LEND ACADEMY

PODCAST TRANSCRIPTION SESSION NO. 166 / KEN LIN

Welcome to the Lend Academy podcast, Episode No. 166. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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Today's show is sponsored by LendIt Fintech USA 2019, the world's leading event in financial services innovation. It's coming up on April 8th and 9th, 2019, at Moscone West In San Francisco. We've recently opened registration as well as speaker applications. You can find out more by going to lendit.com/usa

Peter Renton: We have a special guest on today's show, I am delighted to welcome the CEO and Co-Founder of Credit Karma, Ken Lin. Now most people know Credit Karma, they really are the leaders in consumer financial information and I wanted to get Ken on the show really to talk about how they're integrating today with the lending platforms, the credit cards platforms and how deep that integration is going.

We also talk about customer acquisition costs and how a company can go about lowering that all important number. Ken introduces us to the concept of autonomous finance which I find particularly fascinating. We talk about international expansion, we talk about the recent acquisition they did and much more. It was a fascinating interview, hope you enjoy the show.

Welcome to the podcast, Ken!

Ken Lin: Great to be here.

Peter: Okay, so I'd like to get this thing started by giving the listeners a little bit of background about yourself. Obviously, Credit Karma's a pretty high profile company, but not everyone would know about your background so tell us a little bit about what you did before you started Credit Karma.

Ken: Sure, so my first job out of school was actually with the card issuers, that was in the late 90's and Partners 1st was my first job and there I actually worked on the underwriting and the marketing/acquisition side of the business so really cut my teeth in understanding financial services space. I think in the late 90's, credit cards were probably one of the most sophisticated marketing channels out there so we did a lot of direct mail, we did a lot of one-to-one marketing and targeting.

Went to a couple of tech companies, really enjoyed that experience, but ultimately came back to finance in the form of new products which helped consumers save for their children's education as well as E-Loan which had a business in mortgage, personal lending and auto finance. The combination of those experiences is in a little bit of consulting work that I was doing with

Prosper at that time in the lending and credit card business. That's basically been about, you know, 15/20 years worth of digital marketing and financial services.

Peter: Right, right. So then let's just talk about that. What did you see....you said you worked with Prosper, what did you see was missing, what was the idea that led you to start Credit Karma?

Ken: Yeah, so I had left E-Loan when I was working specifically with Prosper and the thing that helped me was....you know, so Prosper was obviously, at that time, a P2P lending company, known as alt lending now, but while we were doing a lot of digital marketing what struck me was, you know, basically two thirds of the marketing dollars were going… being spent inefficiently so, you know, the final one third of consumers with low credit scores Prosper really couldn't underwrite. You can't get anyone to give loans at that credit range and at the highest end of the spectrum what you found is that those consumers could go to their credit unions or their banks and get...equivalent or sometimes better rates.

So as a result really is the people in the middle that was the sweet spot of lending and the other sort of the high credit and the low credit ended up being inefficient and given that we were using a lot of search, given that we were using a lot of display and digital in general, there was no means by which you could actually define that right target demographic.

I remember back in my credit card days at Partners 1st in the late 90s, we would have probably just done a credit pre-screen and eliminated all of the high credit people and all the low credit people in looking for the right kind of consumers. And that was the aha moment for me at Credit Karma. You know, it is kind of funny… subsequently a lot of the out lenders, went back to direct mail because of that dynamic, that ability to target exactly the customers that you wanted.

So we went on a parallel task to try and figure out how to build that in the digital ecosystem and that ultimately was the impetus for Credit Karma, the idea that there was a platform that could actually screen the right lenders for every consumer. That would be a compelling user experience and one that...you know, this was in 2006/2007, and the Internet had come so far, but one of the fundamental things was financial services still didn't exist and we thought we could build that with Credit Karma.

Peter: Right, so when did you sort of realize.....because, I mean, obviously now you've got tens of millions of users and everyone knows you, but, obviously you started from scratch and....when did you realize that you had a business that really had a lot of potential? What was sort of the tipping point for you?

Ken: Oh, gosh (laughs), I always forget a little bit about the big progress when you look at it on a day-to-day basis because we've been doing this for about 11 years.

