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SoFi Technologies

Second Quarter 2024 Earnings

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PRESENTATION:

Operator^ Good morning. (Operator Instructions) At this time I would like to welcome everyone to the SoFi Technologies Q2 2024 Earnings Conference Call. (Operator Instructions)

With that you may begin your conference.

Paulina Gutierrez^ Thank you. And good morning.

Welcome to SoFi's Second Quarter of 2024 Earnings Conference Call.

SoFi Technologies

Second Quarter 2024 Earnings

Joining me today to talk about our results and recent events are Anthony Noto, CEO; and Christopher 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^   Thank you. And good morning, everyone.

Our second quarter results were exceptional and continue to demonstrate SoFi's leadership as a one-stop shop for digital financial services and the amazing grit of our team.

I'll cover five topics before turning to Chris for a deeper look at our financial and operating performance.

First, our strategy continues to drive strong diversified growth profitability returns.

Second, our continuous product innovation and brand building are fueling significant member and product growth, which are key to our long-term revenue and profit growth outlook. Third, turning to our segment results.

Our Financial Services segment demonstrates our clear structural advantages in delivering value to members.

Fourth, our leadership and agility and lending has generated sustained returns despite rising rates and positions us to move quickly once rates come down.

And finally, our Tech Platform is making good progress on this journey towards becoming the AWS of not only the fintech, but of financial services broadly.

Turning to the first topic, the success of our one-stop shop strategy.

For Q2, adjusted net revenue reached a new record of $597 million, a 22% year-over-year increase.

Our rapid diversification made a record revenue quarter possible, even with just 5% growth in adjusted net revenue in lending. Combined, financial services and tech platform revenue grew 46% year-over-year and now makes up 45% of total adjusted net revenue, up from 38% one year ago.

To put that accomplishment in context, lending now stands at just 57% of adjusted net revenue compared to 99% of our revenue when I joined nearly seven years ago and more than 70% of revenue just two years ago.

We also delivered even greater growth and profitability in the quarter. EBITDA grew 80% year-over-year to $138 million.

We recorded our third consecutive quarter of GAAP profitability, with $17 million in GAAP net income versus a loss of $40 million in Q2 of 2023.

Credit performance was better than expected as cumulative fair value adjustments from delinquent loans peaked in March along with delinquencies on an absolute and percentage basis.

We are really encouraged by our team's ability to bend the curves through stringent underwriting, limiting credit exposure on prudent and improving collections and servicing. Chris will share details on the performance of our recent personal loan vintages, which show clear improvements versus older vintages, underscoring our confidence in our prior guidance around life of loan losses peaking in the 7% to 8% range.

Our loan sales continue to scale at attractive execution levels with an increasingly diversified set of buyers with $1.6 billion in total sales this quarter and $4.7 billion in the three trailing quarters. This brings me to my second topic.

Our rapid pace of innovation and brand building are fueling significant member and product growth. The growing size of our member base and the number of products they use impact the results we're reporting today.

But more importantly, they are the leading indicators of our potential revenue growth and profitability in the future.

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In Q2, we added 643,000 members and now have $8.8 million in total that's up 41% year-over-year.

We grew products in the quarter by $946,000 to $12.8 million in total. That's up 43% year-over-year, adjusting for our exit from crypto last year. Nearly 40% of all new products in Q2 were opened by existing SoFi members.

We also see that nearly 30% of new members opened a second product in the first 30 days demonstrating the immediate value of our one-stop shop strategy.

We've doubled our member base and number of products in the past two years and Q2 was the 20th consecutive quarter of greater than 30% growth.

Our growth in members and products will drive our financial growth for years to come and is the basis for a 3-year financial outlook shared at the end of 2023. All this growth is a direct result of our relentless focus on innovation.

Because we offer products across eight categories compared to many fintechs that only offer one or two, the magnitude of our innovation is not always obvious.

As much as I'd love to share the full breadth of what we shipped in the quarter, I'll just cover a few of the highlights.

I'll start with our Financial Services business, which drove 91% of our new product adds in the quarter.

Our Invest offering is getting better every day.

In fact, I don't know of any other self-directed product that offers alternative assets like private credit, private real estate and private venture investing side-by-side with fractional shares, robo funds, ETFs and IPOs.

Our innovations over the last year are starting to accelerate results, driving a 58% year-over-year increase in assets under management in our Invest business in Q2, and this was driven largely by net flows.

We fully rolled out alternative assets and mutual funds including interval funds from well-known financial leaders in KKR, Carlyle, Franklin Templeton and ARK Venture Fund, which includes several leading private technology companies. Alternative Assets generated 12% of all net flows during the second quarter.

We brought the concept of 1-click checkout to individual asset transfers enabling our members to consolidate their assets the way they would like, and now we're seeing benefits from that innovation as well.

We are now finalizing a turnkey way for companies going public to extend participation in their IPOs at scale to their customers, employees and partners.

With this new directed share program, people can open an account entrain order and funding in minutes without fees, minimum balances or speaking to anyone in order to participate in an IPO.

Turning to SoFi Money.

