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CORPORATE PARTICIPANTS

Li Hui *Yirendai Ltd. - Director of IR*

Yang Cao *Yirendai Ltd. - COO and CTO*

Yihan Fang *Yirendai Ltd. - CEO*

Yu Cong *Yirendai Ltd. - CFO*

CONFERENCE CALL PARTICIPANTS

Bo Pang *China Renaissance Securities (US) Inc., Research Division - VP*

Daphne Poon *Citigroup Inc, Research Division - Associate*

Dexter Hsu *Macquarie Research - Research Analyst*

Ran Xu *Morgan Stanley, Research Division - MD*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Yirendai First Quarter 2018 Earnings Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, Friday, 25th of May 2018.

I would now like to hand the conference over to your first speaker today, Mr. Matthew Li, IR Director. Thank you, and please go ahead, sir.

Li Hui - *Yirendai Ltd. - Director of IR*

Thank you, and welcome to Yirendai's First Quarter 2018 Earnings Conference Call. Today's call features presentations from our CEO, Ms. Yihan Fang; and our CFO, Mr. Dennis Cong. Mr. Cao Yang, our COO and CTO; and Miss Joanne Liu, our VP of Finance, will join the presenters in the Q&A session.

Before beginning, we would like to remind you that discussions during this call contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities and Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties and factors that may cause actual results to differ materially from those contained in any such statements. Further information regarding potential risks, uncertainties or factors is included in Yirendai's filings with the U.S. Securities and Exchange Commission. Yirendai does not undertake any obligation to update any forward-looking statements, except as required under applicable law.

During this call, we will be referring to several non-GAAP financial measures and supplemental measures to review and assess our operating performance. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. For information about those non-GAAP measures and reconciliations to GAAP measures, please refer to our earnings press release.

With that, I will turn the call over to our CEO. Yihan, please begin.

Yihan Fang - *Yirendai Ltd. - CEO*

Thanks, Matthew, and thank you all for joining the call today.

We are very pleased to deliver another solid quarter amid a challenging regulatory and credit environment. In the first quarter of 2018, our loan originations grew 65% year-over-year to RMB 12 billion, bringing our loan balance to RMB 44 billion. As of the end of Q1, we had cumulatively served more than 1.2 million qualified borrowers. Along with the continued healthy growth of credit lending, we have also actively managed the credit risk of our borrowers and noted promising indicators of improvement.

In addition, we have seen accelerating developments of our online wealth management business due to our continued investor education and the launch of new products and services, catering our clients' diversified investment needs.

In the first quarter of 2018, we served 214,000 new investors. As of the end of March, we had cumulatively served more than 1.4 million investors. In addition, we're pleased to have made significant progress on partnership with a few important partners this quarter.

During the first quarter of 2018, we made several adjustments to our loan products and the business model to ensure our compliance with the existing regulatory requirements. Most notably, we started cooperating with a leading insurance company in Asia, PICC, and a financial guarantee company to upgrade our existing breadth of protection mechanism. In addition to regulatory compliance, we believe this is a critical step to transfer our business to a pure platform model. We believe that a tightening regulatory environment will promote the healthy development of China's consumer lending industry and benefit leading platforms such as Yirendai.

We have been closely analyzing the fluctuation of credit performance across the industry since December last year, and we have proactively strengthened our efforts in managing the credit risk of our borrowers. For existing borrowers, we enhanced the collections by devoting more resources, implementing technology-driven methods and adding contacting points with borrowers. For new borrowers, we have a clear step-by-step plan to tighten our risk policy to improve borrower quality, optimize credit underwriting model and preemptively control business growth. Based on the evaluation of current risk performance of the entire loan portfolio, we believe the volatility of credit risk has already peaked in the first quarter. We have seen promising indicators of improvement and are confident that the credit risk performance will return to pre-credit spike levels by the end of this year.

We're also actively working with various industry stakeholders to promote the establishment of the nationwide personal credit information system, which we think will be essential for the industry.

Despite our conservative growth strategy due to the current credit and regulatory environment, our Q1 loan volume growth continued to outperform the industry. Demand for credit remains very strong in China. We're confident in being able to address the financing needs for more prime consumers through further optimization of product offerings, risk management and customer acquisition capabilities.

