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LOANS FOR PHYSICIANS, FROM PHYSICIANS WITH DR. ZWADE MARSHALL

David Mandell:

Hello. This is David Mandell host of the podcast. Today we've got a guest with a very interesting business along with his medical practice. So let me tell you about Dr. Zwade Marshall. I'll give you his bio. I've edited it as I typically do because we have very accomplished people. We don't go through everything, but we will put the full bio in the show notes. So let me tell you about Zwade and then we will bring him on. So Zwade is an Emory and Harvard trained double board-certified anesthesiologist and interventional pain management specialist. He's the co-founder of Doc2Doc Lending, which we're going to spend time talking about today. And Chief medical officer of Regenerative Spine and Pain Specialists. He attended Emory University where he completed a bachelor's degree in economics and simultaneously completed his pre-medicine coursework. In 2006, he began his path to pursue a joint degree in medicine and business MD, MBA at Emory, pursuing due concentrations in organizational management and operations. His research interests are process and systems efficiency models to improve operating room performance in healthcare settings. So with that, Zwade, welcome to the program.

Zwade Marshall:

David, pleasure to be with you. Thank you for the introduction. I hope my mom is listening. She'll get a kick out of all of that.

David Mandell:

Yeah. Exactly. Well, we'll give the link to show notes. We have a lot of accomplished folks who've been on and you're in that category. So let's start at the beginning as I often like to do, especially when talking to physicians. Where'd you grow up? What got you interested in medicine and becoming a physician?

Zwade Marshall:

Sure. Well, thanks for having me on and thanks for all the work that OJM Group does for doctors in terms of the advising and mentorship and leadership within their financial health. You might be able to tell that I've got a slight sing song lilt to my accent and it's because I grew up in the Caribbean. Technically, it's South America, it's Guyana, but certainly Caribbean by culture. Born and raised there. My dad is a quantity surveyor and so he did a lot of construction architectural type work, and my mom is entrepreneur and had a lock in concession. Grew up there, moved here when I was 16 years old to finish high school to New Jersey and then got a scholarship over to Emory and that's when things started for me academically.

David Mandell:

Got it. Well, I like your accent and if I compare it to New Jersey accent I probably would choose yours. So you didn't lose it, forget about it, that kind of thing. So we're going to spend most of today on the Doc2Doc because we could talk about your medical path. And while that is important and certainly impressive, a lot of the folks who are listening are physicians, the overwhelming numbers. So they're probably more interested in everything else because they know clinical pathways and it's things they know themselves, but there aren't that many physicians who as a young person you get interested to start another whole business and by the way, another business that helps physicians and involving physicians. So I want to spend most of our time on that. So first of all, what is Doc2Doc Lending? What got you interested in or realizing that there was even a business or a market opportunity in this space?

Zwade Marshall:

Sure. So Doc2Doc Lending is a lending platform that we design exclusively for physicians and dentists where we're able to think thoughtfully around risk and the pricing mismatch between a physician early in their careers or in training and the way the marketplace views their risk profile when they underwrite those loans and give them an interest rate. The impetus for the company's formation is by a shared lived experience that I had with about a quarter of all doctors. And my borrowing need began when I was leaving medical school and entering residency. So picture match day, so for me it was back in 2011. I found out I was going to go to Harvard for anesthesiology residency. So it's a big milestone in my life. My family was all there, I'd aspired to go. That was my number one choice of a program and I was in Atlanta at Emory.

So I had to contemplate leaving a relatively low cost living city in Georgia to go to one of the highest rental markets in the country per square foot in Boston. And I needed first last month's rent broker fee and this moving expenses. I had a girlfriend at the time that soon became my wife, did not have kids yet, but needed about 20 grand. It was 17,000 bucks for the move. I applied for loans and in the application, I was required to state my income, which was 54,000 bucks a year at the time. My debt burden was north of 200K, it was 212,000, which was a little bit less than the average graduating doctor's debt burden now.

