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Handyman’s Helper: How David Zalik Skipped High School On His Way To Becoming A Billionaire

By Lauren Gensler

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David Zalik pulls his black Mercedes SL550 convertible into the parking garage of an aging low-rise office building in the outer reaches of Atlanta and removes the baseball cap that shielded his balding head from the sun. "This is a less glam version of *Willy Wonka and the Chocolate Factory,* where nobody goes," he warns me as we approach the entrance.

With that I become the first public witness to the long, irregularly shaped basement office where GreenSky, America's third-most-valuable fintech company (after Stripe and SoFi), has been incubating in obscurity for the past decade. And it's Zalik who holds the golden ticket: Last September, GreenSky raised $50 million at a $3.6 billion valuation. The 43-year-old cofounder and CEO still owns more than half of the company, shooting him well into the billionaire ranks.

His secret starts in the dimly lit labyrinth of cubicles, where employees with headsets pitch GreenSky's simple-to-use mobile app to . . . home remodeling contractors. It's an odd customer base for a fintech unicorn, but Zalik figured out that contractors are the gatekeepers of one of the great markets in America, homeowners, whom yet another tranche of the company's phone reps are cajoling to catch up on their loan payments. Collecting money on time usually isn't a problem, though: While GreenSky makes quickly approved, unsecured loans, it does so solely to borrowers with passable FICO scores, letting a slew of other online lenders chase the more marginal candidates.

GreenSky's real magic, however, is something you can't see: a model that transfers much of the risk, as well as the work, to other parties--and profits from both sides of each deal. Those 17,000 contractors not only market the loans to homeowners but also pay GreenSky, on average, 6% of the loan amount. And it is 14 deposit-rich bank partners, including SunTrust, Regions and Fifth Third (which made the most recent equity investment in Zalik's company), that are the ones that actually make the loans, paying GreenSky an estimated 1% of the balance each year to generate and service them. "We wanted to do something where we owned the transaction," Zalik says.

Ownership, but without any of the responsibilities--GreenSky isn't on the hook for defaults (though its pay from the banks varies, based on loan performance). It's a classic digital-era middleman, in the great tradition of eBay and Airbnb, to the tune of $9 billion in unsecured loans to 1.2 million customers since 2012. Zalik figures that in 2017 GreenSky will sit in the middle of more than $3.5 billion in loan volume. Forbes estimates that the company will take in $250 million in revenue this year, with profit margins that likely exceed 25% (Zalik says the company has been profitable for five years).

As with any great innovation, the real appeal of this model is that it's scalable. There's no reason GreenSky needs to be limited to, on average, $10,000 home renovations. Why not braces or appliances or plastic surgery? That's where Zalik is heading. For some fields, GreenSky offers the potential to replace credit card financing entirely.

THE GREENSKY STORY IS an immigrant's tale. Zalik's father was raised in Argentina, while his mother's family moved from Russia to China to Australia, fleeing Communism. As adults, Zalik's parents moved separately to Israel, where they met and he was born. When Zalik was 4, the family moved to the U.S., eventually settling in Alabama, where his father became a mathematics professor at Auburn.

Zalik took to the applied math textbooks lying around the house and, after acing the SATs at 13, started attending afternoon classes at Auburn, biking a mile from his middle school to the campus. When it came time for high school, Zalik enrolled at Auburn full-time instead. His parents weren't crazy about the idea, Zalik says, but he had been bored by regular classes and didn't have a lot of friends at school anyway.

At Auburn, Zalik didn't exactly advertise his tender age. As he tells it, his entrepreneurialism was born from a desire to be able to date the older female students; he figured he'd need a car before he asked a woman out. So he started buying computer parts from local distribution centers, assembling PCs and pocketing $900 on each $2,000 sale. At first, the process took him ten hours, he says, but he could soon put the 40 pieces together in just 30 minutes. He bought a beat-up Honda Civic. Then he dropped out to focus on building his computer-assembly company, MicroTech. In 1996, at 22, he sold the 20-employee firm for a few million dollars.

From there, he shifted gears, moving to Atlanta, which was in the flush of a real estate boom so giddy that Tom Wolfe chose it as the setting for his novel A Man in Full, the follow-up to The Bonfire of the Vanities, which had depicted a euphoric New York City. After a few years of investing in the overheating commercial real estate sector, in 1999 Zalik created Outweb, a consultancy for businesses trying to build websites. It was yet another time he was late to the market. The following year the dot-com bubble exploded. "We thought the future was bright," he says. "Ever since, I've been very careful about never wanting to overpromise." In 2006, he helped start RockBridge Commercial Bank, which attracted capital from an impressive roster of local investors, including billionaire Home Depot cofounder Bernie Marcus. Within three years, it had failed, costing him his $500,000 investment and a lawsuit from the FDIC. (Zalik and other directors and officers denied any liability and settled for an amount covered by their insurance.)

