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Transcript

SoFi Q3 2022 Earnings Conference Call

Tuesday, 01 November 2022

Maura Cyr Thank you and good morning. Welcome to SoFi's third quarter 2022 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 advantages 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 most recent Form 10-K as filed with the Securities and Exchange Commission, as well as 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 and 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, Maura, and good morning, everyone. Our third quarter results demonstrate the continued resilience of both our team and business and our ability to deliver another quarter of record revenue and EBITDA and strong overall operating results. A few key achievements from the third quarter include our sixth consecutive quarter of record adjusted net revenue of $419 million, up 51% year-over-year, reflecting record revenue in all three business segments, $44 million of record adjusted EBITDA, up 118% quarter-over-quarter, continued strong performance in member and product additions, as well as cross-buy volume, further scaling of SoFi Bank, with accelerating growth to surpass $5 billion in deposits, up 86% quarter-over-quarter and savings of 125 basis points on cost of funds versus using other sources of debt to fund loans, another quarter of positive GAAP net income for SoFi Bank at $28 million at an 11% margin.

Members and products each saw rapid year-over-year growth with continued strong cross-buy trends. The 424,000 new members in Q3 2022 brings total members to 4.7 million, up 61% year-over-year. We also added 635,000 new products in Q3, ending with nearly 7.2 million total products, up 69% year-over-year. Of these new adds, financial services products of 5.9 million at quarter end grew by 83% year-over-year, while lending products of nearly 1.3 million were up 24%. The strength of our results once again underscores how our full suite of differentiated products and services provides the foundation for a uniquely diversified business that is able to endure through market cycles.

Now, I'd like to spend some time on segment-level results with a particular focus on the benefits of our diversified business drivers, as well as the structural advantage of our bank charter. In Lending, our personal loan performance more than offset the continued lack of demand in student loan refinancing and the less robust performance of home loans. Student loan refi continues to be negatively impacted as federal borrowers await the end of the moratorium on federal student loan payments. Home loans face macro headwinds from rising rates, while we continue the process of transitioning to new fulfilment partners. We originated a record of over $2.8 billion in personal loans in Q3, up 14% from $2.5 billion last quarter and nearly double the $1.6 billion in Q3 2021. The product continues to deliver and, most importantly, this is while maintaining our strict credit standards and attracting borrowers with high incomes and FICO scores.

While these origination levels themselves are impressive, the strength of our balance sheet and diversification of our funding sources provide new options to fund lending growth while driving efficiency with cost savings. These advantages are a direct result of SoFi Bank. Having more flexibility with our balance sheet allows us to generate more net interest margin revenue per loan and optimise returns, a critical advantage in light of current macro uncertainty. Additionally, by using our deposits to fund loans, we benefit from a lower cost of funding for loans and thus more profit per loan. In Q3 alone, the difference in our deposit cost of funds and other sources of debt was approximately 125 basis points versus 100 basis points in Q2, a powerful benefit in a rising rate environment.

Lastly, we have a much more compelling value proposition in SoFi Checking and Savings as we can invest the greater revenue and profit per loan from the two benefits I just mentioned into an industry-leading APY, which drives direct deposit members, resulting in high quality deposits and great levels of engagement. This has led to higher average account balances, even as average spend has increased. We exited the quarter with over $5 billion total deposits and 85% of SoFi money deposits are from direct deposit members.

In fact, 50% of newly funded SoFi money accounts are setting up direct deposit by day 30 versus 37% in the second quarter, and this has had a significant impact on spending. Q3 annualised spend was two times the full year 2021 total spend and Q3 spend per average funded account was up 22% quarter-over-quarter. SoFi Money members increased nearly 72% year-over-year to 2.3 million accounts while maintaining attractive demographics. In fact, the median FICO score for direct deposit accounts opened in the third quarter was 750. Given the quality of these members, we see ample opportunity for cross-buying in the future.

Moving on to Financial Services more broadly, where net revenue nearly tripled year-over-year to $49 million and grew 61% from $30 million in Q2, we've continued to achieve strong member and product growth by iterating on products to ensure they are differentiate by four key factors: fast, selection, content and convenience, and continue to invest to make them work better when used together. We finished Q3 with 5.9 million financial services products, up 83% year-over-year and 4.6 times the total lending products of 1.3 million. The increased scale in financial services helps drive cross-buy and marketing efficiencies. Financial services sales and marketing spend as a percentage of net revenue was 58% in Q3 versus 81% the prior quarter and 105% in Q3 of last year.

We achieved this improved efficiency even as we continued to scale our top-of-the-funnel products, which often do not contribute standalone to revenue for 12 to 18 months. This is due to the increasing monetisation and attractiveness of these products, growing brand awareness and network effects. As mentioned, we continue to iterate and invest aggressively in our product suite and that investment continues to pay dividends as members embrace our launches. Just in the third quarter, we introduced an increase in our Checking and Savings APY of up to 2.5% as of September 30th, in addition to the unmatched value proposition, a host of free features and a unique rewards program. In fact, we're increasing our APY in savings to 3% this week to continue to drive more value for our members.

