



# LEND ACADEMY

## **PODCAST TRANSCRIPTION SESSION NO. 134-GARY LIEBERMAN**

Welcome to the Lend Academy Podcast, Episode No. 134. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt.

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**Peter Renton:** Today on the show, I am delighted to welcome Gary Lieberman, he is the CEO and Chairman of Darien Rowayton Bank otherwise known as DRB. If you've been in the space for a while you'll have seen the DRB name. They are one of the largest players in student loan refinancing, but they have a fascinating story so I wanted to get Gary on the show because he bought a small community bank, \$100 million in assets and he has built it into one of the leading student loan refinancing companies in the country and it operates in all 50 states.

It's really a fascinating story so we talk about his vision and how he first got into the student loan space and that's really a fascinating story in itself. We talk about their approach to the different verticals, student loans, personal loans, mortgages, and how they're going to expand their company; we talk about how they go about obtaining customers in their marketing and we also talk about their vision for the future. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast, Gary.

**Gary Lieberman:** Thank you, it's nice to be speaking with you, Peter.

**Peter:** Okay, so I like to get these episodes started with a little bit of background about yourself and tell the listeners what you've done in your career to date.

**Gary:** Well I'm currently the Chairman and CEO of Darien Rowayton Bank which also oversees Laurel Road which is the online lending business that we're involved with. In addition to that, I manage a hedge fund that I started about 20 years ago and the hedge fund trades primarily in mortgage-backed securities, commercial mortgage securities as well as not surprisingly, student loans.

**Peter:** Okay, so you divide your time between both businesses today?

**Gary:** That's correct. Probably the bank takes up more of my time these days.

**Peter:** Okay, so tell us a little bit about the history of the bank. When I did my research here, you purchased the bank in 2010, a reasonably small community bank, can you tell us a little bit about that history and what attracted you to DRB?



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**Gary:** Sure, well the bank was founded in 2006. I had an interest in purchasing a bank with some other people probably around the end of 2008, the beginning of 2009. I thought it was an opportunistic time to do that and I really had a couple of criteria. One that it would be small and it would be clean. Small, because although I'd worked with banks for quite some time, I had never really been underneath the hood of a bank so I knew I'd make some mistakes. If I was going to purchase a bank, I wanted it to be small so the mistakes would be small.

The other criteria I had was that it should be a clean bank; what I mean by that is not a whole lot of problem loans. I didn't feel at the time that the pricing of problem loans were really cheap enough and additionally, my history and background really is not in the sector of what I call chasing credits. I generally dealt in high quality products.

**Peter:** Okay, so then can you give us a sense of the size of the bank back then and maybe the size it is today?

**Gary:** Yeah when we first purchased the bank, it was about \$100 million in assets and right now we run about \$600 million in assets.

**Peter:** Okay, and how many branches do you have?

**Gary:** It started out with two branches, Darien and Rowayton and we purchased a branch in Southport a couple of years ago.

**Peter:** Okay, so three branches now. Okay, I know you guys first got on my radar with student loan refinancing. You became a reasonably big player there. I had never heard of the bank, but I'm curious to know...it sounds like you've done some work with your hedge fund in the student loan space. So when did the...because student loan refinancing is still a relatively new industry, when did that first get on your radar?

**Gary:** That's an interesting question. It actually happened quite some time ago, literally when I was in graduate school I had a job where I was working with primarily undergrad students and the purpose of the organization was to provide jobs for students who were looking to make some money as well as provide services to the university community and so invariably, pretty much everybody who worked there had student loans.

I guess we commiserate about it somewhat and I just noticed that...it seemed unique to me that the people that were there, it was at Penn so there were a lot of Wharton undergrads working there as well as liberal arts students from the university. The Wharton undergrads would clearly have much better job prospects when they finish school and yet they were paying the same rate as all the other students so I thought that was kind of interesting and I had kept that in the back of my mind.

Fast forwarding somewhat probably about ten years later, I had a job which was...I actually founded the asset-backed finance department at Merrill Lynch and I thought of the job there at the time as looking at factoring and taking it to the capital markets. I was actually at the end of



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my student loans and I was helping some friends pay their student loans who were in the arts and it kind of resonated with me again that here I was in a much higher paying job than the friends I was lending money to yet we were all paying the same rate.

