Podcast Transcription Session 40: Doug Lebda

Peter Renton: Welcome to the Lend Academy Podcast session number 40. This is your host, Peter Renton, founder of Lend Academy.

[music]

Peter: We have a special guest on the show today. Doug Lebda is the CEO and Founder of LendingTree. LendingTree is a public company, they've been around for a long, long time. Many of us havel have seen their ads on TV, but they've only recently attacked this industry, the marketplace lending industry, and they've gone from nowhere to being the largest referrer of borrowers to major platforms like Lending Club and Prosper and several others for that matter. So I wanted to get Doug on the show, talk about how he has been able to do that and also dig into the process a little bit and find out how the LendingTree process works for borrowers and how they've really been able to scale so quickly and become such an important part of the ecosystem today. Hope you enjoy the show.

Peter: Welcome to the podcast, Doug.

Doug Lebda: Thank you very much, I'm happy to be here.

Peter: Okay, so let's get started. You were the Founder of LendingTree which is...the company has been around for quite a long time now, but can you go back to the beginning and describe for the listeners why you decided to start LendingTree.

Doug: Absolutely, I really came up with the idea first after a frustration of getting a mortgage. I was financing a small condominium in Pittsburgh, Pennsylvania, it was a $55,000 condo and at that time the internet didn't exist in 1994. I went to what now would be known as a rate table online, it was in the newspaper and then went to one bank and they told me why that rate in the newspaper wasn't for me and got very dismissed by the loan officer, went to the second lowest rate and they kind of told me the same thing. Ultimately, I ended up with that bank and felt very disempowered by the process. Two years later, I was working with believe it or not, natural gas energy derivatives traders and saw how efficient a market could be and kind of asked the famous entrepreneurial question of why can't mortgages be like this for consumers where you can actually comparison shop for money.

Peter: So the whole idea was going to be an online process from the get go?

Doug: It was, launched the company in 1996. At that time banks were really not ready for us, took about two years until the first lender really adopted us where what I like to call mortgage entrepreneurs and you have to go back in time to the days when there really weren't automated call centers and a lot of technology, but a bunch of entrepreneurs gave us a shot and over time we increased conversion rates and really made the process work. We've also always had home equity and personal loans, auto loans, etc., but the mortgage companies really made it work. We really started taking off after 2000 until the crisis of 2008, then we've tended to restructured things, but things have been going great since then.

Peter: Okay, so let's talk a little bit about that. You've gone through two major upheavals; you went through the dot com bust and you went through the financial crisis and I think in between did an IPO, right? So you certainly covered a lot of territory, you've seen a lot of boom and bust cycles, so can you just talk us through how LendingTree was able to survive first the dot com bust and then the financial crisis.

Doug: Sure, so the dot com bust, we were very fortunate that we went public in February of 2000. We were also very fortunate that we were one of the first internet companies that really did not focus on strictly online advertising, but really built a brand offline. That was very, very lucky for us because lenders basically were telling us that we needed to be big and move their needle and make us a meaningful channel for them so we built the brand offline. We were able to actually more profitably grow with offline advertising than online advertising. The first dot com bust, the big challenge there, was basically just staying very focused on our numbers, getting to profitability and making sure investors really understood our model and so we watched our stock go from $20 to about $2 a share by end of 2001, but then we just stayed focused on our numbers and by 2002, we were profitable and in 2003, sold the company to the InterActiveCorp (IAC).

Peter: And then I think from what I gathered you took a step back from the day-to-day operations of LendingTree and you were working for IAC, but then the financial crisis comes and it sounds like you go back to the company. Can you explain what happened there and then how you were able to survive the financial crisis when basically no one was giving out a loan.

Doug: That was probably the most challenging time in our history. We grew very, very fast from probably 2002 until 2008 and as a search engine in the lending categories, we were relying on advertisers who were lenders, who pay us for calls, clicks and leads and then really focus on their conversion rates and their cost per funded loan. For those years, mortgage was very critical, but then those advertisers really dried up in the financial crisis so we had lots of very long term advertising contracts which were significantly underwater.

I decided to take the company back in 2008, reimagined the product, thankfully we had a lot of cash from IAC, which stemmed the losses for a period of time and then we made significant restructuring and significant changes to our business model, not really significant changes to our business model, but I would say tweaks to make it better, to engage customers more fully, to help the lenders convert better, shifted about half of the volume over to mobile and importantly, if we fast forward to now.

