANTS:

Dan Dolev
Mizuho; Analyst
Terry Ma
Barclays; Analyst
John Hecht
Jefferies; Analyst
Jeffrey Adelson
Morgan Stanley; Analyst
Kyle Peterson
Needham & Co.; Analyst
Mihir Bhatia
Bank of America; Analyst
Peter Christiansen
Citigroup; Analyst
Jill Shea
UBS; Analyst

PRESENTATION:

Operator^ Good morning, or good afternoon all. (Operator Instructions) At this time, I would like to welcome everyone to the SoFi Technologies Q3 2024 Earnings Conference Call. (Operator Instructions) With that, you may begin your conference.

SoFi Technologies

SOFI Q3 2024 Earnings Conference Call

Paulina Gutierrez^ Thank you. And good morning. Welcome to SoFi's third quarter of 2024 earnings conference call. Joining me today to talk about our results and recent events are Anthony Noto, CEO; and Chris Lapointe, CFO.

You can find the presentation accompanying our earnings release on the Investor Relations section of our website.

Our remarks today will include forward-looking statements that are based on our current expectations and forecasts and involve risks and uncertainties.

These statements include, but are not limited to our competitive advantage and strategy, macroeconomic conditions and outlook, future products and services, and future business and financial performance.

Our actual results may differ materially from those contemplated by these forward-looking statements. Factors that could cause these results to differ materially are described in today's press release and our subsequent filings made with the SEC including our upcoming Form 10-Q.

Any forward-looking statements that we make on this call are based on assumptions as of today.

We undertake no obligation to update these statements as a result of new information or future events. And now I'd like to turn the call over to Anthony.

Anthony Noto^ Good morning. Thanks for joining us today. I'm thrilled to share our results for Q3, which was the strongest quarter in our history. I want to thank our members and clients for continuing to put their trust in SoFi, and to thank our team for their absolute grit delivering another great quarter.

Our results reflect far more than just 90 days of work.

They show how SoFi is consistently achieving durable growth.

Our innovation and brand building are attracting more members and clients to our platform than ever before and how we are delivering strong and improving returns.

I'll touch on these three topics before handing it over to Chris, who will share our financial and operating results. First, on SoFi's performance as a durable growth company. Q3 was another record quarter for SoFi.

We built on the strong momentum from the first half of 2024, putting us on pace to significantly exceed our 2024 plan and firmly on track toward the 3-year outlook we shared at the end of last year.

Here are some highlights. Adjusted net revenue reached a record of $689 million in the quarter, a year-over-year acceleration in growth to 30% versus 22% in Q2. For the first time, financial services makes up more than a third of our total revenue. The segment recorded $238 million of revenue in Q3, up 102% from the prior year.

I could not be prouder of how we've scaled this segment over the past five years since launching these products through a tumultuous and unpredictable environment to now be a $1 billion annualized revenue business growing over 100% with strong and improving profitability.

And frankly, it's still day one.

Our tech platform grew to nearly $103 million in net revenue, up 14% from the prior year.

We continue to see a strong pipeline of potential partners that are striving to modernize their platforms. Combined, our non-lending segments grew 64% year-over-year and drove the company's overall growth of 30%. And now they make up a record 49% of total revenue, up from 39% a year ago, driving an important diversification of our business.

We also recorded tremendous growth in key revenue drivers, members, products as well as revenue per product in the quarter.

We added 756,000 new members in Q3, that's up 35% year-over-year, to a total of 9.4 million members.

We grew products in the quarter by over 1 million to 13.7 million products, that's up 31% year-over-year or 37% when excluding digital asset accounts related to our transfer of crypto services in 2023. The Financial Services segment drove 964,000 of those new products.

Importantly, revenue per product was $81, up 52%, from $53 a year ago.

We believe there remains substantial upside in both product growth and monetization.

Our one-stop shop continues to attract great cross-buying behavior by our members.

In fact, 32% of new products were opened by existing SoFi members and 20% of our new members opened a second product in their first 30 days. This is the power of the flywheel we have developed. In our Tech Platform, we reached over 160 million total accounts, that's up 17% year-over-year.

Overall, we're making incredible progress in our shift towards more fee-based, capital-light and lower-risk revenue sources. Combined, fee-based revenue made up $174 million or 1/4 of our adjusted net revenue in Q3. This revenue grew by 65% year-over-year.

On an annualized basis, that's nearly $700 million in revenue.

This progress was driven by a record quarter in our loan platform business, which totaled $56 million in fee-based revenue and is up more than 5x year-over-year, as well as strong growth in interchange, which is up 2x year-over-year. Chris will share more details on these areas in a few moments.

On top of all of this work to diversify our revenue base to capital-light, high return on equity, and fee-based revenue, we also grew our lending segment in Q3.

We seized on the improving rate environment in the quarter or improving credit trends and strong performance across all lending products to achieve a record $6.3 billion of loan volume and $392 million in adjusted net revenue, up 14% year-over-year.

Looking back at the progress we've made over the past several years, it's fair to say that SoFi is battle tested given the scale, profitability and growth we have recorded for the total company in 2024 with our largest and most profitable business lending barely growing. It should now be crystal clear that SoFi can drive sustained growth across the cycle.

We've achieved 17 of 19 quarters of record revenue through a recession, a pandemic, 150 basis point rate drop, damage to our largest and most profitable business, student lender finance, only to face a 500 basis point increase in rates and the collapse of venerable financial institutions in our neighborhood.

The innovations we have driven to scale our non-lending revenue, which are capital light and high ROE, have enabled us to grow our total revenue by more than 20% year-over-year for 17 consecutive quarters, as well as grow both our members and products by 35% or more year-over-year, excluding digital asset accounts transferred in 2023.

