THRIVE
LEADING THROUGH CHANGE

How to Lift and Serve the Next Generation

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Transcript:

Jonah: Before we get into what Sixup is all about, you've seen that the education system, higher education, is not working for many, many students. First, before we talk about the solution, what's really so broken for so many American college students?

Sunwoo: Let me see if I can speak without breaking the amplifier. There are a series of cumulative points in the system that are broken, and it has a lot to do with an un-level playing field that high achieving/low income students who are under funded and under banked, and under served face when trying to go through the gauntlet of the American dream.

There are friction points that relative to high income peers that they don't face. First and foremost is high achieving/low income students have the ability to get into a four year institution, a selective four year institution. However, because of lack of access to capital and funding when they don't get a full ride scholarship at Harvard, which is the majority of high achieving/low income students, they face a decision point where they either downgrade schools, where there are lesser outcomes at those institutions, like a two year community college, or they work nine jobs, they delay graduation, which is a lot of what I had to do.

Moreover, if they don't access the better schools with the better opportunities, they lack access to social capital. They lack access to opportunities like companies recruiting on campus at a school like where I went to, Northwestern, relative to where I transferred from, which was Oregon. There's a whole set of points that basically add friction to the system, and essentially marginalize talent and achievement, and suppress low income students from getting up and out of the hole that they're trying to reach.

Jonah: There's a lot of discussion about how to serve low income students. What most of us hear about is that tranche where it's you're getting the full ride, or whether there's community college available for everyone. It seems like you guys have just seen this big user problem, big gap, in that middle. How big is that population, compared to the number of people who get the full ride [inaudible].

Sunwoo: It's massive, if you add the numbers. There are 20 million Pell Grant eligible students in the US per year. If people don't know what a Pell Grant is, it's basically the best form of free money from the federal government to be able to go to college. I myself was a Pell Grant recipient. I got a maximum amount when I went to school, 26/25 per year. Of that population of 20 million, about half of them get a Pell Grant, because the program's over subscribed. It's a $40 billion program. Of the 20 million, seven million are what we deem as high achieving/low income students, which are the ones that are attending, or getting into, or wanting to transfer into a four year institution.

Seven million students per year, the magnitude of the problem is that they face gaps to attend four year institutions between five and 15 thousand per year. Five to 15 thousand per year to fund every single one of these seven million deserving, high achieving/low income students in aggregate is about $30 to $100 billion under funding gap. That's net, of all the federal aid out there, financial aid, in terms of loans and grants. It's also net of whatever the institutions give to these students. That gap is what currently is not being served by the capital markets. It's not being served by the federal government, and it's what's suffocating and preventing high achieving/low income talent from getting through the system.

Jonah: That's an enormous market. Why did nobody up until now really looking at that? Is it just overlooked, or people feel it's too hard to serve? Why would market turn its back on it?

Sunwoo: It's simple, the capital markets look at risk, and when they don't have data, and have zero visibility in the risk, they don't take on that risk. Because the current credit models are based on FICO, which is essentially the credit score system, that is the conventional way of evaluating risk, what ends up happening is if you think about a pyramid, where the top of the food chain, or the high income FICO, the super prime, or the one percent, they're serviced by the capital markets. But kids like me, and the majority of folks on our team, who were high achieving/low income students who actually made it, without the help of a Sixup, get lumped into the bottom portion of the pyramid, which is sub-prime.

The capital markets, even though we made it, we graduated, got jobs, and achieved mobility, the capital markets can't evaluate us, so they lump us into sub-prime, which I would deem as called "risky prime," and "loser prime," and so we've got to create a new way to reconfigure the asset class of this high achieving/low income talent, into something that we call "future prime."

The preventing mechanisms are lack of access to visibility and data, and risk, and then the inability to actually aggregate and find these students that are generally in disadvantaged, low income backgrounds, in neighborhoods.

Jonah: You fought your way through the system. You kind of hacked your way through, and figured out for yourself, but now you've come up with a solution that addresses this for millions. Tell us a little bit about how you [inaudible] that market.

Sunwoo: We have devised a system that's powered by a combination of technology, finance, and community, to essentially invest in high achieving/low income students with money, support, and tools, to allow them to essentially progress through education mobility. Really, what it is is accessing the better schools with better outcomes, which we call the "Up Matching Methodology." More importantly, making sure they persist and graduate, and then ultimately get jobs. It's really the lifecycle basis.

The best way I can describe it is if you take the venture capital, investing in start ups overlay, and you look at VCs looking at start ups that have high potential for exit, and different start up companies have different paths to exit. They essentially evaluate the startups for potential, they make bets on those startups, but they give them chunks of money, tranches of money over time, based on traction.
If you replace "startup" with "low income student," and high potential pathways with what schools they get into, and different schools have different outcomes, like graduation rates, freshman year retention rates, job placement. Then if you look at investing that low income talent, and progressively re-upping on them, based on their progression, i.e., academic progression and performance, then their exits are basic graduation and job creation.

