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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the LendingTree, Inc. Second Quarter 2018 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Doug Lebda, Chief Executive Officer. Sir, you may begin.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Thanks, operator, and thank you all for joining the call today. I want to use this time this morning to give you my thoughts on the business, run through the progress we're making on key initiatives and provide some context of what we're seeing in the broader market.

J.D. will then cover the quarter's financials and our updated guidance.

Before we jump in, let me first provide the usual disclaimer. During today's call, we may discuss LendingTree's plans, expectations, outlooks or forecast for future performance. Forward-looking statements are typically preceded by words such as we expect, we believe, we anticipate or other similar statements. These forward-looking statements are subject to risks and uncertainties, and LendingTree's actual results could differ materially from the views expressed today. Many but not all of the risks we face are described in LendingTree's periodic reports filed with the SEC.

On this call, we will discuss a number of non-GAAP measures, and I refer you to today's press release available on our website at investors.lendingtree.com for the comparable GAAP measures, definitions and full reconciliations of non-GAAP measures to GAAP.

With that, let's get into it. Overall, I'm extremely pleased with this quarter's results. Just like we've experienced many times in the past, the mortgage and credit card markets were experiencing higher publicized challenges this quarter. Their reports of increasing losses for the credit card companies and reports of losses at mortgage companies as the market experienced rising rates, declining margins and a major transition from a refinanced to a purchase market.

And once again, we've proven that LendingTree can grow earnings in variable marketing margin through any macroenvironment short of something cataclysmic.

Let me address top line revenue for those of you who haven't heard me say this before. In a marketplace, supply and demand fluctuate based on many factors, and given our diversification, each loan type has a different marketing margin profile. And we market to the last profitable dollar every day without spending $0.05 more.

This enables us to focus on making the most money through the exchange every day, while also ensuring a great lender and consumer experience. So in this quarter, as mortgage and credit card companies spent less on marketing with us, we in turn consciously spend less on marketing to drive volume to lenders. Thus our "top line revenue" is lower but our VMM and adjusted EBITDA can still climb.

Conversely, when lenders are wanting more volume, for whatever reason, like we saw in personal loans this quarter, we spend into that demand. When that happens at the total company level, we see faster top line growth with thinner margins but the variable margin dollars and adjusted EBITDA, which is a close proxy for cash flow for us continues to grow steadily.

Now, as I always do, I'd like to dig deeper into our loan categories. This quarter focusing mostly on mortgage, which now represents only 36% of our total revenue. But it's certainly a hot topic this quarter. And then I'd like to talk about our progress against our key initiatives this quarter focusing our new mortgage experience and My LendingTree.

You've heard me talk about these initiatives for a while, and at times, you might have heard my frustration at how long it takes to solve some really, really complicated, technical and operational challenges. You're not going to hear that on this call. I am extremely encouraged as you'll hear.

First, let's talk a little bit more about mortgage. As widely reported, the environment for mortgage companies is difficult. The MBA estimates that in the first quarter, production expenses increased to over $8000 per loan, with fixed cost distributed over fewer loans. And per the MBA, average net profit per loan turn negative in the first quarter for only the second time since the study was initiated in 2008.

I've said this many times. But at a high level, when originations decline, lenders bid up the value of our leads and increased demand. And then, we can market into that demand. I still stand behind that.

I've also said that lenders will do that activity right up to the point of being unprofitable and that's where many are, particularly, as they switch their business models to deal with purchase volume and a much more competitive margin environment.

As rates rise, fewer customers benefit from refinancing, and thus, conversion rates decline, putting a ceiling on how high lenders are willing to bid. So in the short term, we advertise less to match supply and demand, maximize VMM and then we work with our lenders to help them find profitable segments and maintain their spend levels with us, which when compared to the competition, they do.

Going forward, I am still extremely optimistic about the continued growth in mortgage for several reasons, some of which we can control and some we don't.

The first is time. Transitions take time and we've been here before many times, switching a mortgage shop from refi to a purchase shop is like transforming an auto assembly line for making diesel pickups to electric cars. Our biggest mortgage clients are among the leaders in the industry and their pros. They've lived through many cycles and get better each time.

Second, technology is always improving and now lenders will invest to survive. Our lenders are now very receptive to continuous improvements for anything that will benefit conversion rates, which then benefits us through the next cycle as well as them -- enabling them to bid higher and raise the monetization of our site.

Additionally, we are now seeing fully automated mortgage lenders enter the market, which are having great early success on our platform. These types of companies will proliferate just like the personal loan space over the past 5 years.

Third, the under-penetration of the market. While we still grew share and refinance and maintain share and purchase, we still only touch less than 2% of mortgages in the United States and this should naturally increase given improvements in technology, which will only accelerate as lenders need new sources of volume.

Four, the continued evolution of our technology and customer experience. The pace of improvement is accelerating in LendingTree. We have projects underway to improve our lender interface to build tighter connections with our lender systems, and most importantly, changing our mortgage experience from a "lead model" to a "selection-based model." And I'm proud to say that we're seeing real traction.

Since this is one of our most important initiatives, let me elaborate. I'm happy to report that the progress we've made gives us confidence that we are on track to begin routing a substantial portion of traffic to this new mortgage experience by the end of this calendar year. As I've described before, our new mortgage experience will still give consumers choice among lenders and still give them real offers but we will only transmit the borrower data to the lender after the borrower selects a particular offer from a lender. This will complete the transformation of making LendingTree's mortgage business a true search engine.

After the borrower sees -- fills out that form, we then display 5-lender offer side-by-side and help the borrower choose a lender, either through the site, the app, a text, e-mail or a phone call. That's when we get paid. And our pricing will be higher to reflect the higher conversion rates that comes with the customer who has said, "Yes, I want to take your offer."

Lenders will be much more efficient in this process because the sales process would be done through LendingTree's technology, not 5 different lenders on the phone. And it will reduce their labor cost.

Consumers benefit by still experiencing the competition of a marketplace. However, they get to navigate the loan process with LendingTree and in partial advocate, until they make a decision to move forward with a particular lender.

For LendingTree, this could produce step function growth in the business. It will open up tremendous capacity with our lenders, will reduce our dependence on thousands of individual loan offers -- loan officers around the country at hundreds of different lenders, and we expect to see improved monetization since we have control over the process that drives conversion.

The positive indicators, we have significant -- the positive indicators have significantly ramped up in just the last 3 months. We're already seeing lead-to-loan conversion rates improve threefold, and have nearly doubled the selection rate since the first quarter. We have detailed goals in our tracking metrics against our current experience for every step of the funnel including form conversion, offer rate, selection rate, lock rate and funding rate.

We are really seeing encouraging process across every area and believe that this experience has the ability to improve our mortgage monetization, boost lender profitability and give the borrower an overall better experience.