Our performance in the hard times is what gives me the strong confidence in our future. Today we faced fewer headwinds than any point in our history.

We're heading into 2025 with the most favorable conditions of the last seven years with declining rates and a stable economy with the most diverse business we've ever had with more members in our ecosystem and more products that serve their needs than ever before.

This brings me to my second topic, the innovation and brand building that drive our durable growth. The market for consumer financial services is massive and historically poorly served. A Mintel report found that just this year, one in five U.S. adults have been in the market for a new savings account. A similar number are looking for new credit cards.

Those markets, not to mention those looking for new investment accounts, new checking accounts, new personal loans, new mortgages, and buy now pay later all grew year-over-year.

Meeting all of a person's financial needs in one place with world-class products delivered seamlessly and digitally gives us a massive advantage. This is why you will often hear me say it's a matter of when, not if we become a top 10 financial institution. To do so, it's absolutely critical that we build the unaided brand awareness to become a trusted household brand name. The awareness we generate for SoFi is highly effective at getting people to try a product. After becoming a member, they cross buy into another product, then another.

They recommend SoFi to others. This flywheel that we've created drives acquisition costs down over time and reliably generates profits that we can invest in new product innovations to serve even more of our members' needs.

Our accomplishments in Q3 demonstrate the power of this virtuous cycle. First, we continue to establish SoFi as a trusted household name.

We ended Q3 with our highest average unaided brand awareness of all time, up nearly 40% year-over-year to 7%.

Our highly effective marketing engine continues to reach and engage new audiences.

For example, Q3 saw the kickoff of the new NFL season at the award-winning SoFi Stadium.

We unveiled a new brand campaign with L.A. Chargers Quarterback, Justin Herbert, inspiring people to reach their most important financial ambitions.

We also launched new partnerships with Los Angeles Sparks Forward, Cameron Brink, and Tennis Champion, Venus Williams. And coming in January, the TGL presented by SoFi, a new tech-infused arena golf league with an exciting match play format across teams of top PGA tour golfers like Tiger Woods, Rory McIlroy, Wyndham Clark, Xander Schauffele and Justin Thomas, just to name a few.

Second, we continue to innovate so people find unique value when they use our products. Starting with our Financial Services segment. In SoFi Invest, we've seen strong engagement driven by new alternative assets, mutual funds and money market funds we've rolled out over the past year.

Overall, we're providing Main Street investors access to unique investment products historically reserved for the ultra-wealthy like interval funds, private credit, private real estate and private venture.

We also launched our new directed share program, which offers a modern and streamlined approach to equity programs for companies looking to raise capital through IPOs.

We are expanding our award-winning robo offering later this year.

Importantly, we are building the Invest business cost effectively by appealing to existing members. 70% of sign-ups are existing SoFi members. In SoFi Money, we reached record highs in accounts, total deposits and direct deposit members.

We grew member deposits by nearly $2.4 billion and annualized debit spend reached $10.3 billion in Q3.

We will soon improve our self-serve wire transfers which, similar to introducing Zelle, will further expand members' money movement options.

In our member team, we're beta testing a new Cash Coach product that will analyze members' cash across all of their financial products at SoFi and beyond and offer various ways to optimize their cash, whether it's paying down expensive debt, setting up an emergency savings fund, getting more yield on their savings or making investments in a diversified portfolio that is appropriate for their goals.

We're also on track to launch improvements to SoFi Plus, our premium membership tier, and are beta testing a new fee-based subscription option in the coming months.

Over time, SoFi Plus will increasingly show the magic of our strategy, deliver incremental and unmatched value across our portfolio of products.

In Credit Cards, we officially launched the Everyday Cash Rewards and the Essential credit cards, enabling SoFi to serve more people's spending and borrowing needs, whether it's helping them earn rewards or building their credit.

In our loan platform business, what started as a decline monetization funnel, has now evolved into an integrated loan platform experience, which now offers just-in-time lending.

In Q3, the Loan Platform Business grew 5x year-over-year, mainly driven by record personal loan volume.

We expect this business to continue to grow as we shift towards even more fee-based, capital-light and lower-risk sources of revenue.

We also signed our first two direct insurance carriers for SoFi Protect, complementing our comprehensive financial services offering we've built over the last five years.

Turning to our Lending segment. In personal loans, our innovation has helped generate a record $4.9 billion in volume, up 26% year-over-year including $1 billion originated on behalf of third parties for our Loan Platform Business.

In home loans, we grew total home loan volume 38% year-over-year to $490 million. Home equity loan volume was up 44% from the prior quarter as rates began to decline. Home purchase and refinancing volumes grew 23% from the prior year period. In fact, home refinancing volume was the highest we've seen since the second quarter of 2022.

And finally, in our Tech Platform, we signed several new partnerships including processing deals with two chartered banks of Mexico and a deployment of Galileo's Cyberbank Core for SoFi's new commercial payment services sponsored bank program.

We launched additional fraud prevention solutions, the Galileo Instant Verification Engine, which we call GIVE, as well as transaction risk GScore, both of which help clients enhance their security and operational efficiency.

Our new secured credit with dynamic funding offering promotes greater financial inclusion and enables clients to help their customers build stronger credit. And lastly, we launched programs with clients signed in prior quarters, spanning cross-border payments, global payouts, financial literacy and scalable payment solutions.

On top of this relentless focus on innovation and brand building, we built our business to deliver strong and reliable returns well into the future.

We achieved record profitability in Q3. GAAP net income reached nearly $61 million, a $327 million improvement year-over-year or $80 million when excluding the goodwill impairment expense we incurred in the prior year. EBITDA grew 90% from the prior year to a record of $186 million.

All three of our operating segments achieved record contribution profit in the quarter.