Within SoFi Invest, we introduced new proprietary ETFs to the platform and remain on track to launch the much anticipated options trading product by year-end, now in beta testing. We've increasingly utilised our Relay platform to acquire, educate and advise our members on their holistic financial picture and their next best move. We launched credit alerts in Q3 and will continue to add features to drive engagement. The Relay platform has become a notable source of cross-buying, further bolstering the financial services productivity loop. We delivered unprecedented awareness growth as of Q3 2022 by delivering our target audience with compelling value propositions, reaching our target audience where they are effectively and efficiency, producing winning creative and leveraging data-driven tools to continue to get smarter.

Transitioning to the Technology Platform, a critical element of SoFi's strategy. Not only is this segment a strong revenue and cash flow driver but its two businesses, Galileo and Technisys, also contribute to two main tenets of SoFi's strategy, faster innovation at lower cost and high return diversified revenue streams. As a reminder, we're a consumer technology company that delivers financial services products. We need to be a one-stop-shop for major financial decisions and all the days in between. To do this, we want to own end-to-end technologies and that's where our technology platform comes into play. Only we can truly understand the technologies that we need the most. We build them in a way that's both great for us and for everyone else in the ecosystem.

In the third quarter, full segment revenue of $85 million grew 69% year-over-year, which included another quarter of record revenue from Galileo, with a 23% margin at the segment level or 30% if you exclude Technisys. Galileo's overall diversified growth strategy includes growth in new verticals, new products and new geographies. In Q3, Galileo signed ten new clients and made big strides in its strategy with a strong 30% of new deals in B2B and 40% of new deals outside the United States. Importantly, of these ten new deals, seven have existing subscribers, portfolios or payments businesses, reflecting continued demand for our services and new use cases for embedded fintechs from more mature organisations.

In Q3, we further invested in our push into the B2B segment by shipping two core capabilities. First, account level controls, which provide self-service opportunities for program managers to set tighter controls in real time at the account level for where and how funds can be spent while reducing fraudulent transactions and, second, real-time funding which automatically funds an account in real time during the transaction process, optimising the working capital needs of our S&B customers.

I'll finish here by saying that we've been in an all-our sprint over the last five years to build our digital product suite to meet our members' needs for every major financial decision in their lives and all the days in between. The benefits of our strategy to build a uniquely diversified business, combined with a national bank charter, not only position SoFi to be the winner who takes most in the secular transition of financial services to digital, but also provide greater durability through a market cycle. I'm excited about where we are today and even more excited about where we can go from here. With that, let me turn it over to Chris to review the financials for the quarter.

Chris Lapointe Thanks, Anthony, and good morning everyone. Overall, we had a great quarter with strong growth trends across the entire business. We achieved record revenue and record EBITDA. I'm going to walk you through some key financial highlights for the quarter and then share some color on our financial outlook. Unless otherwise stated, I'll be referring to adjusted results for the third quarter of 2022 versus third quarter of 2021. Our GAAP consolidated income and all reconciliations can be found in today's earnings release and the subsequent 10-Q filing, which will be made available next week.

For the quarter, growth accelerated and we delivered record adjusted net revenue of $419 million, up 51% year-over-year and 18% sequentially from the prior quarter's record of 356 million. Adjusted EBITDA and margins improved year-over-year as we delivered a record $44 million at an 11% margin representing 3.0x year-over-year growth on a dollar basis and nearly 700 basis points of year-over-year margin expansion. Sequentially, EBITDA was up $24 million and margins expanded nearly 500 basis points as we saw a margin improvement across each of sales and marketing, technology and product development, G&A and ops functional expense lines.

Now, on to the segment-level performance, where we saw strong growth and record revenue across all three segments. In Lending, third quarter adjusted net revenue grew 38% year-over-year to $297 million. Results were driven by 93% growth in net interest income and 10% growth in non-interest income. Growth in net interest income was driven by a 70% year-over-year increase in average interest-earning assets and a 144 basis point year-over-year increase in average yields, resulting in an average net interest margin of 5.85% for the quarter. This represents 126 basis points of year-over-year and 62 basis points of sequential NIM expansion.

Growth in non-interest income was a result of increased originations and strong personal loan and student loan sales execution. Q3 originations grew 2% year-over-year to $3.5 billion and were driven by record volumes in our personal loans business, which grew 71% year-over-year to $2.8 billion. However, both student loan and home loan originations were down by more than 50% year-over-year as we await the expiration of the moratorium on federal student loan payments coming in January, while rising rates and fulfilment issues continue to impact our home loans business. We achieved this top line growth while maintaining our stringent credit standards and discipline focus on quality. Our personal loan borrowers' weighted average income is $160,000, with a weighted average FICO score of 746. Our student loan borrowers' weighted average income is $170,000, with a weighted average FICO of 771.