The system is devised to mobilize this pooling of capital, this deployment of capital, and then re-upping and monitoring and support, so they can actually make it through the finish line.

Jonah: Tell me a little more about those kind of supports. They don't just need capital ... Getting capital is not enough. You can't just check that box. Talk a little bit more about the lifecycle support that's –

Sunwoo: Sure, absolutely. I'll give you a baseline, which is really my background and story. I applied to a bunch of schools when I was a high school senior, and I didn't get in. I ended up going to a situation where I was faced with University of Oregon. I went to Oregon for my first year, and I regrouped, and then I wanted to transfer to Northwestern. When I got in, I couldn't afford Northwestern, because there was a gap. It was a $14,000 aid package, Pell Grant, Stafford Loan, Perkins Loan, work study, Northwestern gave me a nice grant and scholarship, but tuition and room and board was $26,000, so it was a gap.

Because I didn't have access to capital, I had to take time off, work at Costco for a period of time, save money, and I transferred to Northwestern. As soon as I landed, I started working. I worked year long, nine jobs. During the week, weekends, and summers, which ended up (a) delaying my graduation one year, which is not good. There's a high correlation between the more it takes in terms of years to graduate, the higher propensity to drop out and not make it.

The second piece that I had to face was the over the summers, I was working all the time, so I couldn't get any internships, and build my resume. My senior year, when I was fortunate enough, and this is one of the reasons why I wanted to go to Northwestern was that McKenzie, and BCG, and Morgan Stanley, and JP Morgan were recruiting on campus. You could get picked in the lottery system, or you could get picked in the resume system. Because I was working all the time, I had a resume that was J. Crew, Nike, Math Tutor, Personal Trainer, and nothing on the order of having a summer internship at a law firm, an investment firm. I was at a 25 point disadvantage, is what the data shows, to get a full time job, relative to a peer who had a summer internship. I fought my way through, and ended up getting seven job offers.

What we do is we basically provide lifecycle funding, to not only allow students to upgrade to Northwestern right away, instead of having to wait a year, which gets them on track for a timely graduation. The second thing we do, is because we're relieving them of financial stress of having to work nine jobs, it frees up their bandwidth and their energy, to work on academics. Moreover, over the summers, free up their bandwidth to be able to take on a summer internship. In which case, we provide our support services to help them find summer internships, and build that resume over time, which from a lending standpoint, de-risks that student.

From a mobility standpoint, it actually helps mobilize them to build that resume, so they're teed up for a better position to interview and get jobs their senior year. The services that we provide include intern matching, career placement on the back end. We do other things about financial behavior, and behavioral economics. One thing that we do is many low income students who take on a loan, benefit from the fact that it's a deferred loan. They don't have to pay anything until they graduate.

The problem is for thin file or low income populations, it actually does them a disservice. Deferment's not good. What it prevents them from doing is building credit behavior, and building credit score. We have a program called "Credit Boost," that again wraps them around and supports them to incubate credit positive behavior, by making them have options to pay a token payment of say 20 bucks a month, to help build their FICO, build that credit behavior, and allow us to actually segment our population of students that we fund, to understand what's going in, and going, and help segment and support them.

It's a variety of different, holistic, wraparound programs and services that we do, on top of the money. Very much similar to a smart money approach to investing in human capital.

Jonah: As the entrepreneur, as the leader of this organization, how much is your personal experience, having been a kind of end user, being leveraged? How much is it kind of the team doing the market analysis, and the service analysis? How much is your experience ... Are you building this for you, for a younger you, in a sense?

Sunwoo: Absolutely, I think there are a couple of layers of why the backgrounds in the DNA of the team position us really well, to solve the problem, attack the problem. On one hand, our venture investors, that include both FinTech, EdTech investors, Learn Capital, Rethink Education included, really saw the opportunity, not just from the business standpoint of the addressable market. The fact that no one's really going into this problem space, that's much more ambitiously driven than let's say a SoFi, that's doing the known audience, and population of Ivy League super primers, was really this notion of founder market fit, and team market fit. Because our backgrounds, actually we came from the problem space, we know all the different nuances of the things that I've been speaking to you around, what's it like to have to work multiple jobs during school? What's it like to not be able to go to your dream school? What's it like to experience the reality that you have to transfer from a two year to a four year school?

Having that experiential knowledge and DNA, allows us to really understand what the problem is, so we can devise solutions at the nuanced level, which is really where the value creation is on that standpoint.