This is really the first time in our 20-year history or 19-year history that I would say lenders have the automation and the technology to really make online originations work. On the consumer side, the beauty of our business today is we've got this great brand, but consumers are still just waking up to the fact that they can get real value by shopping for money, that they can actually save money by comparing multiple offers side by side.

Peter: Yeah, for sure, so you had this famous slogan...I think you did a really good job of the offline “When banks compete, you win.” That's something that certainly was able to put you in front of people's minds, I guess, but from what I gather, is it still....people sort of get the slogan and you're, obviously, able to attract a lot of visitors because of that, but you're saying that right now, it's like the banks or the lenders didn't really have everything in place to sort of add a lot of value? Is that what you're saying?

Doug: I wouldn't say add a lot of value, I would say similar to what Google experienced or what a Priceline experienced in the early days of their company, those guys, the travel companies or Google, the advertisers couldn't convert clicks to actually close loans or close transactions, whatever they were, then it wasn’t the world's greatest channel for them.

Peter: Right.

Doug: If they couldn't convert, then we couldn't afford to pay for the advertising to drive in the customers and we focused very much on the unit economics of every customer so it costs us let's say $50 to drive in a customer, we need to monetize that customer with the lender at roughly $90 to $100, roughly a 40% to 50% margin and cover our fixed cost.

But what we're seeing now is that lenders have really automated their processes, really reduced the cost to process and fund loans across the spectrum, not only mortgages and now, again, home equity is starting to come back, but personal loans, auto loans, credit cards and small business, which is just an emerging category for us as well as student loans, student loan refinancing. So now that there is lender demand and the lenders are appropriately automated, we can be a very, very efficient marketing channel for the lenders at scale, which is very important for them, which gives us enough monetization to go drive in the consumers.

The consumer side has always been an easy piece for us from the standpoint that when consumers get the fact that comparison shopping will actually save them money, just like a comparison shop for hotels or airlines or pretty much anything else online, we really needed the lenders to have the demand and to be ready to originate at scale and that’s just really happened in the last year or so and it is still very early days.

Peter: Right, right, so when I think of your company or historically thought of your company, I thought of it as real estate loans. That was sort of the piece. Can you tell us...like you mentioned some of the different products or verticals you're working with, are you...like when did you move beyond real estate and how important are the other categories?

Doug: We have actually always been beyond real estate. We have always had all of those loan types except for small business loans and credit cards since the origin of the company. The challenge was that if we had let's say a personal loan customer come in, there weren't a lot of lenders automated enough so we would end up sending those to local finance companies. They might call the consumer back or post an offer back maybe a couple of days later and those offers weren't necessarily competitive if you go back eight or ten years, except for the mortgage category, but now that you've got all of these online lenders coming up, whether it's Prosper, Lending Club, Avant or even traditional companies like OneMain and Springleaf and many, many others and then in the small business category you've got all these start-ups as well who are lenders looking to originate customers.

They see us as a very profitable way to originate customers that meet their individual credit profiles and because of that, our revenue, on a unit basis has gone up because lenders see the profitability and they're getting good conversion rates so they're willing to bid more for every interaction, whether it's a click, a call or a lead which gives us enough money to then go do marketing. Because of our brand awareness, because of "When banks compete, you win" and that offline history, we're able to then very profitably go and find those customers, whether they're online or offline and have really built a great marketing machine to leverage the brand and go get customers, whatever the demand the lenders have.

The other nice thing that's happening is now lenders are starting to lend again more across the credit spectrum and not just to the super prime customers, which whenever you advertise, get a loan and save money, you're going to get customers really from A to Z, you're going to get all 50 states and all types of credit categories. Now that you've got innovators coming in to lend more money in different bands of the credit spectrum, that's great for us because we can do very broad-based marketing and then carve up the market for the lender's specific appetite, whether it's geography, credit band or loan type, etc.

Peter: Yeah, I could see how that brings more potential customers into the fold. I want to talk about peer-to-peer lending specifically, when did....like Lending Club, Prosper first get on your radar?

