

## TRG 58 Transcript

Nichole Stohler

What if you could be doing something smarter with your money that creates income right now? If you're an IT professional who's wanting to get ahead financially and enjoy greater freedom of choice, and if you wondered who else in tech is creating ways to make their money work for them? You want actionable ideas with honest pros and cons and no fluff. Welcome to The Richer Geek Podcast. We're helping IT professionals find creative ways to build wealth and financial freedom. I'm your host, Nicole Stohler and in this podcast, you'll hear from others who are already doing these things and learn how you can too.

Welcome back to The Richer Geek Podcast. I had a conversation with a crowdfunding legal expert who shared with me a variety of different crowdfunding sites outside of real estate. And one of the sites that he mentioned was Honeycomb Credit, which is focused on investments in main street or small businesses. Now, Mike and I have invested in a local restaurant, but we only knew about that opportunity because of our community within Rotary. And it got me thinking, how do you know about investment opportunities for small local businesses? Maybe if you're following them on Facebook? Or maybe if you're in a community like Rotary you find out but otherwise, how do you find this at a broader level? I love the concept of a platform to find investment opportunities in local business. So I reached out to the founder of Honeycomb Credit to join us on the show today. George Cook is the co-founder and CEO of Honeycomb Credit, which is a Pittsburgh based investment crowdfunding company that allows anyone to lend money at competitive rates to locally owned small businesses. Let's jump into the show. George, welcome to the show.

George Cook

Hi, Nichole. Thanks for having me on. Great to be here with the richer geek.

Nichole Stohler

I'm very excited for this interview. I had reached out to you. We were originally scheduled before COVID-19 and everything. It's been super busy as you were just sharing with me before we started recording and I think that this conversation is even more timely now. So I always want to bring my audience unique areas where they can be investing their money to make their money work for them. And I really love the story. You're on honey come credit. So why don't you start a little bit with how honeycomb credit got started?

George Cook

Yeah, absolutely. So my background is I'm actually a sixth generation community banker. So my family has been running a small community bank in rural Appalachia for 130 years. And I grew up in the family business and I spent a lot of time thinking about community banking, and really that relationship banking model behind it, and ultimately spent some time in financial services consulting, and I realized that a lot of the larger national banks and regional banks were buying up the community banks to the point that we actually lose almost a one community bank every day in the United States. And being a data nerd, I kind of started thinking in on that a little bit, I

found that there's a direct correlation between access to a community bank and access to funding for a small business. And so I saw that as these community banks were disappearing, it was getting harder and harder for small businesses to get access to traditional bank loans. And therefore access to capital is getting more expensive for small businesses, which, obviously, is kind of heartbreaking as we think about those Mainstreet small businesses we love and on the other side also created some really interesting investment opportunities. So my co founder and I put our heads together. He's a small business owner. So he was kind of living and breathing these problems that I was studying from a very macro economic level. And we put our heads together and created honeycomb, which is the first of its kind loan crowdfunding platform where locally owned Small Businesses can borrow from everyday people like you and me,

Nichole Stohler

I had no idea of a few things that you just mentioned there that a community bank almost goes out of business or is I shouldn't say go out of business is, is absorbed by a larger bank almost on a daily basis. And to your point, having that banking relationship, I think anyone that's listening that does have a small business or as close to someone that has a small business would know that just recently with PPP funding, if you and also some of the other funding that's available, if you don't have a relationship with your bank, that especially if it's small enough, where you can actually know a person, it's going to be really hard to get some of those things or was at least in the first round, maybe easier now in the second round. Wow. Okay. So the problem that you're trying to solve then is you're trying to bring accessibility of funding. And do you feel like it's because the small business owner, they just don't have have a voice and they get lost in the paperwork of a really big bank or what is that?

George Cook

Yeah, that's a big piece of it. It's whenever a small business sat across the street from their bank, obviously, the bank would look at their financials they would look at, is the business healthy? Is it performing well, but they also knew Nicole, the new if Nicole opened her bakery on time, if she treats her customers, well, if she makes a good baguette, whatever it might be. And those qualitative variables kind of worked their way into the underwriting process as well. And that allowed banks to make loans to businesses that often don't have a lot of operating history that often don't have, you know, a lot of information that the big banks require, have an underwriting process. So it was kind of served as a tiebreaker, if you will for community banks. And so the whole idea behind honeycomb is that honeycomb can be the middleman that does the due diligence, we evaluate the quantitative the financials, but then everyday people who perhaps and no, the small business can kind of vote with their wallets and do their own due diligence. And then there's sort of this knowledge of the crowd that goes into the funding process as well.

Nichole Stohler

Tell us a little bit about how the platform works, both for the investor and for the small business owner.