I think the second thing is is that the founder team DNA really is this notion, that the problem is going to be very difficult. We're facing a lot of challenges climbing up this mountain, but because we're not in a position where we want to pivot, and just create a new idea, and put something up on the wall, we're actually not going to give up. I think that tenacity is something that I think is recognized so far. We're seen that happen already in the team, and I think the market has an appreciation for this notion that we are not going to give up, going to keep striving to climb that mountain, no matter what it takes.

I think those two aspects really speak to the DNA of the team, and how we can mobilize and empower ourselves, to actually go on a track to success.

Jonah: It seems like by solving ... If we want to solve big social equity problems, you're saying someone who's been through the experience has a much better chance of understanding it. Now, Sixup is also bringing a lot more young people who are also end users to social equity products and services, through the pipeline. Are you hoping that a lot of your graduates will do some of the same as you've done?

Sunwoo: Absolutely, I mean our mission statement is really predicated upon lifting the next generation, and being lifted by the folks that were the previous generation. If we were the ones that made it without a Sixup, we can create the system to use Sixup to invest in the next generation at scale, not just one check at a time, one scholarship at a time, which is a really manual, and it's not a scalable solution. Really, if you want to go after the $30 to $100 billion problem space per year, then being able to not only mobilize the system, but you're actually, the underpinnings, you're creating a movement.

We have engaged with an ecosystem of folks and organizations out there, that care deeply and are also driven by a mission to serve this population, that are non-profit organizations, like College Track, which is founded by Emerson Collective, which is founded Laurene Powell Jobs, who's Steve Jobs' widow, by KIPP, which is a charter school that folks in low income populations, the federal government has poured 800 million per year into a program called TRIO, which has been around since 1964, that is mandated to serve ... Two thirds of the students they touch are low income and/or first generation.

There's already an ecosystem we're partnering with and leveraging, and then kind of carrying on their work together. Then, as you kind of gestate this model, and you start getting enough of the students to be promoted into mobility, into graduation and job creation, we believe that community is also going to be the next generation to both fund using our system, but help incubate and lift the generation that follows.

We're in the early stages obviously, of this community development, but we think that that will become a very defining, driving force of the system, that's beyond just technology and money.

Jonah: What you're doing is pretty capital intensive. You've had some success in the venture community, tell me a little bit about the stories of raising money for this, and how the purpose side of this has made it harder, easier, what's the experience -

Sunwoo: Yeah, it's a great question. At the beginning, we knew that we had a valid proposition, that was not fundamentally grounded on building a great business into a great market. I think the ability to mobilize EdTech and FinTech, which are both very popular areas of investment for venture capitalists, but also going into a FinTech space that's five times the market of SoFi. If you look at SoFi as the comp, I mean they went from two million in loan volume at Stanford as their pilot, refinancing Ivy League graduates, and just living off of that top one percent of the pyramid, and scaled to over 12 billion in five years. They went from an eight million valuation to a four billion valuation in the same period of time. Again, focusing on a market that's the top of the food chain.

Our market's five times their size, so from that standpoint, just building a great business, with great unit economics, and also a space that just people are really scared to go into, that was really the baseline of our approach and packaging Sixup for raise.

The fact that it's doing something purposeful, and it's solving a really big problem that people care about, around financial inclusion, and work force development, and investing in human capital and inequity, was really the ability to attract investors that really want to look for a double bottom line type investment. Again, double bottom line being first great business, second mission, as opposed to the other way, which was mission first, and then let's see if we can make a great business out of it.

We intentionally did not make any mention of social impact, or impact investing. We really grounded it upon just a great FinTech, EdTech company with an impact angle. Then, we were able to bring on some investors that were aligned with that mission, and vision, and business value proposition.

It took some time. It certainly took awhile for us to tune our fundraising capability. I think we're continuing to do that now, as we go toward Series A, early 2018.

Jonah: Anything not working so far? Anything along the way you were sure was going to be great, and you've had to let go of already?

Sunwoo: There's always a lot of things not working in a startup. I think the things that are working is that the machinery's working. We're finding students through our partners like KIPP, and Genesys Works, and TRIO programs, we're using our underwriting model, and evaluating them, and funding actual students in Texas, in our pilot. The part of that process is really understanding (a) the top order thing; it's going to take a lot more time to do what we're doing. When you go after a population where there are not very captive acquisition channels, you've got to figure out a way to optimize those channels, in terms of conversion.

I think the second thing is it takes a lot more time to gestate a brand new credit model, that's basically built from scratch. I mean, this is a non FICO credit model, based on student performance, student achievement, it's real time, it requires a lot of data. It's going to have to gestate when you're dealing with origination, which is your finding the students as freshmen, and they won't graduate and start paying off their loans until four years, plus the six month grace period. It takes a lot more time than a SoFi, which is refinancing the graduate ... A student that's already graduated from school, and already has a job, and already has free cash flow. There's a period of gestation there, on top of the credit model.

