



PODCAST TRANSCRIPTION SESSION NO. 102-OMER ISMAIL

Welcome to the Lend Academy Podcast Episode No. 102. This is your host, Peter Renton, Founder of Lend Academy and one of the Co-Founders of LendIt.

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Peter Renton: Today on the show, I'm delighted to welcome Omer Ismail. He is the Chief Operating Officer of Marcus by Goldman Sachs. Now unless you've been hiding under a rock for the last year, you have heard about Marcus. They launched late last year, everyone has been talking about them, they're a fascinating company, they've done some innovative things.

But I wanted to get Omer on the show because Omer has been around from the very beginning of Marcus, he was part of really the task force that helped get this off the ground. We go into some depth about the creation of Marcus, why they did it, how they did it. We talk about the brand name, then also we talk about the platform itself, why they have kind of chosen this particular loan product and how they've structured it which is certainly in a different way to what others have done before and we also talk a little bit about their culture and what makes Marcus different. It was a fascinating interview, I hope you enjoy the show.

Welcome to the podcast Omer!

Omer Ismail: Thank you, thanks for having me on, Peter, appreciate it.

Peter: My pleasure. So let's get started with giving the listeners a little bit of background about yourself. I've heard you have an interesting personal story, that like myself you're not from this country so can you just give the listeners a little bit of background about yourself?

Omer: Sure, so I grew up in Karachi, Pakistan and was born and raised there and came to the US almost 20 years ago to attend college. I went from 70/80-degree winter weathers in Karachi to less than 0 up at Dartmouth in New Hampshire.

Peter: Oh wow!

Omer: When I graduated, I joined Goldman. I've actually spent my entire career here at the firm, I've been here close to 15 years. Most of that time, I've spent in our private equity business investing in a range of companies all the way from early stage startups to very mature businesses. My Marcus story really began about three years ago. You can call me employee zero or employee one, but about three years ago, inside our private equity business I was asked to lead a day-to-day working team to explore opportunities for the firm in the consumer banking space so here I am. As you know, we launched Marcus by Goldman Sachs last October and that was a result of the work that we started three years ago.

Peter: Okay, I do want to dig into that right now, get a little bit...I'm fascinated about it and I'm sure others are as well about how this all came to be because, you know, Goldman Sachs has



never been a consumer lender. Obviously a very successful firm, but hasn't really played in this space so I'm curious first off with how the idea for Marcus really began. I believe you were in some of these very initial conversations. Can you share how these conversations went and how did the idea come about?

Omer: Sure so, Peter, as you know, coming out of the financial crisis, Goldman Sachs became a bank and for the few years after that there were a lot of other firm businesses, existing businesses, existing divisions, that were using the bank as a legal entity and as a booking vehicle, but the firm had done very little by way of new businesses inside the bank.

If you fast-forward a few years, in the summer of 2014, our division heads and very senior leadership from the executive office got together at an offsite, this was summer of 2014, to look at growth opportunities for the firm. It was an annual offsite that they were having and a lot of the ideas at the time were around businesses or new opportunities within existing divisions, but one idea that my then boss, Rich Friedman, who headed our Merchant Banking Division, still heads our Merchant Banking Division and Stephen Scherr who was the Chief Strategy Officer for the firm...you know, one of the ideas that they talked about was new businesses that we could start in the bank.

It was really coming out of that offsite that we, at the firm, formed an internal task force of five senior leaders across different divisions and in our executive office and I was asked to lead a team that would report to this task force around new businesses that we could start. So that really was kind of the origins of what was Project Mosaic at the time and ultimately ended up becoming Marcus.

Peter: So you, I presume then, didn't just present this task force with one idea. I mean, I imagine there were others so can you share any kind of insight into the decision making process? As I have already said, it just seems like...it's obviously a departure from anything that Goldman has done before.

Omer: Right, no question and quite frankly, you can appreciate it, it's a question that we get asked a lot.

Peter: (laughs) I'm sure, yes.

Omer: You know, our canvas was very broad. What we were looking for were business ideas and opportunities that really sat at the nexus of two main factors. One, we really wanted businesses where we knew there was a significant customer unmet need, there was significant customer pain points and the second was around opportunities where Goldman Sachs would have a competitive advantage to serve those unmet needs given our approach to risk management, given our technology excellence and our technology DNA and the fact that we didn't have any legacy.