Peter: Right.

Ken: When we probably got to a little north of 10 million users and we're still really growing exponentially on a month-to-month basis, I think there's a real sense that there was a lot more than a credit scoring aspect of this. There's a real need for consumers to understand more about the options that are available to them so finding out your credit score is one aspect of yhy people use Credit Karma. We realized along the way that everyone who is using Credit Karma was in market for financial services, not everyone, but a meaningful percentage.

Another meaningful percentage of our users really needed and were looking for independent advisors in the space in the sense that banks are great about sharing their products, but they're always going to promote their own products. So we found the confluence of these two items being the key driver of adoption and re-engagement over time. I think the third dimension that we really observed was that people were coming back in an inordinate amount, more than we would have anticipated from a month-to-month basis.

We realize more and more that as we build out these products that consumers were really looking for, again, this advisory or independent role when they tie into their finances because Google didn't have enough context and most of the blogs and most of the other financial services site tended to be so generic that they were not necessarily applicable and finance is one of those categories unless it speaks directly to you and at the time there weren't many, it just didn't have the appeal.

One of the things that we gravitated towards very early because we know the consumers' financial profile….writing content, writing products and features that were bespoke and I think when we did that we thought saw this level of engagement that we haven't seen before, but I think that was the driver and the encouragement for us to build out new features that were along that vein.

Peter: Right, right. I personally have had a Credit Karma account since 2011 and now I log in every month because I just want to make that everything is still okay. I want to see if there's anything on my credit report or anything that looks a little off and I think that's one of the great tools that Credit Karma has provided for many years, but I'm curious about.....right now, so you just mentioned that you're sort of going beyond just the credit score so when you describe Credit Karma today what are the kind of verticals, what are the kind of businesses that you're really in?

Ken: Yeah, so it started with the credit score, the monitoring, you know, I think we added other features like Protection, Dark Web, Direct Dispute. I think there are a lot of consumer-oriented features, but really I think from a business perspective we started with helping consumers find the right credit card, based on the credit profile all the back to 2008. We launched personal loans, I think probably in 2009 or 2010, and now were on the journey of auto loans and mortgages and the realization here is that all of these verticals work for us because consumers are looking for someone to help them navigate the complexity of their financial services life.

Peter: Right.

Ken: And when you look at the consumer Internet space, you know, Google can only do so much, right, and when you look at the overall platforms most of them have a unidimensional view on your financial life and most of the time when they have that view, they're mostly promoting their own products. I think with Credit Karma we have a point of view that, you know, the players and the Internet are not addressing this fundamental need for consumers to understand their finances.

So for us, we think about everything on the asset side of the consumers' balance sheet, everything on the liability side of the consumers' balance sheet and then insurance as sort of the hedge between the two...those are the areas where consumers struggle from and those are the areas that Credit Karma will continue to build products, will continue to build a brand. There's a fundamental view that we can help consumers get a better experience and the best outcomes.

Peter: Right, right. So then is credit cards still your number one vertical today or how does it sort of break down as to what.....on the revenue side maybe, what are the core business units you look at?

Ken: Yeah, on the side of our verticals they are relative to the number of years that we've been in them. You know, credit cards, personal loans, auto loans and now mortgages, right, what we try to do is we try to build an ecosystem within each one of those and those all take time. But, at the end of the day, we think that all of those are important aspects of consumers' financial life. And I think, credit cards specifically is one where it's not a considered purchase, right, there is always an opportunity to find a better credit card, so to speak, no matter what you have in your wallet. Something comes along and you have a credit profile for it, it is easy to switch.

Whereas, you know, I guess the mortgage rate is, or an auto loan rate is so if I'm not in the market for a car, I'm not going to buy a home or a car. So I think those are the differentials in the space. At the end of the day, we think about the fact that, you know, there's about $13 Trillion worth of consumer debt just in the United States alone and there's an opportunity for us to help consumers find the very best option whenever they are in market and really that's the brand and the products that we're establishing at Credit Karma.

Peter: Right, right, got it. So then can you just explain to the listeners how exactly you make money because i know you have these recommendations that...what is the business model exactly?