On top of that, you've got to make sure that you perform, that the students that you're funding are actually producing results on the back end, and graduating, and paying it off. That time is really one of the biggest things that I think is challenges that we're facing. We're trying to work at ways to accelerate that, in terms of accelerating the ability to get capital to fund this gestation period from a lending standpoint.

Certainly equity capital to finance the corporate requirements of building a structure, and the infrastructure, and a solution, and being able to do that. Then certainly lastly, just the challenges of finding the early adopters that are willing to hop on the train early, when it is, you know, fund a risk adjusted basis. It's very different than something which I would point is a first version of the FinTech 1.0, which really opportunistic, arbitrage place at scale, but really the next shift is going to be on new credit models, new markets, and really inventive ways of innovation around finance community, and other aspects of it.

Jonah: When you're building a new market, a new model, everyone's going to give you the advice "Get a product out there, imperfect, let it kind of fail a little bit, fix it." When you're dealing with students, and trying to get them through this lifecycle of college, you kind of can't afford to fail in the same way as maybe an app would. Just curious about your thoughts about how good did the product have to be before you got it out there, and how much failure are you willing to accept, when you're doing with kids' futures?

Sunwoo: That's a good question. We're a multi-headed system, so we have a lot of different products. We have products for investors. We have a lending fund, that they can put lending capital in. We have a grant fund that they can put grant capital in. We have enterprise software, what we call "Student Success CRM" that we employ the partner organizations, the KIPPs of the world, and the Genesys Works that actually use it as a way to manage their student outcomes, on a lifecycle basis, kind of a student lifecycle CRM.

The product to the students are really around just loans and support, and also grants. I think the product market fit has been principally, we have to do all three.

We have to make sure we can have lending capital come into the loan fund. We have to have loans that students will receive, and enjoy the interest rates, and the way that we fund and incubate them, and the support service that we provide. There's a whole host of different things that we have to do. I think we've tried to be very streamlined, and frankly very disciplined about how we each one of those product suites, if you will, or these product solutions. I think we may be able to do all three, in a way. The product market fit is going to just take some time, and it's really going to be the core of the business, which is making sure that the students we're funding, and the risk profile we're taking on, is going to ... We're going to have visibility into that as we raise more lending capital, through the period of time until we start seeing early performance of, in our case, the seniors that we're funding that are in college. They'll be the first ones that graduate and start paying off their loans.

It's going to iterate, a lot. That's really what in our situation, it's not necessarily a ... It's kind of a salmon swimming upstream where it's not like your product market fit is Snapchat, it just goes, and it scales. This is something where you're kind of, you're going to have to hone it over time. As long as directionally you're going into the right stream essentially. We're going to be okay with the understanding that, as Peter Thiel usually says when he speaks, it's they looked at PayPal as a gestation period of 10 years. They knew it out of the gate. They knew that they weren't going to see the growth curves, or the value creation curves kick until year 10.

We think it's a similar gestation period, it's just now we have to be smart about how it stages.

Jonah: Thinking a little bit about the changes that are coming in the future, you have predicated this business in a way on students needing to go to high end, elite universities, because that's where the opportunities are coming out of. Certainly, your job fair story is a perfect example at Northwestern, you get the consulting

jobs.
Everyone's talking about how the future of work is going to look so different. Do you think that this is going to persist, that these top tier universities are still going to be the main ticket to a career, the careers of the future? If not, how will your model adjust?

Sunwoo: Sure, well, it's a really good question, and I think it has a lot to do with what the future looks like. I think I should start with what the future looks like, in terms of workforce. By 2025, two thirds of all jobs in the US are going to require post secondary credentials. Just so you know, today 77% of high income, working age adults, have those credentials. Only nine percent of low income working age adults have post secondary credentials.

If you think forward to what the workforce is going to look like that's going to drive our economy, we're going to need to draw a pipeline of talent to fill those jobs. Right now, the head room is in the low income population. Otherwise, we're going to be importing a lot of that talent, because it's just not there in the high income set.

If you work from that back, right now these seven to 20 million low income students out there need to be mobilized into pathways that result in being able to serve that workforce. If you think about higher education as a pathway, one of many pathways for STEM for example, I think that's the main track, and the mainstream track that we're focused on right now. There are certainly alternative pathways that are emerging, like Codecademy, which are kind of more of a fast track STEM to job. I would submit that that's good for folks that are generally high income folks, that can afford to do that. It's a pretty small volume right now, in terms of both need and market. We haven't focused on that intentionally, to focus more on the Main Street.