Doug: They've been on our radar since they started, probably I would say eight or nine years ago, but at their founding. They originally started in true peer-to-peer where a consumer would lend to another consumer. That model really did not scale and really did not take off until they turned it to selling those loans to institutional investors who were looking for extra yield. Once they did that, their model scaled, they had the underwriting and the processing and the servicing nailed. Now they obviously had an outlet for their loans, but the challenge for all of those companies is that they need to originate customers.

Peter: Right.

Doug: The other challenge in financial services, unlike let's say a hotel where anybody who wants to stay in a Hyatt, can stay in the Hyatt or in a Marriott or whatever it is, with credit every individual lender wants a very small part of the total credit spectrum so what we're able to do by being a marketplace is to aggregate up all of that demand and carve up the whole market and serve the lenders exactly what they want to be a more efficient marketing channel than their own. So it was really that shift from the peer-to-peer model, the consumer to institution model and the automation of the process that enabled these lenders to be really successful and enables us to then be able to feed them really significant volumes.

Peter: Right.

Doug: For most of those types of companies, we are their largest source of volume.

Peter: Yeah, yeah, for sure, and you haven't been with them for that long, I mean, when did you first start on board with Lending Club or Prosper?

Doug: I think it was about 18 months ago when our personal loan business grew from almost zero to now over $3 million a month at very good margins and for most of those companies we're their largest source of volume.

Peter: Right, $3 million a month is your revenue, is that what you're saying?

Doug: Yeah.

Peter: Okay.

Doug: That represents roughly 40% of their revenue which, again, customer acquisition is typically the costliest part of the business for any lender and that's what we solve, just like a search engine, we find you customers to meet your criteria.

Peter: So, let's talk about the platforms. Obviously, you've got the big guys, what does it take for a new platform or a newer platform to work with you. Do you work with anybody, I mean, how do you decide whether or not to add a new lender on to your platform?

Doug: We have over 300 lenders that we work with and historically, after the very, very early days, working with LendingTree and other online platforms required significant automation. However, what we've done recently, particularly for the big banks, is we've enabled them to work with us without having to make changes to their internal process.

For example, we're working with several big banks now in the mortgage space where they don't have outbound call centers and automated dialers, sometimes even automated decisioning, what we've done is we've worked with either a third party call center and third party automated decision engines so that when a customer comes to LendingTree, we can get a quote out of a third party decision engine with that lender and then we can transfer that customer to a call center who will then make sure that they use the automation to get that customer on the phone and make sure they're interested and then transfer that phone call directly to, almost like an inbound call, to a bank. So we get the benefit of the brand of the bank, without them having to actually change their process.

We've also done what we call a local introduction product where decentralized lenders who have loan officers around the country, but maybe they're not sitting in one individual center...we actually not only give you a price, but also give you the name, the address of that loan officer so that they can call you and deal with you locally. By us doing that, that's really helped those lenders succeed without having to change their model.

Peter: Right, so I just want to be clear, so you actually are calling the customer...LendingTree is calling the customer on behalf of one of these lenders.

Doug: Either LendingTree is doing it or we're helping the lender find a third party call center company with a lot of technology to call them on the lender's behalf.

We're also doing some other interesting things like for example, today, in many big banks, are saying we're one of the nation's biggest right now, who says, you know what, we don't really want to get new customers in the front door, we really want to deepen our relationship with our customers so they're willing to do what Google would call broad match with us, where they say anybody who's coming to the site, who has the relationship with bank XYZ, we want to have a chance to bid on every one of those customers and make them an offer.

That's working really, really well. We've got that live now with two banks and several others in the queue where we added a question to our form that says, who do you bank with? They can click banks that they have a relationship with and then those lenders want to bid on all of them and we call that customer retention. The banks are really, really interested in that right now and we want to work with lenders however they want to work with us. If they want new customers or existing customers, we want to help them be profitable online.

At the end of the day, if we don't make them money...we want to work with lenders who want to obviously make a profit, but do it the right way, be very transparent with the consumer and give the consumer the benefit of comparison shopping, just like any other marketplace.

Peter: In preparation for this interview, I actually went on LendingTree yesterday and I requested a personal loan and I got 17 offers from four lenders, Prosper, Upstart, Best Egg and Lightstream. I was curious that Lending Club was not part of that so I guess my question is, how do you decide which lenders basically provide offers to your consumers that are coming on and signing up.