George Cook

Yeah, of course. So maybe I'll kind of use a real life example that might make it a little bit more tangible. So we recently worked with a Brazilian restaurant in Pittsburgh called Casa Brazil. They've been around for around a year, they were still relatively young, but things were going really well his beloved restaurant, neighborhood restaurant, people really enjoyed it. They were financially pretty healthy and they were looking to buy a liquor license. And in the state of Pennsylvania liquor licenses can actually be \$80,000 or more, they're quite expensive. So it's a pretty major investment for a small business. And so Casa Brazil was ready to buy this liquor license. And they went out and we're Looking for funding and they were getting quoted at 2030 40% interest rates. So very, very expensive loans to fund this. And that really just didn't fit their their economic model and kind of their cash flow projections. So they came to honeycomb, they submitted an application. They went through our due diligence process, we looked at their past financials, we looked at the credit reports of the business owners, we looked at their business model, and we invited them onto the platform. They created a campaign page that sort of looks and feels like a Kickstarter or an Indiegogo campaign page with a with a video and a little bit of story about what they do. Also access to some of their high level financials for investors to review. And they put up a loan that was a 10.5% interest rate, over five years fully amortizing included two personal guarantees from the owners of the business and use that liquor license as collateral So, you know, some some strong collateral to back it up. In a nice attractive interest rate for potential investors. And then they shared that with their own customers, we shared that with a network of investors that are already using the honeycomb platform. And 80 individual people came forward and invested collectively about \$90,000, into Casa Brazil. So people came in and invested, on average about \$1,000. But as little as 100, as much as 10,000 or more. And we kind of come in through the process, they watch that campaign video, they dig in on the financials a little bit, decide if it's an investment that they're interested in. And if it is, individuals can create an investment account right on the platform, and check out in about five minutes.

Nichole Stohler

Is there any kind of criteria for the investor?

George Cook

So we operate under what's called regulation crowdfunding, which is relatively new, just a few years old. And one of the really exciting things about regulation crowdfunding is that it's open to anyone So historically, investing in a private asset like investing in a privately held small business was reserved to accredited investors. But now it's it can be open to anyone through a funding portal through someone like honey come credit. So that that's pretty exciting. Anyone has the ability to invest up to 20 \$200 every year. And many people, depending on your income and net worth, actually have the ability to invest more than that, across these different types of assets.

Nichole Stohler

And then once you do invest, you've watched the video, you've looked at the financials, you've decided to invest, you use the platform to do that. Is there an ongoing communication or update? How does that part work?

George Cook

Yeah, absolutely. So there's there's really not a whole lot of work on the investor side as you know, nice passive investment, but at the same time, there are fun updates from the business owner. So the way it works is the business is going to be making a monthly payment. into an escrow account. And then honeycomb distributes that on a quarterly basis to investors. And with that distribution, we like to include an update from the business. Are things going to plan? How is that liquor license doing? How is the restaurant performing, and it's a great touch point to really help investors feel really plugged in to their investment and kind of take pride in knowing where their money went.

Nichole Stohler

I think there would be such a personal connection and if you actually lived or you could go visit in the town, I'm sure they must have a lot of people that are like you said in the beginning, they actually this Brazilian restaurant rolled it out to their existing customers, they probably had a fair amount of folks that then felt confident because of the platform you've created and the structure and the process behind that. Okay, so what you talked about business applies, and you do your underwriting. Do you have a list of criteria Where you would say, Hey, we don't take these kinds of businesses or these are what we typically take. How would you group those?

George Cook

Yeah, so I think businesses we work with typically fall into two broad buckets. One are our businesses that are perhaps just they don't check every single box that a bank might require them to check. Maybe it's a very healthy business, but there was a blip on the personal credit of one of the business owners. Or maybe the business is just hasn't been around for three full operating years. Maybe they're cashflow positive, but they're not quite profitable yet. There's a lot of very rigid requirements that a bank has largely because of regulatory pressure that they are under. That means that a bank cannot make loans to a lot of up and coming small businesses. So we're able to view we still look at those same dimensions. But instead of viewing them as very rigid checkboxes, we view them more as levers. Maybe you don't have great collateral on it. In a particular deal, that's okay, we still can probably go work on that deal, but it will be at a higher interest rate than what you might get in a bank. So really being a little bit more fluid with those levers in terms of who's invited onto the platform. And then we have a whole separate category of businesses that are very much bankable that they perhaps already have a banking relationship, but they love the idea of getting their community invested in them and and paying back everyday people instead of paying back Wall Street banks, it's something we hear from from a lot of small businesses that they just like to, to know the faces of the people that they're writing their check to every month as opposed to some anonymous bank. And so they're really kind of doing it for the marketing and the buzz and the fact of kind of knowing that their repayments are going to to people where it's gonna make a meaningful difference in their in their everyday lives.

Nichole Stohler

That's a brilliant strategy getting your community involved because then people also will be more inclined to visit to be a patron at the restaurant or whatever the case may be. So I can, I can see that you generate an interesting buzz as a result of having investors that way. All right, so you said in the beginning, using that example, it was a five year, you know, 10%, something like that. Where do the terms and the numbers and the percentage, where does that come from? Who decides that?

George Cook

Yeah, that comes through that due diligence process, right. So it's a back and forth between the business and honeycomb based on the financial package that we're putting forward. So the deals can range anywhere from five 6% interest rate on the very low end up to about a 14% interest on the very high end. Three to five years is our typical term. So in a lot of ways, it kind of feels like the other side of a car loan, right? It's a three to five year fully amortized loan. So it's something that people can get their arms around and really understand. And what the financial product is it's pretty overall a pretty vanilla product.