Ken: Yeah, so at Credit Karma, we've been around for 11 years and in those 11 years we've never charged a single one of our members. Our business model is pretty straightforward, we spend a lot of money buying data on behalf of our members. Our goal is to educate our membership base, build tools off of that data so they understand how the financial services systems work.

Now from a revenue generating perspective…once we have a consumer financial profile, we can obviously see how much debt they have and at times how much assets. So for example, we see a little bit more than $4 Trillion worth of consumer debt today. Now to give you a very simple example, we saw consumers who had an auto loan that they took out last year and maybe they're paying 16% on that auto loan.

When that consumer is paying 16%, we could say to that consumer....well, based on your credit profile, we think you're over paying for that auto loan. Here are some partners you would consider and before we actually show those partners, we're actually using our cloud computing infrastructure and AI, to determine the probability of approval for the loan that we're going to show them. We only show them the high probability ones, we won't show them the completely not qualified for so a 16% loan can be refinanced at let's say 11%,10.5% and 9%.

We'll share the math with the consumer, we'll try to streamline the process and if that consumer decides to refinance that auto loan with Credit Karma, you know, they'll save let's say $75 a month for the next 40 months, our banking partners will get a new customer and that customer acquisition cost might come from Facebook or Google or television today and in exchange they'll pay us a couple of hundred dollars for that new customer. So everyone's kind of a winner in that situation, maybe with the exception of the original lender who is charging the consumer too much. So that's how we create our revenue streams, it's always free to the consumer.

Generally speaking, we are being paid by the financial services company only when they book a new loan. We think that's important because we focus a lot on quality, we actually don't want consumers applying for products that they are not qualified for, we don't want consumers looking at loans that ultimately aren't going to be issued in the form of credit limits or interest rates.

Peter: Right, got it. So I want to dig into that a little bit because .....I'm actually on your site right now, on the Personal Loan section and it says I've got seven offers from Marcus, Prosper, Upstart, Citizens One, etc. and it says on each one of these...you're pre-qualified. Now it says, our partners says you're pre-qualified. What does that actually mean and is that like a 90% certainty that I'm going to be qualified or what do you really mean when you say you're pre-qualified for a loan?

Ken: Yeah, so that 90% is generally the standard that we like to work from. Now that will vary a little bit, depending on the partner and depending on some of the interaction, but that's exactly right. What we're doing is we're actually looking at credit requirements of our partners and then matching that up against the credit quality of each individual consumer. Now there're going to be some things like credit score drift, there's going to be some things like income and ability to pay qualification.

You know, every once in a while you get a lunge in OFAC or some sort of anti money laundering of regulatory constraint, but the idea is that we're going to get closer and closer to 100% and that's our internal goal at Credit Karma. We believe that this industry has been in this situation for too long and the situation being where consumers don't have a certainty of approval, they don't have the transparency of pricing and these forms are just way too long, in terms of the number (of questions) they're being asked.

So we as a platform, as a business are focused on fixing these three key tenets of lending so we want to make sure over time that every offer at Credit Karma is pre-qualified or pre-approved that it's going to 100%. We want every consumer to know what the rate is going to be, what the credit limit is going to be in advance before hitting the Apply button and when that consumer hits that Apply button we want that form to be one question, two questions or ideally, one or two consents. I think that's where the sector can go and we are building out all these technology pieces and integration with many financial services companies, you know, as we think are qualified and want to innovate in the space.

Peter: Right. So then how deeply do you get into that, like there's .....let's just take Prosper for an example here. It says I'm pre-qualified for a $10,000 loan, 6.95%, 36 months, I mean, are you they giving you their credit model or are they just giving you....I mean, what is the level of integration that you would have say with a Prosper where you know that I'm pre-qualified? I'm taking that it's more than just my credit score, right? I mean, how does that work as far as integration goes?

Ken: Yeah, so it varies by partner but you're exactly right, there's a lot deeper than credit score and I think that's one of some amount of difference of Credit Karma relative to other players in the space that, you know, might have a similar model as ours. We are getting to the nuance of each credit lending decision so (inaudible), it is no surprise to some of your listeners that credit decisions are based by dozens, I mean, at times hundreds of credit variables.