This focus on quality has led to strong credit performance. Our on-balance sheet delinquency rates and charge-off rates remain healthy and are still below pre-COVID levels. Our on-balance sheet 90-day personal loan delinquency rate was 30 basis points in Q3 2022, while our annualized personal loan charge-off rate was 1.9%. Our on-balance sheet 90-day student loan delinquency rate was 11 basis points in Q3 2022 while our annualized student loan charge-off rate was 0.33%. As we've expressed in the past, it is reasonable to expect credit metrics to revert over time to more normalized pre-pandemic levels but continue to expect very healthy performance relative to broader industry levels. The Lending business delivered $181 million of contribution profit at a 61% margin, up from $118 million a year ago and a 55% margin. This improvement was driven by a mix shift to higher margin personal loans revenue as well as ops efficiencies and fixed cost leverage across the entire segment.

Shifting to our Tech Platform, where we delivered record net revenue of $85 million in the quarter, up 69% year-over-year, while record Galileo revenue was up 29% year-over-year. Overall, annual revenue growth was driven by 40% year-over-year Galileo account growth to 124 million in total, as well as sequential growth in transactions per active account. The segment delivered a contribution profit of $20 million, representing a 23% margin and 30% if you were to exclude Technisys.

Moving on to Financial Services, where a net revenue of $49 million increased 288% year-over-year, with new all-time high revenue for SoFi Money and continued strong contributions from SoFi Credit Card, SoFi Invest and lending-as-a-service. Overall, monetization continues to improve with annualized revenue per product increasing for the second consecutive quarter to $34, up 112% year-over-year from $16 in the same prior year quarter and up 46% sequentially from $23. We reached 5.9 million financial services products in the quarter, which is up 83% year-over-year, and we continued to see strong product adds, with 570,000 new products in the segment. We hit 2.0 million products in SoFi Money, 2.1 million in SoFi Invest, and 1.6 million in Relay. Contribution losses were $53 million in the quarter, which increased year-over-year, predominantly as a result of building our CECL reserves for the SoFi credit card business, which is expected as we continue to grow in scale. In addition, we saw a year-over-year reduction in higher margin digital assets revenue.

Switching to our balance sheet, where we remain very well capitalized with ample cash and excess liquidity. The recent opening of SoFi bank further reinforces our strong balance sheet and provides us with more flexibility and access to a lower cost of capital relative to alternative sources of funding. In Q3, assets grew by $3.0 billion as a result of adding loans to the balance sheet, given the strong growth we continue to see in personal loan originations. On the liability side of the balance sheet, we saw tremendous growth in deposits as they grew to $5.0 billion, up 2.3 billion quarter-over-quarter. Because of this we exited the quarter with $2.5 billion drawn on our 7.1 billion of warehouse capacity, which represents 35% of our total available capacity.

Let me finish up with guidance. Throughout the last 12 months, we have demonstrated the benefit of having a diversified set of revenue streams and a keen focus on underwriting high-quality credit. We expect those benefits to persist going forward, even in light of the existing macro backdrop. Our outlook also assumes a late Q4 2022 benefit in student loan originations ahead of the January 2023 federal student loan payment moratorium expiration based on the trend that we experienced in 2021. This benefit is expected to partially offset seasonal Q4 softness we typically see in other lending products.

For the full year of 2022, we now expect to deliver revenue of $1.517-1.522 billion, above our prior guidance of $1.508-1.513 billion and full year 2022 EBITDA of $115-120 million, above our prior guidance of $104-109 million. Overall, we couldn't be more proud of our Q3 results and continued progress. Having delivered nearly $1.7 billion of annualized revenue and over $170 million of annualized EBITDA we continued to make great progress against our long-term growth objectives in the quarter and remain very well capitalized to continue pursuing our ultimate goal of making SoFi a top financial institution. With that, let's begin the Q&A.

Maura Cyr Thank you, Chris. Before we open the lines for Q&A, I'll ask those in the queue to please limit yourself to just one question. Thank you for your cooperation and, with that, the operator will now open up the line for questions. Operator, please go ahead.

Operator Thank you. As a reminder, if you'd like to ask a question, that's star one on your telephone keypad. If you'd like to withdraw your question, you may press star two. Please ensure you're unmuted locally when asking your question. Our first question for today comes from Eugene Simuni, from MoffettNathanson. Eugene, your line is now open.

Eugene Simuni Thank you. Good morning, guys. Great result. Congratulations. I'll start by asking about the growth in members, a very strong quarter again, over 400,000 added. Can you talk a little bit about what customer acquisition channels you're finding more successful? Where are these members coming from and how sustainable do you see this growth trajectory in the members?

Anthony Noto I would say there wasn't a meaningful change in the different channels that drove member growth. We're really happy with the trend that we're seeing in member growth and I would say the quality of our members is increasing as well and the data that we have for our members is increasing as well, which gives us more opportunities to help our members get their money right. What I'd say is we're really trying to target high quality members with good compounding growth over years, not over any one quarter, so we're targeting 400,000 net new member adds per quarter. At some point, that could take a step function up but right now we're sort of balancing the growth of our member base with quality, as well as making sure that we're building our technology and processes to meet our members' needs as we scale so meaningfully.

The bank strategy has been a huge help to us. It's allowed us to not just drive member growth in SoFi Money and SoFi Checking and Savings, which lowers our cost of funding, but it also allows us to be more nimble in other areas like our Relay product and we can experiment much more with the Relay product and having people connect their credit card accounts or their checking and savings accounts or their brokerage accounts and putting in their real estate. And that information can help us cross-sell into the checking and savings account, which is really attractive. We didn't have that same leverage point in the past and so the combination of those two is also something that's new.