We continue to improve credit performance in Q3 and are firmly within the life of loan guidance we've previously provided.

As we've shared on our last call, delinquencies peaked in March of 2024. Since then, we've continued to see improvements quarter-over-quarter. Cumulative fair value adjustments, along with delinquencies on an absolute and percentage basis, all performed better in Q3.

With all the innovations we've made across marketing, originations and servicing, buyers continue to see compelling opportunities in SoFi's loan portfolio. Loan sales reached almost $1.3 billion in total this quarter and nearly $5 billion in the last 12 months. And finally, with our strong balance sheet, we are well capitalized heading into an improving rate environment.

Our total capital ratio is 16.3%, well above regulatory minimums. In Q3, tangible book value increased $236 million to a total of $4.4 billion.

We look forward to building on this momentum and delivering continued returns heading into the new year.

In closing, I couldn't be more proud of what we've accomplished, not just for Q3, but for delivering a steady and consistent record of durable growth, incredible brand building and product innovation that help our members and clients, and strong improving returns for our shareholders. The future is bright, and I am fired up for what's in store. With that, I'll hand it over to Chris.

Chris Lapointe^ Thanks, Anthony. I'm going to walk through key financial highlights and our financial outlook. Unless otherwise stated, I'll be referring to adjusted results for the third quarter of 2024 versus the third quarter of 2023.

Our GAAP consolidated income statement and all reconciliations can be found in today's earnings release and the subsequent 10-Q filing, which will be made available next month.

The record results we achieved across all three segments this quarter are a testament of our continued execution, our durable growth in members, products and clients, and our diversification toward capital-light fee-based revenue with increased returns.

For the quarter, we delivered record adjusted net revenue of $689 million with growth accelerating to 30% year-over-year, up from 22% last quarter.

Adjusted EBITDA was $186 million at a 27% margin. This represents nearly nine points of year-over-year margin improvement, demonstrating significant operating leverage across all of our functions with expense margins decreasing year-over-year.

Importantly, sales and marketing continues to decline as a percentage of adjusted net revenue, decreasing by four points year-over-year.

We delivered our fourth consecutive quarter of GAAP profitability with GAAP net income reaching nearly $61 million, a $327 million improvement year-over-year or $80 million when excluding the goodwill impairment expense we incurred in the prior year period.

We generated GAAP EPS at $0.05 per share in the quarter.

On a trailing 12-month basis, we delivered $214 million of GAAP net income.

When looking at the sum of our reported EPS over the past four quarters, we generated about $0.11 per share.

Now on to the segment level performance, where we saw record revenue and contribution profit across all three operating segments.

Starting with Financial Services, we achieved $238 million in net revenue, up more than 2x year-over-year.

We reached nearly 11.8 million products in the quarter, up 33% year-over-year or 40% when excluding crypto accounts.

We continue to improve monetization across all products with annualized revenue per product of $81, up 52% year-over-year versus $53 in the prior year quarter. This growth was driven by higher deposits and member spending in SoFi Money and significant expansion of our loan platform business, which I'll describe in a moment.

Both of these businesses achieved all-time records for revenue in Q3.

We also benefited from new monetizable features in SoFi Invest and saw robust growth in credit card spend.

We see significant opportunity for growth in these businesses as well as SMB and Protect, which are all under-monetized today. Net interest income of $154 million increased 66% year-over-year, which was primarily driven by growth in consumer deposits. Noninterest income grew 235% to $84 million in the quarter, which represents nearly $340 million in annualized revenue.

A key driver of noninterest income growth this quarter was our Loan Platform Business, where we refer prequalified borrowers to origination partners and originate loans on behalf of third parties.

Here's how our loan platform business works. With our best-in-class product, highly effective marketing engine and network of respected buyers like Fortress, with whom we announced a $2 billion Loan Platform Business agreement earlier this month, we can efficiently match the demand of members shopping for loans with the demand for high-quality loans in the capital markets.

When a member takes out a loan, they gain all of the benefits of becoming a SoFi member along with easy access to other products in our one-stop shop, even though we originated the loan on someone else's behalf. This enables SoFi to serve more potential members, while also further diversifying toward less capital-intensive and more fee-based sources of revenue.

In Q3, we generated $56 million in loan platform fees, driven by $1 billion of personal loans originated on behalf of third parties as well as referrals.

We also generated $5.5 million in servicing cash flows, which is recorded in our Lending segment.

Our Loan Platform Business in total added $61 million to our adjusted net revenue.

In addition to our Loan Platform revenue, we continue to see healthy growth in interchange, up 211% year-over-year as a result of $12 billion in total annualized spend in the quarter across Money and Credit Card.

Overall, contribution profit for our Financial Services segment in the quarter was a record at nearly $100 million at a 42% margin, even as we continue to invest in innovation, acquisition costs that require a payback period, and new opportunities to rapidly grow this operating segment with attractive returns.

Shifting to our Tech Platform segment, where we delivered record net revenue of nearly $103 million in the quarter, up 14% year-over-year and 7% sequentially. Revenue growth was driven by strong contribution from new clients as well as growth in Latin America, Consumer Brands in the U.S. and clients with innovative use cases like earned wage access and money movement. Galileo accounts grew 17% year-over-year to $160 million. The segment delivered a record contribution profit of $33 million, representing a 32% margin.

We've discussed before how the pipeline spans banks, brands and fintechs across consumer and B2B, which offer larger and more durable revenue. The pipeline is in a stronger spot than it's ever been, and the investments made in this segment have greatly expanded the market opportunity. Recent wins and pipeline strength are early, but telling signs that the strategy is working.

Moving on to Lending.

We achieved record adjusted net revenue of $392 million with a record of $239 million of contribution profit at a 61% adjusted margin.