In the quarter, we launched Zelle, one of our most requested features and one element of our much larger money movement product pipeline. The innovations in our member business unit, which focuses on ensuring our products were better when used together, are reaching critical mass.

For example, 3 million members have signed up for SoFi's broad-based rewards program.

We're creating a rewards economy across our products including rewards for using our app and other services, and we're expanding redemption options including into stocks, cash for savings and travel.

For SoFi Plus, we achieved 1 million members.

For people that are not familiar with SoFi Plus, it is our premium membership tier available to those who enable direct deposit.

SoFi Plus includes our highest APY on banking balances, which today is up to 4.6%.

It also includes up to 2x reward points, up to 3.3% cash back rewards on SoFi credit spending, discounts on personal loan rates and much more. And I'm very excited to share that we've laid the foundation to provide more value in SoFi Plus, not only to direct deposit members, but also a monthly paid subscription product for those who prefer that option over direct deposit.

We intend to test this new subscription-based option for SoFi later this year.

We're also driving iteration and learning to drive innovation in credit cards.

We've improved our acquisition capabilities and introduced a 10% cash back boost for SoFi Plus members that have shown positive results.

And I'm excited to share that this week, we'll also begin testing two new credit cards to better serve our members' needs.

One card for cash back rewards on everyday high spending categories and one for members who need a no-frills card with no surprise fees.

Turning to lending.

We've launched new capabilities that position us for future growth, especially as the rate environment improves.

In small and medium business, members can now apply for a loan at SoFi and get approved offers from lending partners.

In home loans, we can now close our home equity products instead of brokering them out. This dramatically increases our potential for revenue per loan.

Notably, we're now a principal in home equity loans and can offer members a lower cost of borrowing in the secured loans compared to higher rates in unsecured lending.

And of course, our tech platform is a center of innovation as we add capabilities to our already comprehensive offering.

We expanded our Buy Now Pay later product for post-purchases.

We added new wire capabilities and extended the AI-driven transactional fraud capabilities and our payment risk platform to non-processing partners.

We also advanced the quality of our managed service in the cloud and introduced 3DS, which adds another layer of security to digital card transactions. These improvements ensure our modern cloud-based platform will continue to serve the needs of brands, fintechs and global financial institutions alike.

Having world-class products is a necessary factor in becoming a top 10 financial institution, but it's not enough.

We must also become a trusted household brand name.

We measure this by our unaided brand awareness.

Our world-class marketing team stands in a category of one. Their amazing work has increased unaided brand awareness to the 7% to 9% range, which is up about 40% year-over-year and 4x since 2021.

Our brand punches way above its weight as our team continues to make its footprint bigger than its foot.

Now diving into our segment results.

In Financial Services segment, we are seeing the continued benefits of structural advantages that drive our leading value proposition.

We reported record segment revenue of $176 million up 80% from $98 million in the year ago quarter.

Importantly, this drove contribution profit of $55 million compared to a loss of $4 million one year earlier.

Financial Services products grew $865,000 in the quarter, up 48% year-over-year, adjusting for our exit from crypto last year. Revenue per product grew 8% quarter-over-quarter and 29% year-over-year.

We believe there is substantial upside to the monetization of our financial services products.

SoFi Money achieved new records this quarter as ending deposits totaled $23 billion with consumer deposits up $2.2 billion from the previous quarter. Account openings grew by 419,000 and 90% of our deposits remain tied to sticky direct deposit relationships.

Debit spend also continues to increase at a rapid pace, up 129% year-over-year, and now annualizing at about $9 billion.

Our credit card and Invest businesses remain in investment mode with nearly $100 million in annualized losses but we expect them to follow a similar path to Money in achieving variable profit and contribution profit.

In our credit card business, delinquency entry rates and roll rates improved by roughly 20% a piece from 2023 averages.

Turning now to my fourth topic, our strong leadership across lending.

We reported strong results despite our conservative posture given a 500 basis point increase in benchmark rates over the past two years and continued macro uncertainty.

Importantly, net interest income reached an all-time high of $279 million or 82% of lending revenue versus 72% one year ago and 45% two years ago.

Net interest income is cash revenue. Let me say that again, net interest income is cash revenue.

So 82% of our lending revenue is cash. Notably, discount rates and spreads were largely unchanged and in aggregate had a slight negative impact on lending revenue.

Our personal loan originations reached a record of $4.2 billion, while sticking to stringent underwriting standards as our team demonstrated its grit by consistently iterating on pricing and marketing throughout the quarter.

Our home loan originations were their highest since Q1 of 2022, growing 24% quarter-over-quarter and 71% year-over-year despite interest rates at their highest level in 10 quarters.

On top of that, purchased home loan volume was our highest ever, growing 25% from Q1 2024 and nearly 100% year-over-year.

Once rates come down, we expect to benefit from our expansion into three products in home lending, purchase loans, home equity loans and the volume already generated by our financing business.

Student loan originations grew 86% year-over-year. The team drove our strongest Q2 of origination volume in three years by iterating to drive continuous improvement throughout the quarter and into Q3 with private loan financing, which exemplifies our ability to respond to environmental factors to drive results.

