EPISODE 261

[INTRODUCTION]

[00:00:30]

FT: Happy Monday everyone! Welcome back to So Money. I'm your host Farnoosh Torabi. A special episode today, I'm dedicating the entire show to all my student loan borrowers out there. I know you listen to this program, I know you're dedicated to getting ahead financially, and I also know that this is an extremely challenging issue. Overcoming student loan debt in this country is quit the task. We have more than $1.2 trillion in outstanding student loan debt, 40 million borrowers, and an average balance of about $29,000. But of course you know someone or you are the someone who has six figures in student loan debt. What do you do? How do you come up with solutions to pay this off even while having a job and even while being gainfully employed? This is really a big part of our budget.

So I've invited the co-founder and vice president at SoFi, Dan Macklin. SoFi is making a big name for itself as the alternative student loan refinancing marketplace. It is currently the second largest marketplace lender with over $3 billion in loans issued across student loan refinancing, mortgages, personal loans, and MBA loans. You may recognize Dan's name because he's also a thought leader who's perspectives on millennial and Gen X personal finance topics have been featured in a number of media outlets, including ABC, Fox, CNBC, Fast Company, and even Italian Vogue.

Prior to co-founding SoFi, Dan spent 12 years leading enterprise sales and product development at Standard Chartered Bank across London, Singapore, and Shanghai. Dan was born and raised in the UK, so he holds a Bachelor of Arts in Business Economics from the University of Durham in England. He also holds a graduate degree in Management from Stanford School of Business where he was a Sloan Fellow and co-founded SoFi there.

Several takeaways from our conversation; how SoFi gets to refinance your student loans when other institutions can't. So where does the money to support your debt come from exactly? Who will probably not qualify for a SoFi loan? SoFi looks for a very particular profile in selecting it's borrowers, it's customers. And Dan's financial philosophy — get this — don't be an ostrich!

Here is Dan Macklin.

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[INTERVIEW]

FT: Dan Macklin, welcome to So Money. This is a real treat for our listeners as I know many have reached out to me explicitly asking for more information about SoFi. So we have the man here, everybody. Welcome Dan!

[00:03:12]

DM: Hey Farnoosh. Thank you for having me. It's great to be here!

[00:03:15]

FT: Absolutely. So SoFi is a, was really a project that started out of graduate school for you at Stanford and really appropriate because not only is that were many great startups are created, but because it was started in school where so many people accumulate debt. Sounds like this was born out of simply finding a need in the market where you were. Was Stanford your test market?

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DM: It was, it was. We started at Stanford, this was back in 2010/2011. I was there for a year at the graduate school of business having worked for about 12 years in banking and I don't think that it's any coincidence that we launched, what was then, a student loan company in a place that is no different to anywhere else. In the U.S, university-wise, has lots of people with student debt, so it was a great place to do the research and to check that the business was, that we thought, was viable. But yes, our first pilot was at Stanford and we've grown from there.

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FT: You're originally from the UK; comparing the situation here as far as student loans are concerned, the crisis that we're in, can you compare it to other countries that you've visited or are familiar with? Or even compared to the UK, how bad is it in the States?

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DM: So it is different here. People borrow more money, school is more expensive. Where I'm from in the UK, I'm just about closing in on 40 now, so almost 20 years ago to the day I started at my university back in England and it was free. So all of my tuition was free. The only bits I had to pay for was my living expenses. It's changed slightly in the last 20 years or so. It's changed in a fairly big way so that now in the UK you have to pay up to about $15,000 USD a year, which for folks in the UK seems like a really lot of money.

But if you compare it to some of the prices here in the US, it seems like a bit of a steal. Other places in Europe are still free. Places around are often provided by the government of those countries. So generally in the US, there's lots of great colleges, but they're expensive and as a result people do borrow to go there.