Peter: Right.

Ken: And for a lot of our partners, we're actually on that level, we're actually looking at each of the potential dozens and/or hundreds of credit variables to determine eligibility and that's how we actually can get the pricing. So you picked up an interesting note which is a lot of the times the direct mail for alt lending, you know, it will say you're pre-qualified for a loan up to $35,000 and it doesn't describe the APR.

Well we're talking about the specific dollar amount and the specific APR because we're actually looking at all of those variables of credit. There's something again that is....I think it's dysfunction in the space and the lack of innovation in financial services, we can actually bridge a lot of that on the Credit Karma platform.

Peter: Right, got it. And then as far as.....going back from the platform perspective, customer acquisition cost has been a hot topic for many years. It's obviously a very competitive space, the personal loans space today, it wasn't so much, you know, when you guys got started, but it certainly is today and I'm curious about.....you know, you've got a great window onto this. How can platforms reduce their customer acquisition cost when they're working with Credit Karma?

Ken: Yeah, I think there's a few ways, right. I think the first one is credit quality obviously. So for example, if you're approving 25% of the loans that are coming through and you're paying on cost per application, well, if you get to 100% you're obviously reducing your cost per acquisition by, you know, 75% or more (garbled).

Getting the right customer credit quality is one area that we can really gain efficiency and it's no different than the idea that we started from when we started Credit Karma, the story I shared about Prosper being 2/3 of their dollars are being inefficient. So, I think that's certainly one. I think, two, is actually reducing the friction of application itself. I think that when we look at the space, you know, more and more applications are mobile oriented, we see 80% of our traffic coming from the mobile demographic and when you're asking consumers to fill out 40 questions, 50 questions through their phone, you get a lot of fall off.

Peter: Right.

Ken: I think enabling technology can prove that. You know, we have what we call "Quick Apply" which is the ability to fill out that application, giving Credit Karma permission to fill-out that application on your behalf and then for an implementation and we see meaningful improvements there and then I think the last piece is a lot about transparency.

I think consumers really dislike the notion that...well I'm going to apply for a product, you won't actually tell me the specifics of the product until I spend all that time. I mean, imagine if you were to walk into a store, let's say at a big box retailer and they didn't tell you the price of the item that you're interested in and so you filled out 30/40 questions, like it just doesn't make any sense.

Peter: Right.

Ken: I think more that lenders can improve and innovate and disrupt. I think the better off they will be in terms of acquiring high quality customers that are fundamentally at a much lower price point than they have historically spent on an additional platform or online.

Peter: Right, right. That actually segues nicely into my question I wanted to ask you about this concept of autonomous finance. I was actually in Dublin recently early in the summer and when you were giving a presentation and you introduced this concept of autonomous finance which I thought was fascinating. So tell us what you mean by that and why it's important.

Ken: Right, when you look at consumer finance, I think there's a confluence of technology, of data, of trust. That's going to allow us for the next five years to have consumers put real trust in a technology, in a machine learning algorithm that helps to ultimately optimize every aspect of their financial lives.

I think we use autonomous finance as the driving.....when you think about driving there's a lot of nuance that comes into play, there's a lot of moral dilemmas that I think people don't really talk about because the finance is actually not that complicated in the sense that you're not running over anyone.

Peter: Right.

Ken: Lowering your borrowing cost is actually quite an objective function and optimizing the interest on your asset is also a relatively objective function We are currently in a spot where, you know, machine learning, where big data and trust allows all those things to play. So for us, autonomous finance is a notion that in five years we believe 10% of the population will completely trust the platform to determine what credit cards they should have in their wallet, where their savings account should be and how much to put away for their retirement, based on a very clear set of objectives.

You know, I think banks and financial services companies and fintech companies are finally coming around to that idea. You know, one, we think it's hot but, two, what we see in our data is that particularly around the younger generation consumers they have a lot of stress and anxiety around finances, they don't trust the big banks enough, but they do trust technology companies and they do trust compute and AI.

So I think that's where all these thesis come together and for us autonomous finance is this notion that in five years time a machine can help you determine..... most aspects of your financial life in a way that is meaningfully better and less stressful than the one that we see today.