And my fifth topic, the Tech Platform segment is making good progress on its journey to become not only the AWS of fintech, but of financial services more broadly.

We recorded segment revenue of $95 million, up 9% year-over-year and contribution profit of $31 million, up 82% year-over-year at a 33% margin. This represents our fourth consecutive quarter of over 30% margin.

Our customer wins have been more diverse including but not limited to Secure Card and B2B partners.

Our pipeline of interest remains robust and includes U.S. and international financial institutions along with major consumer and commercial brands.

As we have noted, we are pursuing enterprise partnerships with larger existing customer bases for more durable revenue opportunities. These partnerships take multiple quarters, not months to win and have even longer integration cycles due to their size and complexity.

In closing, the quarter was exceptional. We continue to demonstrate a record of strong diversified growth even in uncertain times. The performance of our leaders and the grittiness of our team was the best I've seen in my seven years here.

Suffice it to say, I cannot wait to see what we achieved in a better climate. Combining our high member growth and product innovation with lower benchmark rates, unemployment at 4% to

5%, stable inflation and a stable economy I could not be more confident in our ability to achieve our ambitions.

With that, I'll turn it over to Chris for a deeper look at the results.

Chris Lapointe^   Thanks, Anthony. The second quarter was underscored by continued execution, profitability and increased diversification, strong evidence of how our differentiated business model drives SoFi's durability and long-term growth potential.

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 second quarter of 2024 versus second 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.

For the quarter, we delivered record adjusted net revenue of $597 million, which grew 22% year-over-year. Adjusted EBITDA was $138 million at a 23% margin. This represented over seven points of year-over-year margin improvement, demonstrating significant operating leverage.

In fact, sales and marketing declined as a percentage of adjusted net revenue by six points relative to the year ago quarter.

We delivered our third quarter of GAAP profitability with GAAP net income reaching $17.4 million, a $65 million improvement year-over-year and GAAP EPS of $0.01 per share.

Now on to the segment level performance.

In lending, we achieved adjusted net revenue of $339 million with $198 million of contribution profit at a 58% margin. These results were driven by 20% year-over-year growth in net interest income, while noninterest income was down 38% as planned. Growth in net interest income was driven by a 40% year-over-year increase in average interest-earning assets and a 27 basis point year-over-year increase in average yields. This resulted in an average net interest margin of 5.83% for the quarter, up 9 basis points year-over-year.

In terms of noninterest income, Q2 originations grew 22% year-over-year to $5.3 billion and were driven by a record quarter in personal loan originations, which grew 12% year-over-year and 28% sequentially to $4.2 billion.

Our student loans business saw our origination volume grow 86% year-over-year with a slight 2% decline sequentially to $737 million. Home loans grew by 71% year-over-year and 24% sequentially to $417 million.

Our personal loan borrowers weighted average income is $168,000 and with a weighted average FICO score of 747.

Our student loan borrowers weighted average income is $137,000 with a weighted average FICO score of 764.

In the second quarter, we sold portions of our personal loan and home loan portfolios totaling nearly $1.6 billion.

In terms of the personal loan sales, we closed $1.1 billion of principal and a blended execution of 106.2%. These sales had similar structures to other recent personal loan sales with cash proceeds in line with par or at a small premium to par with the majority of the execution premium consisting of a contractual servicing fee that is capitalized.

These deals 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 $381 million of home loan sales was sold at a blended execution of 101.9%.

Additionally, we sold $69 million of late-stage delinquent personal loans in the quarter.

We noted last quarter that we typically have not sold delinquent loans until such time that they are charged off.

However, we have been able to generate positive incremental value in these sales relative to selling after they charge off both from our improved recovery capabilities and by maintaining servicing.

Finally, we executed $989 million of senior secured financing which will show up on our detailed balance sheet as senior secured loans held for investment at amortized costs. These loans have a fixed term structure and are secured against the underlying assets therefore, equivalent to investment-grade bonds, if you were to do a securitization for the same pool of collateral.

In addition, these loans are priced at market rates, which not only helps to diversify our balance sheet, but also provides an additional return above our cost of funding and a yield similar to the net interest margin of our loans, which are unsecured.

Turning to credit performance.

Our on-balance sheet 90-day personal loan delinquency rate was 64 basis points in the quarter, a decrease from 72 basis points in Q1, which is evidence of surpassing a peak.

Our personal loan annualized charge-off rate increased to 3.84% from 3.45% in Q1 2024 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 for personal loans of approximately 5.4%.

For our student loans, our on-balance sheet 90-day delinquency rate was 12 basis points versus 13 basis points last quarter, while our annualized loan charge-off rate was 64 basis points. That brings me to an important point, an in-depth look at cumulative net losses on several of our personal loan vintages and how this underscores comfort in our 7% to 8% maximum life of loan loss assumptions in line with our underwriting tolerance.