Now, I'd like to give you an update on My LendingTree. On prior calls, we've talked about the desire to provide more data points and insight into how the platform is contributing to the overall business, and today, I want to do that keeping in mind that we still have to be careful about competitive concerns, of course. As we think about the KPIs for My LendingTree, the metrics fall into 3 categories; acquisition, engagement and monetization.

In terms of acquisition, more than 8.8 million users now have signed up to receive free credit scores, credit monitoring and recommendations. And this is without significant paid marketing. It's just from offering My LendingTree to people coming to us for other transactions.

However, to date, we have not featured My LendingTree broadly across all of our loan request forms. We constantly test the impact on form conversion of asking users to sign up. And today, personal loans is the only product that features My LendingTree prominently. Thanks to improvements we've made, we'll soon be offering the product up to the thousands and thousands of users who visit us each day from home and auto financing.

Additionally, we've been thrilled with the performance of the H&R Block partnership we announced earlier this year. And we're currently in the process of expanding that relationship and integrating into other meaningful partnerships that will accelerate the adoption of My LendingTree by leveraging the user base of other major companies.

We will also continue to work on integrating technology from our acquired businesses, which will no doubt strengthen the functionality of the product. We integrated the My LendingTree platform with CompareCards earlier this year, and we expect to integrate the Deposits business by the fourth quarter.

And the credit services platform acquired through the Ovation transaction presents an interesting opportunity as we look into next year.

Finally, with the significant improvements in monetization, which I'll talk about in a minute, we could now see our way to really stepping on the gas through paid marketing. We will prudently test our way into this as we always do, but I'm really encouraged.

The second group of KPI is around engagement. As of June, more than 20% of core LendingTree leads were generated by My LendingTree users, 20%. That number is up from just 12% 1 year ago, and only 14% at the end of the first quarter.

The introduction of credit monitoring and increased personalization of user outreach have resulted in big engagement wins in the most recent quarter.

And finally, let's talk about monetization. During the second quarter, My LendingTree users generated $18 million of revenue, up 105% from the same quarter 1 year ago. The takeaway here is that today, the platform is not yet optimized across all products. Roughly 2/3 of that revenue came from personal loans, while mortgage refinance and home equity each accounted for about 10%.

Credit cards, which are a natural monetization outlet for that user base have not been a big contributor to date. But we see tremendous opportunity here.

Our personal loans business, which derives nearly 1/3 of its volume from My LendingTree is seeing seen tremendous growth in a very healthy margins demonstrating the power of the platform. As we continued to layer in new products and more personalization and improve the functionality, we're clearly seeing the progress in revenue per active user, which in June was up 82% year-over-year.

My LendingTree is now providing 10% of LendingTree's total revenue has a very high net promoter score and is contributing significantly to our improved margin -- margins and is poised to every bit the game changer that we hoped.

There are 2 other strategic initiatives I want to highlight. First is our diversification through disciplined M&A. We closed on Student Loan Hero just this week, and in June completed the Ovation transaction. Both of these transactions offer further diversification, multiple synergies and are highly in line with LendingTree's mission to help consumers achieve their financial goals and simplify their financial decisions.

On top of that, we added incredibly talented and experienced members to our team through those acquisitions.

The second is our effort around SEO. We will be talking about this more in the future but through the acquisitions and our own efforts, our SEO channel is becoming a much more significant driver of adjusted EBITDA than ever before, and we expect to see continued growth. We now have a sizable team of talented, thoughtful, pro-consumer writers and researchers, who are offering insightful information and advice through authoritative content outlets.

Before I turn this over to J.D., there's one more thing I'd like to address. As you'll recall, when we reported Q4, we explained that we would incur larger than normal payroll taxes in 2018, largely due to employee vesting events.

In particular, we explained that I had about 590,000 shares related to option awards from 2008 that were going to expire in August 2018. And as a result, I've been exercising and selling shares to satisfy my tax obligations. I'm happy to report that the selling is done and that I elected to do a partial exercise on over 20% of the award, which means that I have retained those shares.

As of today, my beneficial ownership stands at 16.8% of LendingTree and you should not expect Form 4 filings moving forward.

And with that, I'll turn it over to J.D.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Great. Thanks, Doug, and good morning to everyone on the phone. Thanks for joining.

Today, I'd like to provide some context on our financial results, an additional color on our guidance for the remainder of the year.

Thanks to both the model and the ongoing diversification that has taken taking place over the last 4 years, we're incredibly proud to be able to report adjusted EBITDA better-than-expected in a period where 2 of our biggest businesses were impacted by headwinds outside of our control.

First, let's address the mortgage business where we generated $66.9 million of revenue in the quarter, down 6% compared to the prior year.

The natural question for investors will likely be why now? We've been in the rising rate, declining refi environment for 6 quarters now. Why are the revenue headwinds showing up in this quarter?

Well, as Doug mentioned, when rates rise, and organic volumes dry up for lenders, they turn to us to deliver them volume. They raise bids and expand filters. We often call this the benefit of extended coverage. And we typically see the benefit of that in the form of higher revenue per lead. But we are now 5 or 6 quarters into that environment and we are lapping the benefits of that coverage expansion.

For context, in refinance, our revenue per lead grew well north of 10% for each of the last 5 quarters heading into Q2. In Q2, our RPLs were flat as many lenders were forced to examine their overall cost structure. We're now working with them to maintain sustainable economics. When you combine them with the expected decline in refi volume, you can understand the reversal we're experiencing there. But as we get through this environment, where volumes are declining at double-digit rates, we should see a more stable market. And we believe that our mortgage business will return to top line growth.

The credit card business delivered $38.7 million of revenue or 5% year-over-year growth. We've acknowledged before that the card business is more volatile than our other businesses based on the nature of issuers changing priorities, and the limited number of issuers who represent the bulk of that market. We experienced that volatility in the second quarter, so let me explain what we're seeing.

We're seeing issuers tighten the range of bid on underwriting with more focus on smart growth versus growth at all costs. There's more focus on credit at the lower end of the spectrum, and issuers are appropriately addressing the gaming that comes with attractive introductory offers.

As issuers choose to prioritize loyalty cards over consumer-friendly balance transfer offers, we adjust our marketing accordingly. And it takes a bit of time to transition.

That said, we've done a good -- we've done a lot of good things in the quarter to strengthen the health and sustainability of our card business. Candidly, we've done a lot of good things in the first half of this year. And we feel very confident that we continue to take market share from our competitors.

We saw some stabilization in June and we remain very optimistic that, that business has a great opportunity to return to growth.

On more positive note, several of our nonmortgage businesses are performing incredibly well. Before getting into the standouts, it's worth noting that nonmortgage now represents 64% of revenue.