Doug: That's a great, great question. If you match more than four lenders, we obviously narrow it down to four. My guess is that you either didn't meet the specific criteria.....so we have 15 lenders on the personal loan network and a lot more in the queue. My guess is your specific criteria, whether it was the loan amount, whether it was your particular credit score, which some people actually don't like really, really high credit scores or it also could be that the lenders capacity could be maxed out for the day because we let them bid only on so many consumers, they cap out as we call it and they only want let's say, 500 new customers a day, we cap it at 500 and then we use an algorithm very much like a search algorithm that balances the lenders conversion rates, which is really a proxy for us of the customer service and how good they're going to be as a consumer.

With obviously, our economics, which is also a proxy on conversion rate and that offers the best pricing for the consumer. We're always going to err on the side of giving the consumer the best prices in the market for you. But we also don't want to give you 15 different lenders because that both erodes the conversion rates of the lender and as a consumer sort of overwhelms them in choice...hopefully, you'll select one of them, they'll have you fill out a few more fields of information and then you'll complete the process on their site.

Peter: Yeah, it was quite an interesting process because I received emails from every one of these companies in pretty short order just following up on what I did so I can see how it's quite an efficient process. I'm not actually in the market for a loan....

Doug: When banks compete, you win. (laughs)

Peter: (laughs) Indeed, indeed. I want to switch gears a little bit, on the panel at LendIt you mentioned that half of your traffic today is coming from mobile. I find that quite amazing, mobile seems like it's changing...a lot of the lenders are experiencing similar growth in the mobile channel. You've got to put your personal information in, you've got to fill out forms, I mean, how are you optimizing for mobile? You got your main website, is it mobile first, is it desktop first or are you sort of trying to do a combo of both?

Doug: I think it's not even a combo of both. Based on whichever channel you come in from, we are optimizing against what is the best form to have you fill out based on that experience, but if you come in from mobile, unlike let's say a desktop experience, you're going to use a lot more sliders and a lot more dropdowns.

If you had told me six years ago that half our traffic would be from mobile, I would have probably laughed and I would have laughed heartily. It surprised even me, but once we made the consumer experience so that you can do it very easily...obviously, the mobile phones have become bigger and smart phones have bigger screens, it really, really works for the consumer. It's very, very easy to do.

Desktop, believe or not, still converts better from a lender perspective and I think that's just really the intent of the consumer. If you have to get up off of the couch and walk to your desktop and fill out a form or pick up the phone and make a phone call, that's really expressing a higher level of intent than seeing a mobile ad or getting an alert and just flying through on a mobile phone. But, that said, it's a significant amount of traffic and increasingly...and I see it in my own usage and I am sure you do too.

When I travel, I don't travel with a laptop anymore, I just travel with my iPhone and it keeps me in the loop and I do everything on my iPhone and I think a lot of people are moving that way more and more. So we're just reaching consumers everywhere they want to be reached and then giving lenders the type of customers that they want and trying to sit in the middle and make a match.

Peter: I want to touch on another thing you mentioned at LendIt, which I thought was very interesting. You and Aaron Vermut from Prosper had a little back and forth and you were saying that you think approval rates are too low, we should be approving more borrowers and you'd like to eventually approve everybody and Aaron was saying that's not going to happen, so how are we going to particularly...we have strict usury laws in this country where you can't charge above a certain level. I guess my question really is how...because approval rates have been an issue because a lot of these platforms don't have a very high approval rate and how are we going to increase that?

Doug: Well, one way they can do it is through LendingTree. If you come to LendingTree, your odds of getting approved once you fill out that form are much higher. If you go to any individual lender, whether it's Prosper, Lending Club or personal loans of 15 or 20 others, your odds of getting approved are lower because there's nobody sitting in the middle making a match so we're only sending to any lender the customers that meet their credit criteria, so approval rates should be higher for that individual lender.

The way LendingTree views the market over time is that there should be a risk-adjusted price for everybody. I compare it to the insurance market and that was one of the things I looked at when I started the company. I've got a 92-year-old grandmother who gets auto insurance. She pays a different rate than I pay, she pays a different rate, obviously much lower than a 19-year-old with three traffic tickets and she should because it's a risk-adjusted price. If you look at the corporate debt markets, the company on death's door right before Chapter 11 can still get financing. They just have a different bond rating than General Electric, but they can both get financing. I think what you're going to see as the market develops competitively, you're going to see particularly in the subprime areas, where people who have to today deal with check/cash stores, cash advances and the rates end up at insane levels, those rates are going to come down.