As you can see on Page 8 of our investor presentation, a loan vintage analysis indicates the following: using our 2017 vintage as a starting point, as this is the last that 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 vintage, soon after we made material cuts to credit, at roughly 40% of remaining unpaid principal, net cumulative losses of 5.02% are well below the 6.07% observed in the 2017 vintage at that same point of 40% remaining principal balance.

In addition, you can see that more recent vintages are performing as well or better than the Q4 2022 loans at similar levels of remaining unpaid principal. This is critically important as this analysis and comparison gives us confidence that our loans will continue to perform in line to better than our tolderance.

Furthermore, looking at Page 9 of the investor presentation, you will notice that only 44% of unpaid principal remains from our Q1 2020 through Q1 2024 originations. Among the 56% of principal that has already been paid down, we've seen only 3% in net cumulative losses.

For life of loan losses on this entire cohort of loans to reach 8% in net cumulative losses, the remaining unpaid principal would need to charge off at a rate of 11%. Past vintages have 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 104.3%, 5 basis points higher quarter-over-quarter with a negligible change in the discount rate.

For our student loan portfolio, the fair value mark decreased by 17 basis points to 103.6%, while the discount rate rose by 10 basis points to 4.44% due to rising rates and a wider spread.

Overall, sequential changes in spreads and discount rates had a negative impact on reported revenue.

Moving on to Financial Services, where net revenue of $176 million increased 80% year-over-year with new all-time high revenue for SoFi Money in our loan platform business as well as continued contributions from SoFi Invest and Credit Card.

Overall monetization continues to improve with annualized revenue per product of $64, up nearly 29% year-over-year versus $50 in Q2 2023. This is driven by higher deposits and member spending levels in SoFi money, greater assets under management and monetizable features in SoFi Invest and robust growth within SoFi Credit Card spend. Net interest income of $139 million increased 87% year-over-year, which was primarily driven by growth in consumer deposits.

Importantly, noninterest income grew 58% to $37 million in the quarter, which represents approximately $150 million in annualized revenue. This was driven by interchange growth of 67% year-over-year as a result of over $10 billion in total annualized spend as well as our referrals from our loan platform business, which grew 66% versus the prior year period. Contribution profit reached $55 million at a 31% margin for the quarter even as we continue to invest in innovation and new opportunities to rapidly grow this operating segment with attractive returns.

Lastly, we reached 11 million financial services products in the quarter, which is up 39% year-over-year with 865,000 new products in the quarter.

We reached nearly 4.3 million products in SoFi Money, 2.3 million in SoFi Invest and 3.9 million in Relay.

Shifting to our Tech Platform segment, where we delivered net revenue of $95 million in the quarter, up 9% year-over-year and 1% sequentially. Revenue growth was driven by strong performance from new clients onboarded over the last four quarters, along with strong monetization of existing clients on our platform.

Galileo accounts grew 23% year-over-year to 158 million. The segment delivered a contribution profit of $31 million, representing a 33% margin.

We continue to leverage investments made in the segment as we continue to position Tech Platform for higher rates of diversified durable growth going forward.

As mentioned earlier, a strong pipeline of interest spans financial institutions along with major consumer and commercial brands, representing larger and more durable revenue opportunities and with longer sales and integration cycles due to size and complexity.

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

Assets grew by $1.3 billion as a result of $2.1 billion of growth in loans and approximately $800 million decrease in cash, cash equivalents and investment securities.

On the liability side, member deposits grew by $2.2 billion to $21 billion, while overall deposits increased to $23 billion.

We also reduced our brokered deposits by $800 million as we continue to use our consumer deposits to replace higher cost parts of the funding stack, and we exited the quarter with $1.1 billion of warehouse debt drawn.

Currently, there is a 213 basis point difference between the interest we pay on deposits and the interest we pay on warehouse lines, which translates to about $500 million in annualized interest expense savings given the size of our deposit base. This difference also continues to support our net interest margin, underscoring the benefits of having the option of holding loans on balance sheet when advantageous and collecting net interest income.

Overall, we expect to maintain a healthy net interest margin above 5% for the foreseeable future and benefit from the continued mix toward 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 16.8% decreased by approximately 50 basis points from 17.3% last quarter and remains comfortably above the regulatory minimum of 10.5%.

Lastly, we grew book value to $5.9 billion in tangible book value by $92 million sequentially to $4.2 billion with tangible book value per share at $3.92.

Now on to guidance. Throughout the last 12 months, we have demonstrated the benefit of having a diversified high-growth set of revenue streams, multiple cost-efficient sources of capital, a keen focus on underwriting high-quality credit and a high degree of operating leverage as we scale the business.

We expect those benefits to persist even in light of the macro backdrop.

For Q3, we expect to deliver adjusted net revenue of $625 million to $645 million, adjusted EBITDA of $160 million to $165 million, GAAP net income of $40 million to $45 million and EPS of $0.04 per share.

For the full year 2024, we now expect to deliver adjusted net revenue of $2.425 billion to $2.465 billion, which is $35 million higher than our prior guidance range of $2.39 billion to $2.43 billion. This implies 17% to 19% annual growth versus 15% to 17% previously.