Personal loan revenue grew to $36.2 million in the quarter, up 76% year-over-year and 39% sequentially. This business which runs at a very high relative margin, continues to show real strength as 80% of the lenders increase spend with us in the period. And growth in our "other category" which consists of businesses that individually contribute less than 10% of revenue grew 78% over the prior year period.

It's worth noting that we're getting that type of growth without real benefit from our recent acquisitions. The Ovation deal was more strategic than financially impactful. It's expected to contribute more over time as we integrate the platforms.

And the recent Student Loan Hero acquisition officially closed on Monday. While we're not counting on that transition having a substantial impact on second half results, we obviously do expect a nice EBITDA contribution from that business in 2019 and beyond.

So now, let's move on to margins as that's really the story this quarter.

As mentioned earlier, we run the business to optimize for variable marketing dollars. In Q2, our VMD came in at $67.7 million, up 40% year-on-year.

We continued to scale in higher-margin acquisition channels like SEO and CRM, and as Doug said, My LendingTree is becoming a very real contributor. That solid performance led to adjusted EBITDA in the quarter of $37.1 million, up 37% year-on-year and ahead of expectations.

Keep in mind that adjusted EBITDA in Q2 includes approximately $2 million of extraordinary expense related to the exercise of employee stock options and the vesting of RSUs.

Turning now to GAAP results, there are couple of things to highlight. GAAP net income from continuing operations came in at $44.8 million or $3.17 per diluted share.

The GAAP results were favorably impacted by a $29.7 million tax benefit in the quarter. You'll see more disclosure regarding that tax benefit in our 10-Q, but the $29.7 million benefit is the function of a $3.9 million normal course provision, offset by a $33.7 million discrete benefit in conjunction with the exercise of employee options in vesting of RSUs.

Excluding the impact of that tax benefit and other adjusted items, our adjusted earnings per share in the quarter were $1.47, up 63% compared to the prior year.

Given the average stock price over the quarter, our convertible bonds were far less diluted to EPS than in the prior quarter as diluted shares dropped to 14.1 million shares compared to 14.8 million in the first quarter.

In addition to the effects of a reduced stock price on the convert, we ramped up our buyback in Q2, repurchasing $35 million worth of stock or 126,000 shares.

With all of that said regarding the performance in Q2, let me provide a bit of context around our guidance.

Given the macro environment, we're reducing our revenue guide for the year to $745 million to $765 million. That said, because of the margin expansion, that we've experienced and continue to expect, we're happy to be raising our full year guidance for variable marketing dollars and adjusted EBITDA. Our VMD is now expected in the range of $275 million to $285 million, up from a prior range of $270 million to $280 million.

And our adjusted EBITDA guidance moves to $148 million to $152 million, up from $145 million to $150 million, now representing 29% to 32% growth over 2017.

We're very optimistic about our ability to continue to deliver meaningful bottom line growth for investors, despite the macroenvironment.

And with that, I will open up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from John Campbell with Stephens Inc.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

So J.D, you spoke to the refi revenue per lead, it sounds like that's driving a little bit of the pressure. But are you guys seeing any shift in the behavior around what lenders are willing to bid on or just the transmit rate within mortgage?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

No. You don't -- we're not seeing it there as J.D. talked about. You're -- we're hitting a -- we're effectively hitting a ceiling on the price that lenders are willing to pay for leads on -- but we're not seeing a reduction of lender filters. We're actually seeing people moving into purchase. You always want to refi volume and then you have to get the conversion rates up. So you can -- so that then you'll be able to bid more in a more profitable environment and that's where we work with them to do it. The other thing I would add though, assuming we get to launching our new mortgage experience in November, that's 6 months away. And that's a completely different experience that will relieve a lot of this mortgage pressure.

J. D. Moriarty - *LendingTree, Inc. - CFO*

And John, the only thing I would add to that is it's really more of a volume issue than it is lender behavior issue, right. So essentially, the RPOs themselves are flat. The volume in refi is not there. We've talked about moving to a purchase environment. We saw some of that last year. Purchase volumes are essentially flat. By the way, they're flat in the market overall. There's a lot of publicized. There's a lot of stuff in the public domain about purchase not occurring because of an absence of inventory. I think, we're seeing some of that. You would expect in this period that we would see a big pickup in purchase activity and that's just not really happening. Not just at LendingTree, but overall. And so, we're not getting that benefit and we're getting declining refi for all the obvious reasons.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

Okay, that makes sense. And then I know it's tough to look all the way out to 2019. But with the slowdown in mortgage this year, I mean, you -- obviously, you're going to get easier comps for growth next year. And then you've got the new mortgage experience that could be additive. So I mean, as it stands now, as you guys look out to 2019, would you expect to see a better acceleration in mortgage growth?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

I would. I would certainly hope so. Leaving numbers aside, I would say, yes. So we got to get -- lenders need to switch over, need to be -- as conversion rates improve then people will be able to -- then lenders will be able to close loans. When they close loans, they'll want more. The issue now in refinance really is that with rates rising, as I said in my comments, there's -- you're running out of people who can refinance. So if you had 100 people fill out a form a year ago, making it up, and you had, let's say, 50 of them that would benefit from refinancing, rates are now going up and that number's going down substantially, and that's why conversion rates go down. So that will -- and by the way, refinance will come up and down too, so rates will go up, rates will go down. It's not about -- in the mortgage business, it's not about the aggregate level of rates, actually that's the rate of change.

Operator

Our next question comes from Mark Mahaney with RBC Capital Markets.

Mark Stephen F. Mahaney - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

Two things. One, Doug, you talked about partnerships for the My LendingTree, you mentioned H&R block and you mentioned there may be some other ones. Could you just talk about what kind of partnerships would be, could be most impactful for My LendingTree? And then, just in terms of the next 6 months, what's implied in guidance, could you just spend a little time on your outlook for some of the nonmortgage segments, the growth rates in personal loans, super strong in the June quarter. Reasonably sustainable for the back half of the year? When does credit cards, any sense about when that could kind of slightly pickup? And then home equity, does that growth rate seem reasonably sustainable through the back half of the year?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Sure. On the My LendingTree partnerships, we are talking to people across the spectrum. So anywhere that it makes sense to give people an engagement platform with free credit scores and alerts around financial services product, so we're talking to retailers, where and -- which we think is a very natural platform, particularly, people who pair them with credit cards. Talked to financial services players, they could be both banks and mortgage companies, so for example, you could have a mortgage company prior to the label My LendingTree, cobrand My LendingTree. And if they can get a mortgage, it goes that mortgage company and for everything else, it comes to us and we revenue share back. And a bunch of Internet companies, content providers et cetera, et cetera. You know online, everything that you could think of an online financial services is on the list and we've got a pipeline that's tactful. And expect to see some announcements in there. J.D., do you want to take the others?