So quite frankly, that's a very broad canvas and we looked at a whole host of ideas that fit those two broad parameters. Just looking at the consumer lending space and you spend a lot of time



obviously in this space so you know it, is that there are very significant unmet needs that customers have. You know, we spoke to thousands of customers to really understand what they needed from financial services institutions and what they were getting. And it was obvious around the depths of unmet needs that the customers have and that we, Goldman Sachs, would have an ability to serve them.

So no question that it was a departure, but we felt like it was an opportunity where we had the ability to provide a significantly better product and a significantly better service to these customers.

Peter: Okay, so you said you spoke to thousands of customers, I mean, did you conduct focus groups, I mean, how'd you actually find out what these customers wanted?

Omer: You know it was a range Peter, of different research types. So we did a lot of quantitative research, we did a lot of qualitative research, some of the qualitative research was in focus groups of five or ten people. In some cases it was actually going to customers' homes with their consent obviously and doing in-depth 45 minute or one hour interviews. It was really a range of research techniques that we adopted to really get into the mind of the customer and understand what it was they were looking for. So I'll give you some examples of the types of things that we learned.

One is clearly customers feel that they were not getting products that offer them value. That was a theme that was repeated over and over and over again, but in addition to value they felt that or lack of being provided value, they felt that the products were very complex, they weren't simple. They were sick and tired, they are sick and tired of "gotchas" and non-transparent language and they want products that aren't cookie cutter, they want products that are customizable. These were themes that we noticed in the quantitative research, but then could also really get in depth when we sat down with the customer one-on-one in their home to really understand their financial needs, how they were being served or how they were not being served.

Peter: Right, right, that makes sense. So then obviously you make the decision to move ahead and we're going to get into some of the details of your platform in a little bit, but I wanted to spend a little bit of time on the brand name because you go to your website and it's Marcus by Goldman Sachs. Obviously you spent a lot of time thinking about this brand name and I'm curious why the name Marcus and also why add by Goldman Sachs to a demographic that may have...I would have thought a negative opinion of Goldman Sachs when it came to...obviously it's an organization that historically has served the very wealthy, only the very wealthy and I am just curious about the whole naming convention.

Omer: So Peter, you can appreciate there's probably no decision that got more attention (Peter laughs) inside the walls of this building and in the executive office than what name we were going to choose, what name we should choose. In the naming convention or the brand name that we were going to choose, as you correctly pointed out, we were making two decisions. One



decision clearly was what should the business be called? Should it be called Marcus, should it be called Alpha, what should the name of the business be and then two, how should it be affiliated or not affiliated with Goldman Sachs. Should we just call it Marcus standalone, should we go with Goldman Sachs and the research that we did, and I know you're going to pick up a little bit on a theme here was rather than five or six of us with the executive office deciding this around a conference table, we went back out to the customer in order to really decide what should the brand name be.

And so just in terms of process, we started with 2,000 names (Peter laughs) and we eliminated a lot for linguistic reasons, for legal reasons, some for just preference reasons and really got down to a core list of 15 or 20 names that we liked. We went back to customers and did research around what brand name would resonate and Marcus resonated well with the customer base and that was obviously a very, very...the most important factor, but it also had a lot of resonance inside this building. As you know, Marcus Goldman was the founder of Goldman Sachs and it really allowed us to tell a story to our customers around the business that we were starting and the fact that we were serving a new customer segment.

You know, as it relates to the affiliation with Goldman Sachs, again, the research very clearly showed us that when customers are applying for a personal loan, when they are giving a lot of personal information, their Social Security number, their address, information about their income, the fact that Goldman Sachs stands for credibility, the fact that the firm has been around for 147 years was a real asset in terms of customers' willingness to engage with us. It was borne out in the research and since we have launched it has been borne out in practice since we launched in October.

Peter: Right, no that makes sense. I can see how people...with that angle, personal information, people don't want to give their personal information to Marcus.com who potentially could be some guy in a garage somewhere that really doesn't have any credibility at all so that makes sense to me. Before we move on to actually the platform itself, one more question on the pre-launch phase of Marcus. How was this idea viewed inside Goldman Sachs...like to people, the partners and what have you and just even the regular rank-and-file people inside Goldman because as I said it is such a departure. Was there universal support for this, did you have to really champion it, what was it like inside Goldman?