Nichole Stohler

And how often do you have new offerings? How should someone check every single day? Or how frequently are new businesses added?

George Cook

Yeah, we have campaigns going up every single week. Right now, I think live on the platform. We have 13 or 14 live campaigns. Several more going live this week, several more going next week. So constantly adding adding new campaigns to the platform.

Nichole Stohler

And then as an investor what types of vehicles so the amount isn't that large? Right. So you said like 20 \$200, and potentially more, but do you see investors? It may be kind of crazy to ask, but did they use like a self directed IRA or do you see mostly people just straight out cash?

George Cook

Most people are investing directly from from their checking account. We do have a fair number of people investing through their self directed IRA. So that's absolutely something we can accommodate and something that we do see pretty commonly.

Nichole Stohler

Okay. Yeah, sometimes when you get into if you've got a self directed IRA, for example, I have one, it's coming up to term, it has to be a completely passive type of investment. So a platform like yours is, is something like that. Right? And, you know, it's kind of cool. It was cool to explore, but it, it would be a matter of the logistics behind it. So if you have that set up, that's huge, because that part can be a little tricky to getting the self directed IRA funds into a platform. Mm hmm. So what happens at the end of the investment term, then?

George Cook

Yeah, so because it's an amortizing loan, principal and interest is being paid back throughout the life of the loan three to five years. So every quarter, investors are getting that payment back. And at the end of the three to five years, then the full principal and interest has been paid and the note purchase agreement is expired at that point.

Nichole Stohler

I absolutely love this whole concept and being able to help the small businesses tell us a little bit right now during COVID-19? What? What's been happening? What have you seen and what pivots and shifts had to happen within the platform?

George Cook

Yeah, so kind of the first thing that we saw is as the impact of COVID-19 was becoming apparent on small businesses. So towards early March, we proactively reached out to all of our investors. And because we're not a balance sheet lender, we can't go in unilaterally and change the loan terms for the deals. And so we went out to our entire investor network and we said, it looks like things might get a little bit rough for small businesses for at least a couple of months here. Are you okay? If we as the platform as the loan administrator, go and work with businesses to offer them payment relief, and within 72 hours, we had two thirds of our investors' vote, and 98% of those investors voted yes. So the way our platform is structured that allowed us to offer a payment relief to every single small business within our alumni group, our portfolio, if you will. And to me that was just it was a really heartwarming moment. And also kind of shows that the types of investors that are investing on the honeycomb platform are our folks that are in it for the long haul, that they want to help small businesses that they're not just trying to make a quick buck. But they are legitimately care about where their money is going and how it's impacting the communities where it's being deployed, which I think is very, very powerful. And then kind of simultaneously, we realized pretty quickly that a lot of businesses are going to need capital to weather this storm. So we pretty quickly started making some changes to the way we onboard customers. Obviously getting a video crew in is not going to be feasible anymore and having a notary public come in signed documents for them were all things that became sort of logistical challenges and a postcode world. So we kind of changed up some key pieces of our onboarding structure. We lowered some of our fees, we lowered some of the rates and created a relief loan product around that. And we have seen just a tremendous number of small businesses reaching out to us with a lot of interest in that relief loan. We have, I think, six of those onboarded already and many, many more coming soon. And I think it's just a really tremendous opportunity to put money to work in small businesses that are, you know, just working tirelessly every day to figure out how to keep their business alive and strong and ready to come out the other side, you know, ready to go.

Nichole Stohler

It's so inspiring to hear that your investors were willing to offer that kind of relief to the small businesses and also the changes that you've made in reducing your fees and trying to make it easier for people to onboard. I didn't realize you were previously sending out a film crew. So you're right. Some of those things definitely can't happen in the current situation. Is

there anything else that you would want to share about the overall platform that maybe I haven't asked about?

George Cook

Yeah, yeah, I just, I think we talked on most of the key points, I just think it's a really interesting way to diversify a little bit. Right. I think it's a it's a really interesting tangible asset class. Certainly small businesses carry risk. And these these are inherently risky investments, which is why they bear a higher interest rate typically, but it's also a an exciting way to put your money to work and in communities and in really inspiring entrepreneurs. And watch them kind of grow and thrive.

Nichole Stohler

I love that mission. Tell us where people can get in touch with you or learn more.

George Cook

Yeah, absolutely you can you can be a part of the invest local movement at [www.honeycombcredit.com](http://www.honeycombcredit.com).

Nichole Stohler

Perfect. Thank you so much for joining us today, George.

George Cook

Yeah, thank you, Nichole.

Nichole Stohler

Thanks for tuning in to The Richer Geek Podcast. For today's show notes including links and resources, visit us at the richer geek Comm. Don't forget to head over to iTunes, Google Play stitcher or wherever you get your podcasts and hit the subscribe button. help us spread the word by sharing with others who could benefit from listening and leave a rating and review that'll help us get the podcast in front of more people. I appreciate you. Thanks so much for listening.

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