What we can do for those people is still have the lenders to compete to bring the pricing down so that the consumer gets a good deal....so if the lender still makes a healthy profit and then importantly with our MyLendingTree product where we can monitor your credit score for free and then make recommendations over time, with our alerts and our as we call it, the brain gets smarter, we can help you improve your credit rating or your credit score, just like in the corporate world.

You know if you take certain steps on your balance sheets or certain steps in your income statement, your credit ratings are going to improve from AA to AAA and your cost to borrow is going to go down. But in the corporate world, big corporations, everybody can get financing, any corporation gets financing, the rates just vary risk to risk and my dream has always been to make the consumer market just like that.

If you're in Chapter 11, you can get debtor in possession or DIP financing when you're actually in Chapter 11, which is probably the lowest grade of credit possible. I believe the consumer should get the same thing without having to rely on the local cash advance store.

Peter: Does that mean you're open to working with these short term lenders then?

Doug: Over time, today there are not a lot of...today you still have people that I would say are not...the lenders that I've met, so far, are not yet automated enough, they're still very localized and they don't yet have the consumer experience that we would necessarily want for our consumers, but over time absolutely because I think you'll have much more automated, much more ethical high interest lenders and yeah, I want to have a loan for every single consumer and then we want to be your trusted advisor to tell you whether it's a good deal.

We don't want you to do anything stupid, I don't want you to pay a thousand-percent interest rate to get three days advance on your paycheck and if that's what the result is, we would probably guide against it over time. We don't yet have those alerts and that brain built, but over time, I would absolutely hope to, that regardless of your risk. Just like the insurance market, if you've got 14 speeding tickets, you can still get auto insurance, it's just very different than my 92-year-old grandmother. The same thing should be true in the debt market. Now, we also, though take very seriously the fact that we don't want consumers to make stupid decisions.

Peter: Right.

Doug: We don't want you to borrow stupidly, we want you to borrow smartly. Now we're not going to at the end of the day stop it if you want to do something silly, but we do want to be on the side to say, hey, wait a minute, think about this. Financial literacy matters and education matters to us and we think we can do that by giving you a free credit report and then over time helping you actually improve it. If you pay down this line, if you reduce your budget, if you do take certain actions you'll improve your credit and then we alert you when we can save you money so if you take good actions to improve your credit, we will also just tell you, you know what, now that 9% interest mortgage, you can now get a 6% interest rate mortgage and cut your payments by $200 a month, would you like to click one button and you're off to the races.

Peter: So that means...I guess, you're being proactive then and you obviously have some decent data on your consumers. You know what loans they've actually accepted. So going back to the education piece, I mean, so what are you doing proactively to help consumers make better choices?

Doug: Today, what we're doing and I'll tell you today and not tomorrow literally, but where we hope to go. Today, what we're doing is giving you access to your free credit report and then we're giving you a large…we're telling you how you can improve it, still fairly crudely, but we might recommend that you, for example, pay off a credit card and refinance it with a personal loan and that would...today, we're not telling you that that would improve your credit score eight points, we expect to be able to predict that over time. Say if you take certain actions, you'll be able to improve your credit score. Just like if I were in the corporate bond market, they would say, well, if you could improve your cash flow to asset ratio or whatever ratio they want, they could say a lender or an investment banker could say, if you take certain actions, you can go from AA to AAA.

We hope to do the same thing with consumers over time; to encourage them to take smarter actions, show them what they can save. We've got some interesting social ideas around that to show people how other people like them are performing and the types of actions that they're taking.

Ultimately, our vision statement that we've had almost since the beginning is to help consumers make the smartest decisions they can at the most critical times in their lives. For most consumers and this is what still baffles me that most consumers still don't shop for money. Over two thirds of the customers will still take the first offer that's given to them because they're happy to get approved, they're happy to get a loan.

Peter: Right.

Doug: And the lender might be taking in a lot of fees, a lot of points and making a lot of money off of that and we want to help consumers make smart decisions and manage their finances appropriately, just like you do in the corporate market, but we want to make it easy on them.