These results were driven by 19% year-over-year growth in net interest income, while adjusted noninterest income decreased by 2% year-over-year. Growth in net interest income was driven by a 35% year-over-year increase in average interest-earning assets, slightly offset by a 44 basis point year-over-year decrease in average yields. This resulted in an average net interest margin of 5.6% for the quarter.

In terms of noninterest income, Q3 originations grew 23% year-over-year to over $6.3 billion, and were driven by a record quarter in personal loan originations, which grew 26% year-over-year and 17% sequentially to $4.9 billion, with $1 billion originated on behalf of third parties for our Loan Platform Business.

Our student loans business saw origination volume grow 3% year-over-year and 28% sequentially to $944 million, our best quarter since Q1 2022. Home loans volume grew by 38% year-over-year and 17% sequentially to $490 million, our best quarter since 2021.

In the third quarter, we sold portions of our personal loan, home loan and senior secured loan portfolios totaling $1.3 billion.

In terms of personal loan sales, we closed approximately $375 million of loans in whole loan form at an execution of 105.9%. These had similar structures to other recent personal loan sales with cash proceeds at or near par and the majority of the premium consisting of contractual servicing fees that are capitalized. These sales included a small loss share provision that is above our base assumption of losses and immaterial relative to the exposure we would otherwise have if we held the loans.

Our $504 million of home loan sales were sold at a blended execution of 102.6% Additionally, we sold $81 million of late-stage delinquent personal loans in the quarter.

As we've noted in the past, we typically have not sold delinquent loans until such a time that they are charged off.

However we have been able to generate positive incremental value over time in these sales relative to selling after they charge off, both from our improved recovery capabilities and by maintaining servicing. Finally, we sold $312 million of senior secured loans at a par execution.

In addition, one of our large senior secured loans with $594 million of principal outstanding was prepaid and refinanced by the borrower and is no longer on the balance sheet. Net-net, inclusive of new issuance in period, our secured loan balance decreased by more than $750 million sequentially.

These transactions demonstrate clear market support for the marks on these loans with $312 million of our senior secured loans sold at our marked value and another $594 million of senior secured loans prepaid, so the borrower could refinance with another bank at more attractive rates.

Turning to the profile of our borrower and the overall credit performance.

Our personal loan borrower's weighted average income is $164,000, with a weighted average FICO score of 746.

Our student loan borrower's weighted average income is $135,000, with a weighted average FICO score of 765. After seeing credit trends peak in Q1, we have seen continued improvement in personal loans.

Our on-balance sheet 90-day personal loan delinquency rate was 57 basis points in the quarter, a decrease from 64 basis points in Q2, which is further evidence of surpassing a peak in Q1.

Our personal loan annualized charge-off rate decreased to 3.52% from 3.84% in Q2 including the impact of asset sales, new originations and the delinquency sale in the quarter. Had we not sold these late-stage delinquencies, we estimate that including recoveries between 90 and 120 days delinquent, we would have had an all-in annualized net charge-off rate for personal loans of approximately 5.0% versus 5.4% last quarter.

For our student loans, our on-balance sheet 90-day delinquency rate remained flat quarter-over-quarter at 12 basis points, while our annualized charge-off rate was 69 basis points. The data continues to support our 7% to 8% maximum life of loan loss assumptions for personal loans, in line with our underwriting tolerance.

Similar to last quarter, we've provided a loan vintage analysis on Page 10 of our investor presentation. Since this only provides a partial window into our loan portfolio, we're unlikely to provide the same analysis longer term.

However it's a helpful illustration of how recent vintages are collectively performing against our 2017 vintage, as this is the last time that we approached 8% life of loan losses at 7.85%. You can see significant improvement in cumulative net losses at a given percentage of remaining unpaid principal for more recent 2022 and 2023 vintages.

Specifically looking at the Q4 2022 to Q4 2023 vintages, soon after we made material cuts to credit, net cumulative losses of 3.3% are well below the 4.8% observed in the 2017 vintage at the same point of 49% remaining principal balance.

The gap between the newer cohort curve and the 2017 cohort curve widened slightly quarter-over-quarter.

Furthermore, looking at Page 11 in the investor presentation, you will notice that only 43% of unpaid principal balance remains from our Q1 2020 through Q2 2024 originations. Among the 57% of principal that has already been paid down, we've seen 6% in net cumulative losses.

For life of loan losses on this entire cohort of loans to reach 8% net cumulative losses, the remaining unpaid principal would need to charge off at a rate of more than 10%. Past vintages had performed meaningfully better after this point in the seasoning curve, further improving our confidence in achieving loss rates below 8%. Now turning to our fair value marks and key assumptions.

Our personal loans are marked at 105.7%, 142 basis points higher quarter-over-quarter. This was driven by a 97 basis point decrease in the discount rate to 4.78%, which was directly driven by the drop in benchmark rates by 113 basis points and offset by 16 basis points of spread widening. The constant default rate, or CDR, also decreased by 28 basis points, which is consistent with the observed credit trends I just highlighted.

For our student loan portfolio, the fair value mark increased by 183 basis points to 105.4%. This was driven by a 45 basis point decrease in the discount rate to 3.99% due to an 87 basis point decrease in rates, but offset by 42 basis points of spread widening. The weighted average coupon on the portfolio also increased by 17 basis points.

The fair value gains in the quarter were significantly more than offset by our hedge losses and the negative impact from spreads widening. Net-net, we did not see a positive impact on the reported revenue from the change in marks net of hedge losses and new originations.

Switching to our balance sheet, where we remain very well capitalized.

Assets grew by $1.7 billion as a result of nearly $1.4 billion growth in loans and approximately $226 million of an increase in cash, cash equivalents and investment securities.