There are alternative pathways that we envision in terms of trade schools and apprenticeship programs, that we want to revitalize. Certainly, the last track is just workforce development adult. How do you get adults retrained at where they are in life, in their lifecycle, to get back into serving the workforce of the future?

With that understood, I think higher education as an institution is certainly broken, inefficient. I think there are ways to improve it through technology, as well as through kind of solving this big monster problem that we have around how much it costs, and the rising cost of tuition, and the outcomes, and the value that you get around that. I think there's a lot of re-configurization, and accountability that has to happen in the higher education landscape.

I think for low income populations, one thing I think people don't necessarily appreciate is that in the ground, institutional education is not going to go anywhere. I think it just needs to be optimized a little bit more, because there's so much value out of social capital, and experiential learning. I think that that's one of the main benefits that I gained, by going from Oregon to Northwestern. It not only opened my eyes from here to here, moving to Chicago, but also it exposed me to a whole set of social capital. It's such a great value proposition for any student going to an institution, because that manifests and translates into for us, it's one of the reasons why we have the venture investors we have. It actually stems from the relationships I forged at Northwestern, in terms of our network, and how we're going to market, very similar thing.

That's kind of our point of view. I think this notion of skip college, whether you're Peter Thiel, or be a Zuckerberg, or Bill Gates, and just drop out of Harvard. I mean, it's such a minority, minority percent of the population. That's not reality for Main Street America, and Main Street populations of talent, that we need to mobilize to produce GDP for the nation.

Jonah: I think a lot of entrepreneurs are not maybe, are shying away from some of the opportunities to do the kind of social interventions that you're doing, because the system seems so complex, and inter-related. I think the way that you're looking at it, both the future of work, the problems students face, the needs of capital markets, is very integrated kind of approach that makes it suddenly seem, intractable problems seem solvable. Do you have any advice for an entrepreneur who wants to make a social impact, and sees that okay, there's just so many crossing problems here. How do you start picking apart a system, and designing a solution for a whole system?

Sunwoo: Yeah, this great question, and I think we've gone through a lot of growing pains, and reality checks on how difficult it is to be a social entrepreneur. I think the first piece of advice I would say is if you really want to be a social entrepreneur, I think you need to get ready for facing the music, which is solving these massive social problems around health care, and education, and finance. Social inequity, and workforce development, they're really, really, big, big problems to solve. They're not point solutions. They're not apps. I think if you really want to solve the problems at scale, you've really got to be in a mindset of very complex systems change, big infrastructure, and a lot of understanding of industrial grade solutions.

There's a interesting thing that I've learned, just going out to the impact investing community, and talking to folks that want to invest in social, purpose driven companies. Solving big, massive, social problems comes with high risk. If you have risk averse impact investors, trying to invest in social entrepreneurs that are trying to solve big problems with very low risk solutions, you've got a massive disconnect.

I think there's room for folks who want to do one side of the spectrum, but I think we folks on the other side of the spectrum, which is big ambitious, big hairy, audacious problems that are going to require very strong talent, disciplined talent, and very disciplined ambition investors, and getting that match is really, really important.

I think the advice I would give is pick what side of the equation you want to be in, and then orient and align with folks that are going to give you the capital, and be aligned on the same framework, and the same risk adjusted road map. Make sure you spend a lot of time doing that segmentation. We spent a lot of time going back and forth across both sides. I think we burned a lot of time, but we did learn a lot about now we know how we need to filter in the folks that are on this side of the spectrum for us.

That just took a lot of time. I think there's not a lot of data. There's not a lot of insight out there in the field. I think we would like to promote that insight, and those learnings to the field, to aid social entrepreneurs to have that insight, as they go to market.

I think the second piece of advice I would give is having a mission driven, purpose driven company is beautiful. There's nothing better than waking up saying "I love what I do," and it comes from a space deep within. Our team has that same DNA. They want to really solve a problem.

We almost get a multiplier affect on work ethic, if you will, and grit, and never giving up, as I referenced earlier. I think being a social entrepreneur from something you care deeply about, and it comes from within, is really important. I think those entrepreneurs are going to make it, not the ones that are saying "Hey, this is cute. I want to be an impact, social entrepreneur. Let me try to do something. I think I can solve it." It's not coming from a deep place. It's coming from a different place, which is "I want to either have that on my resume," or it's this aspirational thing that's kind of cool, and what I want to do.

Jonah: We might be moving into an era now where the nuanced systems approach is going to get less respect, in a time when we can build the wall in two days in office. That kind of big, flashy, kind of solutions. Do you worry that people have less interest and patience for complexity?

Sunwoo: I think you're going to see a shift. People talk about 1.0, 2.0, 3.0, I think social entrepreneurship, and certainly impact investing, and folks in the room that are practitioners will probably understand that, it's going through its own maturation process. Its seasoning as an ecosystem if you will, of capital, of thought leadership, and certainly of entrepreneurship.