Omer: I feel like I come to work everyday, the team comes to work every single day with 30,000 plus fans inside these buildings. You know, Marcus...you're correct in pointing out, it's a new business for the firm, it's a new customer segment that we are directly serving, but it is not a business that cannibalizes anything else inside the firm. And so if you happen to be in the Investment Banking Division or the Merchant Banking Division like I was or the securities business, you know, folks across all of our offices really are rooting for our success and it's new, you know, Goldman Sachs in this format has never really advertised.



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We have a public site where customers can engage so there's no question, as you pointed out. It's new for us, but it's one that folks across all of our various divisions/offices are very, very excited about.

Peter: Right okay, so let's dig into the actual platform itself. You go to your homepage and you've got it right there on your page applying for a loan, it's pretty simple, but can you just explain to the listeners exactly what your loan product is, what's the range of rates, terms, amounts, that sort of thing?

Omer: Sure, sure, happy to. So it is an unsecured personal loan, it ranges in size from \$3,500 to \$30,000. The rates are from 6.99% to 23.99%, the average rate for our customer is in the 12% to 13% range, the loan maturities are between two years and six years and I'll walk through maybe just a couple of the prominent product features, again, all based on customer research and hearing from customers of what they wanted from a loan product. So one, back to the theme of value, our product has no fees, it has no origination fees, it has no pre-payment fees, it has no late fees so we have no fees ever.

The second thing that I would say is that one feature that we heard very loud and clear from customers when we were doing the research phase was around every loan product that is offered in the marketplace today, customers are asked how much do you want to borrow and how long do you want it for? We heard from customers that they don't really think about how much do I want to borrow and do I want it for four years or five years. They really think about it in terms of I want \$15,000 and I want to pay \$350 a month or \$400 a month. And so we have created a user experience that the customer can toggle those two inputs and the maturity actually ends up being an output. So you could have a loan that's 25 months, you could have a loan that's 33 months and so we don't stick to very regular 3-year/5-year loans.

There are a couple of other examples I can give you of the fact that we have been able to create this product from a clean sheet of paper with no legacy technology. Using Goldman Sach's balance sheet really allows us to serve customers and create features that they are really looking for.

Peter: Yeah that is, when I first noticed when you guys launched, I thought that was a good innovation, particularly the...there's no reason why we should offer 3-year and 5-year loans because in this day and age, let's face it, it's just a mathematical calculation if it's 33 months or 36 months or 40 months, it's very simple. You know, an amortization table can be adjusted very, very easily and I think that's been a good innovation. I'm surprised that others hadn't jumped on this.

So what about loan purpose, I mean, we obviously have with the Lending Clubs of the world where debt consolidation is the main play here. It seems like that's your play as well. Your website leads with "debt happens, it's how you get out that counts" so is this really a debt consolidation, is this the primary purpose?



Omer: It is. You know, Peter, back to the planning phases of the product and the business, I'm sure you're very familiar and your listeners are very familiar with some of these stats and numbers. There are millions of customers in the US; credit worthy, responsible customers that have gotten stuck in the cycle of debt for one reason or another. Something happened where they broke their ankle while skiing, their kid had to get braces, there was a leaky roof and there are millions of these customers that are stuck in a cycle of very, very high interest rate credit card debt.

We are providing them with a product that allows them to refinance their debt at rates that are 300 to 500 basis points lower than what they're paying currently on their card and so that is the main purpose of the product today. Obviously we do have some customers that are choosing it for another purpose, but a lot of our messaging and our targeting is focused on the debt consolidation market.

Peter: Okay, so then do you see as your competition...I mean, that's what obviously Lending Club and Prosper do, the same thing as far as their core customer, do you see those people as your competition primarily or are you looking at this as the competition really is the credit card companies? Who are you really going after?

Omer: We, at Marcus, really view our competition as inertia. We've done a lot of proprietary research and 70% of customers in our target segment, so customers that have high credit card debt or high personal loan debt, don't even know that a product like this exists that could allow them so save 300 to 500 basis points and that really is our competition. A credit card is a very effective way to spend money. We believe that a personal loan is a much better way to borrow money to be able to pay it off and get out of the cycle of debt. So our focus really is on letting customers know that a product like this exists, that it is a better way for them to borrow and get out of the cycle of debt.

Peter: Okay, so then how are you letting these customers know? Is it primarily direct mail, how are you getting the word out?

Omer: You know, we use a whole host of marketing channels. We do direct mail, as you mentioned, we have a whole host of digital advertising and marketing channels, we use display, we use paid search, we use search engine optimization. We are also available through some of the aggregator sites and so there's a wide variety of mediums that we use. We use a lot of social, including Facebook and Twitter, and so we want to reach the customers where they are to be able to let them know that this product offers them the things that we believe they are not getting today. This product offers them, as I mentioned, value, it offers them a simple way to sign on and it offers them a solution that is really customizable to their needs.