This guidance now assumes lending revenue will be at least 95% of 2023 levels.

Financial Services will grow more than 80% year-over-year and Tech Platform will grow mid- to upper teens percent year-over-year.

While this is lower than our original 20% guidance for tech platform, we view this as transitory and still feel confident in our multiyear growth guidance for this business.

We now expect to deliver adjusted EBITDA of $605 million to $615 million, above our prior guidance of $590 million to $600 million. This represents a 25% adjusted EBITDA margin.

We now expect full year GAAP net income of $175 million to $185 million, above prior guidance of $165 million to $175 million and GAAP EPS of $0.09 to $0.10 per share above prior guidance of $0.08 to $0.09 per share.

We continue to expect growth in tangible book value of approximately $800 million to $1 billion and continue to expect to end the year with a total capital ratio north of 16%.

We continue to 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 Q2 results.

Having delivered $597 million of adjusted net revenue and $138 million of adjusted EBITDA, we continue to make great progress against our long-term growth objectives and remain very well capitalized to continue to pursue our ultimate goal of making SoFi a top financial institution.

With that, let's begin the Q&A.

QUESTION & ANSWER:

Operator^ (Operator Instructions) The first question comes from John Hecht from Jefferies.

John Hecht^ I appreciate all the incremental disclosure in the deck. The question is, I think you said that cumulative losses would have to go above 10%, I think, to 11% for you to kind of reach your 8% assumptions in your underwriting.

What kind of scenario would that entail in terms of like payment rates or delinquency rates and just to kind of connect the dots there.

Chris Lapointe^ Yes.

Sure, John. Thanks for the question.

So like we said, credit is performing in line with expectations, and we remain extremely confident in our 7% to 8% life of loan loss assumption. Just to reiterate what I had mentioned in

my prepared remarks, when looking at all originations from 2020 through Q1 of 2024, only 44% of those remain.

Of the 56% that got paid down, we've experienced only 3% net cumulative losses.

So in order to reach 8% cumulative losses on the entire pool, the remaining 44% would need to charge off at 11%.

So from where I sit, something would have to materially change in order to hit 8% as prior vintages with similar levels of remaining UPB have never experienced losses even close to 11%.

In addition to that, we ended up showing you vintage analyses that highlight how recent vintages since making our credit cuts back in the second half of 2022 are performing materially better than the 2017 cohort, which was the last one to come even close to 8%.

Furthermore, what gives us even more confidence is that the leading indicator for losses, which is our delinquencies, has started to turn the corner, and we're really bending the curve.

So in our personal loans business, we ended up surpassing a peak in Q1 on not only dollar principal but also cumulative fair value adjustments and percentage UPB.

So from a dollar principal perspective, we ended up having $96 million of 90 to 120-day delinquencies in the quarter versus 103 back in Q1.

From a percentage UPB basis, those were at 64 basis points in the quarter versus 72 basis points in Q1. And then from a cumulative fair value adjustment basis, that was $79 million in Q2 versus $88 million in Q1. And what's even more important than that, these trends are continuing throughout the first several weeks of Q3.

Operator^ The next question comes from Terry Ma from Barclays.

Terry Ma^ So you showed some pretty encouraging vintage charge-off metrics implied It sounds like from your commentary, everything is kind of in line -- but maybe just kind of reconcile your more conservative stance and maybe talk about what you need to see in the environment to maybe just grow a little bit again in the portfolio?

Anthony Noto^ Thank you for the question.

We're really encouraged by the trends we're seeing in credit, as Chris mentioned.

We're really proud of the fact that we're able to achieve record revenue with 22% year-over-year growth, with lending barely growing.

I would say the areas of incremental opportunities as we go into the back half of the year.

Home loans, really proud to see the growth rate year-over-year in home loans, student loan refinancing, also a product that shouldn't be doing really well in this interest rate environment also had strong growth.

On the personal loan side, we're going to stay relatively conservative compared to our balance sheet ending assets there, primarily because we want to see how the year trends in terms of unemployment. There's a big number coming out on Friday.

We're at 4.1%, a move to 4.2% could signal a recession. And so while there have been improvements, we're not changing our stance.

We're able to achieve pretty strong growth year-over-year without getting too aggressive on the personal loan side. There are factors that could cause us to originate a lot more in personal loans.

I will tell you I see more near-term opportunity in home loans and student loan refinancing.

In personal loans, the thing that would cause us to be more aggressive in terms of the growth rate is if we have greater-than-expected sales.

In addition to that, changes in benchmark rates, in addition to that continued improvement in our credit trends if they start to accelerate better than we've already seen, which is quite positive.

But all in all, we have a lot more growth.

We could grow much faster if we wanted to, but we want to drive durable, diversified growth, and that was the reason why we took a stance on limiting our personal loan balances specifically. The other thing that could drive growth, which would be further diversification of the balance sheet is home equity loans.

We're now doing home equity loans as a principal as opposed to an agent. They're obviously secured lending and attractive rates, more attractive than personal loan rates.

So there'll be a greater emphasis on that, that could also drive better performance there.