Yet it was a combination of all those fits and starts--in real estate, tech and finance--that yielded GreenSky, which Zalik named after hearing Willie Nelson's rendition of "Blue Skies" and deciding that green connoted energy and growth. Joined by Home Depot's former general counsel (whom he'd cold-called years before to introduce himself), in 2006 he began toying with all sorts of ideas for business credit, selling custom-designed financing services to Benjamin Moore, Stanley Black & Decker and Home Depot. Those one-off deals alone, however, didn't create a profitable business. "My wife says to me, 'David, I find it interesting you started a technology company right before the tech bubble and a financial-services company right before the financial crisis,' " he says. "I was so mad at her. But, of course, she was dead right."

Still, Zalik had determination, along with tech smarts and Atlanta connections. In 2010, his original partner sold his stake and in stepped Robert Sheft, an investor who had founded RMA Home Services, which arranged the installation of windows and siding sold at Home Depot. When Zalik hit on the idea of helping small-business folk offer instant financing to consumers, the pair naturally started with home contractors. Zalik took local contractors to lunch and begged them to give GreenSky financing a try. His big pitch: less hassle than offering their customers financing from stalwarts like Wells Fargo and GE (now Synchrony).

"Contractors are inherently lazy," Sheft says. "Getting them to use the product is the big hurdle." Thus, they're also sticky: "Once a contractor is using our product, unless you really give them a reason, they're not going to leave."

By the summer of 2013, GreenSky's contractor model had started to take off, and Zalik, with three young daughters and $10 million-plus in debt (taken out using his Atlanta real estate as collateral), was itching to sell a piece of his company. When a private equity firm Zalik won't name offered to buy 20% at a $200 million valuation, he jumped at the deal. It fell apart 48 hours before it was supposed to close.

Zalik was devastated, but it turned out to be a lucky break. That private equity firm had introduced him to Nigel Morris, who nearly three decades ago cofounded the credit card disruptor Capital One. "This product annihilates credit cards as an option" for home-improvement financing, says Morris, whose Virginia-based QED Investors specializes in fintech companies. He made a seven-figure investment in January 2014 and helped Zalik connect beyond Atlanta. In the fall of 2014, Zalik and other insiders sold 17% of GreenSky at a $1.8 billion valuation to TPG, Wellington Management, Iconiq Capital and DST Global. Two years later, Fifth Third invested at double that valuation.

NEWLY FLUSH, ZALIK has moved the executive offices into a glass skyscraper across town, but he has no interest in changing the culture now that GreenSky has surged past unicorn status. "One of the benefits of not raising $30 million when you're a one- or two-year-old company is you don't blow $30 million," he says. "You learn how to make do. You're very careful. You don't buy a foosball or Ping-Pong table."

Most of his 800 employees work in his Wonkaville and at an outpost in Kentucky, engaging in old-school stuff like loan servicing and contractor recruiting. Some fintech lenders use thousands of data points, from retirement savings and university degrees to social media interactions, to judge the riskiness of would-be borrowers (see box, below). GreenSky's underwriting is based on the same income, FICO scores and credit bureau reports that banks have used for decades. "We're very old-fashioned. There's nothing exotic," Zalik says. "It has to be safe and predictable for our bank partners." Tim Spence, the chief strategy officer at Fifth Third, concurs: "We saw eye to eye with GreenSky as it related to the character of the borrower." Another perk: GreenSky offers the bank new relationships with desirable consumers to whom it can pitch other products.

If the criteria are simple, the execution might be more so. GreenSky's innovative model relies on salespeople on the ground who sport tool belts and Timberlands, not M.B.A.s. Thus, Zalik's pride and joy, the GreenSky mobile app, employs what the founder calls the "fat thumb rule"--every function can be done on a smartphone or tablet using one large digit.

A contractor or his salesman might be sitting at a potential customer's dining table discussing new windows or a swimming pool. To seal the deal--or persuade a client he can afford some extras--he offers financing. He scans the client's driver's license into the app, then hands over his device and asks him or her to enter just three items: income, Social Security number and phone number. Some 95% of potential borrowers get a decision on the spot. Approved loans go up to $65,000, with the exact terms determined by the borrower's credit, the options the contractor elects to offer and subsidize, and the options the consumer picks.

The contractor is also in charge of working out a payment schedule with clients. The GreenSky loan money is delivered to the contractor like a normal credit card payment, via MasterCard rails, and the contractor can tap the funds--with the borrower's consent--for a deposit, for supply purchases or when various completion targets are met. (See box, p. 66.)

The biggest lure for consumers: zero-interest financing for a promotional period of 6 to 24 months. The vast majority of GreenSky's borrowers don't pay a dime in interest because they pay off the balance during that span. But if they don't, they're on the hook for the deferred interest, at rates ranging from 17% to 23%. Homeowners who worry they can't pay off the loan in the promotional period can opt instead for a lower fixed rate--typically 5% to 7%. Borrowers also usually pay a $39 setup fee, which goes to the banks.