J. D. Moriarty - *LendingTree, Inc. - CFO*

The only thing I would say on credit card, we're already starting to see the acceleration.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Yes. So Mark, personally on what we're really happy with, it's partially the end market, it's partially execution and it's a lot in the platform. So as you look at that business, the one in the end market, we're seeing banks -- we're seeing bank interest in the end market. That strength in the end market and the personal loan market has been evident since the end of last year and we've leaned into that and I think our solution works really well. So we're very optimistic as we look at our plans for the back half of the year and for 2019, we're very optimistic on personal loans. Now, we get this question on home equity all the time. And recognize, we experienced 9 straight quarters of greater than 100% growth. And then it was 81%, more recently, 48%. And so, it has decelerated but from a pretty spectacular growth rate. The question we get is how big can home equity be? And we're working really hard to make sure that it continues to grow and continues to be an option for people. It's really going to be about the economic cycle, but we don't see any signs of that growth abating in home equity. Now credit card's really interesting because as you look at the second quarter, most of that paying was in May. We saw real stabilization in June. And when we look at the first half of the year, the thing that we're really excited about is we diversified our issue-base -- issuer base in a meaningful way. And we think it positions us very well and this business returns to growth, which we're already seeing signs of as Doug mentioned. I think the other really exciting thing about credit card is when you recognize how we haven't even really begun to tap My LendingTree with card. And so, the marketing benefits as credit card gets a more diversified marketing mix, we think we're going to see renewed LendingTree growth there as the market recovers but as Doug said, we're already seeing signs of strength there. So nonmortgage, we continue to be extremely bullish.

J. D. Moriarty - *LendingTree, Inc. - CFO*

One more thing to add on the home-equity thing -- on the home-equity question. Home equity is a great substitute for people who can't refinance. And so, from that standpoint, you'll start to see -- you could start to see a substitution effect. So for example, you have a mortgage at 5%, and you can't refinance your entire mortgage but you've got 20% equity, and you can get a home equity loan (inaudible) line. And so in this type of environment, home equity could see really great growth.

Operator

Our next question comes from Jed Kelly with Oppenheimer.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

Just how is this lower refinance environment causing you to think about your customer acquisition strategy for purchases? And then, is there any timeframe where we could possibly see some branding around how well the mortgage experience? And then just back to guidance, I guess 4Q implies top line access between 15% to 20% growth, VMM grows in the range of mid-20s. Is this the bar on how we should be thinking about in terms of forecast in 2019?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Let me take the first. You said switching to purchase, how does it change your marketing mix? Well, one thing you do which you're seeing here is the -- you pull out --- you take offline lower, simply because offline is a higher cost of customer acquisition. You ramp up your partner channel so you look for online real estate sites, content sites, things around real estate. You do a lot of SEO and you do a lot of search. You also -- and you do a lot of social. And with the new mortgage experience, yes, you'll absolutely start seeing creative on that product is done and ready for prime time. I would expect that would probably start early next year but we are in market right now, testing ads around some other products in doing a local test to get some reads on customer acquisition cost of offline with new ads rate.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Jed, I'm going to apologize. I didn't hear the second part of the question.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

Yes, on the guidance, 4Q implies that top line access between 15% to 20% growth rate, and with VMM growing in the mid-20 range at the midpoint. Is that the bar we should think about in terms of forecasting 2019?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Yes, sure. So okay, good question. So we're -- as you know, we are always a little bit more cautious about Q4 guidance just because some of some seasonality. Our revenue adjustment here is attributable to mortgage. So we've essentially assumed that we're going to continue to be in this environment for mortgage for the remainder of the year. And so, that's where it's factoring in there in Q4. It's a combination of seasonality and just to focus on mortgage. We're optimistic that we've got -- as we talked about high VMM businesses that are going to continue to accelerate throughout the year.

Operator

Our next question comes from Nat Schindler with Bank of America, Merrill Lynch.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

2 questions. One, I know this might be difficult with competitive concerns but anything you could help us on what new categories are your customers suggest and you should be doing or you see real opportunity in? Once that you've either started or see as longer term opportunities? And then I have a second question.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

I would say, 2 categories that would come to mind. One would be insurance. Second one, which you could do both through My LendingTree and as a separate thing as well. Second one would be commercial loans. The third would be continued expansion inside of small business loans. I'm really excited about that, that market's pretty narrow right now but it's more loan types come online, more lenders come online, I think that's another one. J.D., do you think of anything else?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Nat, listen, we're constantly looking at this as you know. I'd add 2 things. One, you see what we just did with Student Loan Hero and we make a distinction there. Student Loan Hero is in the student loan refinance business. SimpleTuition, which we acquired in June of 2016 is in the in-school student loan business. We're leaning into the student category broadly to become the leader there. That's what we love about that deal as those two businesses are going to interact really well. And we're going to become a scale player in that business so that's one that we're excited about. The only other thing I would mention is we're really happy with our deposits business, which we did last year as you know. And that's ahead of plan. And a natural extension from Deposits is anything in the investing or asset management realm, and we continue to look at that as a potential opportunity. It's exciting for us because it's really the first thing on the asset side of the balance sheet for the consumer.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

And Nat, you had second question?

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

Yes, the second question. One quick follow-up, when you say insurance, are you thinking more the 2 financial products like life insurance or you are thinking about the broader insurance, including things like auto and home?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

More auto and home than life. Yes, the life business is a little different and it -- when it -- I think, the auto and home are more where we're focused. It's got a more natural overlap with our customer base.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

It makes perfect sense. Second question is, in the mortgage business, when you see these slowly rising rate environments as we've seen and you have the hit to your originations last year, but you guys were able to demonstrate from guidance basically demanding more leads than come in this year, there has to just really look at the business because it keeps shrinking, there come to a point where -- a natural point where consumers who last did their mortgage refis, they are starting to have to be forced to get back into term rate loans because of hitting dates, is there -- is that -- does that hit a peak point again? And we come into a natural growth where again -- or does this continue to fall off as rates rise?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

So you will -- we will get some additional data analysis. It's a great question I can answer it broadly. You always have a certain amount of refinancing in the market because people who have, let's say a 5/1, 3/1 or whatever arm, they want to get into a fixed rate loan. You have people who are improving their credit score and can do it for that reason. And then, as I said, you've got refinancing really goes with the rate of change. So when rates go up, refinancing -- rates don't need to go to like 10% and then down to 2% to have refinancing, they can go to 3% and then down to 2% and then 4% and then down to 3%. In each one of those drops, you get another little mini refi boomlet. In this instance, you've had a continued decline of refinance volume and I've always said, lenders will increase their bids up to the point of profitability and then, some of them start to take capacity off-line and some of it's publicized, some of them have gone out of business. And so, in that instance, we do better than everybody because we're still very profitable. You just can't market into it until lenders are able to get their machines converting again. And good hedge against, that's the new mortgage experience clearly, but -- and I have every confidence by the way that our lenders are getting there. I mean, we see it all the time. So it's not like these guys don't want to survive and just further hands up. They've all been here before as I said before.