So a lot of opportunities as it relates to the lending business, we're taking a pretty conservative view purposely.

I quite frankly don't feel like we're getting paid for the results we're delivering, so I'm not sure why I would be overly aggressive at this point.

Operator^ The next question is from [Dan Dolev].

Dan Dolev^ Great results here.

I really appreciate letting us asking a question.

So how are you -- Anthony, Chris, like how do you expect to keep growing Financial Services? I mean obviously you've grown deposits so much.

What -- how do you expect to grow it given that you've grown interest income now?

Like if you can talk a little bit about the near-term future.

Anthony Noto^   Thanks, Dan.

Well first, we did a really incredible job driving the diversification. The only way we're able to achieve record revenue is because our Financial Services segment had a record at $176 million, up 80% year-over-year.

It was driven by product growth, as you know, up 47%.

It was also driven by deposits up 80%, and that drives the net interest income.

I think more interestingly is the growth opportunity we have in non-net interest income.

We reported $37 million in that line item.

It grew very nicely, 58% year-over-year.

If you annualize the number, it's about $150 million. And there's a couple of drivers of that.

First, continue to drive increased product growth.

We had 47% growth in financial services products. That will be one driver of strong growth. The second is increased monetization or revenue per product.

We saw strong growth in revenue per product in the mid-20s as well.

What drives it going forward from here? Interchange was up 67% year-over-year. AUM was up 58% year-over-year.

We'll see benefits in brokerage, not just from AUM growth, but also increased monetization per dollar of AUM, which is about half what we think the benchmark is, continue driving home, auto and life insurance, which we call SoFi Protect and then our loan platform business.

So it's a combination of those different monetization vehicles that will drive continued revenue per product, which we think has a significant upside after growing 29% already in this quarter.

And then our product growth is something that's probably a lot more visible to everyone, which is up 47%.

So dual-pronged dimensions of growth should continue to drive increased diversification there.

Operator^ The next question comes from Kyle Peterson from Needham Company.

Kyle Peterson^ Great I wanted to touch on deposits.

Obviously continue to see nice in the core base here with members.

But how should we think about the growth outlook for deposits and kind of how that counterbalances with any ongoing runoff of some of the brokered funding?

Anthony Noto^ Yes.

I'll let Chris talk about the sort of specific trends in the quarter.

But as it relates to the broader macro picture, we're obviously entering an environment where rates are likely to go down in the future. And many people ask us, will you maintain a high rate? And the answer is we will maintain a high rate relative to our competition.

We think we have a competitive advantage given that we have such a big origination platform, the origination platform allows us to fund a higher APY than a lot of other competitors that don't have an origination platform.

So the two businesses work in tandem.

As rates go down, the value of our loans generally go up, all else equal, and so we can maintain a superior APY. That doesn't mean we may not change it.

It just means it will be superior to drive our differentiated value proposition and leverage our competitive advantage.

As it relates to deposits more specifically, rate is one element of our differentiation. The other elements of differentiation start with no fees.

We do not charge.

We don't require minimum balances to get our services. You do get a higher APY if you do direct deposit or you do an average monthly deposit of a certain amount.

As we mentioned in the call we'll actually launch SoFi Plus, which will give you that higher rate for a fee per month, which will be quite attractive relative to the amount of interest you could gain when you pay that fee.

In addition to that, we have the ability to do person-to-person payments to an e-mail address or a phone number.

We recently launched Zelle which is very unique among the fintechs, which is a highly requested product.

In addition to that, we provide seamless capabilities into our brokerage business and money movement more broadly.

So the APY is one important element of driving deposits, but it's the broader value proposition that we offer that we think will continue to allow us to drive strong deposit growth on the back of strong member growth in money.

Chris Lapointe^   Yes. And what I would add to that is we've consistently said that we are going to add over $2 billion of member deposits each quarter.

We certainly did that in Q1.

We did it again in Q2 with $2.2 billion of net new deposits from a member perspective.

We did pay down about $800 million of brokered CDs as they had higher costs relative to our member deposits.

Right now we are about just north of 80% deposit funded.

Going forward, we believe the optimal mix is consistent with our prior guidance at about 80% to 90%.

We still have about $1.1 billion of warehouse debt that's outstanding and nearly $2 billion of brokered deposits.

So we're going to continue to optimize funding sources and lower our overall costs.

Operator^   The next question comes from Reggie Smith from JPMorgan.

Reginald Smith^   I appreciate the disclosure on the low codes, and I hope you guys continue to publish that kind of a similar thing.

I was curious, and I've been asked about this last quarter about the Credit Card program or business. And I look at the fact that you could ask 4 million money users and almost 4 million

Relay users and only well less than 300,000 credit card accounts and it would seem that there's opportunity to kind of to really be very targeted to slice and find really find credits within your customer base.

Can you talk a little bit about that? Am I oversimplifying it, it just seems like that business could be a lot bigger than it is.

But maybe I just want to understand how that ramps up.

So maybe a little color on how that business grows and some of the things to keep it from growing faster than it would appear you have the opportunity to grow.