The evolving market environment also drives more individual investors to platforms with an established brand and proven track record. We're increasing investment in investor education and brand (inaudible) to make Yiren Wealth the brand of choice for more mass affluent investors. In addition to our high-quality consumption loan assets, we remain committed to build Yiren Wealth into a comprehensive online wealth management platform.

During this quarter, we launched several tools for asset allocation for platform investors and have experienced very strong growth momentum in terms of number of users and AUMs. Institution partnership continues to be an important focus for us. We're deepening cooperation with existing partners such as PICC and Baidu on product design, customer acquisition and risk management. We're also in discussions to develop new cooperation with leading financial institutions to diversify our funding sources and drive the sustainable growth of our business.

This year will be an important year for Internet finance in China. We're staying committed to risk management, partnership expansion and product optimization to serve higher quality borrowers. At the same time, we will continue to strengthen our technology capability to support all aspects of our business operations. In addition, we will also vigorously drive the growth of our wealth management and YEP businesses this year.

I'll now turn the call over to our CFO, Dennis, to discuss this quarter's financial results.

Yu Cong - *Yirendai Ltd. - CFO*

Thanks, Yihan. Hello, everyone. Before I start with our financial results, I'd like to make some comments on the market environment and implications to our business.

On a macro level, we see smooth progress so far for the overall deleveraging process in China with non-bank consumer lending growth rate decelerating in the first quarter of 2018. Online lending industry is going through a compliance evaluation process. Despite delay of the registration implementation, we see the consolidation trend to continue that should result in more rationalized growth rate for the industry as a whole.

On the wealth management front, given the recent tightened regulation policy towards asset management products, we believe our fixed income base loan products could become more attractive investment option to attract wealth management clients or financial institutions who favor fixed income type of products.

Now on to our financial update. I will only focus on key items of our business operation and financial performance, and you can refer the detailed financial results to our earnings release and IR deck that is now online.

We're pleased to start 2018 with another strong quarter. Amid rapid evolving and uncertain regulatory environment, the industry total loan origination decreased 19% year-over-year in the first quarter of 2018 according to wangdaizhijia.com. While we took a proactive step to manage risk with measured loan growth, during the quarter, total loan origination grew 65% year-over-year in first quarter 2018, and in particular, loan from online channels grew 93% year-over-year. We'll continue to be ranked #1 by wangdaizhijia.com in their online lending platform development index in early 2018.

During the quarter, 72.5% of borrowers came from online channels and 58% of loans were generated online. Repeat customers is becoming a significant driver of our growth, with about 23% of loan volume coming from repeat borrowers in Q1 2018. In addition, we're excited to announce that we have made further progress in diversifying and optimizing our funding structure. We're partnering with a top global investment banking firm to issue ABS of CNY 324 million. The underlying asset of ABS will be the loans extended via trust through our online market platform.

We're committed to partnering with more financial institution to continually optimize our funding structure, reduce our funding costs and better serve our customers.

Next on to wealth management business. Building Yiren Wealth into a leading online wealth management platform in China is our top strategic focus, and we have already seen early indicators of customer demand for non-P2P investment service. Cumulatively, registered investors grew 30% year-over-year to 6.9 million by the end of March 2018, and the number of active investors is more than 300,000 at end of Q1 2018.

For our fixed income P2P loan products, the annualized yield to investor remains stable at around 8% with an average tenure of approximately 11 months in Q1 2018, and with average AUM per investor of CNY 130,000 as of the end of March as we continued to upgrade our investor base to reach mass affluent population.

This quarter, we cross sold approximately CNY 499 million of insurance, money market and mutual funds products. Albeit, still a small percentage of our total investor AUM, this has shown a clear indication of customer acceptance and demand for our wealth management services beyond P2P loans.

In addition, since January this year, the number of investors and total AUM for our automated mutual fund investment plan has maintained 100% growth month over month. In April, the number of investors who have signed up for the automated mutual fund investment plan already represent 40% of total mutual fund investors. As of March 2018, there were approximately 209,000 investors that have opened e-wallet accounts with total AUM reached CNY 1.1 billion, which represent more than 60% of our investor base.

