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MARKETS

Lenders Share Their Underwriting Secrets With Credit Karma

Credit-card and personal-loan issuers hope the move will bring new customers amid signs of consumer-debt slowdown



Kenneth Lin, Credit Karma's chief executive, says a new service will allow the personal-finance portal's users to learn if they are approved for loans without denting their credit score. PHOTO: EÓIN NOONAN/SPORTSFILE/GETTY IMAGES

By *Peter Rudegeair and AnnaMaria Andriotis*

Updated Oct. 22, 2018 7:03 p.m. ET

Some of the biggest U.S. lenders, eager to bring in more borrowers and extend a yearslong expansion in consumer credit, are handing over the keys to their loan-approval process to personal-finance portal Credit Karma Inc.

Credit-card companies and providers of unsecured consumer loans, known as personal loans, have started to share their closely guarded underwriting models with Credit Karma as part of a new service announced Monday.

That gives the financial-technology company the ability to tell its users with near certainty which loans they will be approved for without having to apply formally. That potentially spares them from being denied and having their credit score dinged, Credit Karma Chief Executive Kenneth Lin said in an interview.

"We are qualifying our member base for loan products without ever having to give information to lenders," Mr. Lin said.

Lenders' willingness to share information they have kept secret for years shows their hunger for new sources of business. Although consumer debt, excluding mortgages, is nearly at \$4 trillion, there are signs of a slowdown. The growth in credit-card balances is decelerating. Meanwhile, the number of new cards given out has plateaued at nearly 67 million in each of the past three years, according to estimates from Mercator Advisory Group.

With more than 80 million members across the U.S. and Canada, Credit

Karma has relationships with many potential consumers that banks covet. It also has access to financial data about prospective customers that banks lack. For instance, a tax-preparation service Credit Karma launched two years ago has let the company see tax filers' incomes.

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Mr.
Lin

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declined to identify the credit-card issuers participating in the new service but said it included two of the five largest. American Express Co., Bank of America Corp., Capital One Financial Corp., Citigroup Inc. and JPMorgan Chase & Co. are the top five U.S. credit-card issuers, according to the Nilson Report, an industry publication. LendingClub Corp. and Upgrade Inc. are among the unsecured consumer lenders that have joined, Mr. Lin added.

Previously, Credit Karma recommended loans to its users based on a reverse-engineering of banks' credit criteria. It charges lenders a fee if its users take out a loan it recommended.

Historically, lenders relied on mass mailings to find new customers, but that has become a less popular strategy in recent years. The number of mailed credit-card offers hit a five-year peak of 4.6 billion in 2016 and has fallen since, according to research firm Mintel Comperemedia.

By sharing their underwriting models, lenders increase the chances that the loan applications they receive will be approved. Still, in the past, some lenders have run into trouble by offering loans to unfamiliar borrowers that came to them through search engines or other external websites. Plus, Credit Karma says its users have an average credit score that is slightly lower than the national FICO average of 704 on a scale of 300 to 850.

Mr. Lin said that "virtually all our partners" said the Credit Karma users are better credit risks because they mainly come to the website to learn their credit score. "That in itself shows a higher level of responsibility than those who don't look at their credit"

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Appeared in the October 23, 2018, print edition as 'Lenders Share Secrets With Credit Karma.'