They did a credit check, a FICO profile. Mine was sub-700. I was deemed to be a subprime borrower. The debt-to-income ratio, the low income, the subprime FICO score gained me either a bunch of rejection letters for that loan or an approval with the credit card interest rate.

And the entire process felt unfair because I was being penalized for what has become the debt burden associated with medical training and education. Not because I had any irresponsible spending or borrowing habits up until that time.

So at Doc2Doc, we look at a borrower prospectively. We give them credit for who they're blossoming into over the course of their careers. And we don't just penalize them for the fact that they're in a tough financial situation due to external factors while they're pursuing one of the most noble careers.

David Mandell:

It makes sense and it's a powerful story and I could see how you could say, "listen, I'm not alone. If this is happening to me, this is happening to a lot of other folks and can we change this for the better?" And I know there are banks that have programs for physicians, but my guess is... Sorry, my question to you, there are often for docs who are then out of training, meaning they're willing to give you that mortgage for that first house when you're... Now you've got that income that's much higher than a fellow or resident. So they may still be behind and I don't know what those rates are. So you still may be more competitive in what you're doing, but is that what you found too, that most banks have may have a physician “program” but it's not really dealing with folks until they're out of their training?

Zwade Marshall:

That's exactly correct. And so they exclude in training folks and we lend to anyone from the time they've matched from medical school into residency. So an intern all the way through mature doctors who are doing their second or third transaction or expanding a practice. What the banks have done though is they tend to either view us as everyone else where they'll force fit that physician into the underwriting process of any applicant. And so it's a targeted doctor loan, but it's kind of window dressing only. The underwriting process is based upon, that's the income ratios like I just described, or FICO profiles that we're still hurting from the years in training, 3, 4, 5 years in the practice. And so what's unique about us is that we underwrite differently. We give doctors credit for their specialty training. If they've done a specialty for the number of years they've been in practice or the number of years until they graduate and get into practice, we care about their zip code of practice is a proxy for Medicare reimbursement and MedMal insurance rates.

So we as physicians ourselves, we're able to think about the factors that pose true risk because we do believe that if a physician continues in the practice of medicine that they're a pretty low default risk borrower and we're very reputational conscious. So we don't want to be deemed to be a delinquent or defaulter. And so by and large I think doctors would be good bets from a financial perspective in their repayment ability because of who we are as people but also because of the income and the kind of way we view debt and end up and borrowing.

David Mandell:

And that's proven to be true thus far. I heard an interview with you before and I think you were saying even through COVID that your loans have been... I don't want to put the words in your mouth, but they've generally been performing even through that period because you've done a good job and because some of the factors you're saying right now in terms of physicians repayment kind of behavior. So can you comment on that? How things have been going? When did you first start in business and now what's been the rates of a default at this point in your profile?

Zwade Marshall:

You're absolutely right. COVID was a stress test for us and we are fortunate to come out of that stress test positively. We got to clean bill of health through it. You compare our portfolio performance to our peers, to our competitors who are lending to all comers. And you can imagine that during COVID, folks there were stay at home orders, there were a lot of folks that just couldn't go to work and couldn't provide for their families and so had real hardship in paying their loans. Over that period of time, we saw that our default rate was sub 1%, in fact it was sub 0.5%, just about 47 basis points, 0.47% a default rate. And it goes to the heart of the company's thesis that we're also lending to folks at other lenders don't lend to. So while their default rates were ballooning into the high single digits and double digits we saw and they're only lending to prime borrowers in the personal loan space.

So to be clear, we're giving personal loans. There's no collateral. We're banking on the fact that you're going to repay us and if you didn't, we don't have an asset to secure that loan. So because of the risk of that underlying premise, banks don't give those loans unless you have super primer or near prime credit scores to have a decent rate. And so if you compare what we've done with subprime portfolio where some of our borrowers have FICO scores in the five hundreds, low sixes and mid sixes is very common for us and we've outperformed the most pristine lenders by several fold.