Next, we continue to expand our new technology-enabling platform business this quarter. We have entered into a strategic partnership with a commercial bank in China in which we will leverage our strong technology and risk management capability and collaborate in the area of product event, online loan facilitation, risk management and customer acquisition to help the bank develop and expand their online lending business. We believe this partnership will lay the foundation to form many more valuable partnerships with other financial institutions in the future.

As to our risk performance, as mentioned on our last call, the tightening of industry regulation has resulted in short-term upswing with delinquency rate across the industry. In response, we have reviewed and further enhanced and tightened our credit policy while increasing collection efforts in the first quarter. As a result, our delinquency rates only increased slightly, of which we believe will reverse back to normal as we progress further into the year. In addition, we also conservatively increased our provision for the Quality Assurance Program from 8.5% to 11% of loans covered by the Quality Assurance Program during the quarter as well as accrue an additional contention liability of CNY 209 million for historical loans to cover any potential volatility in credit performance of our asset portfolio. We believe current credit risk spike in short term as we refine and optimize our risk policy as well as increased collection efforts, we're already seeing delinquency rates trending down in April and early May.

Before I give out our full year guidance, I would like to highlight impact of adopting ASC 606, which resulted in an adjustment of CNY 1.7 billion to the opening balance of return earnings this quarter adding an adjustment of CNY 389.6 million on income earned from loans facilitated before 2018. Prior to adopting ASC 606, our adjusted net income for Q1 2018 was CNY 668.5 million, and our adjusted EPS was CNY 11.02 or USD 1.76.

With that, let me go over our guidance. For the full year of 2018, we expect loan origination volume to be in the range of CNY 48 billion to CNY 52 billion. That concludes my remarks, and now I would like to turn the call back to the operator for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Richard Xu of China.

Ran Xu - *Morgan Stanley, Research Division - MD*

I have 2 questions. This is Richard Xu from Morgan Stanley. First of all, I just want to ask about the, I guess, risk reserve funds. There's a conservative additional reserve in the quarter. Given you mentioned the performance has been good, especially for historical periods, how do you, sort of, come up with this amount of additional reserve? And going forward, if the performance stayed relatively good, as you mentioned, they already improved in April and May, will this would be reversed out in the future? And how often this will take place, for example, if the credit quality deteriorate, then the chances of booking some additional reserves for past cohorts, is that going to be a common practice in the future or not? Second of all, just wondering, given the -- obviously, some volatility in the credit risks, there will be potentially other policy cycles in the future, does the -- will this impact, I guess, your firm's loan growth strategies, whether you will probably grow the loans a little bit more conservatively in the future or basically that won't impact the growth strategy?

Yu Cong - *Yirendai Ltd. - CFO*

Sure. Thanks, Richard. Regarding the additional reserve we registered for the quarter, as we have mentioned before, when we look at our quality assurance reserve, we always look at the total portfolio performance, the potential payout and the customer returns because that's how the unit economic works. So given the recent risk performance of our existing portfolio as well as the new loan origination that we have seen early of the year and the magnitude from the estimate from the current delinquency as well as our expected investor return or funding costs, we have looked at a combination of raising the reserve for the new origination also adding additional contingent liability for existing loans. With that amount, we believe, we will have sufficient Quality Assurance Program amount to provide competitive returns to our investors to continue to generate strong demand to run our business. So that's where our consideration is in terms of how we come up with these amounts. Of course, we will evaluate this on a quarterly basis. As we further evaluate the risk performance, the expected return, the funding costs and the competitive dynamics in the market to dynamically adjust our Quality Assurance Program. But one thing we would like to point out is, going forward, starting in Q2 this year, given the new regulation approval -- process, that we will not be managing the Quality Assurance Program by our platform and -- for our platform, 1/3 of our business were actually covered under PICC agreement, the other 70% or 2/3 of that will go through a third-party financial guarantee company basically. However, the mechanism is similar to the Quality Assurance Program that we'll be conducting so far. And so we will be doing this evaluation on a quarter basis and then make certain adjustments accordingly.

Ran Xu - *Morgan Stanley, Research Division - MD*

Just to add a little bit to the question. Does it mean going forward, at least in the near term, the Quality Assurance Program's reserve will be somewhat elevated versus historical periods, meaning, around 11% versus 8% to 9% in the past. Is that going to -- at least, going to run for a while?