**Peter:** Right.

**Gary:** I actually looked at it at the time to see if we could do something with that set of circumstances, but the way...the shape of the yield curve and the way the government was pricing loans at the time, it really wasn't an arbitrage. But it stayed with me to think about that at some point there was going to be an opportunity here because of the fact that the government doesn't do any underwriting nor do I think they should when they first give out student loans, but over time as most are aware now that there can be a distinct difference.

**Peter:** Right.

**Gary:** And so when I was in the process of purchasing the bank, one of the business lines was to refinance student loans because those components that were not working in favor of doing it before were actually there. The yield curve was significantly steep and the way the government priced loans was much different than they had done 20/25 years ago.

But I also knew when I first took over the bank that when you take over a troubled institution, the regulators are very concerned about what type of business lines you're in and even though we were interested in refinancing super prime student loans there's been a lot of bad publicity about student loans so approaching the regulators right in the beginning of taking over the bank I thought would be problematic.

But as we kind of developed a rapport and reputation with the regulators in a couple of years that's when we first and I guess it was probably the beginning of 2013 when we originated...middle of 2013 we originated our first student loan.

**Peter:** Wow, that's fascinating, that's fascinating. So obviously you saw SoFi come on the scene...they always say that they invented the student loan refinance product and I don't know if that can be disputed, I've never heard it disputed, but it sounds like it was on your mind a long time before SoFi started. So do you see SoFi and you think, oh, wow, finally someone's doing it. What did you think when you first found out about SoFi?

**Gary:** When we did our first loans, I didn't even know SoFi existed.

**Peter:** Interesting, interesting. So clearly you do now though, but how do you view the space then right now? It feels like there are companies like yourself who have a pretty sizable presence in the student loan refinance space, do you feel like it has still got a lot runway to go which is what others say?

**Gary:** Yeah, I do believe there's a significant runway. I think we're kind of in a unique position in that we're actually both a bank and a financial technology company and I don't believe anybody



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else really fits in that category. I think there really are a lot of advantages to that, two very distinct advantages.

The obvious one is that our funding costs are the lowest out of, I believe, any alternatives. The other one is we're a regulated institution and that might be surprising to some, but I think of our regulators, to a certain degree, is like when I go to the dentist. I really like my dentist, I don't look forward to going to see him, but I feel a lot better once it's over if I've gone to see him.

**Peter:** (laughs) Right.

**Gary:** And, you know, the regulators take a very unique and distinct approach or outlook on a bank and I think that for us actually that unique perspective, I think it is very healthy. It creates a level of rigor for us that it's not a natural tendency to do. I think that in particular resonates with our affiliate partnerships, I think there's a tremendous comfort level in knowing that we are regulated the way we are and some of the concerns that they might have or have had with what's happened in some technology companies, they feel pretty comfortable that that's not necessarily going to be the case with us. Right in the beginning, we developed a relation with the American Dental Association and I think it's worked extremely well for both of us in that regard.

I think also when you think about us you say, okay, we're a bank, there are other banks out there and their cost of funds are probably lower than ours and, in fact, they are, but although I think that larger banks have lower cost of funds than us, I don't believe that they have a lower cost of doing business as we do.

**Peter:** Right, right.

**Gary:** I think that really is a real advantage for us when we go into the marketplace. We're so leveraged by technology and the emphasis we put on it that I think in a lot of ways we have a competitive advantage over large bank institutions. And I believe over the course of time it's going to be very hard for people to compete in this space without being a bank, but I do agree with your initial statement. I mean, the market is really very significant so ultimately, our biggest challenge is really educating and making potential customers aware of this opportunity to save on average about \$20,000 on their loans. Clearly at this point in their lives or for anybody really, that's very meaningful.

**Peter:** Right, for sure. So I'm just curious, you're a small 3 branch bank in Connecticut, but student loans are...obviously people in every single state have student loans they want to refinance, what's your footprint? Do you operate in all 50 states?

**Gary:** Yeah, we operate in all 50 states and our footprint really follows the population of the United States. Those states that have the highest populations are the ones where we have done a large amount of our loans and naturally that's places like California and New York and Texas and Pennsylvania and Illinois and if for arguments sake the population of the United States, 10% reside in Texas, you'd find that roughly 10% of our loans are Texas loans.



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**Peter:** Right.

**Gary:** And we have loans in Alaska, Hawaii, Puerto Rico, really every part of the United States.

**Peter:** Right, right. Okay, so I'd like to talk about other products. I'm on your website, on laurelroad.com right now and it says student loan refinancing, personal loans and mortgages. Tell us about the other two verticals that you're now operating in, are these relatively new and how much progress have you made there?