Operator Thank you. Our next question comes from Mihir Bhatia, from Bank of America Merrill Lynch. Mihir, your line is now open.

Mihir Bhatia Good morning. Thank you for taking my questions. I wanted to start with the student loan changes. Obviously, fair amount of changes with the Biden administration passing their student loan, or not passing but announcing and then trying to implement this student loan plan. In addition to the loan forgiveness, of course changes to income-based repayment levels too. I was just wondering what is SoFi's view on the plan overall and can you discuss, maybe, some of the key points of the plan that will impact your business and how, and the actions you are taking? Thank you.

Anthony Noto Thank you for your question. We've been clear that we support targeted forgiveness programs and the announced programs that the administration released are aligned with what we thought would be a fair and balanced targeted view on programs. We think the most important thing for people that have federal student loans is clarity and consistency and so we encourage the administration to stay on track and to provide transparency and clarity on execution so they can make the best decisions on how they want to get their money right.

We think the addressable market for student loan refinancing is quite large. Even with these changes, many of the forgiveness programs will probably not be applicable to our member base and our target demographics. The income level is below for qualification. Our income is higher than the income level you have to be below and a number of other factors that would cause the TAM to be still large. Now, that TAM could increase and decrease depending on where federal funds rates are and overall WACC is for that product in the market place, but the number of people that will still have federal student loans outstanding that could refinance is really, really large still.

Operator Thank you. Our next question comes from Dan Dolev, from Mizuho. Dan, your line is now open.

Dan Dolev Hey, guys. Outstanding results. A quick question, Anthony and Chris. Can you give us a sense of the CAC trends that you've seen over this quarter and the last few quarters? Thank you.

Chris Lapointe What I would say is we've made really good progress in overall marketing efficiencies over the last few years and that's been driven by growth in brand awareness, cross-buy and scaling our lower CAC products. If you were to look at Q3 2022, you'll see that our sales and marketing as a percentage of revenue decreased 400 basis points year-over-year and 200 basis points quarter-over-quarter. In terms of specific CAC trends, I would say that we're acquiring members today at a level that supports our longer-term EBITDA margin of 30%.

When determining how much we're willing to spend to acquire a member on a day-to-day basis, we're looking at a host of different factors. We're looking at the lifetime value that that member could achieve and we're also looking at overall payback periods. What we've observed recently, over the course of the last few quarters is that our overall LTV of financial services members has increased as a result of having the bank and focus on growing direct deposit members and our payback periods are in the 12 to 18-month timeframe. What that's done is it's given us additional flexibility on CAC and the ability to scale the number of financial services products that we have. This growth in investment in financial services products has resulted in CAC efficiencies within our lending products, and you'll see in the Q that our overall CAC for new lending members decreased by 8-9% both year-over-year and sequentially, and that's really helped contribute to the overall margin compression that we're seeing.

Anthony Noto The other thing, I would just add to what Chris mentioned, is something that we learned in the lending business and then something that I think applies now that we have a one-stop-shop with all the other products. Sometimes it's misleading when a company drives low CAC. It has been the case that it was in Lending, if we drive CAC too low, we lower the quality of the borrower that we bring in and the life of loan of that portfolio can actually go up, which would more than offset the CAC savings. So, its counterintuitive to think about CAC in financial services. What we focus on is what's the right CAC within a unit economic standpoint, whether that's per account economics or that's per loan economics, to drive an acceptable variable profit.

So, when we multiply that variable profit per account or per member by the number of people that have that profit, that total variable profit dollars exceed our fixed cost and drive to our long-term 30% margin. So, there will definitely be ups and downs in CAC based on mix shift, based on environments but know we're solving for the LTV equation and the right unit economics to drive to a 30% margin. It's not always the case that a lower CAC is good. You can have much lower quality members and money in checking account, for example. Our direct deposit growth has been really strong. I'd pay a lot more money for a direct deposit customer than I would for just a funded customer because of all the benefits we get in debit interchange in addition to lower cost of funding on the loan side.

Operator Thank you. Our next question comes from Moshe Orenbuch, from Credit Suisse. Your line is now open. Please, go ahead.

Moshe Orenbuch Sorry. Can you hear me now? Hello?

Anthony Noto Yes. Hello.

Moshe Orenbuch Sorry about that. Maybe this will be a little bit of a follow-up from the previous questions. The SoFi Money accounts that you added, you pointed out were more direct deposit and more likely to be richer. Any sense as to whether this is at least in part a function of pullback from PE or venture capital-funded other neobanks? Also, again, following up from those last answers, is there a way to dimension whether it's CAC or profitability in terms of how you think about that benefit over the longer-term just given that they're more likely to purchase lots of products and, in particular, lending?