Operator

Our next question comes from Michael Tarkan with Compass Point.

Michael Matthew Tarkan - *Compass Point Research & Trading, LLC, Research Division - MD, Director of Research & Senior Research Analyst*

Can we spend a minute on credit cards. You'd mentioned it's going to be or it is more volatile than some of the other products, issuers on and off. And I guess this rewards first balance transfer dynamic. Can you just unpack some of those a little bit? And sort of maybe talk about the magnitude of which of those are causing the most impact there on the slowdown?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

I'll let J.D. hit this too. Let me hit it at a high level. When you talk about volatility. The volatility comes and what lenders are willing to pay for a given card. However, and so the payouts jump around. In the mortgage business, you've got 300 lenders so if any individual lenders moving around, it doesn't really matter. You only have a certain number of credit card issuers who generally have stuff in the same category and you have -- and then you have people who want to push one card or another. So just have to adjust your marketing quickly and that -- so that business functions just like every other one if demands there, we can market into it and if not it's not -- or if the payouts are lower, we can't market into it, but you can still hold them in EBITDA. The good news is though, in -- late in the quarter and into July, we're seeing that return again. But basically, it's because the credit card companies internally are managing their card mix and their channel mix and constantly looking at it and they move payouts around a lot.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Michael, it's J.D. The only thing I would add is one of the things we talked about was diversifying our card issuer base in the first half of the year and we think that's a big deal, not just because we don't want to be dependent on any one insurer but also because when you do that, you actually improve the connectedness to them, not just in terms of relationship but in terms of technology and real-time awareness as to their approval rates and otherwise. So as we build out this business, I think it will -- we will partner with them more and thus, reduce some of that volatility just because we'll be able to adjust our marketing spend or our prioritization of cards based on how they're trending on approvals. Sometimes, volume that we'll get or demand that we'll get or payouts that we'll get from a given issuer, will be a function of it being a new card and that new card is a priority that issuer for 2 or 3 months, and then it falls off the priority list for them or approval rates drop. And we need to have real-time awareness of those approval rates so that they can adjust our marketing spend just like we do in mortgage on a real-time basis. What we're doing is involving that business to be a little bit more like our other businesses in terms of our connectedness to our issuers and we think that's going to benefit us in the period to come.

Michael Matthew Tarkan - *Compass Point Research & Trading, LLC, Research Division - MD, Director of Research & Senior Research Analyst*

Okay, thank you for that. And then you mentioned sort of diversifying that mix. Just how -- any sense for how concentrated that is amongst your existing issuers? And then as a follow up, just within the guidance Student Loan Hero and Ovation, how should we think about their contribution in terms of revenue and EBITDA, for the rest of the year?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Sure. Well, card is becoming incredibly diversified relative to when we first acquired CompareCards, believe it or not, you had essentially one issuer who was greater than 60% of revenue. Okay, it is now pretty diversified where we have real presence with all the major issuers. And so, that diversification is done, it's just a matter of getting increased partnerships with them. There aren't doors that we need to knock on, it's getting more of their wallet share. That's the priority. So that's in card. It's pretty diversified at this point. And then Student Loan Hero in terms of contribution, we obviously, don't disclose -- we don't disclose the scale of that as a business that's of that scale. It's -- it will contribute in a minor way in the back half of the year, certainly less than the contribution -- less than the increase in the EBITDA, less than what we put into our increased guide for EBITDA for the back half.

Operator

Our next question comes from Stephen Sheldon with William Blair.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

I guess on the digital mortgage rollouts, it sounds like that's moving forward pretty quickly here. You talked about one of the benefits for lenders being the ability to lower labor costs. But I guess with the consumers that have already been using them, have they been able to start kind of rightsizing their loan officer headcount through using the digital model or is that likely to be kind of a more slower gradual process? I think if lenders are able to do that quickly, we could help you push through better monetization pretty quickly for pre-selective lead. So I guess just any color on how those trends may play out over the next 2 years?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

What was the second part on the trend? Trends of what?

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

So it was how lenders are able to right size their headcount? And then you're ability to monetize that?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

So let me -- just -- so the lenders that are on the platform today have not changed their labor force yet. However, what will happen is they'll be able to reduce commission. So the real competitor, if you will, to LendingTree where we ultimately -- where ultimately replaced is the fully commissioned loan officer. The person who first used to go out and have to get their own customers in and got really high commissions, and commissions went down. And we did the marketing for them, we're basically marketing substitute. Now we're going to be coming effectively a sales substitute by using LendingTree's technology instead of their labor. They're also going to be able to reduce their labor because right now, you've got five lenders literally all doing the same thing to try to convince the same borrower. In the future, you're going to have LendingTree convincing the borrower through technology and then you're going to have an individual lender just basically processing and getting it through. The new thing that we are seeing when I mentioned some of these new startup mortgage companies, we've got a mortgage company on our network that literally has no loan officers, 100% technology, very low margins and is experiencing conversion rates right with our top lenders. And I expect those types of things to proliferate. I expect more and more lenders to create fully digital experiences that over time won't need humans. And those are going to be perfect lenders to dial in just like Prosper and LendingClub change the way personal loans does. So I expect that's going to continue to grow.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Got it, very helpful. And then you've been running a pretty lean ship here for a while. Can you maybe talk about how you're thinking about current capacity within the organization to handle growth? Looking out over the next year or 2, will you need to invest more heavily into G&A headcount? And I guess just general infrastructure to be able to handle the current basic growth?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

I think I would expect us to continue to get more leverage out of our headcount not less, now we're always hiring but we're always getting growth. And so, I would expect continued margin expansion. Do you agree with this?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes, I think we saw -- Stephen, I think we would talk about this. I think we saw a fair amount of that in Q1, candidly, right. That was some of the hiring that went on in the back half of last year. And in Q1, where OpEx expanded, I think you'll start to see some more leverage on the OpEx side going forward.

Operator

Our next question comes from Youssef Squali with SunTrust.

Youssef Houssaini Squali - *SunTrust Robinson Humphrey, Inc., Research Division - MD & Senior Analyst*

Two questions. Maybe just going back to something that you talked about earlier, which is just the leverage that you're seeing or that you've been able to show in the VMM. As we look at that metric over the longer run, are you guys still comfortable with that 35% to 40% rate that you outlined at last analyst day, even with a kind of potentially a lower top line growth and maybe a tougher growth environment? And then I have a follow-up.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Yes, anything your -- as I'd mentioned in my remarks, your margins -- we're getting good margin expansion and some of it comes from effort and some of it comes from the market. On the market side, when -- keep in mind, your cheapest marketing channel, if you is free, then you'd have all of your marketing channels to get more and more expensive, as you pull back marketing to match demand. You pull back on your most expensive deals first, you've pulled them back as they get -- as they're about to go unprofitable, whatever it is. So you reduce your bids on google, you basically reduce everything to match the level of demand and the price that you can get. Is that make sense?