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FT: I wanna dedicate some of our time together to learning more about SoFi and how it works, but one other question for you Dan, since you're really entrenched in this world, you have a perspective that not a lot of us get to see. With respect to where we're headed with student loans, the landscape, it's a $1.2 trillion problem in this country. If there's a shoe that has to drop, who's shoe is it going to be? Do you see a day anytime soon where we will have the ability to dismiss student loans in a bankruptcy once again? do you see a day when tuition's going to drop considerably or colleges will no longer be allowing students to finance as much to attend? What's going to have to change, really? That's the big question I think that's on everyone's mind.

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DM: Yeah I think there's a lot of issues there. So the $1.2 trillion is correct; that is how much student debt is out there. In itself, I don't think that number is a problem. If people are borrowing responsibly and they're borrowing for education that helps them then to get a career that can help them to pay that back, I think some of that $1.2 trillion is that. It's people that have borrowed sensibly, they've borrowed to fund a degree that makes sense for them. And then they get value out of it, out of the life, out of their working lives.

Obviously there's a big element of that $1.2 trillion that isn't as good, and it's people having borrowed money and gone to schools, in many cases, dropped out before graduating and then they're left with that debt. Or they graduate and they simply don't get that return on that investment, if you like. That return on the cost of that schooling that really they should be getting. But I do think there are a few issues, it isn't simply around interest rates on the debt, it's thing around how do you get more people to make sure they graduate? How do you reduce the cost of education? Can technology play a role in that?

I think all of those things can help then to make less people have debt that they can't afford. But obviously the interest rates and how you treat people once they do have debt is a big, big part of that.

[00:07:35]

FT: Right. I think one of the greatest challenges for borrowers, as you know — that's why you started SoFi — is that it's difficult to refinance as we often have loans that are federal and private. Traditional banks don't allow us to clump those two together to refinance, typically. How does SoFi make this possible? And why has it taken so long for someone to wake up to this? [Laughs] Your site says it can save borrowers about $14,000 this way.

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DM: Yeah we do! Our customers save, on average, $14,000. When we started the company back in 2011 we honestly didn't really understand why nobody was doing this. So we were the first company to refinance Federal and private loans together. And we just didn't understand why nobody was doing it. And it always was to the point where we thought, "Well maybe we're missing something?" So we almost didn't start the company.

But I'm glad we did because we're now helping people with, on average, around five or six different loans. But sometimes people have got 10, 20, or even 25 loans. You can consolidate those loans into one, but more importantly, you can refinance them at a rate that reflects who you are today. And typically that rate today is better than the rate than you borrowed at. So that's how we're able to save people money, but offering them lower interest rates.

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FT: And we're the money coming from?

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DM: It comes from a variety of places. It comes from, in many cases, from individuals. So we have people who may be more advanced in their careers and have some money to invest and they see this as a great way to invest. In addition to individuals it comes from large and medium-sized financial institutions. So a number or banks, credit unions, pension funds, hedge funds, lots of different types of entities that have money and want to invest in good things and see the SoFi member base as a very good way to invest their money.

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FT: Interest rates are going to go higher, starting this year perhaps. So how is that going to change your offering? How is SoFi preparing for this shift in the interest rate market?

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DM: So ever since we began SoFi years ago people have been talking about interest rates and it's a very relevant discussion because it affects what we do. Interest rates probably will go up, most people think they will go up. I think most commentators don't think they will go up very much, but any rise is somewhat new territory given where we've been for the last few years.

Most of our customers on the student loan side are coming to us paying about 7 or 8% today. And then coming down to take a loan with SoFi at 3, 4, or 5%.

So there's a big gap there. so even if interest rates go up, and force us as a company to charge slightly more than we do today, there's still enough of a gap between what we charge and what people are currently paying for it to be a good deal to them. So we don't think there'll be very much impact on us, at least until interest rates go up in a major, major way by many percentage points, which we don't foresee in the near future.

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FT: What makes you so excited and passionate about this?