On the liability side, member deposits grew by nearly $2.4 billion to nearly $23 billion, while overall deposits increased to $24 billion.

We reduced our brokered deposits by $445 million as we continue to use our consumer deposits to replace higher cost parts of the funding stack.

Currently, there is a 220 basis points difference between the interest we pay on deposits and the interest we pay on warehouse lines, which translates to more than $500 million in annualized interest expense savings given the size of our deposit base.

We exited the quarter with just $1.3 billion of warehouse debt drawn. This difference continues to support our net interest margin of 5.6%, underscoring the benefits of having the option of holding loans on balance sheet when advantageous in collecting net interest income.

We continue to expect to maintain a healthy net interest margin above 5% for the foreseeable future and benefit from the continued mix shift towards deposit funding, along with our ability to sustain healthy deposit versus lending betas.

In terms of our regulatory capital ratios, our total capital ratio of 16.3% remains comfortably above the regulatory minimum of 10.5%.

Lastly, we grew book value to $6.1 billion and tangible book value by $236 million sequentially to $4.4 billion with tangible book value per share at $4. Now, on to guidance.

For the full year 2024, we now expect to deliver adjusted net revenue of $2.535 billion to $2.550 billion, which is $85 million higher than our prior guidance range of $2.425 billion to $2.465. This implies 22% to 23% annual growth versus 17% to 19% previously. This guidance assumes Lending revenue will be at least 100% of 2023 levels, Financial Services will grow more than 80% year-over-year, and Tech Platform will grow low to upper teens percent year-over-year.

We now expect to deliver adjusted EBITDA of $640 million to $645 million, above our prior guidance of $605 million to $615 million. This represents a 25% adjusted EBITDA margin.

We now expect full year GAAP net income of $204 million to $206 million, above prior guidance of $175 million to $185 million, and GAAP EPS of $0.11 to $0.12 per share, above prior guidance of $0.09 to $0.10 per share.

We now expect growth in tangible book value of approximately $1 billion to $1.05 billion, and continue to expect to end the year with a total capital ratio at or above 16%. In terms of member growth, we expect to add at least 2.3 million new members in 2024, which represents 30% growth.

Overall, we couldn't be more proud of our Q3 results.

We continue to demonstrate our position as a durable growth story, which is reflected in this quarter's strong results. Despite operating in unpredictable macro conditions, we've maintained a clear focus on executing our strategy, driving returns and helping our members get their money right.

We could not be more excited about the opportunities ahead of us as we continue our journey towards becoming a top financial institution. With that, let's begin the Q&A.

Operator^ (Operator Instructions) And our first question today comes from Dan Dolev from Mizuho, Dan please go ahead your line is open.

Dan Dolev^ Hey guys, great results as always. Can you give us some more color on the Loan Platform deals? Like how do you make money here? And you know how does this differ from the prior quarters? Thanks again, great results.

Chris Lapointe^ Sure. Thanks, Dan.

So overall, this is a great fee-based and capital-light revenue source for us. We're not taking balance sheet risk. We're generating meaningful cash fees upfront at time of transfer or referral, and we're able to serve the needs of more members at a more rapid pace than we've been able to do so before.

So there are several ways that we make revenue within the business, which has certainly evolved since we started focusing on decline monetization in 2019. First is we send qualified borrowers to platform partners via our Lantern marketplace, and we receive a referral fee if the borrower takes out a loan.

The second way we make money is we can embed the specific credit box of our platform partners into our underwriting engine and originate on behalf of those partners with the transfer of those loans to the partner occurring shortly after origination.

For that, we receive an upfront cash fee, and we also retain servicing. The third way and what's new this quarter is that we're able to originate on behalf of other third-party investors based on a specific asset characteristic and return profile of that investor with loans transferred shortly after origination. This is within days or a week.

We receive an upfront cash fee, platform fee for that business, and we also retain servicing.

Then the fourth way that we can make money, and we've been doing this for a few quarters now is, we can service assets that we do not originate, but are held on the balance sheets of other third parties.

For that, we receive regular servicing fees that are not capitalized.

What I would say is important is, in all of these cases, these are assets that we wouldn't have otherwise underwritten, unless contracted, due to a number of reasons including, first, the credit profile and other characteristics of the assets, which may not be directly consistent with our current portfolio.

Second, our own risk appetite may not align with those originations.

Then finally, our capital allocation strategy at any given point in time may not align. The last thing I would say here is that there are no financing commitments or loss share agreements associated with any of these deals or partnerships.

Anthony Noto^ And the only other thing I would add, Dan, and this may not be known by a lot of people, but we decline between 70% and 80% of the personal loan applicants to SoFi.

So there's a lot of latent potential there to service them better.

So that's a big number that exists before we even try to do anything else in this business in terms of generating incremental demand or other initiatives to make people aware of the products that we can offer.

Operator^ The next question comes from Terry Ma from Barclays. Terry, your line is open please go ahead.

Terry Ma^ Hey, thank you goodmorning. So your originations came in ahead of our expectations, and it's increased each quarter of this year. Credit seems to be improving sequentially and the macro probably a little bit less clear than earlier this year.

So I guess going forward, how do you think about originations and lending growth for your own balance sheet versus maybe originating for some of your partnerships?

Chris Lapointe^ Yes. What I would say is our overall outlook for originations or at least growth on the balance sheet has not changed.

We do expect to see modest growth in dollar terms on the balance sheet year-over-year, and that will continue into Q4.

We are happy with the size of the balance sheet that we have today and the amount of net interest income that we're generating.

We are seeing excess demand both on the borrower side as well as the loan investor side for our unsecured personal loans, and we've been able to successfully navigate and fulfill that demand through the expansion of our loan platform business.