Youssef Houssaini Squali - *SunTrust Robinson Humphrey, Inc., Research Division - MD & Senior Analyst*

Yes, it does. I mean, I definitely see the benefit short term. I just wonder if that's sustainable over the longer run, if the headwinds, the top line remained?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Right. So if the headwinds at the top line remained, you would see VMM dollars, hopefully still continue to go up, because we won't be spending -- if the demand's not there for mortgage companies, by the way, it's there for credit card companies. If the demand is not there for mortgage companies, where they can originate profitably, then they're going to reduce their bids with us. And then we're not going to market. Believe it or not, when rates, if refi kicks in again or if lenders have a huge demand from us, you'll actually see margins go down because if we're marketing into demand, we're increasing our bids, you're seeing lower percentage margins. But the thing you got to watch is the VMM dollars and the EBITDA dollars. And then the margins, somewhat change based on the environment you're in.

Youssef Houssaini Squali - *SunTrust Robinson Humphrey, Inc., Research Division - MD & Senior Analyst*

Okay. That make sense. And then maybe on the new user experience around the mortgage product, could you just elaborate a little more on the pace of rollout there? I think, Doug, you talked earlier about how by the end of the year you expect to see a -- I don't know, I think you just -- you said a substantial percentage. Can you maybe put some numbers around that? And just any initial kind of insight into kind of the conversion delta between existing or between the legacy product and that product?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Sure. So the conversion rate is -- I mean, is literally about triple what it is on the LendingTree experience from a lender's perspective. However, keep in mind that indeed today's experience you're competing against other lenders. And so, we think it'll get even higher. So that's -- that goes -- that lender efficiency that I talked about before. So the conversion rates are definitely up. Right now, we're running 5% of our volume through that experience, as a learning experience. By the way, running 5% of the volume through that experience at lower monetization than our other side actually, obviously, hurts our earnings. But we think that's a really good investment to do it. We're seeing -- and then what we track is the monetization on that experience versus our other experience. And then once the monetization is there, and it's even, or better, we will then begin switching lenders over to that experience. And then, increase the percentage that we run and we'll basically match supply and demand there. So as we get more and more demand, we'll move -- we'll start marketing into it. And as we can generate more and more customers, we'll move more lenders over. And my big hairy audacious goal on that would be to have it all done before the end of the year. So that we can go into next year with ramming speed. But it's a very complicated thing to take the root force efforts of 5 lenders in this crazy thing that we created over 20 years. And replace it with really cool technology and real human support in the call center, which is also very technology enabled. It's a hard trick to pay up -- to pull off but nobody's -- and nobody else will have this.

Youssef Houssaini Squali - *SunTrust Robinson Humphrey, Inc., Research Division - MD & Senior Analyst*

Yes, that makes total sense. But hasn't there been any pushback from the lenders, considering that you're effectively becoming the closer to the customer than they are?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

No. There hasn't been. I think and the reason is, particularly, I mean, think about how in some ways we're lucky on the timing. Because in this environment, lenders want to survive. Want to originate loans and if you give them the opportunity to do so, they will. In addition, this is going to open up to all -- in addition all the capacity things we talked about. This opens up the ability for us to work with any financial institution, including the major banks that today don't have, I think, anybody who doesn't have highly polished perfect call center technology, sales people on the phone, who are just amazing at what they do, anybody who doesn't have that structure, that scale, we will now be able to do business with. So all the major banks, the regional banks, the credit unions, all or any institution who doesn't have a great sales force, that takes inbound volume and has a mortgage company, will be able to do business with us. And it'll blow open the opportunity for us to work with every company in the business.

Operator

Our next question comes from Eric Wasserstrom with UBS.

Eric Edmund Wasserstrom - *UBS Investment Bank, Research Division - MD & Consumer Finance Analyst*

There are a couple of questions. The first is, if we go back in history a bit. The last time that we saw the sort of phenomenon in terms of the dynamic between your revenue growth and your EBITDA was in 2014. Can you maybe describe what circumstances are similar or different to that experience than what we might expect coming out of it relative to what occurred in that timeframe? And then I have a couple of follow-ups.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

So, I think the biggest difference between 2014 was it, that it was shorter lived. But you definitely, it's interesting, you say that and it might bringing back memories of our investor presentation from then, where we showed flat revenue growth but rising VMM. And then people were like, what gives? And then the next time, we showed high-revenue growth and lower VMM margins. And somebody says why are your margins declining. And the reason is because the market dynamics change and that's just the beauty of mortgage. Really there was sort of -- then your second part upon exiting. What do you mean by exiting? You mean when rates start to go down again or when capacity frees up?

Eric Edmund Wasserstrom - *UBS Investment Bank, Research Division - MD & Consumer Finance Analyst*

Right, I guess that I'm -- yes, I guess what I'm trying to discern is what changes occurred in lender behavior in that period that are similar or different to what you're experiencing now?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

I think then we had more refinance volume in the system, like you could still live off of refinance without really having to face the fact that it's going away and you didn't have the crimped margins that you have now, which by the way, happens when every time you have these long-cycle lenders, get more -- just -- and you think of this -- think of a lender because the capacity from like an airline. And when the travel industry are -- when the travel industry is having a problem where they do -- they all go into price wars. That's basically what is happening with mortgage companies right now. And then they take -- then what do you do at some point, you put some airlines in mothballs until you can fly them again. And that's basically what lenders do. And that's why we're transitioning this new experience. But by the way, as I said, they'll get there. We've seen this and they're

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committed to it. Like there is so many things going on with incubation and CRM and new business models and automated lenders and all kinds of things that are going on in the industry that I think, it's going to be just fine.

Eric Edmund Wasserstrom - *UBS Investment Bank, Research Division - MD & Consumer Finance Analyst*

Got it. So it sounds like the primary difference is that what the kind of rationalization that the lenders have to make this time around is just much more profound than what they had to do in '14, '15 cycle?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Yes. That they now have to face the facts that they may have to be adjusting their fixed cost. Now at the same time, as I said, the really interesting thing is that they are new, not only start-up lenders. But also even more traditional lenders coming in, like now is actually a really great time to commit, like I -- a lot of the people in mortgage business who've been sitting on the sidelines are actually surprisingly coming back now. Because they want to come back with a more automated, different model where they can have better pricing and thinner margins, and by the way it's great for the consumer and the lenders who win and get through this are going to come out the other side with expended market share. The other thing that I would say is times like this, we will definitely grow share against our competitors and will most -- and then once as we can market again, we'll be growing share -- our market more again, will be absolutely growing, continue to grow share of originations.