Peter: Right, now that makes perfect sense because, I mean, really the information is out there. If you've got a home mortgage, an auto loan or a credit card or whatever it is and the information is out there, you know that there is a credit card you could be approved for or a personal loan you could be approved for that's literally going to save you hundreds of dollars a month and I can totally get that this is where we're going by having someone optimize your life.

So you know, you know when you have the information that there is no better deal out there, you have the best deal and when another better deal comes along or you've paid off something and you want to do something else, I really get that. I feel like we should be there now and I know we're not.

Companies like yours are really leading the way in trying to get us there, but I think that's going to be tremendously useful to the consumer and I think......I guess the issue is, you touched on it, there's got to be a level of trust that what you're doing is you're not sharing data that other people are going to get and they going to spam you, what have you. I guess is that really why we're not there today, I mean, like you said in five years time. What is stopping us from being there this year?

Ken: Yeah, that's a great question. I think that it probably comes in a few flavors. You hit on one which is trust, right. I think that consumers have (inaudible) platform believe that it's going to do the right thing. I mean, this is where we think a lot and spend a lot of time around independence of our offers and making sure that we have a North Star around the consumer experience and I think it makes sense.

If you're cynical from a financial perspective, from a business model perspective, it makes sense to align with the long term journey of the consumers, I think that's certainly one aspect. I think another one is scale. What's really challenging in financial services is because the large incumbents are so large, you actually have to have meaningful scale to change the paradigm.

Peter: Right.

Ken: For example, you can't get a large bank to integrate with you unless you have literally tens of millions of customers because, at the end of the day, it's a relatively insignificant amount if you have less given that there's always a crunch for more resources and more development cycles at each bank. They're not going to prioritize those types of projects. And last, I think, data is a big player in the space. It is not enough that you know that there's a lower mortgage rate, you actually have to go and have all the data elements determine eligibilities, all the data pieces to actually facilitate and generate.

For example, in mortgages, well, it's not good enough to know that I can go and lower my monthly mortgage payment by $150 because the consumer…. there's actually quite a bit of friction in achieving that...I know I'm going to have to go find my tax filing, I know I'm going to have to go and pull out my W2, I know I'm going to have to get a bank statement, I know that somebody's going to put me through, you know, a loan underwriting with stitch from Freddie and Fannie.

I think those are areas that we're spending a lot of time investing in because we know that the information and knowledge is not enough; you actually have to simplify the process to a point where you can have a simple app calling a ride share. That, I think, will change and fundamentally transform the industry.

I think you need all three of those and I think it takes time to accumulate the trust, the data and the integration with the financial services. That's really the long answer to why we don't have it today, but we certainly see it on the horizon given sort of the emergence of fintech, given the change in attitude from consumers.

Peter: Right, okay. So I want to take us on a little bit of a tangent. You've mentioned mortgages a bit and news just came out just last week...we're recording this in mid-August and you acquired the mortgage platform Approved. Can you tell us what that means, why you did that and a bit of the story behind that purchase.

Ken: Sure, so Approved is a digital mortgage, let's say, documentation, loan origination systems platform, if you will, and we think there's a really interesting synergies in the description I described. We know there's a lot of documents that need to be collected as part of the mortgage underwrite, we know there's a lot of pieces of information to determine your eligibility and provide, you know, certainty and complicity. What we love about Approved is that they were on the way to building a lot of these products.

Moreover, there's a great team over there, that came from (Redfin?) that has a lot of experience in the space. When you look at those two things together with Credit Karma's ambition to help consumers across every aspect of their financial life, it just makes sense. There's almost a trillion dollars or a little more than a trillion dollars in mortgage origination each year and, you know, for anyone who's gone through that experience, it is tedious, it is emotional and it's stressful and, you know, we think as a platform we can solve a lot of these things.

So our future statement might be if you did your taxes on Credit Karma, that probably means we have your W2, that probably means we have might have access to your bank account to determine whether your deposit or your down payment is in reason, that probably means that we have good insight into your credit, probably means we have good insight into your cash flow. Well, all of a sudden, you know, 80/90% of the work of underwriting a mortgage is actually within our platform.