So we would expect not to grow the PL balance sheet meaningfully from where we are today. Where we will migrate into is, in a lower rate environment, you would see an uptick in demand for our student loan refinancing business, where we had a really strong quarter this quarter, as well as our home loans business, where we had our best quarter since 2021.

Operator^ The next question comes from John Hecht from Jefferies. John, your line is open please go ahead.

John Hecht^ Morning guys , congratulations and thanks for taking my question. I appreciate all the information on the credit slide about the '17 vintage versus the more recent ones. It looks like the current vintages are performing better than the 2017 vintage.

I'm wondering how do you guys think about the contribution of that performance trend to return on capital and how do prepayments or your just payment assumptions impact this outcome as well?

Chris Lapointe^ Yes. Thanks, John.

So we often talk about underwriting to an 8% life of loan loss target, which obviously reflects the strength of our underwriting and the high quality of our borrower base.

However, life of loan losses represents just one of several variables, which in combination actually drive our pricing and underwriting decisions designed to maximize return on equity while adhering to our credit risk tolerance.

In terms of how we think about the returns on recent versus some of our past vintages. All-in returns on our more recent vintages are projected to produce meaningfully higher returns.

I'm talking greater than 2x versus 2017, with newer vintages expected to produce ROEs above 30%.

I'm defining ROE here as the weighted average coupon minus annual losses, funding costs and other operational costs plus origination fees and then multiplied by the weighted average life and levered.

What's really driving those increases in returns is a function of a number of things. First is lower expected life of loan loss rates as we show in our investor presentation on Page 10. Second is the higher pricing beta throughout rate increase cycles. We've demonstrated time and time again that we've been able to maintain really good betas.

We were successful in increasing the portfolio weighted average coupon across both products in a rising rate environment over the course of the last few years.

And we've also been able to maintain pricing in down rate environment due to the quality of our product.

The third way is we've had funding cost efficiencies given our high reliance on member deposits and success in growing direct deposits and replacing higher cost warehouse funding.

Then fourth, we've introduced origination fees over the course of the last year plus and we're now generating close to $400 million in origination fees annually.

So the combination of these drivers is more than offsetting the increase in prepayment speeds and the reduction in weighted average lives that we're observing in some of these newer cohorts. Going forward, what I would say is, we're going to be talking about return metrics more often because these life of loan losses don't provide the full view.

Anthony Noto^ And the other thing I would just emphasize, John, and the shareholders more broadly, is that we've been able to achieve these types of high ROE returns in more recent vintages despite the fact that rates have been increased significantly in a very short period of time.

The economy has been somewhat uncertain during that time period.

As we look into 2025 and a declining rate environment in a stable economy, we think we can only improve on these returns.

It's one of the reasons why we're leveraging all the different businesses we are across the opportunity set that we have from a return standpoint relative to what we believe is a prudent level of balance sheet risk in a particular asset class such as personal loans.

So we think there's a lot of upside and it only gets better from here.

Operator^ The next question comes from Jeff Adelson from Morgan Stanley. Jeff, your line is open please go ahead.

Jeffrey Adelson^ Could you just talk a little bit more about the expectations for the Loan Platform Business, how you expect that can grow from here?

I know you said expect that to continue growing, but how meaningful can this become?

It seems like, if we look at the numbers today it's already at a $4 billion run rate. You've got the Fortress relationship, which, correct me if I'm wrong, is additive to that.

So that's already $6 billion.

And should we be thinking about the economics as close to a 5.5% take rate based on the revenues you reported this quarter?

Then I'm just curious, are you going to maybe deemphasize the loan sales a little bit more from here?

I mean it came in a little bit lower at the $375 million versus the $1 billion for the last three quarters as you maybe prioritize the Loan Platform Business from here?

Chris Lapointe^ Yes.

So I'll start and Anthony can chime in wherever.

But in terms of the overall growth expectations, what I would say is, as part of that $1 billion of originations that we did, Jeff, in the period, a portion of that did come from the Fortress transaction that we announced earlier in the quarter.

So it's not additive to your $4 billion run rate. It's inclusive of that.

But we do expect to see continued strong growth in the segment.

We have that $2 billion agreement with Fortress as well as commitments for Q4 and 2025 with several other partners. What I would say is, we're one of the very few partners who can deliver assets at scale with the characteristics and return profile that investors are seeking.

In terms of deemphasizing other sales and ABS transactions in favor of this, what I would say is that the demand is as strong as it's ever been before, like I had mentioned a few questions ago, we're happy with the size of the balance sheet and the modest growth that we're expecting over the course of the next three months.

But what I would say is that we are seeing excess demand, both from borrowers and investors, and a way to fulfill that demand is through the LPB business.

In terms of the take rate, what I would say is, we're looking at apples and oranges when you're trying to compare this take rate to what you see in the general originate to sell business. These are loans that are originated on behalf of others, and they would not have been originated unless contracted to, given the credit and overall asset characteristics of the loans as well as our own risk appetite and capital allocation strategy.

What we're receiving is a platform fee for our underwriting capabilities, our marketing capabilities, and our overall operational capabilities, and that platform fee will vary depending on the partner.

Anthony Noto^ And I think a couple of points just to emphasize.

One is, the partners in the Loan Platform business, many of which are new incremental partners on loans as opposed to the wholesale loan buyers or ABS buyers that we've typically had, they're not all incremental, but a large percentage of them are including in the most recent quarter.

In addition to that, Chris has mentioned a couple of times, these are loans we wouldn't have otherwise originated, and we only originate when we actually have a contract.

So it's not a zero-sum game. It's incremental.

The outlook for it is pretty significant as we go into 2025 in excess of what you articulated.

Chris Lapointe^ The only other thing I would say in terms of -- you had mentioned $375 million of sales done in period.