David Mandell:

And we're going to come back to that because I want to talk about the equity side, which is raising money from other physicians into a pool to make these loans. And that's obviously everything you're saying there. There's attractive to that side of it. But tell us just a little bit of your growth story thus far. Meaning you started when and... Don't have to get into the specific numbers but give us a sense of how you guys are growing.

Zwade Marshall:

Sure. Issued our first loan to a lovely Cornell medical student grad. She's first generation borrower moving from New York out to the west coast and needed to borrow money for that relocation expense. That was in June of 2019 and we've had three x growth year over year since then in the sense that we've now seeing over a hundred million in loan requests, greater than $65 million of those requests have come in the course of the last 12 months. We're seeing a very brisk number of borrowers coming back to us as repeat customers. And so our engagement with our borrowers who we refer to as members as a part of our community, they trust how we handle them and in the sense that we're very transparent. They get a call from a physician member of our team, got a physician member experience team that welcomes this, welcomes them to the group, refers to them as Doctor Mandell on the phone.

And we're familiar with where they are in their life cycle and we kind of view ourselves as the USAA for doctors. So if you tell us you're a fourth year orthopedic surgery resident, we know exactly how much more time you have before you graduate. We know exactly what kind of board exams you're taking right then. And so we're able to affiliate with them in a way that Bank of America, Wells Fargo, SoFi could not. And that has really helped catapult our growth story over the course of the past three years.

David Mandell:

Yeah. That's interesting. You mentioned Dr. Mandell, that's my brother and my father and my grandfather, not me. But because my father was worked at the VA for 30 years, I do have access to USAA and they have been my auto insurer for decades. So very interesting.

Zwade Marshall:

There you go.

David Mandell:

They obviously do a lot more marketing now, but back when I started with them a lot of people hadn't even heard of them unless they were in the military. So what do you think? I mean we see it again with 1,500 physicians, OJM starting from fellows to folks like my dad who's 80 and everything in between. We know there are physicians who are comfortable with that. We know there are physicians who... Clients of mine who say their goal is to get rid of all debt as soon as they can.

I mean that's part of their personality. Debt keeps them up at night. Obviously, it's different for those who are making money and maybe don't even have student loans anymore. They're concerned about their mortgage and other things like this. So what do you think, just in general, especially for young docs who have student loans and will have these expenses before their income gets there? What are some misconceptions they may have about debt or what do you find that they don't understand about debt when they first come to you guys say, "Listen, I may need some help here." What are some of the top things you see that you're overcoming their misconceptions or educating them on?

Zwade Marshall:

That's a great question, David. And a part of our mission is to educate our peers about debt and financial savvy is a huge stigma associated with debt burden and it's created this kind of secret existence where we suffer in silence. We're used to being high achievers and review the need to borrow or having debt as a personal failure. And I think it's admirable and aspirational to eradicate all debt, but it's impractical for many of us. Particularly, if you don't have a wealthy mom and dad or the kind of financial backing. Should you have two kids, a wife and 200,000 student loan debt when you're in residency, the math doesn't work. After taxes, take-home 3000 bucks a month and your rent is $2,800. What happens next? If you don't discuss this? Folks end up swiping their credit cards. That's the number one reason people borrow from us. It's credit card consolidation. And if you look at your APR and that credit card statement, it's north of 25% in most cases. Or they'll graduate from their training program and get aligned with cash advanced companies.