Anthony Noto^   Reggie, thank you for the question on Credit Card.

I would start by saying we have a pretty diversified portfolio of products.

Our goal is to drive a series of S-curves of growth across the product so that we drive strong, durable, diversified compounding growth for years, which means we'll invest in some businesses faster and quicker than others.

I often say internally, we have some start-up businesses.

We have some Series A businesses, some late-stage growth businesses and some mature growth businesses. Credit Card is one of those early-stage businesses where we want to make sure that we get the marketing, the product market fit correct, the credit correct, and really the overall unit economics of our Credit Card on a per account basis, correct.

We spent the last 18 months working our butt on that. and we feel like we have the right formula.

I know we have the right team.

We did change the team about 1.5 years ago, bringing in someone that's actually built this business from scratch before in addition to running businesses.

So we have a very positive long-term outlook for Credit Card and want to contribute to our business.

I often say businesses like Credit Card and brokerage by themselves, someday could be bigger than SoFi is in total today.

There are companies that are very big that are just in the Credit Card business and just in the brokerage business. And today, those are small for us, and we're investing aggressively. We pointed out the fact that the brokerage business and the Credit Card business combined are annualizing a loss of $100 million.

So what are the changes we're making in Credit Card specifically.

We launched two new cards.

We'll be testing them slowly. One is an everyday card where people get a much higher percentage reward on categories like food or things that are used every day. The second card is more of a no frills, no surprises card for people that are in our ecosystem that are members, but they have thin credit files not because they have low credit.

They just have very little credit because they may be a new professional in addition to our existing card. Not only will we launch two more cards, but we'll make those cards work better with our other products. So if you're a SoFi Plus member, your rewards will be boosted because of that relationship between SoFi Plus and Credit Card.

So we can start to benefit from not just targeting our members but giving our members more value for using more than one product, and you'll see us continue to do that over time.

But in Credit Card today, we're going to continue to move relatively slowly and not step on the gas too hard because this is a business you can lose a lot of money and you can lose it every day.

It's unlike a loan where you give somebody a fixed amount.

In Credit Card, you have lines that are quite big and they can be utilized in nefarious ways and drive really high losses.

So we'll continue to make sure we approach this prudently, but we are stepping on the gas a little bit more than we have in the past.

Operator^   The next question comes from Jeff Adelson from Morgan Stanley.

Jeffrey Adelson^   I just wanted to circle back on the lending growth.

I know you're still sort of maintaining a more cautious stance on origination there -- you did a little bit better than we thought on originations this quarter and your lending revenue growth looks like it's still up 5% year-over-year.

So I guess just are you seeing better opportunities coming in the door? And does it have anything maybe to do with more certainty around the forward look with rate cuts? I know you're talking about potential increase in unemployment rate from here as well.

So just trying to square all of that. And then, Chris, also just in terms of the bending of the curve comments on credit, just wondering when you think that might translate into the all-in 5.4% charge-off rates starting to come in lower each quarter as well.

Anthony Noto^ So on the lending business overall, our first objective is to make sure we continue to diversify the lending business relative to the total company. Less capital, less risky businesses get valued much higher. And we don't want to have an overdependence on a high capital, high-risk business. This year, the macroeconomic environment accelerated our diversification and it's worked out quite well.

We also want to diversify within lending.

As I mentioned, home equity loans is diversification into secured lending, which will be our second secured product.

In addition to that, student loan refinancing is our oldest and used to be biggest product, we think, is starting to come into a period where it can do quite well and that's also diversification relative to unsecured personal loans. And then home loan refinancing is also a vehicle.

As we go through the year, I think it's important just to understand, we're trying to manage the overall growth of the company.

We have so much resources we want to allocate, and we're allocating it to drive that outcome of diversified less risky, less capital-intensive businesses.

If we wanted to grow personal loans more, we would have to allocate more capital to it. Why? We have to drive marketing that drives the top of the funnel that then drives conversion. Those loans don't just happen because we decided to actually underwrite more, we actually have to spend money to underwrite more.

Right now we're choosing to spend that money in different areas that don't drive as much revenue.

But despite that trade-off, we're still driving 22% year-over-year revenue growth and a record despite barely growing personal loans.

So it's a very conscious effort to diversify in a number of different ways. Diversification means you reallocate resources in other places.

If we reallocated to personal loans, we would not achieve diversification.

Now what happened in the quarter?

Our marketing costs were more efficient. The money we were spending was driving more demand than otherwise would have demanded or otherwise would have driven, and we took advantage of the higher unit economics to drive more volume against a set amount of resources in that area.

We could be more aggressive if we choose to, to allocate more resources to lending. That could happen because we have upside in other businesses.

That could happen because the marketing efficiency is greater than we anticipated or the credit is performing better or we sell more loans. And so it's not because the growth isn't there.

It's how we're choosing to allocate the capital in this environment relative to our broader goals. And I'll let Chris talk about the specific question you had on the losses.

Chris Lapointe^   Yes. And in terms of when some of these early DQ trends will start to show up in NCOs we're sticking with our overall guidance of being confident in the 7% to 8% life of loan losses, and we aren't guiding to NCO rates specifically. Reason for that is quite simple. The NCO rate is very lumpy.