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DM: So a few things; I mean I hate seeing inefficiencies, just generally. That winds me up in every day life. And to see people who have gone to schools, they've worked hard, they've got their degrees, now they've graduated and now they're working. And to still see them still paying the same rates that they took out five, six, seven years ago just doesn't make any sense. So that inefficiency and this mis-pricing of that risk, to me, was something that we should fix. And that's a fairly clinical way of saying it, but we actually — I'm lucky enough to speak to many of our customers and meet them face-to-face and the impact that we're having on people's lives is amazing!

So we have many people that, like you mentioned, are saving $14,000. But many of them are saving $20,000 or $30,000. And these are really life-changing amounts of money, and people now are able to be more confident about proposing to a future spouse, or having children, or buying a house, or things that — just general financial and life milestones that people want to get to, but in many ways student loans were holding them back. So that's what really makes me passionate and gets me out of bed every morning, knowing that we can help thousands more people every single month to save big and then to do the more interesting things in life.

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FT: Speaking of your customers, what are the eligibility requirements? I understand you have kind of an unique approach to underwriting that seems to prefer those who are gainfully employed, young professionals. Who is your target market?

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DM: So our target market is anybody that has student debt that has graduated and is now working. So if you are working and maybe you graduated just last year? Maybe it was 10 years ago? Maybe it was 20 years ago? Whatever it is, if you have student debt now but you're working today, then you could be a candidate for us. And we're a responsible lender, we only want to lend to people who can pay back.

And for that reason we have financial criteria that we will look at, and we look for people with solid credit histories and good financial record of paying their bills on time, etc, etc. But a lot of it comes back to whether we think you could repay that loan. So some of it is forward looking, we're not just backward looking that many of the traditional banks perhaps are. But it's a good mix, and we're getting great feedback from it, and it's allowing us to help many people.

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FT: And so you might think that this can't be someone who has a lot of debt, but in fact you do — well I've read — you help people with six-figures in student loans and other types of debt.

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DM: Oh definitely. So our average customer comes to us with $75,000. But that's the average, so there's many people with more than that and we help thousands of people every month who are in six-figures of debt. Many of the people we help have more than $200,000 of debt. A smaller number, fortunately, but still a big number have more than $300,000 of debt. Actually the largest I think that we've provides is to one person who had $850,000; that's one person.

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FT: Woah! And it's not all just student loans either because, just to be clear, SoFi helps people with all types of debt, not just the student loan variety.

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DM: Correct. I mean the numbers I gave you there were just on the student loan side, but in the last year SoFi has expanded to now offer mortgages and to offer personal loans. So obviously mortgages tend to be of a higher value, you know homes in the US today are at least six-figures, if not seven-figures in many places. So we expanded and we expanded because our customers were asking us for that.

We asked our student loan refinancing customers, "How else can we help you?" And being able to afford a home was number one, so that's why we introduced a mortgage product that only requires a 10% downpayment with no mortgage insurance. And maybe people also had expensive credit card debt and we offered a person loan that helps them to repay that credit card debt at a much more affordable rate.

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FT: I'm curious to learn more about your financial mindset Dan, this show is often all about our philosophies, our successes, our failures. As someone who has such an illustrious financial background and business background, I'm curious to know, if you have one, what is your overarching financial philosophy?

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DM: I think if I had to pin it down to one, I'd say, "Don't be an ostrich," and that meaning don't stick your head in the sand and just hope that things will fix themselves because they won't. And I see that a lot in my day-to-day business here, there's lot of people that — if bringing it back to student loan refinancing — they know they've got $50,000 or $70,000 of debt, but they almost don't want to think about it and don't want to admit it to themselves. So they just kind of make the payments and don't really think whether that's the best thing to do.

But I think, you know coming back to the philosophy, being aware of your situation and devoting just a small amount of time each week to getting your financial life in order and keeping it that way can really be hugely beneficial to you. So I think that would be the overall philosophy that I have.