Eric Edmund Wasserstrom - *UBS Investment Bank, Research Division - MD & Consumer Finance Analyst*

Got it. And maybe just transitioning to card, one thing, I'm just trying to reconcile is that as you point out, it's a very concentrated industry in terms of market shares among issuers. And the transition that we've seen from balance transfer to reward-based marketing, seem to occur beginning really in late 2015 and into 2016. So I'm just wondering why it is you guys are experiencing the impact of this phenomenon at this stage, rather than, let's say a year ago?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

We had a pretty healthy -- we had a pretty healthy balanced transfer market, certainly in the first half of last year. We started to see some issuer demand taper off in the back half of last year. That's been -- this orientation toward reward is really been this year more meaningfully. But admittedly, it's a couple quarters in. But it's just different payouts and kind of an interest in new cards and the market has to cycle where the balance transfer cards will become more favorable for the issuer. They probably tilted a little bit too much to be too favorable for the consumer, and so, I think it became evident too many of the issuers in the second half of last year that those balance transfer cards were not enjoying the profitability that they wanted them to. And so I think the entire industry has gone through it. To our understanding, all of our channel checks suggest that all of our competitors in card are feeling the exact same thing right now.

Eric Edmund Wasserstrom - *UBS Investment Bank, Research Division - MD & Consumer Finance Analyst*

And just why would it be that there would be greater profitability from your perspective per lead for a balance transfer customer versus rewards customer, given that the well-known economics of a balance transfer customer are pretty average to poor relative to rewards-based revolver. Why would they be paying you more for that lead?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

So I'm happy you asked that because it comes to back to what I've been talking to. It comes back to conversion rates. So the lenders pay us per approval and you could imagine a customer who gets a balance transfer. Those who will convert a balance transfer card approval. Those convert at a much higher percentage than rewards cards convert from approval to activation. And so the -- because of the conversion rates of the balance transfer card, it's basically like a refi versus a purchase, that I can bookmark more.

Operator

Our next question comes from Rob Wildhack with Autonomous Research.

Robert Wildhack

Hoping you could comment on what the VMM, both margins and dollar growth would look like if they were broken out by segment. Like did VMM dollars grow in mortgage this quarter?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes, actually, VMM did grow year-over-year in mortgage, yes. There's a little bit of -- you know we obviously, don't break it up by segment for a lot of competitive reasons. But VMM and VMD did grow year-over-year.

Robert Wildhack

Okay. And that kind of leads to my next question. Just kind of remind that how reflective is your marketing stand in general? What I'm trying to gauge is, how quickly can you see the demand for a particular segment isn't going to be there for a given period? Does it take you a week, a month, half a quarter to make the reaction necessary with the marketing spend?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

You know we make it in literally real time. We don't typically let lenders adjust things in real time but I think people will come in and out based on what we're doing. But every time -- so for example, like lenders also do it, it's called capping out. So you see the expected value change by time of day, believe it or not. So we are mirroring the marketing spend in real time based on what the demand is, both price, quantity and coverage. We're -- and we actually adjust the marketing not only based on how much they want, but think about you. If you need people with high credit scores, there's more demand for that. You have to do certain types of marketing versus other types of marketing, certain types of keywords et cetera, and actually need to drive it at a very detailed level.

Operator

Our next question comes from Kunal Madhukar with Deutsche Bank.

Kunal Madhukar - *Deutsche Bank AG, Research Division - Research Associate*

I want to look at the new areas that you potentially talked about, you know insurance, asset management. Is there any learnings that we can take from say, examples like MoneySuperMarket, that can inform us of the strategy, the economics around these potential expansion opportunities?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

You absolutely can. I think MoneySuperMarket is a good analogy. There are a lot of differences between the U.K. market and the U.S. market. You could do it as one brand or a different brand. But the U.K. market is a good proxy for what you see here. It's -- and the way that market develops is actually the reason that insurance companies act the way they do in the U.S. but they don't actually give sort of, fully bindable quotes, but we see a lot of really exciting things in that space and it's -- and it fits with our user base incredibly well.

Kunal Madhukar - *Deutsche Bank AG, Research Division - Research Associate*

Great. And a quick follow-up. Would that require any -- is there like any regulatory challenges or anything else compared to U.K. that, I think, you would need (inaudible) ?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

You have to get -- if you're a -- it depends on what you're doing in the insurance space. There are some licenses you would have to get depends on how far down the food chain you go. But as long as you're sitting at the top of the funnel, you don't have to. But if you start getting into sort of the electronic brokerage stuff. Then you have to get agency licenses but that's -- it's not a mountain to climb.

Operator

Our next question comes from Mike Grondahl with Northland Securities.

Michael John Grondahl - *Northland Capital Markets, Research Division - Head of Equity Research & Senior Research Analyst*

Could you just highlight for us a little bit of what you said in the first half of this year, you worked with a lot of with your credit card issuers and made some enhancements. What were some of those enhancements?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes, sure. So first of all, in first half of this year, particular in Q1, we diversify the issuer base meaning. Those issuers with whom we had substantial business just changed. We broke into new doors and group and took wallet share. When I talk about getting more aligned with them, it literally is technology alignment in terms of having more real-time information as to their approval rates and things like that, right. So if we can get them to trust us enough as a partner to align our technology with theirs through APIs and otherwise, we're going to get a much bigger share of their wallet, right. So ultimately, that's what we're talking about is trying to make that tightness between the issuers and LendingTree, similar to what we've got in other parts of our business.

Michael John Grondahl - *Northland Capital Markets, Research Division - Head of Equity Research & Senior Research Analyst*

Got it. In credit card, that was lagging and now it's catching up. Is that the way to think about it?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes. I think that's right. I think, as CompareCards, which we're really happy where it becomes a bigger part of LendingTree. We're certainly -- it's kind of best practices, right. So that's 1 aspect of it. The other one that I alluded to is that the fact that you're going to see a more diversified marketing mix. Credit card should benefit tremendously from My LendingTree. The fact that it doesn't today is kind of shocking when you consider that user base. And that's a huge source of upside for us going forward. You think the organic nature of that traffic, as we aligned that with CompareCards, we think their is a huge opportunity there.

Operator

Our next question comes from James Friedman with Susquehanna.