Peter: Okay, so you've been going about seven months as we're recording this. Can you let us know how has it been going, can you share anything about loan volume, performance. How has the first seven months been?



Omer: You know, I thought you'd ask me that (Peter laughs). So, unfortunately Peter, I can't share any specifics on numbers, but I'll say a couple of things. One, we're still early in terms of when we launched, but in the early days I would say, knock on wood, we're feeling pretty good. We obsess about data here and we know that our brand is resonating well in the marketplace, we see our direct mail response rates which are higher than industry average, we're seeing the engagement that our social media posts and content are getting relative to competition and we feel really good about that and we really track all of the customer journeys that happen on our site in ways to make sure that where there is room for improvement, we are improving. So can't, unfortunately, share numbers, but the data so far, early days we're feeling pretty good about where we are and the [inaudible] for the business.

Peter: Okay, so then I presume all of the loans are funded from the bank's balance sheet. Is that correct? You're not taking any outside capital?

Omer: We are not. The loans are funded on GS Bank's balance sheet and the point that I made around the product feature, for example, where we have the ability to ask customers how much do you want to borrow and how much do you want to pay a month and the fact that the maturity ends up being an output, that is really allowed by the fact that we're not creating a conforming product to sell. So we think that our desire to hold these on our balance sheet is actually a competitive advantage in our ability to create products that customers want.

You know, I'll give you another example. You know we heard in our research that one of the things that really annoys customers is they feel like they are credit worthy, responsible borrowers, they always pay on time and then one month, let's say during Christmas where they have outside spending needs, they want to be able to skip one payment, but they're not allowed to do that and they get hit by late fees from other lenders. So we've created a product here where if you pay for 12 months on time, you have the ability to skip a payment. Again, we're allowed to have that feature here by virtue of the fact that these are on our balance sheet and it's not something that we're selling off to the marketplace.

Peter: So just with that you are planning on holding these loans through maturity, is that correct? There's not going to be a securitization program coming anytime soon?

Omer: We do not have any plans on that.

Peter: Okay, so I want to talk a little bit about the culture and how it's different to Goldman Sachs's culture which is obviously fairly well established and often written about, but I'm curious, what is the culture like inside Marcus and how is it similar to the regular bank or even the 147-year old investment bank. How is it similar and how is it different?

Omer: So Peter, one thing that I believe, having been at Goldman 15 years, you know, Marcus, new business for Goldman Sachs, new customer segment, but Marcus is Goldman Sachs and Goldman Sachs is Marcus. That is the philosophy with which we have gone about building this business.



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Now you are correct, there are some differences between the Marcus culture and some other divisions of Goldman, but quite frankly, there are a lot more similarities in the cultures of Marcus and investment banking or merchant banking, as an example, two divisions where I spent a lot of time. Maybe I'll walk you through some of the similarities and then I'll also shed some light on some of the differences.

So one, at Goldman Sachs, clients come first. It's something you are taught about the first day that you walk into the firm. It was true the three years that I spent in our investment banking business, it was true the ten years that I spent in our private equity business and it is absolutely true in Marcus. We want to create products that serve our customers' and our clients' needs.

The second thing that I would say about Marcus culture relative to other parts of the firm is that Goldman Sachs is a star-team culture, not a star-athlete culture. As I mentioned, going from employee zero/employee one to over 250 employees that we have today, we have tried to create an ethos of no individual contributors, the team contributes together and that is, again, true for other parts of the firm and it's absolutely true for Marcus.

Now there are differences, for sure. The floor is a lot more casual, we have a popcorn machine, I've never seen this much food in my life (Peter laughs) in any part of Goldman. I've put on more weight than I'd like. You know, our chief architect has a nose ring, people wear jeans so there are definitely aspects that look different relative to folks that work in the investment banking division. You know, we write on everything, we write on our walls, we write on our tables, we write on our windows, again, that's very new, but one of the things, Peter, that's been really cool to watch over the last couple of years is how the Marcus culture is now influencing other parts of the firm. So we have a weekly huddle where the entire Marcus team gets together and talks about a particular topic for the week.