**Gary:** Well, they're not new, there are components of it that are very new though and that's in particular mortgage. We've been doing personal loans for a while, but we haven't been nearly as aggressive as some other people out there, we're not as comfortable in kind of the risk reward profile that's really been developed out there right now. I have some reservations about the pricing that's going on.

As a credit cycle matures, we'll kind of make decisions about how aggressive to be in that area, not be in that area. That being said, we do offer the product and it's not nearly as significant as we are in student loans, but at the right time and the right place, we might choose to be more aggressive.

On the other side of that, our mortgage presence should grow significantly over the course of the next year. We are in beta right now for an online mortgage platform and this platform is totally online so you can literally stay in your bed or stay in your living room and process a mortgage with us. We expect that that will grow significantly over the course of this year.

**Peter:** So for these other products are you focusing on your student loan customers for these other products or are these really going to be, particularly with the mortgage product...are these going to be really standalone businesses that will try and generate new customers independently?

**Gary:** Well, I think it's natural to cross-sell into our current customer base and we're very excited about that because our Net Promoter Score has been very good. Aside from the fact that we think it's a very good product, we think our ability to cross-sell is very high, the potential is very high and we believe that customers with similar characteristics that aren't necessarily our current customers, we can develop unique ways to approach them and offer them quality products as well.

**Peter:** Right, okay, so I want to talk a little bit about brand because DRB has become reasonably well known in the online space. So in 2017, you rebranded to Laurel Road, what was the thinking behind that?

**Gary:** As you mentioned before, our demographic is really throughout the country and people who don't necessarily live in Connecticut, certainly the Northeast, the name of Darien or Rowayton is not familiar to them. Since our online business is such a significant presence for us, we thought that by branding that distinctly for a more cosmopolitan perspective made sense.



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That being said, it's become very successful that we're going to rebrand the entire organization as Laurel Road so it will become Laurel Road Bank.

**Peter:** Interesting, interesting. Okay, so I'm just curious, the online business you said is a big component, I mean you have three branches. Do you have an office outside of these branches where your people sit or how does it all work?

**Gary:** (laughs) That's a very good question. We have offices in New York, there's probably 30 people in New York that are more I'd say along what I'd call strategy. We have technology staff in New York as well, we have technology staff in California and we have technology staff in India as well.

**Peter:** Okay, okay, that makes sense. So as far as the bank entity it looks like you're going all in on the online space, I mean, is this the lion's share of the bank's revenue today?

**Gary:** Yes, it is and it will always continue to be, but I think we see we have opportunity to build out what we call the classic community bank in the Northeast.

**Peter:** Right, right. Okay, so you still want to do that? You're not sort of abandoning your local area?

**Gary:** Absolutely not.

**Peter:** Right, right. Okay, can you give us a sense of the scale you're at, I mean, as far as total originations, total number of customers?

**Gary:** Yeah, we've done a little bit more than \$3 billion worth of loans, that's roughly 30,000 customers.

**Peter:** Right and that's primarily in the student loan refinancing space, I take it?

**Gary:** Yeah.

**Peter:** Okay, so you are certainly one of the biggest in the country then. I just want to talk about the funding of these loans. You've already touched on it, but you're using your balance sheet obviously to fund these loans. Are you using any other sources of capital?

**Gary:** Yeah, we use our balance sheet and we also have a relationship with a sovereign wealth fund to provide us with an off balance sheet capability and that's worked out very well for us as well.

**Peter:** Right, okay. You're also pretty active in the securitization markets, can you tell us a little bit about how your deals have been trending there, and who is buying your loans?

**Gary:** Yeah, well my background really is as I mentioned, I have some capital markets and securitization background. We anticipated doing this from the beginning and we've done I think ten deals now, our last couple of deals have been triple A rated. The investors are typical of



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what entities in the securitization market would be. They're insurance companies, financial firms, whether it be asset managers.

The interesting thing about it is...you know, one of the key components of a securitization is the advance rate you get on the senior securities because the more you can get...the senior costs you less than the junior. We recently became the player in this marketplace with the best advance rate, a significantly better advance rate than anybody else in the marketplace. We're very pleased with that and I think that's the recognition from the rating agencies as well as the investors in the quality of the product that we bring to the market.

**Peter:** Right, right. Can we just touch on that for a second, the quality of the product like how...some of your competitors tout their very low default rates, can you give us a sense of how your loans have been performing?