Anthony Noto Yes. We had really strong metrics in Checking and Savings and really high quality. 50% of our newly funded SoFi Money accounts are setting up direct deposit by day 30. That's up versus 37% in the second quarter. And if you benchmark that versus other companies, that's a really high percentage. The quality of those members from a credit standpoint is also very attractive. The median FICO score for direct deposit accounts opened in the third quarter was 750. That's a direct result of us architecting the product to meet the needs of our target member. We're going after high earners not well served and an average income of over $100,000 per household. They have 680 FICO scores and higher. That doesn't mean we won't serve other people that are outside of that core demographic, that target. There are concentric circles around that, that will benefit from these products but we've architected it specifically to attract that type of member. That, combined with great targeted marketing and iteration over the last three years has resulted in really strong quality as well as still maintaining pretty good growth.

The other thing which doesn't get talked about too much because it's just scaling so significantly is the amount of spending that's happening on the platform. If you annualise our Q3 spend number to four quarters instead of one quarter, it's over 2.0x what we did in 2021. So, a really substantial increase and, on a per account basis, we're up about 22% quarter-over-quarter in spending. So, the strategy is really working and the bank licence has allowed that to come to fruition, and we're really happy with the outcome.

Operator Thank you. Our next question comes from Michael Perito, from KBW. Michael, your line is now open.

Michael Perito Good morning. Thanks for taking my question. I want to look ahead to next year a little bit but not financially, just strategically. Obviously, a lot of the year-on-year improvement has really stemmed from the strong bank-related growth, the impressive direct deposit growth, the credit card debit interchange, the lending on the personal loan side and the growing balance sheet. I'm just curious, obviously, you guys have to balance kind of the bottom line profitability and the balance sheet growth but as you look ahead to next year what's your appetite to continue to grow the bank balance sheet and drive higher NII? I'm just curious how you guys are kind of strategically thinking about that. That would be great. Thank you.

Anthony Noto Thank you, and Chris and I will tag team. I would say holistically, I'm really looking forward to having a year in which we have continuity and stability across markets and across company-specific initiatives. If I reflect back on our last five years, every year we've had a major company-driven initiative or an economic backdrop or a market backdrop that's been somewhat volatile. Obviously, we've been dealing with the student loan moratorium for the last three years, and on top of that going public, and on top of that switching to becoming a bank. We just haven't had a year in which all of our businesses have the wind at their back. That is possible in 2023, and I'm very aware of the current outlook for the economic environment and inflation and interest rates. But, if things sort of hit where consensus is, we're going to have a year in which all things could have a really strong tailwind.

As I think about our growth versus investing, we're going to stick to what we've talked about in the past, barring any unforeseen acquisitions or major strategic initiatives that were unplanned, with what we call the 70-30 plan. We're going to reinvest 70% of incremental revenue in the business and drop 30% of incremental revenue to the bottom line to show progress towards our long-term margin of 30-plus percent on an EBITDA basis. And so the growth that we have this year is one that we want to compound for decades, not for just one year, and have it be consistent over time.

So, we will continue to reinvest in the business with that ratio and we think we're in such early days in all of our products. The only thing that's gating our growth is driving awareness and there's a lot of ways to drive awareness. One way is obviously paid marketing. Another way is virality of your products and partnerships, and we'll continue to lever all three of those opportunities. But we've barely scratched the surface in how big we can be and now with over 4.5 million members, we have our sights on high single digits and double digits after that and a very aggressive perspective on what the cross-buy opportunity will be for us. So, we will invest meaningfully but against that ratio. And if the economic environment is worse than expected, then we'll adjust accordingly and make sure we deliver that ratio.

Operator Our next question comes from John Hecht, of Jefferies. John, your line is open.

John Hecht Thanks very much, guys, and congratulations on a good quarter. Chris, I'm wondering, can you maybe characterise or break down a little bit the gain on sale, just lots of interest in hedging versus the kind of executed gains, and also maybe characterise just general investor interest in the different products given the changing environment.

Chris Lapointe Yes, sure. Hey, John. So, in terms of our gain on sale margins for the quarter, our personal loans business was at 3.25% excluding hedge gains and it was 4.0% when you include hedges associated loans sold in period. Student loan refinancing was 4.3%, excluding the hedge, and it was the same on a hedged basis given that all loans sold in period were in a fixed rate structure. And then our home loans gain on sale was negative 1.7%, excluding the hedge and 90 basis points including the hedges.

What I would say in terms of overall appetite for our loans, things continue to be robust. We ended up selling over $1.0 billion of loans in the quarter and, like I said, given the fact that we have the bank today, we have sufficiently more flexibility than we had prior to that. We have sufficient excess liquidity. We just raised $3.6 billion of equity last year. We have a large and growing deposit base of north of $5.0 billion now, and we have $7.1 billion of warehouse capacity available to us, only 35% of which is drawn. So, we have a ton of flexibility with respect to being able to hold loans on the balance sheet for a longer period of time and we're going to seek to maximise ROE on every single loan that we underwrite in a given period of time.

Anthony Noto And one additional thing to add, just at a first principle standpoint, we've been fortunate in that we have the technology, data and process systems to test iteratively each week different price points and different credits and so we've been able to effectively increase the weighted average coupon of our loans as Fed Funds Rate have increased, which gives us a benefit on the execution and the value of those loans and, at the same time, being able to reduce our cost of funding. The combination of those two with strong life-of-loan losses within our target range allows us to get to great value on a per loan basis that we're trying to drive maximum variable profit dollars within a certain ROE.