What we've seen over the last few years, the consumers just want a guide, they want somebody to tell them the right answer and we're an unbiased guide. We're not in this to have them take out another loan, we're not in this just to make money, we're really in this to help them make smart decisions. If we help them make smart decisions, we can make enough money and our lenders can still be very, very profitable, but we want to help the consumer make smart decisions and improve their lot in life.

Peter: Okay, right. So before I let you go, I want to touch on one more piece that you just mentioned earlier and that's the small business area. When I actually went on to LendingTree I did not see an option for small business. Maybe I was...I don't know if you're giving it to everybody, but just talk a little bit about what you're doing for small business lending.

Doug: We have about ten lenders up and live today on small business loans. Small business is the most illiquid market I think for lending overall. Every lender has a different form, a different process, a different underwriting criteria and there are lots of different small business loans from cash loans to equipment financing, to short term revolvers, etc. so you've got a lot of products inside of small business, but that said, there are a lot of new innovators that are coming in to help automate that process. If they automate the process and they have accepted the conversion rates, we think we can really revolutionize a very, very underserved market, in the small business financing we've typically got community banks that have offered, but every community bank sees the market very, very differently.

And then you've got the SBA, sort of government black market, which is very labor intensive and time intensive and also very narrow so the more lenders that come in, the better. We're now seeing more banks come in, banks have already been in the market, but small business is probably the biggest opportunity from the standpoint that because the lenders all see the market very, very differently that by aggregating up all the demand of all the lenders if you can actually cover the entire waterfront, you can really, really help the consumer and help them with their small business financing needs and, again, take small business financing very similar to the corporate market.

Where you don't need to walk into a bank branch or need to fill out all these forms, you can now have technology that uploads your financials, that uploads your tax returns right from the IRS database that has your Dun & Bradstreet score, that has your personal financial statements and you don't need to enter in all that data, which would have been an onerous process with one lender and then you'd be happy to just get approved. Now what you can do is actually have lenders compete for that and that is very, very early days, that's probably the earliest of days, that's probably the biggest opportunity when we talk to small business owners. That is their biggest challenge.

Peter: Right, so does that mean that this is one of the key areas, I mean, what are you focused on now as far as growing your business? Obviously, you've gone from zero to the largest referrer in the peer-to-peer lending area, where are you focused now as far as growing your business?

Doug: We're actually focused on all of it. We still have about 8 tenths of 1% share in the entire US consumer lending market including small business and we expect to grow that very aggressively. We're now doing 1.5% or 1.6% of all of the mortgages in the United States and we expect to be able to grow across the categories.

Now the beauty of our business is the technology is effectively the same, it's essentially a search engine so it would be like asking Google, are you focused in mortgage keywords or pharmaceutical keywords, well we're focused on all of them.

We are adding lenders, we have more inquiries from lenders than we could possibly implement so our focus is really on scaling our company so we can add more lenders, let them zero in on their piece of the market and do it across every consumer category and then plus, add in the alerts from My LendingTree to maintain an ongoing relationship with those customers.

At the end of the day, we make money and exist because lenders see us as an efficient and profitable marketing channel for them, more profitable than they can do on their own and because consumers are just waking up to the reality that they can actually comparison shop for money.

Peter: Okay, right, that's a good place to stop. I really, really appreciate your time today, Doug.

Doug: Thank you very much, I really enjoyed being on the show.

Peter: Okay, thanks. See you.

Doug: Thank you, bye bye.

Peter: That last point that Doug made about consumers waking up on comparison shopping, I think that is...I really feel that this is going to be a trend that is going to carry this industry through to the next decade.

A loan is, let's face it, whether you get a $10,000 loan from Lending Club, Chase or your local community bank, it's still the same $10,000. It's not better necessarily if it has come from somewhere else. So what you want is something that's convenient and you want the lowest price, so those are the two factors and I can see how consumers are going to get more and more information. Companies like LendingTree are just going to get bigger and more important where.... no one is going to want to go along, not no one, but few people are going to want to go and take out a loan application at Prosper.com, Lending Club.com, Upstart.com, CircleBack Lending. It's just that it's too time consuming and not very efficient. This is where companies like LendingTree could really make such a difference.

Anyway, on that note, I will sign off. I appreciate you listening and we'll catch you next time, Thanks, bye.

[closing music]