Yu Cong - *Yirendai Ltd. - CFO*

So I think that's the near-term intention. So one thing, the 11% is actually on the 70% of loans that's not covered by PICC. So it's not 11% on the whole loans were originated because the 30% loans -- 20% to 30% loans covered by PICC will have different mechanism covering them. So 11%, the risk reserve that we're talking over here is the non-PICC loans. I think right now, we're taking a little bit conservative approach. We would like to see how the recovery on our existing portfolio progress and then how our new loan program progress. We actually see the indication of the new loan already back into close to normal type of risk performance. So if you just compare 11% to our historical performance, then you're already over-reserved, in that sense. However, we would like to consider the total portfolio base. Of course, that -- for that consideration, the key is the existing loan collection success rate as we're boosting our effort and we see early encouraging signs and also, of course, the new loan performance all combined together, if we see encouraging signs, giving us confidence, then we could actually bring the reserve level down. Okay, so regarding the second question, I think, right now, we all know most of the leading platform have gone through the evaluation process with regulations -- with regulators. And so far, apparently all the results are pretty satisfactory. However, there's a delay in the registration decision of the regulator into the future. From our business perspective, we're just -- we continue to operate business at a normal pace. If anything, we have implemented certain risk testing for various customer product design channels to make sure that we have outstanding customer segmentation, high-quality, credit quality of our borrowers. So in the event of potential further shock, either due to regulation or consolidation, we're less impacted. And then from growth rate perspective, I think if you look at our full year guidance, which at the midpoint of CNY 50 billion, you compare what we originated back in 2017, CNY 40 billion, you're looking at 25% year-over-year growth. However, you -- I would like to point out that in 2017, only about 50% of our loans are originally from online. And then for this year, we're actually expecting more than 70% of our loans originating from online. So from the online growth perspective, it's still going to be a very respective growth from us. So I guess maybe that's the way that you look at our future business growth and our strategy shaking out.

Operator

The next question comes from the line of Daphne Poon of Citi.

Daphne Poon - *Citigroup Inc, Research Division - Associate*

So I've got 2 questions here. So first is on the net revenue take rate. So we see the take rate is actually quite stable quarter-over-quarter, but I guess there's been a couple of moving parts here. So I'm just wondering if you can help us break it down a little bit. So I guess first is obviously we have a higher provision for the QAF, also want to check on like how the growth transaction fee rate has changed over the quarter and also the impact from the new accounting policy. So because now you are able to recognize the transaction fees of funds, but without the new accounting policy, how much lower would the net revenue have been? Yes. And the second question is, we see that in 1Q, there is a much higher repeat borrowing rates and it also seems that the loan duration has been shortened a bit also. So is that due to some change in your product mix? Or what would be the reason behind that?

Yu Cong - *Yirendai Ltd. - CFO*

Sure. I would try to address these questions. If not clear, please let us know. I think for the revenue take rate, the current revenue take rate for the quarter is based on the ASC 606 accounting. And then the number, it's about a 14% revenue take rate. That just happened to be very similar to what we have been consistently having in 2017 where you have a very different accounting rules. I think it just happened to be that they're similar due to what -- under the ASC 606, how much percentage of the revenue we can upfront recognize and with the assumption of the collection of the remaining revenues. So I think from product perspective, we're having more online channel products in Q1 versus last year. And then for the offline referral products, they're mostly on monthly collection method or schedule right now. So I guess if you use the same accounting policy, you will have a lower revenue, net revenue take rate in the first quarter, but with the new ASC 606, you actually have a more consistent, more -- a better way of represent our business in terms of what the revenue opportunity upfront. And of course, going forward, you will consider the provision that's well, the key consideration as well as the product mix going forward. But we think the churn level and revenue take rate will be rather stable throughout the year. So that will be an assumption you can use for your modeling perspective. Does that answer your question?

Daphne Poon - *Citigroup Inc, Research Division - Associate*

Yes, I'm just wondering is it possible to maybe quantify the impact, like from the changing accounting policy alone that so if you're using the current fee charging schedule, but under the old accounting policy like, how much lower would (inaudible) you have?