We did over $1 billion across all three products in the quarter and $6 billion over the course of the last 12 months in overall loan sales. Quarter-to-date in Q4, we've already done close to $1 billion in sales across our products as well.

So the demand is certainly there.

We will continue to fulfill on both ends.

But as Anthony mentioned, being able to originate on behalf of others is purely incremental to us.

Operator^ Next question comes from Kyle Peterson from Needham & Co. Kyle, your line is open please go ahead.

Kyle Peterson^ Great. Thanks guys and good morning, Nice results.

I wanted to ask a question on deposits, some of the trends you guys are seeing there. You guys had really nice growth there despite, I believe you took down the rate paid on member deposits a bit as rates have gone down.

So just any color on whether you've seen any changes in average balances or customer behavior or things have been pretty receptive to some of the changes you guys have made on deposit rates kind of early on in the rate cut cycle.

Anthony Noto^ Yes. We're really proud of the way the SoFi Money product continues to resonate in the marketplace despite rates coming down more broadly. We've maintained our market share position. We've maintained our ranking in an APY standpoint.

Of course we do not charge fees.

We obviously give a number of other benefits including the high interest rate, not to mention all the functionality you need in one place.

So we've seen continued strong trends in deposits, over $2 billion of member deposit growth in the quarter.

In addition to that, the spending levels that we're seeing are on par to better to where they have been historically.

So we're continuing to get positive indicators across the entire business as it relates to SoFi Money. The other thing I would just mention, this is one of the key points of where the flywheel starts.

Our direct deposit customers are customers that are more engaged. They have meaningfully higher number of products per customer compared to the overall average that we report.

When you look at it on a vintage basis, it's even better than the overall average number of products per direct deposit members.

So it's been over a year in which we've operated this business as a bank and being able to control our own destiny and having a competitive advantage in being both an origination platform on loans as well as a national bank that can set its own interest rate and its own value proposition.

It's a competitive advantage and one that's continued in the quarter, and we're excited about next year.

Operator^ The next question comes from Mihir Bhatia from Bank of America. Mihir, your line is open please go ahead.

Mihir Bhatia^ Good morning, thanks for taking my question. I wanted to stay with the Financial Services segment again.

I wanted to just talk about a couple of things there.

One is just about monetization in the segment.

I think it's up to $81 annually now. Any targets you can share on what you think that can look like maybe this time next year or just to achieve your 3-year targets that you laid out?

Like how much more monetization can that be?

Then just related to that, just I guess what is the next growth there?

You mentioned SMB and Protect in your remarks. You also launched the credit card more broadly.

So maybe talk to us about where that next growth vector is materializing from.

I guess really what I'm asking is what's the next Lending Platform Business in that sector, right?

Like I think it was a pretty big surprise for a lot of people how much that business grew this quarter.

So give us a...

Anthony Noto^ You've hit the nail on the head. It's an exciting part of our business. The fact that we're approaching $1 billion annualized business, very profitable while we're still in investment mode.

It's pretty amazing to have a business of that size, $238 million of revenue, growing over 100% and profitable despite how fast we are growing the number of members and products and revenue per product.

I think the best way to sort of conceptualize where this business could go is to think about those three variables; member growth, product growth and revenue per product.

The revenue per product that we generate today was up meaningfully in the quarter, as you mentioned, but it's nowhere near where it can be long term.

As it relates to our Invest business, we're monetizing at about half the rate that we think we can monetize it over time.

In 2025, we'll take a number of steps where we start to monetize that better, of course by adding incremental value to the Invest experience.

Our Invest product is unique in that we're trying to be a one-stop shop just within Invest.

We pioneered fractional shares.

We obviously don't charge on trades.

In addition to that, we created our own ETFs that would better meet the needs of our new and beginning investors that are a lower price point but diversified, allowing our members to do dollar cost averaging in a diversified way.

We have award-winning robo accounts and we continue to evolve those, and you'll see us do more in 2025 behind that to not just grow assets, but also to increase monetization.

We do IPOs, which is a direct monetization vehicle, but again a unique product where Main Street investors get access to IPOs at IPO prices.

Then our alternate asset classes and mutual funds that we launched have really been a tailwind for us in terms of driving more engagement. That's something today that we don't monetize that we will monetize in the future.

So just in the Invest business, we have over 100% opportunity to increase the monetization per member, not to mention the fact how fast the products in Invest are growing.

And remember, when you do the calculation on Invest product growth, you have to normalize it for the lost crypto members or products that we had a year ago that were transferred.

SoFi Money business, we continue to see nice trends in deposits and spending and the monetization there will continue to improve with more deposits and more spending as opposed to a change in rate per se.

In addition to that, our Credit Card business is another source of monetization opportunity.

As balances continue to increase, we'll have more monetization there.

In addition, the more members that we add, the more monetization that we drive, because that's a higher interchange revenue than our debit interchange.

So as you see a mix shift, you'll see an improvement in monetization there, not to mention just the absolute increase in monetization.

Then as it relates to small and medium business, we're just scratching the surface. The biggest initiative we had so far in 2024 was to take the application process and embed it into the SoFi app, so when all the demand that we get for small and medium business comes to SoFi, they can, within the native app, apply for a loan and then be referred to a partner as it relates to lending.

We also do that as it relates to banking. You'll continue to see us do that in a much bigger and broader way. There is monetization there today but we could do more products and more services to drive greater monetization, not to mention doing it ourselves at some point, which we would like to do over time.

It is an early-stage business, and we want to crawl before we walk and then ultimately run.

So you'll see that in the SMB business.

On the insurance side, the deals that we're doing in the marketplace increase our monetization there, but also increases penetration.

So over 100% revenue growth in the quarter, driven by the really strong product growth and revenue per product.