These merchant kind of payday lenders that extract a pound of flesh weekly or even daily basis out of these doctors' practices. And so a part of our aim is to educate folks on how to view debt, when is debt or leverage appropriate, how to think about debt beyond just an interest rate. Understanding what an APR means and the fees that are oftentimes hidden with a quoted interest rate when the true borrowing cost can be significantly higher. Understanding what the term of a loan effects, the overall repayment process and knowing that you have line of sight to early liquidity if you are a doctor, meaning if you needed to borrow $60,000 today but that in seven months you're signing for your first job and making 487,000 bucks per year, having a loan that grants you the ability to prepay in eight months is exceedingly important and can weigh into your decision as much as the interest rate that should because you've got only eight months of paying that rate to get rid of that loan in the end.

So a large part of what our mission has been is to demystify borrowing to add a layer of transparency and education to the lending and borrowing process to preempt the questions that are borrowers are oftentimes not savvy enough to ask, will tell them the details that they don't ask about and explain why they should know this. And oftentimes, it means comparing our product to the rest of the market and we'll explain what they should do to look to do a fair comparison that's apples to apples because most folks don't post or broadcast the level of detail that we do about their product. And so they get hooked in with a teaser rate and ultimately when a full approval comes through, it's significantly different from what they thought they were going to get.

David Mandell:

Yeah. You brought up a number of things there that I want to just comment on. One was, you even said this, but I had written this down before you gave the answer, which is debt versus leverage, right? Me coming from the MBA world and the law firm, law school world, we look at think of it as leverage and this is how a lot of wealth is created by having a balance sheet that's wise, you don't have too much. Of course, that gets into different risks, but again, and this gets back into different clients have different expectations or another comment I want to make is money scripts.

But even today, even for me and for a lot of folks who are at our position, we could get rid of our mortgage. My mortgage is three and a half percent fixed and there are plenty of my physician clients who have even better rate than that. And unless I believe I get to write off most of that, I can't do better than three and a half percent in that taxes, why would I ever pay that down versus invest? I'm not going to.

Zwade Marshall:

That's right.

David Mandell:

But I'm in a different position. I'm not coming out of training where the cash flow to service the debt is stressful. And that gets to the second thing you mentioned and I want to alert listeners, I think there is a real problem with burnout and the money stress that's involved, especially in the early days. I know Dr. Ben Domb who was on this in on our program in season two, talked about that. He remembers the stress he had as orthopedic surgeon and the financial stress and what he's trying to give advice to young docs today. And then Dr. Greg Gilot, which is somebody that you and I should probably introduce, he's an orthopedic surgeon down here at Cleveland Clinic and we had him on in season one for those who listening with... He actually... Even though he's still practicing as orthopedic surgeon, spent some time and got licensed as a financial therapist. Because he's seen so many physicians being stressed at different stages of their career from a financial point of view or having expectations or what they call money scripts.

They had his partner on who's a therapist and they're talking about what people's stories they tell themselves about money and how it can get them in trouble or create a lot of stress in their life, even if they paid off their student loans because you have something called lifestyle creep. "Oh now I paid... I'm a physician, I got to have the biggest house on the block, I got to have the Porsche, I got to..." And that can lead to stress even when the student loans are long gone. So as you're helping, and I like the fact it's sort of a membership organization, you're helping docs maybe a lot of them in the younger stage, they'll still need education, whether it's coming from us or for you or some kind of joint venture on avoiding mistakes and being financially healthy and mentally healthy around money all the way through. All the way through.

Zwade Marshall:

That's exactly correct. And in many ways it's rational. It makes sense to me why so many of us have an unhealthy relationship with money. You think that of we... Basically, mortgage our youth into this career soldier and it's this delayed gratification as well. So while we're in libraries and hospital quarters 80 hours a week or more, we're also paying to do so at an extra ordinarily fantastic rate. It's a lot of money that goes into becoming a doctor and you're counting on this future time when it's rainbows and skittles and the life gets so much better. And then you arrive at that place and you realize there's a whole lot of other stuff that goes into medicine today. There's insurance reimbursement and the erosion of margin for practices. There's a consolidation of healthcare and hospital hiring practices. There's pandemic and the real mental and emotional toll it takes on caregivers and providers who are fearful of risk of spreading disease that they pick up at work with their loved ones at home and they're showing up in the front lines as well.