Yu Cong - *Yirendai Ltd. - CFO*

Yes. So right, I think mathematically, we can always do that, but I want to highlight the difference and why it probably doesn't make a lot of sense for you doing those kind of apples-to-apples comparison, the reason being that, just take Q4 2017. Let's say half of those loans are originally from offline referral channels, and then for them, almost 100% of them have fees upfront collected, right? And then for Q1 2018, close to 35% or 40% of the loans in offline, they're 100% monthly collection schedule. So if you just think about the impact of that, it's quite different. However, from our business perspective, our revenue -- our service has been rendered and the fees revenue supposed to be -- correspondent to the service revenue should be recognized. I guess you could use that to calculate, but I wouldn't really look at it because it's probably almost not meaningful at all from our perspective in terms of how our business is conducted.

Yihan Fang - *Yirendai Ltd. - CEO*

Daphne, maybe if you really want to break out for some quantified on assets because the net, you can take the net revenue take rate, it's been quite stable comparing with Q4 last year. So basically, 2 major impacts on the take rate. One is from the ASC 606. So that's -- the impact is about 2%, 2% to 3%. And also, because we reserve more for the Quality Assurance Program, from 8.5% to 11%, and also because we partner -- in our partnership with PICC, we do pay a little bit more to PICC to make sure, okay, they also make money from the business. So that's another actual 2% to 3% of the -- to net of the revenue take rate. So if you consider these 2 major impacts to your -- the -- that's the major contributor to drive the net revenue take rate.

Yu Cong - *Yirendai Ltd. - CFO*

Yes, but I think, ultimately, it's really the product mix and the rates that we charge on those products. So historically, our volume adjustment average, we can call it APR rate, let's say 33, 34. And now in the quarter, we're probably in the 31 to 32 range. So it's not significantly different in terms of all product revenue opportunities in terms of loan originated. I guess that's another way to look at it. Short term, there's accounting changes, there's significant product changes that will probably make the revenue take rate if you use the same accounting comparison quite different. But I think really, you should look at what type of loan we offer, what type of revenue opportunity for each loan we have, and that's probably a much better way of looking at our business. So the other -- the second question is regarding duration of the loans. Yes, indeed we have more repeat borrowers that's very significant growth to our business which usually brings in lower (inaudible) level and with less customer acquisition costs. So it's good boost to our business. And in terms of the duration, I think it's slightly due to higher percentage of online loan volume because on average, our online loan volume tend to have, on average, shorter durations than the offlines. So I think the implication is probably from the online offline mix instead of due to repeat borrowers, yes.

Daphne Poon - *Citigroup Inc, Research Division - Associate*

So there's not much change in terms of like the product offering, the product mix, it's more like (inaudible)?

Yu Cong - *Yirendai Ltd. - CFO*

Yes, for online, on average, probably 2 years, offline, 3 years. So if you switch the online offline mix, you're probably towards more than -- because on average, when it's 50-50, it's 2.5 years. That has been pretty consistent. Now, you have 60% online, so you move that 2.5 more close to 2, I guess, yes.

Operator

Your next question comes from the line of Bo Pang of China Renaissance.

Bo Pang - *China Renaissance Securities (US) Inc., Research Division - VP*

So I have basically 2 questions. The first one will be on the guidance. So I wonder, given you have a pretty solid start already with the 65% loan volume growth in the first quarter, your guidance implies roughly 20% growth for the full year. So I just wonder how should we think about the trajectory in the remaining quarters of the year given the uncertainty on the regulation environment? And my number two question is just trying figure out any update on YEP program in terms of your full year outlook and your partnership with the third-party platform.

Yu Cong - *Yirendai Ltd. - CFO*

Sure. I will answer the first question and then we'll have Yang answer the second one regarding YEP and our partnership with financial institutions. So in terms of total year, we're looking at 25% year-over-year loan origination growth. And of course, first quarter, we already had 65% year-over-year. I think the reason is really, from a strategic perspective, we have made a decision for Yirendai to drive our future growth from pure online channels. So by end of this year, we have the intention to phase out the offline referrals. So basically, you will see the second half of our business mainly driven by online channels. That's why you see a bit of disconnect. If you're already generating 120, well, CNY 12 billion in the first quarter, times 4, you already get 48 right. But that actually has 40-something percentage of offline referrals, as we have highlighted before. From Yirendai's perspective, we want to be a pure online play. We have already established the scale, so we'll continue to drive for the online growth and then gradually phasing out the offline referral business by end of this year. So in that sense, if you just look at our online business, as I mentioned before, you actually see a very respectful online channel growth going forward. So that's -- hopefully, that answers your question, yes.

