Fact Versus Fiction: FinTech Lenders

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In this session, we'll review:

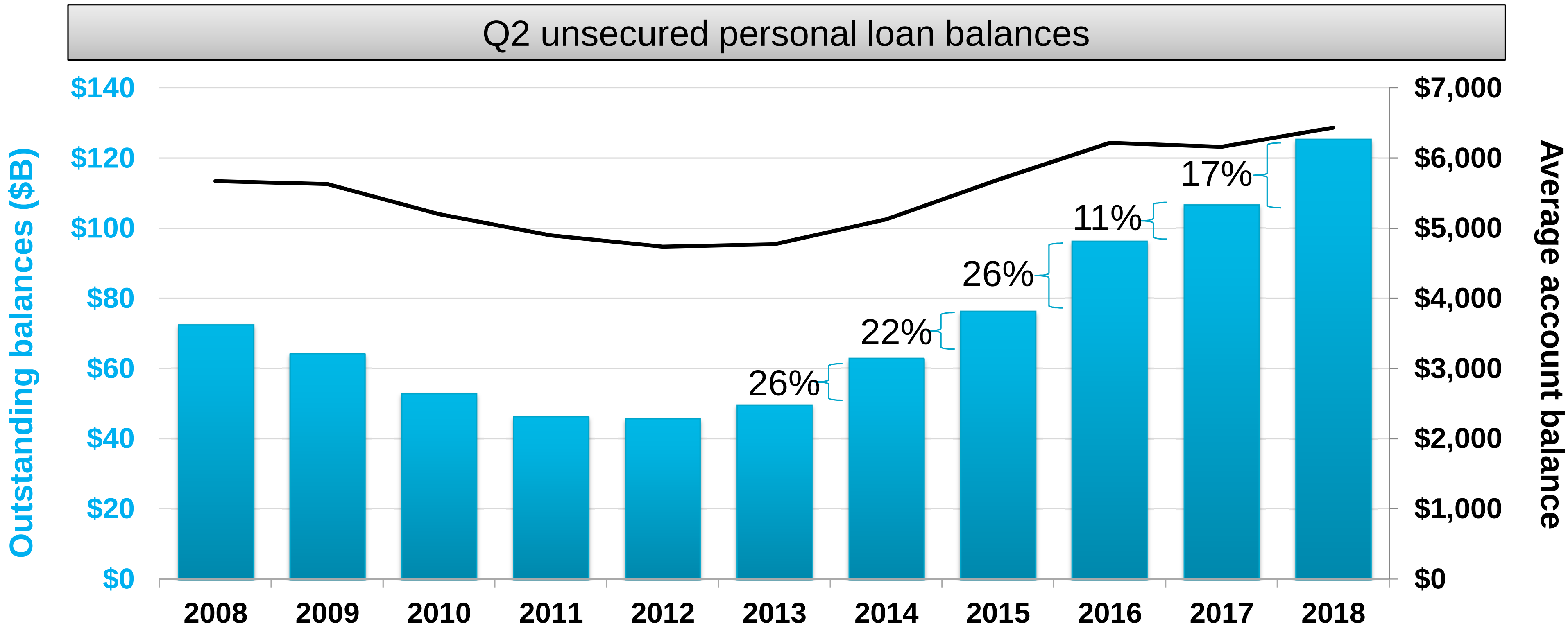
- An overview of the personal loan market

- FinTech consumer profile
  - How different are the demographics and geographical distribution of FinTech consumers?
  - How does the debt wallet of FinTech consumers compare to those of other consumers?

- FinTech lender strategy and performance
  - How are FinTechs different than other financial institutions in terms of origination strategy?
  - Do FinTech loans perform differently than other financial institution loans?
  - Can we measure returns on FinTech loan performance compared to other financial institutions?

An overview of the personal loan market

Personal loan total balances have grown by double digits annually since 2014, driven in part by increasing average balances