And so you come to this point of arrival and realization that this is not what I thought it was going to be. But you've already incurred the $250,000 worth of debt. And it feels like if I just got rid of that quickly, I'll somehow be free to do whatever I want. And at the same time, while your friends that went to law school and business school, the David Mandells of the world, were buying their first second homes, they're getting married and they're now looking towards a life of retirement in the horizon, we're just starting. And so to play catch up it feels like to write the world of the wrongs of being in this purgatory for all these years, maybe you do deserve that Mercedes Benz or the Porsche. Maybe you do deserve to buy that first home with the pool because this should have been your second home, if you started off when everyone else did.

And so having folks kind of reframe and rethink what happiness is in the practice of medicine, what satisfaction is and the fact that we're able to provide for our families in a way that's certainly beyond the average American income, but also provide in a way that's meaningful to the lives of others. What we do every day makes a difference in people's lives. And there's a satisfaction that many of us get from being so valued by our patients and our communities because there's still a lot of respect around what being a physician. And reframing and rethinking about what the impetus for the career was and thinking about how to then put your specific financial situation into that context and lens and understanding that the debt that's already incurred was reasonable and it helped you get to the point in which you can now practice your craft and being thoughtful around the planning for the next steps.

And hence we'll give the loans to help them bridge. But we rely upon the folks like OJM to help with the education and the planning and the perspective, estate thoughtfulness as well for families and helping so that their kids don't have to have the kind of debt that we had and they can be thoughtful about leverage and not debt.

David Mandell:

Yes. And we could talk for a long time because we're getting into a lot of topics that I think are very interesting. But one, two things that I wrote down as we were talking. One is it is helpful for a firm like ours and Michael and some of the younger guys I think to help somebody to create a financial model for them so they have some idea where they're going. Doesn't mean they're going to know exactly when they're going to retire, but we can model out best medium, worst case and that can often take stress level down. Right? Say. "Okay, I can get the Mercedes but you can't get the Mercedes and the house with the pool and the vacation to Paris." You can choose one and it still works. Okay. "But okay, I can do that and I haven't gone overboard." That's one piece of it.

The other piece of it is... And certainly, when we're helping docs with disability insurance, I think it'll give them some comfort to say, "Okay, well the net present value..." Again another business school term. "... Of your future income is millions of dollars." So you are a millionaire, you may have 250,000 of debt. But your asset, meaning your ability to earn income is probably worth 10 million. So you got to go out and earn it. You want to make sure you don't get disabled. That's why we got to get insurance and protect or what are some life insurance if you have dependents, et cetera. But again, if you think if it balance sheet wise... Yeah. You've got this debt here but you've got this asset here and say, "Okay, well maybe I didn't..." All that money didn't go to waste or can make people feel may in some ways more productive in lower stress levels, which means they can actually go out and enjoy the benefits of the career the value and appreciation they're getting from their patients.

I think there's really a true... If you have a financial plan and you just know that you're being responsible on that side and you have a game plan, then you can be a better physician because you're not stressed.

Zwade Marshall:

That's exactly right.

David Mandell:

Or is as stressed.

Zwade Marshall:

That's exactly correct.

David Mandell:

So we were coming at it in different ways. So before we end, I want to talk about the other side of it for a minute, which is... You mentioned, and we were talking before we recorded, that you've got this investment pool that makes these loans. And that some of that there's an institution involved, but some of that is coming from physicians who say, "Listen, I believe in what you're doing. I was there. I think these are good risks and I'd be interested in maybe putting capital there because I think we can get a good rate return and I just believe in the mission and I think there's also an ROI to be had." So why don't you tell us just a little bit about that side of it, because I think some of the folks who are listening might be of interest.