[00:15:57]

FT: Right. I think there needs to be a degree of self-accountability, feeling that you do have the wherewithal, the power, and the resources to change your life for the better. When it comes to student loans I think sometimes you feel trapped, especially in the United States. "I can't refinance, and if I can't get a job it just becomes this vicious cycle," so I like what you're saying about that.

When you grew up in the UK, what was your exposure to money? Can you share with us now a childhood memory about money that captures a bit of how you see the world today when it comes to money?

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DM: Yeah. I think, you know from an early age I was relatively organized. My dad on a Sunday afternoon would get his files out, and this was in the days before laptops so it would be pencil and paper. But he'd have all these different files for all these different things, you know, expenditures and different parts of the household budget. And I think that probably left somewhat of an imprint in me and that I am relatively organized and I still have those files today and it drives my wife crazy to some extent. All this paper in the house, but I'm still a bit old-school in that respect.

And I think as a kid the first jobs I had I would always put a percentage of it in a savings jar and then use that for big purchases. You know, a new camera or whatever it was, every six months or a year. So I don't know if that's normal, but maybe it's slightly more organized than the average kid. So I think my dad was a big influence on that.

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FT: And perhaps it was in your DNA. It was your environment, but also your nature as well.

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DM: Maybe, yeah. Maybe I'm...

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FT: I don't know too many kids that did what you did. [Laughs]

[00:17:44]

DM: ...fairly analytical. Yeah. I don't know how geeky I am. You'll have to ask other people about that.

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FT: You're geeky. It's okay though, geeky's good. Geeky is very good.

[00:17:51]

DM: So I do like a nice, smart filing system that's for sure.

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FT: [Laughs] Let's talk about failure Dan. You seemed to have had a lot of success; academically successful, entrepreneurially successful, but what is — if you may share — a failure that you experience that you learned a tremendous amount from?

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DM: Sure. I think probably the biggest failure or biggest, I guess, failure in finance is loss. So the biggest loss I made was having too much of my stock — too much stock my previous employer. So my previous employer was a public bank, Standard Chartered Bank. It was a quoted bank in the UK and I would get given as every year for good performance, etc. And that was great, and the upside of that was wonderful while the price was going up. And then suddenly 2008 happened and stock prices around the world collapsed, banking especially so.

And I think I realized then that I should've had more diversification in my holding because I had too much of my money tied up in one company that was also my employer that I was also exposed to in other ways. So that definitely taught me that don't have too much of one thing. Move your money around, have it diversified. There's lots of index funds out there, etc., etc. And 2008 taught lots of people lots of things, but that was certainly one of the things it taught me.

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FT: Right, I was gonna say, it was a bit learning lesson year for many of us, especially those who worked for Lehman. We heard many stories from that collapse, of people putting so much money in company stock because you know what? It just seemed like it was never gonna go south, and then it did and it crashed and burned. But interesting that you say you like and appreciate index funds. Is that kind of your modus operandi now when it comes to investing?

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DM: It is mostly, yeah. It's not exclusively that, but I do think it's very difficult for somebody who has a job and in my case, has a family and has interests outside of these things, that it's very difficult to be on-the-ball 100% of the time picking stocks and buying and selling them at the right times. Almost impossible! So I do think the majority of most people's wealth should be in index funds just because then most of the decisioning is made for you, the rebalancing happens automatically, and then maybe there's one or two, or three stocks that you particularly like, and you can do that outside. But that should be more of an optional extra, and it shouldn't be the general modus operandi to do everything yourself.

[00:20:32]

FT: Correct. I usually ask guests about their So Money moment — so we flip it. We talk about failure, but then we talk about success. For you Dan, specifically, I'd be really curious to learn what was the So Money moment in relation to SoFi as you were bringing this to market? Was there a moment that is crystal clear in your mind that you thought, "This is going to work!" Because you sounded earlier like you had some hesitation, that you maybe weren't going to go through with this. But then you ultimately did and you ultimately now, of course, the rest is history. What was the moment, the So Money moment that you knew this was a great company?