**Gary:** Yeah, I mean, we've been really very pleased with the way they've been performing. As I mentioned, we've done over \$3 billion worth of loans, I don't think we have had \$2 million worth of defaults. A big portion of those defaults are really for death or disability and we forgive those loans. I will tell you that we had...the amount of loan defaults we have is I know the names and the stories behind each one of those. Being an old guy that I am, I don't have that good of a memory so for me to be able remember them (Peter laughs) suggests there aren't all that many.

**Peter:** Right, right. Okay, and so who is the typical customer here? Are you really going after the super prime, the business school graduates or the engineering graduates, who are the borrowers that you're working with?

**Gary:** You know, our typical borrower has an income level of about \$175,000, has a FICO score of about 760, has a DTI below 30% and a large part of our borrower base is in the healthcare area. We started out strategically to go into that sector of the marketplace and it's been working out very well for us.

**Peter:** So that's part of I guess your marketing. You talked about the dental association, this has been the verticals that you've focused on, I mean, a broader question is how are you marketing your offerings?

**Gary:** Well, we market them...I think it's no surprise the way we do that; direct mail, digital marketing and I think, as you mentioned, the partnerships are very important to us as well.

**Peter:** Right, right. Okay, so who do you view as your competition today? Is it SoFi and CommonBond, Citizens, who are you looking at when you look at the landscape, or is it really you think the biggest competition is lack of awareness, how do you view the competitive landscape?

**Gary:** I think that you're exactly right. I look at it really as a lack of awareness is what we focus on.



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**Peter:** Right, so how are addressing that?

**Gary:** I think the marketing that I just mentioned to you is a big part of it and how you go about marketing and touching people and having an awareness of who needs to be educated on the product I think is critical.

**Peter:** Right, right. Okay, so I just want to go back to the mortgage particular piece. You said you were launching a new....is it going to be a standalone website, is it going to be branded Laurel Road? What can you tell us about the mortgage product?

**Gary:** Yeah, it's branded Laurel Road, it is on our website. If someone would go to the website and you're looking for mortgage, you can click on that and then you go into our landing page for mortgage and you can literally fill out the application for your mortgage online through our website.

**Peter:** So is this sort of like jumbo mortgages you're focusing on or is it really any kind of mortgage?

**Gary:** Any kind of mortgage and I think since we're focusing on a unique cohort of borrowers, I think we can have some interesting products for those borrowers and that's really a lot of my background. More specifically, a lot of our customers have the potential to have very good earnings, but they don't have much cash right now so they don't have that much money for a down payment, but we understand their situation so we can offer them...we can be more aggressive as far as the down payment is concerned and offer them products that have let's say only 5% down payment.

**Peter:** Right, okay, do you have like a maximum loan size that you're willing to go up to?

**Gary:** No, not really.

**Peter:** Okay, okay. And where are you focusing the operations for the mortgage product, I mean, what states are you really focusing?

**Gary:** Well, the operation center is in Bridgeport, Connecticut, but the loans will be nationally as well.

**Peter:** Right, okay, okay. Well it has been fascinating, so last question before I let you go. You've really developed a unique business, particularly unique when it comes to some...like a community bank, you know, the way that you started off this business, but what's your vision for the future of Laurel Road?

**Gary:** We want to grow Laurel Road to be a trusted financial partner for people across all of their personal lending moments. Now that the world is firmly in a digital experience oriented age, consumers have much higher expectations, in how they interact with financial institutions, especially where security is involved and we think with Laurel Road we want to bridge the gap



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between security and personal touch that community banks offer and a digitally led experience and flexibility of a fintech company.

**Peter:** Okay, well that's fascinating, it's going to be really interesting to see how you guys develop and congratulations on taking a small bank and making it into a real national powerhouse. I really appreciate your time today, Gary.

**Gary:** Thank you and thank you for your time, Peter, I enjoyed it.

**Peter:** Okay, see you.

It really is interesting to me how Gary took a \$100 million bank that was obviously a very small footprint serving its local community, but has created something that is very, very different and could be a model for other community banks to follow. We all know that everything is moving online, but community banks still serve their local area and it is hard for them to grow, it is hard for them to compete with the bigger players. But when it comes to online, it is a much more even playing field and I think that is what Laurel Road has shown, that you can be a small community bank and you can become a powerhouse in a particular vertical by diverting resources and your expertise into this. It's really a fascinating story and I wish them all the best, as I said.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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