Zwade Marshall:

Sure. So we've raised just north of $8 million in total in non-dilutive and dilutive capital from doctors because they get the mission, they understand it, they felt the pain and they want to be helpful and pay it forward. And additionally, the ones that have invested with fervor, appreciate the upside potential of an early-stage company and the growth that can be very accretive to their pocket books with the investment. So we've done a pre seed, seed and now a bridge round already. We'll be embarking in a series A in the course of the next six to 12 months or so. We expect that series A will be led by an institutional investor. So you're talking about some venture capital private equity group or an insurance company or something like that. But we'll certainly make room for our peers to continue to invest because of the mission.

Now the investment, what comes with it is a layer of insight into our business model and growth because our investors become some of our biggest champions for marketing. If you're able to write a check for a hundred thousand bucks in Doc2Doc, you likely have a practice or are under in a sphere of influence. Where if you're meeting peers and junior doctors that may need access to capital... And I don't want to give the impression that only junior doctors borrow from us. We've got investors that are also borrowers because of, to your point, leverage. If you're buying a commercial building and you need to have a chunk of equity capital and you just don't want to move money out of your fixed asset allocation for that investment, they come to us and they pay us off quickly because we have no prepayment penalties. And so it's meant to be this community of members who are educating themselves and make some maybe savvy and educated about some of the financial perils and risks out there, but also understand that it's important that we all as a community take care of each other.

And so that's what we're aspiring to hear at Doc2Doc. And so we welcome any interested future investors, they'll get my contact info from you, David. I'll make sure that it's on the website as well. And we're happy to entertain questions, comments, and keep them abreast of future rounds. We have a newsletter that we issue on the investor side that details our month over month and year over year performance and we'll make them preview to that as well so they'll feel good about their future investment.

David Mandell:

Yeah. So I think it's folks who are listening or maybe folks who are interested in that or just helping out a younger colleague and making an introduction. I wanted to do this podcast so folks could just know that this business exists and that it was founded by real physicians who practice every day and helping other docs. So I think it's really valuable for folks to hear about this. So I try to keep this time limit to where we are. I think we've got a lot of good insights here. I ask all the docs this and I'll ask you, what's one thing and especially about in your area, but it could be anything about personal finance. What's one thing you think that is, all docs or younger docs, especially folks you're talking to, should understand about the space you're in, about borrowing money, about the challenges of cash flow and all of that? What's one kind of big idea that you'd lead people with?

Zwade Marshall:

I think it's worthwhile to spend some time being thoughtful and thinking about the way interest works, compound interest, both on the investment side and on the debt side. I think it was Einstein that said, "He who understands compound interest earns it. He who doesn't pays it." And so we've done well at many things as doctors, particularly the sciences. But finance is not intuitive. It requires a level of diligence and thoughtfulness around about it and being honest and humble in terms of approaching your financial profile and knowing that with some research, great advisors and effort, it can all be solved. So we are here to be one such resource within an armamentarium of folks that can be helpful to them.

David Mandell:

I agree. And I think your mission and what you guys are doing impressed me from the beginning. And it's not different in some ways than OJM's mission, which is helped physicians, right? It's just different pieces of it. And like you said, in this world of trying to get where you want to be, to be happy, to be financially secure, et cetera, you're going to need different experts along the way. I still don't see my pediatrician when I saw... When I was a kid, I need different experts along the way to keep me healthy. Right? And so wealth health, as we like to call it, no different. So is what I really appreciate you being on. I'm sure in the future we'll have you guys on one of your partners to update us on what you guys are doing. And thanks again for being on.

Zwade Marshall:

Thank you for having me. It's a pleasure.

David Mandell:

To all the listeners, thanks for listening. As always, we'll have another episode in a couple of weeks. And for those docs out there who have something interesting to say or think you know an advisor or someone in the field that would be a good guest, feel free to reach out. I'm always looking to build the guest list for the future. So with that, thank you for everybody for listening and in two weeks you'll hear another episode.