It's a function of a number of different factors, such as originations in the period, sales in the period and most importantly, the average age or how much UPB remains on the portfolio, which can be driven by a number of things.

So overall, we feel really confident in our life of loan loss expectation of 7% to 8%, but we're not guiding to NCOs because they're so lumpy.

Operator^   Next question today comes from Peter Christiansen from Citigroup.

Peter Christiansen^   I was wondering if you could talk about the appetite for future asset sales, either demand for it, but also your risk transfer strategy kind of going forward from here, given that you are seeing improvements, credit improvement in your portfolio, particularly in the personal loan portfolio, just how are you thinking about risk transfer from here and if there's further opportunities to derisk the portfolio.

Chris Lapointe^   Yes, absolutely.

So overall, we're seeing continued strong demand from credit buyers.

We've done $3.3 billion in sales over the course of the last three quarters. in our personal loan business and 4.7 in aggregate. That's predominantly driven by the shape of the interest rate curve with lower expectations in the second half of this year as well as the next several years.

So we have very attractive yielding assets with very strong credit profiles and low risk for buyers.

Essentially, buyers are looking into locking purchases and programs ahead of any interest rate cuts.

In addition to that, we have a really strong balance sheet, we are able to offer flexible deal structures to meet buyers where they need to be.

We are one of the few participants that can sell in size.

It allows investors to put money to work.

It allows buyers to have one buyer versus many, and it allows them to have a long-term partner versus doing bespoke one-off transactions that require a ton of work.

Buyers want stability of asset generation.

So looking forward, we expect to see continued strong demand from credit buyers.

In a declining rate environment, we would expect that demand only to increase as those buyers would have lower cost of leverage. And again, we're one of the few folks that have a sizable balance sheet who can do that.

Anthony Noto^ We'll take one more question, Operator, and then I'll close with comments.

Operator^ The final question comes from Tim Switzer from Stifel.

Timothy Switzer^ How would a return to a lower rate environment kind of change the ROE math at you guys have talked about on choosing to retain loans versus selling. Do you believe it could strengthen demand at all in the secondary market and kind of change your balance sheet management at all?

Anthony Noto^ I would say generally lower rates are going to make the loans more attractive to those with our origination platforms that have assets they need to deploy.

Our weighted average coupon is quite high, and that ROE becomes more attractive as rate environment declines and there's less places for them to find that type of yield.

We've seen that in the past be the case.

So we would anticipate more demand.

We'd have to manage it relative to our production and our own financial goals.

But I do believe the demand would increase and the terms would be more favorable and the values also would be attractive.

We have to wait and see that happen, but that's what we've seen in the past. Great.

In closing, I want to express my gratitude to our team. Q2 was the most rewarding quarter, and dare I say the most fun that I've had in some time at SoFi.

What made it special on fun was that we challenged ourselves to be better in areas that are the most difficult in the current environment that aren't supposed to do well in this environment, such as home loans and student loan refinancing that had volume increases of 71% and 87% year-over-year.

The team found a way to be better continuously throughout the entire quarter, not just each month or each week, but literally each day, finishing strong all the way through the tape and quite frankly, the only reason was because we pushed ourselves to keep iterating.

It was also fun because we made hard resource allocation decisions in 2023 that meant doing less than we wanted to in areas with great growth potential, such as Invest and Credit Vard, where we are now seeing promising results.

Our Invest business is accelerating with AUM up 58% on the back of a lot of hard work on only a couple of important areas and a testament that less can be more.

In our credit card business, the immediate gains from all of our iteration aren't so large today.

But with time and scale, they will be massive and well worth the patience.

If you can't tell by now, I feel great. To put it bluntly, I do not know of any financial services company or a fintech that has transformed their business to be less risky, less capital intensive, while still driving strong revenue growth, 40-plus percent user growth all while massively increasing profitability and still funding a rapid pace of innovation. When you take a step back, it's inspiring to see.

We hit record revenue of nearly $600 million with 22% year-over-year growth despite lending barely growing.

We did that because we achieved record revenue in our Financial Services segment at $176 million, up 80% year-over-year on the back of 47% year-over-year growth in products, 80% year-over-year growth in deposits, 58% year-over-year growth in AUM and 67% year-over-year growth in interchange.

In lending, we grew home loan volumes 71% year-over-year, student loan refinancing volume 87% year-over-year, and personal loan volume 12% year-over-year while delinquencies declined on an absolute and percentage basis for PL and we provide a vintage analysis that clearly shows why we are comfortable with personal loan life-of-loan loss forecast.

And finally, we grew EBITDA 80% year-over-year.

I love what we have built.

But more than ever, I love the people we are building it with and the gritty culture we have created.

Hard is not for everyone.

But for me and those who stay at SoFi, it fits just fine.

Thank you for your interest in SoFi.

And talk to you next quarter.

Operator^ This concludes today's call. Thank you very much for your attendance.

You may now disconnect your lines.