I think it's going to migrate more towards systems change. I think that's just going to happen by definition. As that happens, it's going to kind of reconfigure the requirements to incubate those types of businesses.

I think my opinion is, given the landscape and the political climate, the social climate that we're facing, more and more folks are kind of be either in the system, or coming into the system that want to do purpose driven companies, and solve these big ass problems. Pardon my French, there.

I think the pipeline of entrepreneurial spirit, and supply is not going to go down. I think it's going to go up. I think the question is now, is how do you then marry mid-career talent with young career talent? Because I think that hybrid is what's going to be the match, that's going to be the proxy for the next 2.0 forward of talent teams, that are going to come together. It's not going to be just kids out of school, or students just graduating. It's not just going to be old guys like me that are trying to do something socially entrepreneurial. I think that's going to be a big recipe for success.

Jonah: There's some examples of that's already happening?

Sunwoo: Yeah, I mean certainly our team. I think we are a hybrid of young, and kind of mid career, operating experience, with just fresh motivated talent, that really wants to get after a problem like this.

I think you're seeing a lot of companies out there, and investors that are forming that are incubating, catalyzing ecosystems so you know, Obvious Ventures is out there. Rethink Education is a great firm, that's really positioned as EdTech, but also has an impact angle, but does it in a unique way. Learn Capital, as well.
I think the Ubers, the Airbnbs, I mean they certainly are use cases, and case studies of breaking the system, and having a social impact angle. I think a lot of people will differ; 50% of the population say it's not really an impact play. Whereas the other side of the room would say "Yeah, it can be." If that innovation can happen at that scale, then I think that talent's going to be looking for what's the next generation types of companies that are coming from here.

I think we're just on the brink, if you will, of what the next version or the situation's going to be.

Jonah: Let me ask you one more question, and then we'll go to the audience. I've been looking into the mindsets of entrepreneurs for my new book, and there's this need to be able to take risk, but also this common discipline to really not flit from one thing to the next, and look for that quick solution. I know you put a lot of work into becoming a martial arts expert, and a national champion. I'm curious about how that experience of both discipline, but also risk taking, informed you as a leader within a company, and as an entrepreneur.

Sunwoo: Sure, growing up it was not by choice, it was by mandate. My dad is a martial arts instructor. He teaches Judo, TaeKwonDo, Aikido. In my family, there were a couple rules that you had to follow. Number one is study hard in school. Two, don't talk back to your parents. Three, eat your kimchi because it's good for you. Four is do Judo, non-negotiable.

I start Judo at four. I absolutely believe that the upbringing in a martial arts family, and also the ability to be raised in almost a second home ... My parents divorced early, so I was raised by a single parent dad. A lot of the organizations that we work with, actually serve that second home function. I know what the value of that is of being surrounded by a bunch of what I call "white aunts" and "white uncles," that helped raise three boys in my family.

The discipline around being checked by a bunch of white aunts and white uncles, who help you, but check you, but then also just the martial arts methodology of progression through white belt, to yellow, green, so on and so forth, to brown and black. It really instills a notion that you know, it takes time. There's a reason why it takes most Judoists or Judo players, it takes them 10 to 12 years to get a black belt. You cannot accelerate it. You can't fast track it. If you do, you're not really a black belt. You can see it if you put one who's done it for 12 years, and one who's done it for a year.

Having that patience and that understanding that it's just cycles, right? You've got to practice. You've got to train. It's not going to happen overnight. That's been great for us as a company, with kind of this long gestation, big mountain that we're climbing.

I think the second thing is is really understanding the calibration of achievement with potential. My dad, he used to always teach that two white belts that started the same day, the same age, would progress at different rates. One student would be ... In a year, they would be a yellow belt, and another student, in a year would still be a white belt. The student that is a white belt in a year says "Why do I have to be a white belt, when Sarah is already a yellow belt? What's the deal? We both started the same day."

My dad would have to convince them that the difference is that Sarah's pathway basically to black belt is very different. It goes to about here. Whereas yours is on a trajectory for a slow up tick, to a much bigger black belt. It's going to take you a little more time, so you can't compare yourself to Sarah. You need to compare yourself to your potential.

He would always test and say "Fine, I can give you a yellow belt. I can give you a black belt." Takes it out of the drawer, gives it to the student, and they're immediately saying "I don't want it, no, I don't want it." He said "No, take off your yellow belt, white belt, let me put on a black belt." It freaks the kid out. They're like "No, no, I don't want it Master Hwang. I don't it Master Hwang." It sinks in, right? It sinks in.