You have to give us permission, you have to let us know that you're in market. We can solve a lot of the things that drives the most amount of stress and, at the end of the day, we can get you a better loan product, a better lower cost mortgage. So that's where we see the model going in the mortgage space, but it's true of every one of our verticals and how we think about the opportunity which is, you know, a meaningful percentage of Americans are stressed about their financial lives and we, as a platform, as a company, can help reduce that stress by providing more simple experiences, more transparent pricing and processes that are second to none.

Peter: Right, got it. So we're coming towards the end, but I have a few more questions I really want to get to. Firstly, what is the scale you're at, like how many users do you have? It keeps growing so we'd like to get an up-to-date number.

Ken: Yeah, so we're a little more than 80 million consumers now in the US and in Canada. We've done a little bit more than, let's see, 2 billion credit reports and scores and we're able to track trillions of dollars worth of consumer debt so quite a bit of scale here. We continue to add new pieces of information so ...you know, recently we added DMV information, household car information with VINs to help consumers with auto finance. The goal here is to continue to educate consumers at scale around the key aspect of their financial life so we continue to add, you know, new data to help with that.

Peter: Right. So you mentioned Canada, is that the only country you've expanded to beyond the United States?

Ken: You know, we're basically in North America today, but we think that finance is as stressful across the world so we continue to look for opportunities outside of North America.

Peter: Right, right. Okay, I'm sure you're sick of answering this question, but I have to ask it because I know people would want to know an answer. Where are you at with IPO plans?

Ken: (laughs) Sure, we think of an IPO as much more of a tool in a tool belt against the goal of helping consumers, you know, make financial progress than the end goal. I mean, I think if it was our end goal we could have gone public, you know, probably a couple of three years ago, but we really think about investing in the long term so things like tax, like mortgage.

You know, we really think that this is the way to build a robust platform and the more that you can do that in a private market to really invest, I think you take some of the friction points off, necessarily focusing so much on profitability, but, you know, we have a long term vision and we're very much pursuing that long term vision in the private markets and....you know, along the way we try to take us down the better hygiene and better practices in the public market, in terms of the way that we close and making sure there's a strong Compliance Department and so on. But, at the end the day, we'll go at some point, but it's not our end goal.

Peter: Okay, so last question then. What are you working on today that you are most excited about?

Ken: Well there's lots of projects that we haven't announced so I won't get into too many of those, but, you know, I think the thing that really is the most exciting is really the continuous engagement that we see at Credit Karma. It seems like every new product that we've put out continues to drive more and more users, and today we have something like 40 million unique members on Credit Karma each month which makes us one of the largest, if not the largest, sort of financial services sites in the United States.

So we think that is a really big opportunity and sort of gets us thinking about all the things that we could be doing, but everything that we focus on is around making financial progress possible for our members, with those three pillars of making things certain, making them transparent and making them easy. So we have a lot of projects along those lines and you'll see more and more of those roll out later on this year.

Peter: Okay, I'm looking forward to that. We'll have to leave it there, I really appreciate your coming on the show today, Ken,

Ken: My pleasure, thanks for having me.

Peter: Okay, see you.

Ken: Alright, bye.

Peter: I want to get back and talk a little bit about that autonomous finance idea that Ken introduced and it really is fascinating to me because, as I said, the information is out there. We should be able to optimize our financial life in many ways really, and not just from a lending perspective. You know, credit cards, you should be able to optimize for investing as well and for taxes and all that kind of thing.

So I think companies like Credit Karma are really giving us the possibility of having this become a reality where we can know that the mortgage that we've got, the personal loan that we've got, the credit card that we've got; that is the absolute best deal for us and I think we're not there yet. Ken said it's going to take five years maybe, but it's certainly going to be in the near future where we can feel confident that we have really the best deals that we can possibly get.

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

Today's show was sponsored by LendIt Fintech USA 2019, the world's leading event in financial services innovation. It's coming up on April 8th thru 9th, 2019, at Moscone West in San Francisco. Registration is now open and we're also taking speaker applications. You can find out more by going to lendit.com/usa.

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