If you just focus on those two measurements, you'll be able to forecast a pretty sizable business with great profitability. The last point I'd make on profitability is we're still losing a large amount of money in the Credit Card business and Invest business because the payback there is longer, and it's not a business that we get return on in one year.

It takes anywhere from 1.5 to two to three years depending on the J-curve of the credit business.

So what's masking the profitability is that investment there.

If we actually subtracted, added back the losses that we're losing there, the number would be even bigger on the profitability side.

That's before we've improved any of the monetization.

Operator^ The next question is from Peter Christiansen from Citigroup. Peter, your line is open please go ahead.

Peter Christiansen^ Nice trends here. I was just curious, bigger picture, can you talk about what you're seeing in the alt credit side. Private credit is certainly becoming a theme.

Some of your marketplace lending peers have also benefited here.

In your discussions pipeline, just curious if you think this is emerging as a larger theme over the next 12, 18 months.

Then finally, as it relates to tech platform performance pipeline, can you talk to the degree of decision delay you're seeing currently versus last quarter?

Anthony Noto^ Yes. In terms of demand for our loans from buyers or investors, similar to other people, the demand has increased quite meaningfully.

We are better at being able to meet some of that demand by continuing to evolve our business from origination platform for our own loans and now the evolution of the loan platform business.

So similar to others, we're seeing an increase of it from existing buyers, but also a number of new partners that we've not been able to meet their needs with before, but we now can.

So really excited about declining rate environment, putting a tailwind behind the loans, not to mention our new initiatives there.

As it relates to the tech platform, no decisions have been made by any of the big deals that we've been in process with over the last 12 to 18 months.

I do think we're coming to the end of some of those decisions being made.

I would just say that we haven't had anything announced, but I would just tell you I'm confident that we will have some wins there, but none of the decisions have been made on any of the large deals.

And I would just give you more color on the types of deals. There are definitely big financial institutions that have to make some decisions on their technology. They continue to really struggle with how they budget for that transition.

But without a doubt, there's a technical reason why they have to switch. There's a risk reason why they have to switch, and there's a regulatory reason.

So it's going to be an inevitable change and a tailwind to the demand for technology like we have in our tech platform business, and specifically in core and processing.

It's just a question of when, and I think we'll win our fair share of deals there, but none have been decided yet.

The second area that we haven't talked as much about in the past is the opportunity to help large branded companies that have big installed bases, they're in the financial services business already today through a credit card and a white label credit card. There's absolutely a significant amount of demand from those types of partners for us to do something very similar on the debit side of the business.

And we continue to receive RFPs for that type of product.

Then, of course outside of the direct-to-consumer businesses, there is demand from government agencies, there's demand for B2 billion companies that continue to surface and some of which we've signed and executed against, some of which will be decided over the coming months.

Operator^ The next question comes from Jill Shea from UBS. Good morning thanks for taking the question.

Jill Shea^ You launched the Everyday Cash Rewards and the Essential credit cards. While early days, can you just talk about the early indications there and your view of future growth on the card products?

Anthony Noto^ Yes.

We really like the card business long term. It obviously is an expensive endeavor near term. There's a J-curve of about three years in that business.

We have a world-class team that's done this before.

That wasn't the case when we first launched. The two cards that you mentioned are a direct result of all the work the team -- our second team that came in and run this business has done.

We did a test with the business.

We saw the type of performance that we were hoping to see.

Our marketing capabilities there have also helped us deliver the type of performance we wanted to see in those cards, and that's why we went general availability for those cards as opposed to just testing. I will say we will take a very methodical approach to the credit card business.

While it is a great ROE business, it also does have the ability to lose a lot of money and lose money every day.

So we'll continue to make sure that, that card is something that we market to individuals that we think have a high probability of utilizing it in the right way and we can get a great return on it.

So we'll start with our members, and we'll continue to use the data that we have on them to make decisions.

We can use that data to model opportunities off of our platform, which we are starting to do as well.

Inside of the Financial Services business, think about it as a couple of different types of segments.

We have businesses that are still growing very fast that are profitable like SoFi Money.

We have businesses that are growing very fast and losing money like Invest and Credit Card.

Then we have businesses that are early stage, and we're planting seeds that will continue to be harvested over time and grown over time.

And this is a business that's in the middle, one that we feel we're confident in terms of our go-to-market and one that will grow, but we'll do it methodically over time to make sure that we do not push too hard on the investment we have to make and offset the profitability of the overall business, but it will be a good contributor.

Operator^ At this time, I would like to turn the call back over to Anthony Noto for closing remarks.

Anthony Noto^ Thank you, Operator, and thanks for everyone that's dialed into the call. I have some closing remarks I wanted to share.

As I mentioned at the end of Q2, I could not feel better about what we've achieved and where we're headed right here and right now.

The list of achievements is far too great to capture every quarter, so let me be succinct and clear. Despite the tumultuous environment of the past seven years, we delivered durable growth, world-class innovation and brand building, and improving returns with 17 quarters of record revenue, consistent 35% plus growth in members and products, four quarters of GAAP profitability, and so many other milestones.

There is only one reason we've been able to emerge stronger from such a tumultuous environment.

That reason is the people of SoFi, our employees, our members and our clients.

I could not be prouder or more grateful to the people of SoFi.

We now face, hopefully, the most advantageous environment that we've seen since I joined the company, and we began the relentless march to be a one-stop shop.

Today we are no longer just a lending company. Today we are a force to be reckoned with. It is truly our time as we have more products, more members, more capital and more diverse revenue streams than ever before.

We are undeniably the absolute best positioned company to capture the massive opportunities still ahead of us because of the same thing that got us here, our people.

Our people are great at hard. Thank you, everyone, for your time today and we hope you have a great end to 2024.

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