I think aspects of that, and certainly the third thing would be just this whole art of Judo, which is using the opponent's strength, and momentum, and power to your advantage. We do a lot of Judo at Sixup. You've got to Judo people to come into a brand new capital stack, where you're getting debt capital, and you don't have loan performance. You don't have a portfolio. You've got to really try to spark the plug with foundations that in one part really love what you're doing, but they're also very risk averse.

We've got to do a lot of Judo strategy to engage our community organizations, to really hop on the train, and work with us together. There's a lot of that that we have to do that we've learned, which is just the art and science of kind of how do you align with folks, and get them motivated and understand that doing this in and of ourselves, is going to only increase risk? But if we do it together, it will greatly de-risk our go to market, our time to market, our credibility to market. We've been doing that with upwards of 45 partner organizations, that include the KIPPs of the world, the TRIOS, and the Genesys Works. We had those, when we had basically nothing, in terms of content and traction.

Jonah: Great, well really inspiring story, great business model. Now, I'd love for the audience to ask some questions. Emily will, got a microphone, so if you –

Jeff: No, I have a microphone.

Audience 1: Thanks for sharing your story. I was kind of curious. You talked about this idea that you're trying to get kids into these top colleges, and there are so many young people who have potential that aren't necessarily going to be able to get into those top colleges. For those who don't get into those top colleges, go to maybe a second tier, third tier, how do you ensure that they still have access to the opportunities outside of university, to make sure that they're giving you the return that you're seeking?

Sunwoo: Yeah, absolutely, great question. We think any four year institution is fair game. If you look at the Bell Curve of these seven million high achieving/low income students, you've got the ones on the left that either don't care about college, not going to college. You've got the ones that are going to two year community colleges, and then on the far right, you've got the Ivy Leaguers, and the ones getting full ride scholarships. Which actually is less than one percent, okay, 0.03% of all students in the US get a full ride scholarship, it's just a very small minority.

The main bulk, the Main Street students are going to Main Street four year schools. That could be anywhere from a Northwestern, or to a CMU, to a Harvey Mudd, to a Claremont McKenna, to a state school. There's a whole range of schools. Our belief is if we can just simply upgrade and up match students from a two year, which most of these kids get into, who get into a four year school that may not be able to afford, are forced to downgrade. If we can lift them into the four year institutions, the likelihood for outcomes goes up on a multiplier effect. Just from going from a tier four, three, two, one school, if we upgrade them from a two year to just anything above that continuum, their graduations can go up 6X. Lifetime median income goes up 2X. Federal loan default rates go down 6X. Just by simply up matching them, we can at least put them on a path for better outcomes at the institutional level.

The student still has to perform and achieve, but that's a core part of our methodology. Also, we went to market intentionally not wanting to service the tier one students, or the tier one schools.

Audience 2: Hi, whenever you're approaching students ... I know that you're saying that you have a couple different conduits of how you get to them. I am assuming you have to have messaging tailored to their parents, as well as to them. How do you find that that's different in holding, in getting their family's buy in, as well as them personally, feeling responsible and accountable, to making the decisions that's going to make them lower risk for you?

Sunwoo: Yeah, this is a great question, and one of the aspects of our business and our product design and experience design, is simply around behavioral economics, and behavioral finance. There are a couple things that we're finding in the field that we've been tailoring our message to. First and foremost is because of the public's obsession over student debt as a curse or as a disabler, something bad, we're really trying to shift the narrative in a perspective from wait, student loans or investing in your future is actually a good thing if you do it properly, if you do it smartly.

Many counselors that we've been talking to, some of them ... I met with one group, and they were like "We don't believe in loans. We advise our students to never take out loans." I went back to your point, I said "Well, that's kind of weird, because why wouldn't you want them to maybe spend a little more money to go to a better school, where the outcomes are just dramatically better?" We've had to do a lot of messaging to kind of change that mindset.

The second piece is a lot of students, they recognize that the parents have already put so much sacrifice and work into enabling the kids to even go to a school that will prepare them for admission into a four year institution. They don't want to put anymore burden on their parents. Right now, one of the biggest options out there that is kind of a comp to what we're doing is the Parent PLUS Loan that sits on top of the individual student loan. Parent PLUS Loan simply just puts more burden on annual household income, which is already low as it is. A lot of students just don't want to put that on their parents, or parents actually don't want to even take that out. They're like "We've done enough. We're maxed out." There's a lot of messaging around that.

I think the third thing is really more of a focus on less of financial literacy, and like thinking about student loans, and transactions, really thinking mobility and pathways. Meaning let's be strategic and smart about how you game plan your path, which means "Hey, yours may be good for a two year to four year transfer. Go ahead and do that." It could be good in my case, to go from a four year to another four year, and take some time off or work a couple jobs.