Yang Cao - *Yirendai Ltd. - COO and CTO*

Just one comment on the YEP progress and -- we have 3 main components for YEP and the (inaudible) technology and risk management and then will be data and also algorithms and the, if you say, AI and then finally the customer acquisition. So we see significant growth on the data and also on the customer acquisition side in Q2. And with partners being launched and -- the number of partners signed up, it's going pretty well. And in Q3 and Q4, we would expect -- Q2, Q3, Q4, we expect more financial institutions being launched during this process and mostly being focused on the customer acquisition and risk management side. So we're pretty confident to see a growth in that front and launching new partners, and then we'll grow those partners in terms of volume and in terms of scale.

Bo Pang - *China Renaissance Securities (US) Inc., Research Division - VP*

Sorry, is there any accounting -- sorry, is there any accounting changes regarding the YEP booking?

Yang Cao - *Yirendai Ltd. - COO and CTO*

You say accounting changes?

Yihan Fang - *Yirendai Ltd. - CEO*

No, no. There's no accounting change. No. That's basically commission or fee-based business. So yes, we basically recognize revenue when the fee is collected or based on the contracts arrived.

Yu Cong - *Yirendai Ltd. - CFO*

Yes. I think maybe there's a -- because we're -- through YEP, we're working with large financial institutions, and this project takes some time. When it comes in, it starts generating volume. So you can say that the revenue, it's been lumpy. So it's not that consistent. I guess, that's maybe what they're -- you're looking for.

Yang Cao - *Yirendai Ltd. - COO and CTO*

Yes, so just a comment, with those partners, usually, they start relatively slow, and then we'll grow the revenue as we scale the partnership.

Operator

There are no questions at this time (Operator Instructions). We have a question from Dexter Hsu of Macquarie.

Dexter Hsu - *Macquarie Research - Research Analyst*

My question (inaudible) why the management decide to phase out the offline distribution? And what's behind it? Because it seems (inaudible) your parent company?

Yu Cong - *Yirendai Ltd. - CFO*

Yes. So I think it's more of strategic positioning of Yirendai and how that fits into the grand CreditEase group business plan strategy going forward. So we want each individual business to be more independent on itself, has much more clear strategy growing this business. So that's what's more of strategic consideration. And also, given that our business focus builds a strong, stable online technology-driven credit business, while at the same time expand our wealth management business, that's also another consideration so that we can spend more effort resource for our investors side to invest in non-P2P loans to expand into more wealth management business as we mentioned in early of the call, and so that we want to only drive the credit side with online business while for any of the surplus of the investor demand volume, we will direct them into other non-P2P wealth management business. So strategically, there's also a reason for that.

Dexter Hsu - *Macquarie Research - Research Analyst*

I see. And so can you talk more about the difference between the online, offline, the cost structure for customer acquisition?

Yu Cong - *Yirendai Ltd. - CFO*

Customer acquisition, yes. So offline has, of course, always been 6% as we negotiated the previous price. Then for online, I think through 2017 has been trending down very nicely. First half of this year, we, given our risk policy adjustment and we see a bit of stall of the progress of the customer acquisition cost coming down, just that so we can catch all various kind of risk policy tightening and things like that. However, we're confident into the second half, we'll restart the efficiency improvement in customer acquisition cost. There's a couple of things we're working on. One is that our partnership. Of course, beyond the online channel optimization, deep data integration with our large online acquisition platforms, we're also initiating more and more deep relationship with partner channels so that we have more [CPS-driven] customer acquisition channels as a percentage of our total cost. So we're pretty confident that we will see opportunities for us to further push down the customer acquisition cost from online channels. Right now, in the first quarter, we're probably still around 6%, roughly around 6% as we see it now.

Operator

There are no further questions at this time. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

Yu Cong - *Yirendai Ltd. - CFO*

Thank you.