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DM: I think that we've been lucky in that there's been lots of moments along the four years that we've been doing this that have gotten us to where we are now. And we've leant more than $4 billion, which is a huge amount of money, and we have more than 50,000 customers. So there have been many of those moments along the way. But if you're asking me to pick one, and I think it would be the successful completion of that pilot at Stanford four years ago. Because during that whole — through that pilot we had 40 people investing their own money, and we had 100 people borrowing money.

And at that point we knew, even at some small scale, that as a company we could convince people to invest and we could convince people to borrow from us. And those two things are very difficult. And many people have tried, and many people have failed, and to do both of them a the same time is especially tough. But I think at that moment we thought, "Okay, it's a small number of people, but we've proven something." And then really the last four years has been all about growing that and scaling that across different schools and across different geographies, etc. To the point now where we've helped over 50,000 people to save big, big money.

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FT: I wonder what your competitors are learning from you? And by competitors I mean the traditional banks, the financial institutions that aren't able to provide what you're providing. What lessons do you think they're learning? And if you have any examples, we'd love to here that.

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DM: I mean I don't know exactly what they're learning. That's a question for them perhaps more than me. But I'd like to think that we are influencing the market in many ways. I think we try to set ourselves apart from any competition out there in four ways: product — we wanna have the best product, which in a loan sense is the lowest rate. Second thing is experience, we need that to be easy, fast and mostly online. People nowadays don't want to have to speak to somebody, but we provide that if you want it.

That's the third point, service. We have a really, really energetic team here in the heart of wine country in California, who help people. I think service is a huge thing that is often underplayed in financial services. And I'm hoping that we're influencing people there. And the final thing is community. We have a very different and radical view to how we treat our customers. We actually call them our members, and we have a variety of things like a career services team who work at SoFi and all they do each and every day is help our members to find new jobs, or to find better jobs. And financial companies hadn't done that in the past. They'd never done that. And I think we're the only people doing that.

So we've helped more than 120 people now to find new jobs and that's good for them, it's good for us, it's good for everyone! And I think that all-round community approach is something that I'm sure the big banks and financial institutions are looking at and thinking, "Is it possible for us to adopt something like that?"

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FT: Absolutely, let's hope! Let's only hope. Now another question about your personal finances, Dan. What is a habit that you practice regularly that correlates directly with your financial success?

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DM: This is something I've been doing recently; being aware of just the highest interest rates available for cash. So have been guilty of having, you know, I think everybody should have a little bit of cash. You know, there's an emergency fund, etc. that you should have. But I just had it in my regular chequing account earning basically zero — cents of interest per month. And I suddenly realized that there was a much better way, and even though interest rates are low, you can get above 1% now through many of these online savings accounts that take really zero effort to set up.

So that's something that I've now implemented and the regular chequing is making sure the account I've got is the one paying the most interest. Because it doesn't make a massive difference on a monthly basis, but if you add it up over the year, and over the two years, and the 10 years, suddenly you're dealing with a much bigger sum. So there's some good tools out there; MagnifyMoney.com is one that I use personally that shows you all the different savings rates from all the different providers around the country. And then it provides very easy buttons for you to click on and open an account very simply. So that's just one piece of advice to make sure your money is working as hard as it can for you.

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FT: That's a good point because I think especially now with rates so low, savings rate so low, we short of thing, "Oh well, what's the difference between 0.5% and 0.3%? We just sort of leave it be wherever it is. But you make an absolutely correct point, which is that overtime those decimals can make a big difference.

[00:26:03]

DM: Yeah. And it's not difficult to do. I think a lot of people get stuck because they perceive that something's complicated and it's a hassle. But if I said to you, "If I could pay you $500 to do something that took you half an hour, would you do it?" Most people would jump at the chance and do it. And really that's just another way to look at it. If I do this now, within a year or two, or three years it's worth X amount of money. And I think sometimes you have to frame it that way to motivate yourself to put the time and effort in to look into it during a weekend when there's probably more interesting things to do.