I was in a meeting last week with the head of our HCM, Human Capital Management, our HR area and Edith Cooper who heads up HCM was telling me that she started having weekly huddles. I was with the chief technology officer of Goldman and I went down to his office a couple of days ago and I noticed that now he has white walls so it's actually really cool to see how folks at Marcus are actually influencing other parts of Goldman.

Peter: Okay, so where are these 250 people because I know you've got a big facility in Utah, obviously New York City, are they sort of in both locations, where are they predominantly?

Omer: So we're roughly split evenly between New York and Utah. All of our loan specialists are in Salt Lake in Utah. The firm actually has a big presence in Salt Lake. You know, one of the things that we heard from customers again in the research phase before we launched was the fact that clearly customers want to be able to do everything online, they want to be able to do things digitally, but when they want to speak to someone and debt can be a very emotional topic for them, they want to be able to reach someone right away and so our loan specialists are in Utah.



They're 100% Goldman employees, they're obviously onshore and one of the things you may have noticed on our site is that we don't hide our phone number. We want to make it easy for our customers to be able to do things online, but if you want to reach someone, the phone number is on every page of the site rather than clicking through six different things to get to it. So we're very proud of the loan specialist center that we have created in Utah for the Marcus business.

Peter: Okay, we're almost out of time, but I have a couple more questions.

Omer: Sure.

Peter: How do you measure success for Marcus, I mean, obviously you've got metrics and goals that you've set for yourself, but are you wanting to be the largest consumer lender in the country. What can you share about measuring success?

Omer: So Peter, the thing that I'll say is the market here is extremely large and unlike, for example, the investment banking business where as I mentioned I spent a few years where we've been number one market share ten years running, you know, the success of this business is not predicated on us reaching those types of numbers. We have a very long term view of this business and our view is we really want to pick our spots where, as I mentioned, there are significant unmet needs and Goldman has an ability to serve those customers.

Success here will really depend on, is our product resonating with our customer base and in the marketplace? That really is what we are measuring. Are the reviews we're getting on Facebook, are the reviews that we're getting on some of the aggregator sites, to the calls that we get into our call center, into our operation center...are we seeing in the voice of the customer the things that we set out to do? That's really how we're measuring success, in terms of as we benchmark it to our goals.

Peter: Okay, so one final question, Omer, what's next for Marcus? I mean, there's lots of other lending verticals that you could attack, there's similar challenges, unmet needs in small business, in student, in auto, real estate, I mean, these are all pretty large segments so what can you tell me about...what are your future plans?

Omer: So what I would say, Peter, is today we do not have any plans to enter another product segment. In order to assess what we might do next and we look at a lot of different things, the criteria will be exactly the same as we did when we evaluated whether or not we should enter the consumer lending space.

One, is the market large and therefore our success is not predicated on achieving very high market share? Two, there are significant unmet customer needs and pain points and three, Goldman Sachs has competitive advantages where we can serve the significant customer unmet needs that exist. That will be the criteria with which we will evaluate any further opportunities, but again, as I said, we're early in the launch of Marcus, we're very focused on it and we don't have any immediate plans today of entering a new business.



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Peter: Okay, we'll have to leave it there, we're out of time but I really appreciate you coming on the show today, Omer, it was a fascinating conversation.

Omer: Thank you so much, Peter, appreciate it.

Peter: Okay, see you.

Omer: Take care.

Peter: As I said in the introduction, I mean, a lot of people have been talking about Marcus by Goldman Sachs really ever since we first found out about it which was about 18 months ago, or even more than that now, where Goldman Sachs was going to launch a consumer lending platform, it's been talked about a lot. I've come to the realization which has been cemented really after this interview that Goldman is going to be a very strong competitor. The Marcus product is a strong offering, I mean, there's no fees, they've got flexible loan terms, they clearly have approached this whole process in a very thoughtful way.

Now they have 250 people already, they're clearly already one of the larger platforms in the US. I feel like they have got everything in place for them to be a big success. Some people have said in the past that they think Goldman is going to struggle. I'm sure they're going to have some challenges along the way, but I'm certainly not going to bet against them. I think Marcus by Goldman Sachs is going to end up being a very successful business for them. Thankfully, I think the market is big enough for everyone.

As Omer said, their biggest competitor they feel is inertia. I feel right now we have a product that's still not sort of front of mind of all consumers as it should be and I think Marcus is going to, in many ways, help the industry with sort of providing this sort of installment loan product, how it should be really front of mind of all consumers and I think when that happens, clearly, there's going to be enough business for many, many companies to succeed in this space.

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

(closing music)