We really spent a lot of time with our messaging, and some of our knowledge that we push out as part of our services, or support. It's kind of what we think as a shift from financial literacy, to pathway literacy. Think of it as Google Maps for mobility. That's really what we're trying to now push out to the market, which a lot of folks are really excited about. Because the messaging is not just about selling a product. It's really selling a new framework, and a new point of view, because the old point of view is broken, and it's not working. Which is student debt is bad. Student debt, or college education is only what you can afford. We've really got to shift that paradigm out.

I think with parents, we've got to talk to them in a certain way. With students, with have to talk to them in a way. What we've done is we've started with these organizations that advise and counsel these students, and kind of draft behind how they're doing that. Which is really, they're thinking about student benefit. For now, over time, we'll start tailoring the different messages directly to the student, as well as to the parent, and the parents of those students. We're still in development phase right now, of what those messaging tracks look like.

Audience 3: Thanks Sunwoo, thanks Jonah; really enjoyed the presentation. My quick question is with the ... I guess the SBA used to guarantee small business loans at 90%, which enabled them to be securitized and packaged, and sold to Wall Street. If you had a magic wand, and you were in the White House, or the Senate, or House, and you could think about a policy that would enable either at the local, state, or federal level, the business model that you're driving, what would that policy be?

Sunwoo: Policy from the standpoint of the financial engineering?

Audience 3: Yeah.

Sunwoo: Yeah, that's a really good question, something we think a lot about. The cool thing about our model, and our capital stack, is that we have multiple layers of capital, different types, different appetites, different risk perspectives, and certainly different purposes. If we can layer into traditional fixed income, which is what you're talking about, around just standard debt, fixed income, being able to be securitized, and that the capital markets can serve this population of 30 to 100 billion in need per year. We will get there at some point, with the credit thesis being that high achieving/low income students are not loser prime/risky prime, but future prime, which is our asset class. That they actually make it, they'll pay off their loans, if just given the same opportunities.

If we start with that as a baseline, and then layer in things like foundations that say "Hey, I am willing to actually go in and help underwrite some of the risk for that Main Street money," or two, "I'm actually okay giving some of my grant money to be a partial loan forgiveness on the back end, and redeploy scholarship money on the front end to the back end," and says "Hey, I'll give you 30,000, but I'll wait until you graduate and get a job, and I'll go ahead and give you a partial loan forgiveness on the outcomes on the back end."

If you add in another layer, which is around CRA, Community Reinvestment Act money, banks are mandated to take a portion of their assets, and put it to work in under served communities, and has teeth, it's scale. It's about 70 billion goes out the door, per CRA compliance. If you don't do it properly, you can't do M&A, and you can't open new branches.

There's all these layers of capital that go in. I think the fourth tranche is going to be the federal government. I would submit at some point in the future, if you look at what the administration is today, and the Republicans, they don't want the Pell Grant program to grow, they actually want to stamp it down. They're canceling aspects of the student loan program, like the Perkins Loan, which is being canceled out.

When the federal government is originating 100 billion per year in student loans, with a default rate of 12%, which means it's really not run well, and you have a Pell Grant program that's 36 billion, that's a big chunk of money that could be reconfigured, redeployed into a different system, where it's outcomes based. It's actually layered into a different capital stack, with other factors and players.
I think there are great opportunities to have financial engineering be a part of policy change, but not just on the financial side. I think the other side is how do you stop feeding the monster? How do you stop feeding this tuition hike increase, and have outcomes that are tied to the money that you deploy? That's a bigger issue, and a bigger question. I would submit if you could envision an entity that is originating 140 billion in funding for education in the United States, and use that to have leverage to the institutions, to have them accountable to produce better outcomes for the money if they want to get those checks, and also serve the needs of the population. You have some interesting ways to have platforms for policy change in a different way, I think.

Jonah: Take one more, or you guys good? All right, well thanks, Sunwoo.

Sunwoo: Well I got a question for the audience. I'd be curious to know how many went to a four year school, if you don't mind raising your hand. Okay, and how many of you that went to a four ... Keep them up, keep them up. How many of you who went to a four year institution had financial aid, and if you didn't drop your hand. Okay, and how many of you who had financial aid had to fill the gap otherwise, meaning it wasn't a full ride scholarship? Okay, and how many of you who did that are now what I would consider prime borrowers? All right, okay, so the minority of the folks that are in this room with the hands still up, that's what we're trying to do, is to turn the seven million into all those hands. I think if you look at any demographic cycle ... I've been in rooms where actually the whole room is like "We went to Harvard, Ivy Leagues," and how many were on financial aid, and all the hands go down.

It's interesting to see how the slices are of America, in terms of what the problem is, but also certainly where people have achieved their mobility. Thanks for participating in my little survey.

Jonah: Great, well thank you.