[00:26:39]

FT: Alright, we're gonna do some So Money Fill in the Blanks now, Dan. This is the part where you rapid fire answer — well you finish sentences that I begin. Okay?

[00:26:49]

DM: Okay.

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FT: This first is: if I won the lottery tomorrow — I'm not sure if you play the lottery? I suspect you don't.

[00:26:56]

DM: I don't, but I know what it is.

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FT: Yes, you know what it is, you know what happens with you win the lottery, you could win $100 million. If you won that amount, the first thing I would do is ____.

[00:27:07]

DM: Go on a weekend with my wife, I think. And then workout what we do with the rest.

[00:27:14]

FT: You haven't taken a vacation in quite a while I suspect.

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DM: No we have, we have. I come from Europe where you have more vacation generally than the US. So I think I'm a little bit more happy to take a few days off. I think it's healthy.

[00:27:28]

FT: Yeah, absolutely.

One thing that I spend on that makes my life easier or better is ____.

[00:27:34]

DM: Silly things like getting shirts cleaned, shirts laundered. I haven't always done that, but I think the time it saves me, it's a worthwhile expense.

[00:27:44]

FT: Yeah and you gotta look good. I suspect you go to a lot of meetings? [Laughs]

[00:27:47]

DM: You have to do your best.

[00:27:49]

FT: You have to do your best!

My biggest...

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DM: I'm sitting here in a [inaudible].

[00:27:53]

FT: Yeah, who are you wearing as we speak now, Dan?

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DM: This is an English shirt maker called T.M Lewin and I just four or five sent over, they ship to the US and I get them sent over every six months or so and it means I don't have to go to any other stores and work them out. So I'm very traditional in that sense, and maybe lazy is another way to say it.

[00:28:17]

FT: No, you know what you like, you know what works. When I find something that fits really well, is well tailored, even if it's a little bit more money, I might buy multiple of those because it just means that I will wear them. I think of clothing as a cost per wear thing.

[00:28:33]

DM: I agree. Outside of these, everything else that I wear I think is bought to me by my wife. She's much more advanced in sartorial elegance so she pushes me in the right direction.

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FT: She's a good woman!

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DM: She is.

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FT: My biggest splurge that's worth every penny is ____.

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DM: Vacations, I think. I'm from the UK, my wife's from Columbia, South America, so our families are in different parts of the world and we live here near San Francisco on the West Coast. So any holiday, any vacation is relatively expensive for us because often we're going back to see our parents and our families. But I do not resent that one little bit.

[00:29:13]

FT: When I was younger, the one thing I wish I had learned about money is ____.

[00:29:18]

DM: Being aware of all the jobs that are out there. I don't know that I knew all the careers that were out there, and I think your salary is a huge component of your financial health and well-being, and I think a better understanding of the potential jobs you could do is the key driver to your financial future.

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FT: When I donate, I like to give to ____ because _____.

[00:29:49]

DM: I like to give to institutions that are accountable and that I think are going to be responsible with the money I'm giving them. So I don't give to many institutions or non-profits, but I concentrate it within a few that I know and trust.

[00:30:12]

FT: And last but not least, I'm Dan Macklin, co-founder of SoFi, I'm So Money — So Money! — because ____.

[00:30:20]

DM: Because it's important! I think it forms a huge part of people's lives, to some extent dictates how you can enjoy your life. It shouldn't be the centre of your life, but it is an important aspect of your life, so you should think about it.

[00:30:37]

FT: Dan, thank you so much for joining us. Dan Macklin, co-founder of SoFi and you're doing such important work. We really appreciate it. Thank you for sharing more about the company with us. I'm sure lots of listeners taking a lot of notes, checking out the transcript, heading over to SoMoneyPodcast.com and I encourage everyone to check out SoFi.

Dan, thank you very, very much!

[00:31:01]

DM: Farnoosh, thank you! It's been great!

[END]