Chris Lapointe And just building on that, to put it in more context, you'll see in the Q next week that the weighted average interest rate earned on our entire personal loans portfolio increased 60 basis points quarter-over-quarter for the second quarter in a row, and that 60 basis point increase is on the entire portfolio, not just new in-period originations that occurred. So, if you look at just new period originations, the actual quarter-over-quarter increase in WACC was substantially more.

Anthony Noto Which is just a phenomenal job by our team to maintain the profitability of our loans and still drive the growth that you're seeing at unprecedented levels in that product.

Operator Our next question comes from Kevin Barker, of Piper Sandler. Kevin, your line is now open.

Kevin Barker Great. Thank for taking my question. Just a follow-up on some of those comments around the gain on sale and everything. It looks like you originated about $2.8 billion of personal loans this quarter and the growth on balance sheet, it was a similar amount. Is there some strategy whereby you're holding all these loans or there are certain loans that are remaining on the balance sheet for an extended period of time? I know you talked about it earlier this year where the average would push out. Was there something going on with the personal loan originations that would cause you to hold them on the balance sheet and maybe have the sales occur mostly in the fourth quarter?

Chris Lapointe What I would say is our strategy hasn't changed. Given the flexibility that we now have with the bank, we're able to hold loans for a longer period of time and that was certainly something that we did in Q3 as well as Q2. What I would say is having the bank provides us with sufficiently additional flexibility and a new source of funding which allows us to grow that balance sheet and hold loans for a longer period of time. There are a few ways that we can grow loans on the balance sheet and generate net interest income. We can either originate, which has been the primary source of driving volume in terms of personal loans, but we can also repurchase loans.

In addition to that, one of the things that we've done with a number of our whole loan forward flow agreements is structure them in a way where we have the right of first refusal to purchase loans when the buyer wants to sell. And we're starting to see more and more of that where, from time to time, we see a whole loan buyer come to us with the of first refusal to purchase loans and given the credit quality and loss profile and return of the loans that we originally underwrite, we strongly consider that. So, that's something we'll also take into consideration.

Operator Our next question comes from Dominick Gabriele, from Oppenheimer. Dominick, your line is now open.

Dominick Gabriele Excellent. Great results on revenue and EBITDA. I just wanted to ask, versus a lot of the other fintechs that have recently come to market, you've really been obtaining high-quality FICO customers versus lower tiers and one of the very large banks recently talked about new entrants typically having to gain traction in the lowest tiers first, but that just doesn't seem to be the case for you guys and your strategy seems to be working. So, maybe on a product level, how are you beating the competitors and the incumbents to obtain these higher FICO score customers versus the low end? It would be great to hear. Thanks so much.

Anthony Noto You're welcome. I'd say it's old school focusing on the fundamentals, product, pricing, promotion, placement, the four Ps. If you go back to 2018, when we first changed leadership of the company, one of our priorities was to focus on quality over quantity. And it was a really tough decision. We took our volume down meaningfully from where it was in 2017. In addition to that, we took it down relative to what the prior team thought they would be able to achieve. And the reason was, we wanted to rearchitect the products so that on a per loan basis we could achieve, through the cycle, a 40-50% variable profit margin. I won't walk through the equation of how to get there but we're happy to do that off-line if it's helpful.

We looked at the variable profit margin by channel, by marketing channel, and we developed a much more sophisticated approach to pricing. We only could price 50% of the loans at one price and 50% at another price, and we developed a whole construct to be able to do 36 sales across six different grids, so to speak, and it's gone way, way beyond that now. It's really hard to find people that don't necessarily need to refinance. It's really easy to find people that need to refinance. In addition, when you do find those people that may not necessarily need to refinance, you have to give them a cost savings or benefit relative to their other choices. So, it needs to be compelling. You have to find them, the price that you're giving them or the savings you're giving them has to be of greater value than what they're currently doing. And then you need to make sure you have the right operational controls, the right life of loan losses and credit processes to ensure that you underwrite appropriately with the right operating and CAC costs.

The last thing I'd mention is our credit models continue to be updated based on proprietary data, which helps us now more than before. We're trying to underwrite to free cash flow and so the more information we have on your income, the more information we have on your spending, the better we can underwrite to discretionary free cash flow. So it's a combination of all those different things. And the last thing I'd mention is our time to fund the personal loan is two days. It used to be eight days. Our time to fund the student loan used to be in the mid to high teens. Now, it's in the single digits. That's also a factor that people underestimate in terms of the ability to meet the demands of that borrower when you do find them. In addition to that, we have a sense of urgency. We don't rush, we want to make sure we underwrite appropriately but we have to be competitive using our technology and our operations to deliver a short time to fund.

Operator Our next question comes from Ashwin Shirvaikar, from Citigroup. Ashwin, your line is now open.