James Eric Friedman - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Thank you, it's Jamie with Susquehanna. Thank you for these increased disclosures about LendingTree -- My LendingTree. I think these are really helpful. I just want to ask a couple of things, Doug. It's not entirely intuitive to me, I think you said that 2/3 of My LendingTree monetization comes from personal loans. Is there some reason why that it over indexes to personal loans?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

I believe. So first off, yes, because that is the easiest thing, first off, for people to actually be able to save money to qualify with. So for example, every --- when we get your credit report, which is your -- My LendingTree, everybody's got credit cards. There's typically some type of debt that's at a higher interest rate than you could pay it off with a personal loan and improve your credit score. So that's one reason. The second reason is that it's the most automated loan type and the third reason is it's probably the easiest sort of entry and you can also easily qualify, so a couple of clicks. Keep in mind too, we've got all of your information. So if we say to you, "Hey, you can save money by getting a personal loan through Prosper, LendingClub or whomever." When you click yes, we can quit all of the -- your name, add all of the information about you, it goes immediately over there. So the conversion rates that are just -- are just incredible. And as we integrate credit card, same thing will happen there, but I think it's for all of those reasons. it's just an easy -- it's an easy product that everybody qualifies for very -- with great technology and demonstrated financial savings through the consumer.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Jamie, it's J.D.. I just -- the only thing I would add is, you go back to our Investor Day slides. And we talk about the relative level of automation, as Doug said, it's an easy product with very little friction. Guess what, so is credit card. But the number one thing that people are doing with the personal loan is, obviously, consolidating debt, in some cases credit card debt. I think there's a little bit of how does a consumer think of LendingTree, right. They think of it for loans. That's clearly it and so as we diversify our marketing mix per card, we'll start to see some benefit there. But then there's just another part of this which is when we're going to those My LendingTree consumers, it's the highest value offer for them from a VMD perspective. And it's also reflective of the market environment, right. So as we said at the beginning, we only recently integrated CompareCards into this and so we see that is a real lift go forward. So some of this is a little bit self-inflicted like we're -- we are gradually getting My LendingTree to all of the various products and credit card to us represent the next very obvious opportunities.

James Eric Friedman - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Yes, that's a helpful context J.D. I was just wondering so that sort of begs the question. I want to make sure I got these right. I thought you said, it was 12% a year ago, 14% in the prior quarter, 20% now, so where do you see this traveling overtime?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

14% of what?

James Eric Friedman - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Those are your numbers. So you say, I thought maybe I got this...

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

No, you said, percentage or?

James Eric Friedman - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Oh, I think it was monetization, right. I think that was the denominator.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes, no, no, no. They -- it's...

James Eric Friedman - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Maybe I messed it up. (inaudible) simpler.

J. D. Moriarty - *LendingTree, Inc. - CFO*

No, no, no, it's fine. We're just making sure we have the right stats, that's all. So on the -- it was engagement, okay. So it's leads, it's based on leads. Not just to be clear, not revenue. So it's -- as of June, more than 20% of LendingTree leads were generated by My LendingTree users. So that's up from 12% a year ago and 14% at the end of the first quarter. So that's execution, right. That's just us being more effective from a mining that base of users and offering them something of value and driving engagement, which is very consistent with strategically what we've told you all along in My LendingTree, which is our view of success in My LendingTree is about driving something a value for the consumer and engagement, not necessarily just -- It's a huge user base. We want to grow the user base, obviously. But we want to give them something of value and we look at that 12% to 14% to 20% as being reflective of us giving the consumer something of value.

Operator

Our next question comes from Hamed Khorsand with BWS Financial.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Just on the rate that you were talking about the mortgage that you're getting paid. How much can you control your advertising spending as the lenders trying to reduce the amount they pay you?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

We can -- thanks for the question, Hamed. Good to hear from you. We're just -- we're going to adjust that in real time. So as it moves up and down, we adjust it in real time.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Okay. Will there -- what I'm trying to ask though is (inaudible) Is there more downside to what the mortgage guys can pay? The lenders? Or more downside to, how much marketing you could actually do?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

More downside of -- I'm not understanding your question.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

So you're generating -- x from lenders, right. And they can always reduce that, right. But your marketing is -- it's variable to a certain extent. You can only adjust it to a certain amount, right? Or you can adjust that to as much as the lenders?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Well, no. You could go to marketing to 0 and just live off of our SEO channel and whatever comes in organically and My LendingTree, which is contributing 20% of our leads. So we get actually of 0 marketing cost. And so you could actually take it to 0 if you want it to. Hamed, to be clear though, as I said before, RPLs are flat. We don't have a lender behavior issue in terms of them saying, we want to pay less. If we can deliver them volume that will convert, that's not the issue that we have right now.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Yes, that's a great clarification. So you've got RPL revenue per lead is flat. But it's -- but what it's not doing as J.D. said, continue to rise and rise and rise. Conversion rates need to go up but we're not seeing RPLs like creating -- and by the way I don't think they will, because there's thousands of lenders out there and our best lenders are hanging in there. They are gotten through. They don't want to -- they don't lose money.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Yes, but you were saying earlier that the refi rates start to decline this past quarter? Right? So there is some...

J. D. Moriarty - *LendingTree, Inc. - CFO*

Some rate?

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Yes, the rate they're paying you?

J. D. Moriarty - *LendingTree, Inc. - CFO*

No, no, no, it's flat.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

No, no, it's flat.

J. D. Moriarty - *LendingTree, Inc. - CFO*

It's just not going up as it (inaudible)

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

On the refi side?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

On the refi side, yes.

J. D. Moriarty - *LendingTree, Inc. - CFO*

What we said was revenue for refi is down because of volume. But the actual RPL itself is flat after being up 10% every quarter for the prior 5.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Got it. Okay. And then as far as My LendingTree goes, how much of that increase that you saw on the subscribers came from H&R block? And how much of it came from organically?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Almost 0 from H&R Block, because it was just getting going.

J. D. Moriarty - *LendingTree, Inc. - CFO*

It's interesting with H&R Block. H&R Block is in interesting in that -- we're seeing a different type of consumer. We're really happy with the success and we will further integrate with them but it's most interesting because it's a great template for how we can work with others.

Operator

I'm not showing any further questions at this time. I would now like to turn the call back over to Doug Lebda for closing remarks.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

I want to thank you all for being with us today. I'm incredibly proud of the team that we've put together. I am incredibly proud of the performance we fit out. We love the partnerships with our lenders. I couldn't be more thrilled to be saving this company right now. The diversification strategy has worked, the My LendingTree strategy has worked. The acquisition strategy has worked. Introducing new business has worked, and we're taking share and beaten our competitors. And we're going to grow right through this and keep growing earnings, but I do want to say around -- about our shareholder base. And I was having our board meeting yesterday and we have incredibly great long-term shareholders, who believe fervently both on our employee base, on our board and among our major shareholders. That this company has tremendous potential over the long term, and over the intermediate and over the short term. And we are incredibly bullish about that. I am in this for the long haul, and I'm just so thrilled what the prospects for our future. And I look forward to talking to you all in the next couple of months. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. And you may all disconnect. Everyone, have a great day.