

**UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION**

COMMISSIONERS: **Lina M. Khan, Chair**
 Noah Joshua Phillips
 Rebecca Kelly Slaughter
 Christine S. Wilson
 Alvaro M. Bedoya

In the Matter of

CREDIT KARMA, LLC, a limited liability company.

DOCKET NO. __

COMPLAINT

The Federal Trade Commission (“Commission”), having reason to believe that Credit Karma, LLC (“Respondent”) has violated the provisions of the Federal Trade Commission Act (“FTC Act”), and it appearing to the Commission that this proceeding is in the public interest, alleges:

1. Respondent Credit Karma, LLC is a Delaware limited liability company with its principal office or place of business at 1100 Broadway, STE 1800, Oakland, California 94607. In December 2020, Respondent merged with Credit Karma, Inc., Credit Karma, Inc. ceased to exist at that time, and Respondent became the successor to Credit Karma, Inc.
2. Respondent has marketed third-party financial products, such as credit cards, to consumers.
3. The acts or practices of Respondent alleged in this complaint have been in or affecting commerce, as “commerce” is defined in Section 4 of the FTC Act, 15 U.S.C. § 44.

**Respondent’s Claims that Consumers were
“Pre-approved” for Third-Party Financial Products**

4. Respondent’s website, www.creditkarma.com, and mobile application market credit monitoring and other tools such as financial calculators for approximating the effect of certain credit choices (like obtaining a loan) on a consumer’s score.
5. To access most of these tools, a consumer must sign up for a Credit Karma account and become a member. When signing up for an account, a consumer must provide to Respondent a variety of personal information, including name, date of birth, and last four digits of a

Social Security number, and also agree to Respondent’s Privacy Policy and Terms of Service, which state that Respondent may collect additional information about them from other sources. Respondent has amassed over 2,500 data points, including credit and income information, per member.

6. Respondent sends members advertisements and recommendations for third-party financial products.
7. At least since February 2018 through April 2021, through its website, mobile app, and email marketing campaigns, Respondent has represented in advertisements and recommendations to members that they have been “pre-approved” for third-party financial products such as credit cards.
8. For example, in numerous instances, Respondent’s email advertisements prominently have represented that consumers have been pre-approved for third-party financial products, including but not limited to representations in Exhibits A and B. One such email, attached as Exhibit A, includes a subject line stating “Congrats! ... You’re pre-approved for an American Express Card.” When opened, the body of this email prominently reiterates, in large boldface, the following statements and depictions:

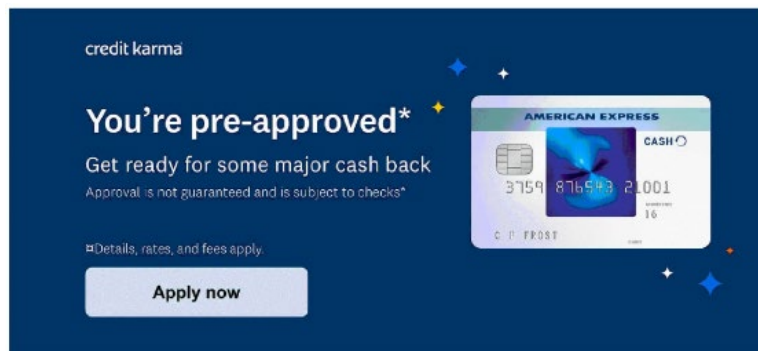


Exhibit A at 1

9. Similarly, another email advertisement from Respondent, attached as Exhibit B, includes the subject line “You’re pre-approved for this Amex Card.” The body of this email reinforces this message with the following statements and depictions:

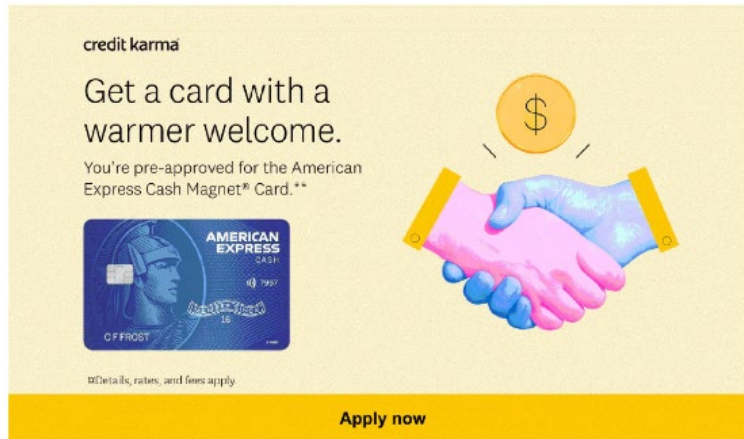


Exhibit B at 1

10. From emails such as these, the consumer could select the link “Apply now” or, in other instances, “Take offer” and go to a website to where they could take final steps to take the offer for which they purportedly had already been approved.
11. Respondent also has made prominent pre-approval claims in advertisements and marketing materials displayed on its website and mobile application, including but not limited to the “Pre-Approved” credit offers attached as Exhibits C and D.
12. Despite the preapproval claims in Respondent’s emails and other marketing materials, financial product companies have not already approved the consumers to whom Credit Karma sent these offers. As one of these companies explained: “The Company does not preapprove, prequalify, or preselect consumers to whom to offer the [Company’s credit card] via Credit Karma.”
13. In fact, for many of these offers, *almost a third* of consumers who received and applied for “pre-approved” offers were subsequently denied based on the financial product companies’ underwriting review, *i.e.*, the actual process by which they made approval determinations. Additionally, in some instances, roughly a quarter of consumers were denied approval because of disqualifying financial and credit characteristics, like insufficient credit histories, account charge-offs, and bankruptcies. Further, the financial product companies’ underwriting review includes a “hard inquiry” on consumers’ credit reports, which, in many instances, lowered the credit scores of those whose applications were denied. Thus, in response to Respondent’s pre-approval claims, numerous consumers have unnecessarily applied for the advertised products and damaged their credit scores, wasting significant time and harming their ability to secure other financial products in the future.
14. Respondent knows that its prominent pre-approval claim conveys false “certainty” to consumers and has employed it deliberately to influence consumers’ behavior. For instance, Respondent conducted A/B testing – a method of comparing two versions of a claim or

design feature to determine which better drives sales or consumer action – comparing the pre-approval claim to claims expressing a consumers’ likelihood or odds of approval. Respondent’s A/B tests showed that the pre-approval claim resulted in a [REDACTED] increase in click rates when compared to the claim that consumers had “Excellent” odds of approval. Exhibit E at 2-3. When user interfaces are designed, including with the aid of A/B testing, to trick consumers into taking particular actions in the company’s interest, such design tricks have been described as “dark patterns.” Further, Respondent knows that the [REDACTED] [i.e., click rate] [was] due to the certainty” that the pre-approved claim provides to consumers. Exhibit F at 2. It is also aware of the “profitability” of marketing “pre-approved offers” and “giv[ing] members certainty.”

15. To the extent Respondent has revealed that consumers’ likelihood of getting approval was anything less than certain, it has done so by making additional false claims that consumers’ likelihood of approval is 90%, or by using buried disclaimers, including but not necessarily limited to:
 - A. In the marketing email attached as Exhibit B, toward the bottom of the body of the email, beneath the “Apply now” button and three separate “**you’re already pre-approved**” claims, Respondent states, “Approval isn’t guaranteed, but 90% of pre-approved applicants get this card, so it’s a great start.” Exhibit B at 1. *See also* Exhibits C and D.
 - B. In the email advertisements attached as Exhibits A and B, below the “Apply now” link, additional terms about the offer appear. If a consumer continued to scroll down, the consumer would see a second “Apply now” link and be taken to a website. Still farther below that, more than 20 lines below the first “Apply now” link, and sometimes after additional offers and in the middle of other language, the emails include a fine-print footnote stating, “**You have received this pre-approved offer because you met certain criteria determined by American Express for a pre-approved offer, as of the email send date. This is not a guarantee of approval.” Exhibit A at 2; Exhibit B at 2.
16. Respondent is aware that consumers who received pre-approved credit offers were misled by them. Respondent’s training materials, for instance, list “I was declined for a pre-approved credit card offer How is that possible?!?!?” and “confus[ion] about pre-approval” as common issues that customer service representatives should expect to encounter. Exhibit G at 3-4. Respondent also has received numerous complaints from consumers who stated that they had been misled about these exact issues. In response to one exasperated consumer, Respondent’s own customer support conceded, “If you are told you are pre-approved that should mean you are pre-approved. That shouldn’t mean you have a good chance. If all you have is a good chance then we should call it that.”

VIOLATION OF THE FEDERAL TRADE COMMISSION ACT

Count I

False, Misleading, or Unsubstantiated Claims that Consumers are Pre-Approved

17. In numerous instances, in connection with the advertising, promotion, or offering of financial products, Respondent has represented, directly or indirectly, expressly or by implication, that:
- A. Consumers were “Pre-Approved” for credit products; and
 - B. Consumers had “90% odds” of approval.
18. In fact, in numerous instances in which Respondent has made the representations set forth in Paragraph 17, such representations were false or misleading, or were not substantiated at the time the representations were made.

Violations of Section 5

19. Therefore, the acts and practices of Respondent as alleged in this complaint constitute deceptive acts or practices in or affecting commerce in violation of Section 5(a) of the FTC Act, 15 U.S.C. § 45(a).

THEREFORE, the Federal Trade Commission, this _____ day of _____, 20___, has issued this Complaint against Respondent.

By the Commission.

April J. Tabor
Secretary