Ashwin Shirvaikar Thank you. Hi, Anthony, Chris. Good quarter. Congratulations. I want to talk about the Technology Platform. If you can go through in sort of more granular fashion about the investments you're making in the platform and the client take-up of cloud banking. And then the sequential growth in Galileo accounts has decelerated the last few quarters. Is there an ongoing implementation or other efforts to reaccelerate that? Thanks.

Anthony Noto Thank you for the question. On the technology platform, we're really pleased with the growth that we're driving and even more so with the processes that have been undertaken to provide a stable, reliable and resilient platform for our partners and the pipeline of products in addition to the integration of Technisys and Galileo.

The major investment that we've made over the last two years of owning Galileo was transitioning from on-prem into the cloud and that transition is largely done. I think the report I've seen most recently is 99% of our authorisations are now in the cloud and that's really going to provide great stable performance for our partners and allow them to innovate faster and be more nimble using data real time to make better decisions.

We have a robust pipeline within Galileo for our partners but we also have a robust pipeline for new verticals. So, we are definitely starting to migrate away from just pure B2C. We talked about the B2B customers that we've been able to attract in the last couple of quarters, and the pipeline there remains very robust. And, generally, the B2B companies already have existing payment systems and payment supply for us to process, so when we convert those over, there will be a faster time to revenue and also be at much higher profitability. In addition to building products for B2B that are more controllable for them and meet their needs better in addition to just having the processing capability, we're also continuing to expand internationally with really strong trends throughout Latin America, both on the back of Galileo as well as Technisys, which was where it was strong to begin with.

In addition to geographic expansion, we have a robust pipeline of products for our existing partners. We'll be launching Pay-in-4 in the coming months. Pay-in-4 is a product that was built on Galileo and on Technisys. It will be the first product that's built across both processing and the core technology and that will be a great product for that large installed base of 120-plus million accounts, many of which are B2C, and it's one that better suits the demand and the interest of the lower-income customers of our partners on the B2C side there.

In terms of growth in the future, I would say we're not planning for accelerating growth but the TAM is so large and we've made such large investments that is a possibility on a revenue standpoint as well as on a revenue per account standpoint. It's not something that we would forecast given it's so early in the transition of physical payment to digital and we're so early in the new launch of many of our products. It's possible but it's not something that we will forecast.

In terms of demand, we're focused much more on existing portfolios than we are on start-ups because of the known value that's there in the hugely differentiated service that we have in the cloud and being end-to-end with core technology plus processing plus the frontend. We are a much better solution than what's currently out in the marketplace for many financial institutions that are very scaled. So, those have longer lead times but they'll have bigger paybacks and a much bigger impact to the absolute dollars that we generate in revenue.

Operator Our next question comes from Michael Ng, from Goldman Sachs. Michael, your line is now open.

Michael Ng Good morning. Thank you very much for the question. I was just wondering if you could talk a little bit more about deposits. It's encouraging to see the progress there. It seems like the deposit inflows have accelerated pretty meaningfully from the $100 million per week that you talked about earlier this year. Against the backdrop of the upcoming increase, what are your expectations for the deposit inflows run rate? And, separately, are you seeing any changes or headwinds in deposit inflows from consumers investing directly into money markets or treasuries? Thank you very much.

Anthony Noto We've definitely been winning share of deposits. We think we have an incredibly differentiated checking and savings account with high interest in chequing of 2.5%, no fees, free overdraft protection.

You can spend with your phone, spend with your card. You can do person to-person payment, you can do bill pay, free round-ups and a unique rewards program. So, I think our product is unmatched when it comes to checking across those different dimensions, not to mention you become a SoFi member and get a number of other benefits. We also introduced SoFi Plus, which is a way to pull together all of the different benefits you would get as a member in addition to a few incremental pieces of value on rewards step-ups. That is a product that gets unlocked through direct deposit and while it's very small and early from an earnings standpoint, it's actually delivering the type of impact that we thought it would drive.

So, we're winning deposit share. I'll tell you we're taking it from the traditional banks. Someone asked the question earlier, and I forgot to answer it, what are we seeing from the neobanks that are maybe focused on the underserved or neobanks more broadly? Are they pulling back on marketing and not seeing strong growth? I think what we see in the industry is they're seeing great growth and we're seeing great growth. And I think they're serving the underserved incredibly well, that were unbanked as well as underserved by traditional banks, but the vast, vast majority of what we're seeing is coming from the largest banks in the United States and we're winning deposit share from them. We do watch the deposit trends more broadly in the industry and it's clear that not only are the large banks losing deposits to digital companies like SoFi and fintech companies like SoFi, but they're also losing it to money market funds. But, we want to have an attractive rate that competes against all of the different options they have, including investment accounts and money market funds.

Operator Our next question comes from Jeff Adelson, from Morgan Stanley. Jeff, your line is now open.

Jeff Adelson Good morning. Thanks for taking my questions. Chris, just wanted to follow up on the loan growth question from earlier and maybe just hone in a little bit on the outlook from here. I know you mentioned some of those drivers, including the bank flexibility, repurchases, etc., but in terms of the kind of doubling of the loan hold period you've talked about from three to six months, is that now effectively in the run rate and should we more or less be thinking about the loan growth from here as kind of matching the percent growth in originations or is this something where you think you can continue to add loans at the same clip as your origination dollars, for instance? You added about three billion of sequential loan growth this quarter, which was roughly in line with your personal loan originations. And then, just as a quick follow-up, wondering if you guys can give us an update on your Q-to-date October deposit growth. Thanks.