Zalik's contractor model allows GreenSky to avoid many of the marketing costs that burden other online lenders, such as direct mail. And its bank funding has allowed it to avoid any fallout from Lending Club's admission last year that it sold loans to an investor that didn't match the buyer's criteria.

But GreenSky still faces the kind of legal headaches that are inevitable when the person who pitches the loan also receives the proceeds. For example, when Todd and Sylvia Alfortish agreed to put solar panels on the roof of their Louisiana home in 2015, they say they were told it would lower their monthly utility bills and there would be no interest on their $10,000 loan for the first 18 months. But they allege in a federal lawsuit that they were surprised to learn--after the contractor had already tapped the funds--that if they didn't pay off the loan within those 18 months, they would owe back interest from day one. (The judge granted GreenSky's request to kick the case to arbitration, as its loan agreements require. GreenSky, while declining to comment on individual cases, says all customers "receive their loan documents in the U.S. mail and can also receive them online.")

Other unhappy borrowers say the contractors either took advantage of them or requested or tapped funds without authorization. One couple rebuilding a rental home on the Jersey Shore after Hurricane Sandy alleges a contractor increased the amount of their loan and then ran off before completing the work. GreenSky declined to refund the disputed amount because the contractor hadn't promised a refund in writing, according to correspondence with GreenSky included in their suit. (GreenSky stresses it helps consumers pursue refunds if they aren't satisfied.)

GreenSky is not oblivious to the dangers of "bad apple" contractors. Its vetting process, which includes a review of a contractor's credit and history of complaints and litigation, has become more stringent over the years. These days only 60% of contractors make the cut. Those that do must complete mandatory training. As follow-up, GreenSky says, it calls the first three borrowers every new contractor works with to make sure everything is okay and severs ties with contractors who are uncooperative in resolving disputes or have "a high complaint rate" or "high severity complaints." It has even stopped doing business with entire segments, such as water-treatment contractors, where it has seen too many problems. "We have an appropriately paranoid culture," Zalik says.

Yes, but also one built to lure contractors. GreenSky's training materials describe how they can "[t]urn an $8,000 job to a $10,000 dream project" by offering promotional financing to customers that allows them to increase the "scope" of the project. In a case study GreenSky provides to contractors, Bill Goddard, head of sales at Patio Enclosures near Cleveland, reports orders are 15% larger on average now that it offers financing. "People love the idea of using our money to create their dream home and keeping their cash to add extras or meet other needs," he says. GreenSky also encourages contractors to seal the deal "by focusing on low monthly payments" rather than the total size of the loan, which might put off borrowers, even while it delivers profits to GreenSky.

AS THE SUN SETS IN ATLANTA, Zalik settles into a stuffed red armchair at Bones, a steak house, and orders a dirty martini with an extra olive. Members of his sales team trickle in. They have been signing up 800 new contractors a month, and Zalik is treating them to a celebratory dinner. "Promise me when we get to $10 billion [in loans], we're going to throw a party," Zalik says to Tim Kaliban, GreenSky's president and chief risk officer. "I want to hire a mariachi band."

Leaning forward in his chair, Zalik begins to talk a big game. First of all, he thinks GreenSky is just scratching the surface in home-improvement financing. It is also plotting a major move into e-commerce. Zalik envisions integrating financing offers with search. For example, if you search online for a washing machine, you'd be presented with a "buy now" button with the results. That could be an uphill battle, since it will force GreenSky to go head-to-head with players like PayPal Credit, Affirm and Klarna in the battle to finance big online purchases. A GreenSky bid to finance online and in-store furniture purchases hasn't taken off.

A venture into doctors' and dentists' offices to finance elective procedures like LASIK and teeth straightening looks more promising, although there's competition here, too; CareCredit, Wells Fargo and others have long offered credit cards in medical and dental offices. "A lot of consumers don't want another credit card--they just want the ability to pay for this episode of care," says Dennis Kelly, president of GreenSky Patient Solutions. Next year, his division is moving into veterinarians' offices to finance the big bills that can hit pet owners.

For now, GreenSky has virtually zero name recognition among consumers. But as it moves into new areas, without the contractors' high-pressure sales tactics to rely on, it's beginning to realize consumer awareness could come in handy. "There is an opportunity to create a brand. Something that has familiarity and trust," says Joel Babbit, the CEO of Narrative Content Group and the lone marketing guy on GreenSky's board. Babbit says the GreenSky team has spitballed various ideas, such as storefront decals advertising that a retailer accepts GreenSky as well as Visa and MasterCard, and marketing akin to the "Powered by Intel" television ads. "Nobody is going to be running Super Bowl ads," he says.

Having spent the past decade with his head down, Zalik sounds confident and ready to grow. He imagines he'll be doing billions in health care loans in short order and that in five years his business will be ten times bigger than it is now. He's not interested in an IPO at the moment, he says, preferring to stay in the driver's seat. And he'd like me to stop asking questions so he can go back to work. "Gone are the days when a consumer says they're going to go to a branch for a loan product," Zalik concludes. "This is where credit needs to be. At point of sale."

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