Anthony Noto I'll let Chris answer the question more numerically. I'll just share a perspective. The great thing about the financial services sector is that the factors for growth change constantly. Interest rates are changing. The economic environment is changing. The financial markets are changing. And I would tell you, being here five years, every quarter presents a different set of outcomes across all those market factors than we thought at the beginning of that quarter, and we run to where the opportunity is. In some quarters that opportunity may be driven by being able to raise WACC. In some quarters, the opportunity would be driven by a really strong securitization market. Some quarters are going to be driven by a really strong wholesale market. The most important thing is that we diversify our funding sources and we diversify our distribution as well as our ability to hold and that gives us an ability to be nimble when the conditions change to go after those opportunities.

So, I don't want anyone to think that it's a straight line, linear in any fashion. It's never been a straight line or linear in every fashion. Every quarter presents a different set of opportunities that we can take advantage of. The thing that has resulted from having a one-stop, consumer-focused strategy is that we have these diversified businesses so that we can go in one direction or the other when things change. And the thing that I have found that gates our growth more than anything else isn't the market conditions, it's actually our ability to keep driving awareness and keep driving trust in our products and becoming a household brand name that's trusted. We could grow much faster if we spent more in marketing. It would be very profitable over the long term but it would be less profitable in the near term but the gating factor for us is how much do we want to drive awareness and trial. As it relates to your specific question about what this means in terms of loan growth on the balance sheet, I'll let Chris answer it.

Chris Lapointe In terms of whether we're benefiting fully from the six to seven-month hold period at this point, I'll take you back to when we opened the bank, we started originating all of our SLR, PL and home loans in about the March-April time frame and we weren't fully originating until May and, at that point, it would take six to seven months to really fully realize and get the benefit of the extended hold period. So, we certainly saw a material uplift in net interest income in this quarter, in Q3, but we're still not going to see the full realized benefit of that six to seven-month hold until Q4, in the November timeframe. So, really good progress but the full benefit will likely hit in Q4. And your other question on deposit growth into October, we aren't disclosing that.

Anthony Noto The only other thing I'd add on deposit growth is that we did announce yesterday that we're moving the savings rate to 3% on APY and we'll continue to be nimble in the marketplace and ensure that we're in the top tier of value that we're adding to make sure we continue to get these high-quality deposits. The FICO score that I mentioned earlier and the conversion of open accounts to DDs is really strong, and we would love to be more aggressive there, but we want to make sure we can maintain the quality.

Operator Thank you. Our final question for today comes from David Chiaverini, from Wedbush. David, your line is now open.

David Chiaverini Hi. Thanks for taking my question. Could you discuss the dynamics around the net interest margin and the outlook for the next few quarters? You just mentioned about how the savings product, APY, it's going up 50 basis points to 3%, and you mentioned earlier about loan pricing being up 60 basis points in the quarter, but could you net those out for an outlook over the next few quarters?

Chris Lapointe We aren't providing specific guidance on our net interest margin but what I would say is we've had really good success over the course of the last several quarters in terms of raising our overall yield, and that's a function of a mix shift towards more personal loans and the success in being able to raise our weighted average coupon 60 basis points across the entire portfolio for the last two quarters. In addition to that, our deposit betas have been roughly 50%, so we're going to see natural NIM expansion there.

What I would say in terms of the go-forward, there will be a number of things that will impact the overall NIM and most predominantly it will be our ability to keep pace with rising rates which we expect to be able to do on the personal loans product but it will also be impacted by the mix shift of student loans and home loans on the balance sheet. As we continue and expect a rebound in demand from student loan refinancing, those loans have a lower yield, or weighted average coupon, which would have an impact on net interest margin but, overall, we're happy and proud of our ability to expand NIM and expect to be able to maintain these levels.

Anthony Noto Thanks, Chris. Before we wrap, I wanted to share some final thoughts. As we enter the last quarter of 2022, I would be remiss if I didn't take a moment and thank our entire SoFi team that has just been incredibly resilient in our ability to execute through volatile times to deliver a sixth quarter of record revenue and record EBITDA this quarter of $44 million. The results you see today are a direct result of our people and our people's ability to meet the needs of our members. I can't help but be incredibly optimistic about the future of SoFi given the unprecedented results of the last two years and the resilience our team has shown. Even in the toughest market conditions, quarter after quarter we've delivered on our goals, exceeding expectations across the board. It's an absolute privilege to lead this company as we help change people's lives every single day for the better.

Our members need us more than ever and we'll continue to show up for them in spades. There is no shortage of challenges ahead but there has been no shortage of challenges every year since I joined nearly five years ago, in 2018. With each set of unique challenges we've continued to rise to the occasion and, ultimately, we'll work tirelessly to be prepared as best we can for whatever we face ahead, just as we have each year before. Until we talk next quarter, thank you for your interest, and thank you for your support as our shareholders.