Source: TransUnion consumer credit database

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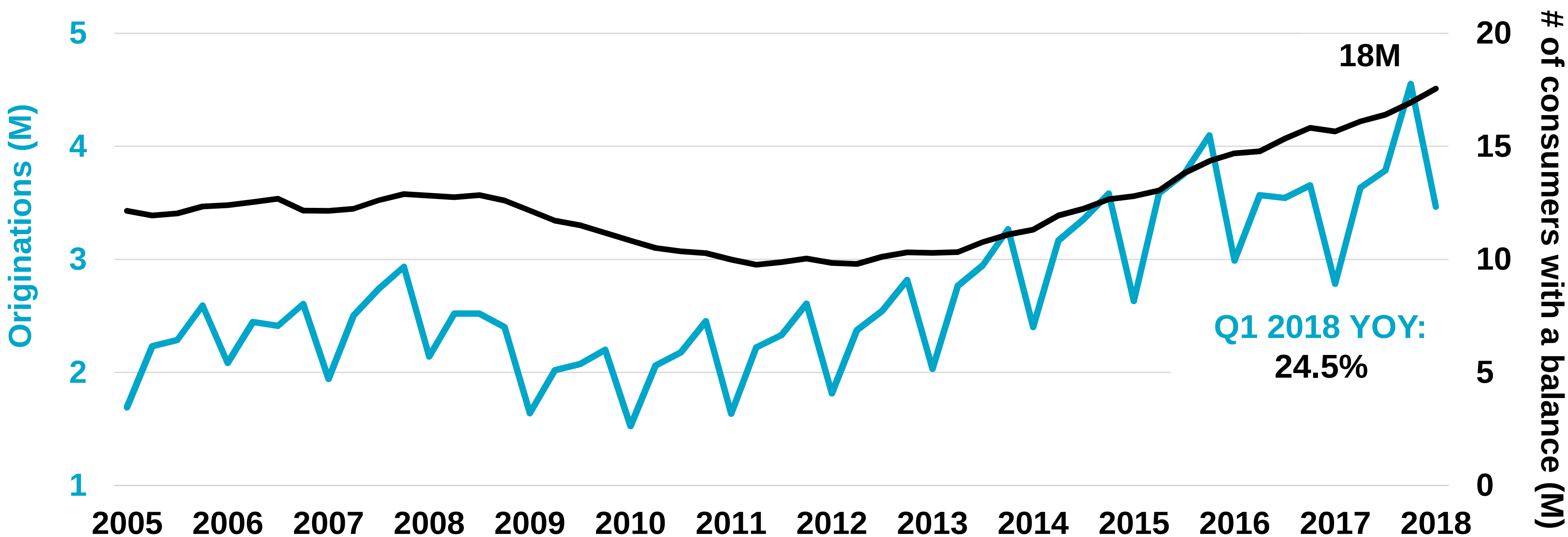
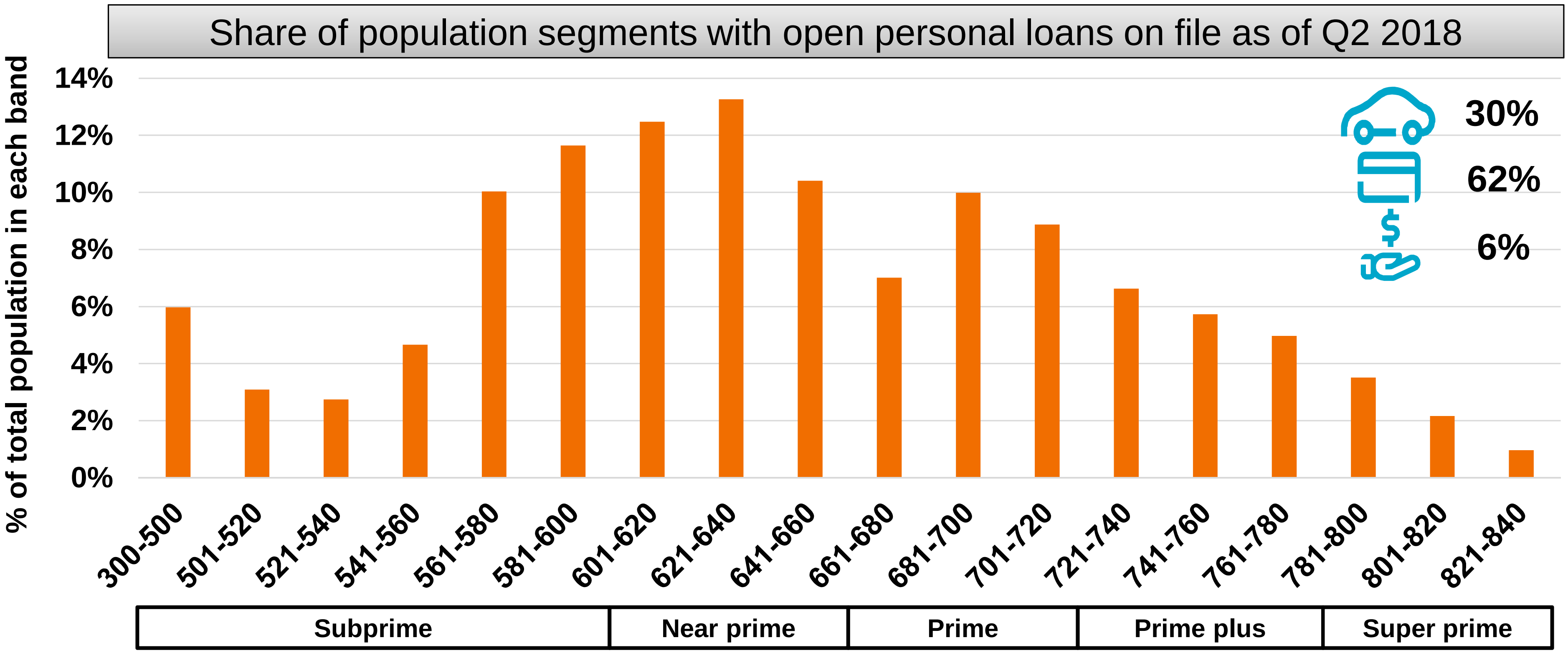
We continue to see growth in originations and consumers with a personal loan

Quarterly unsecured personal loan originations and consumers with a balance



Source: TransUnion consumer credit database

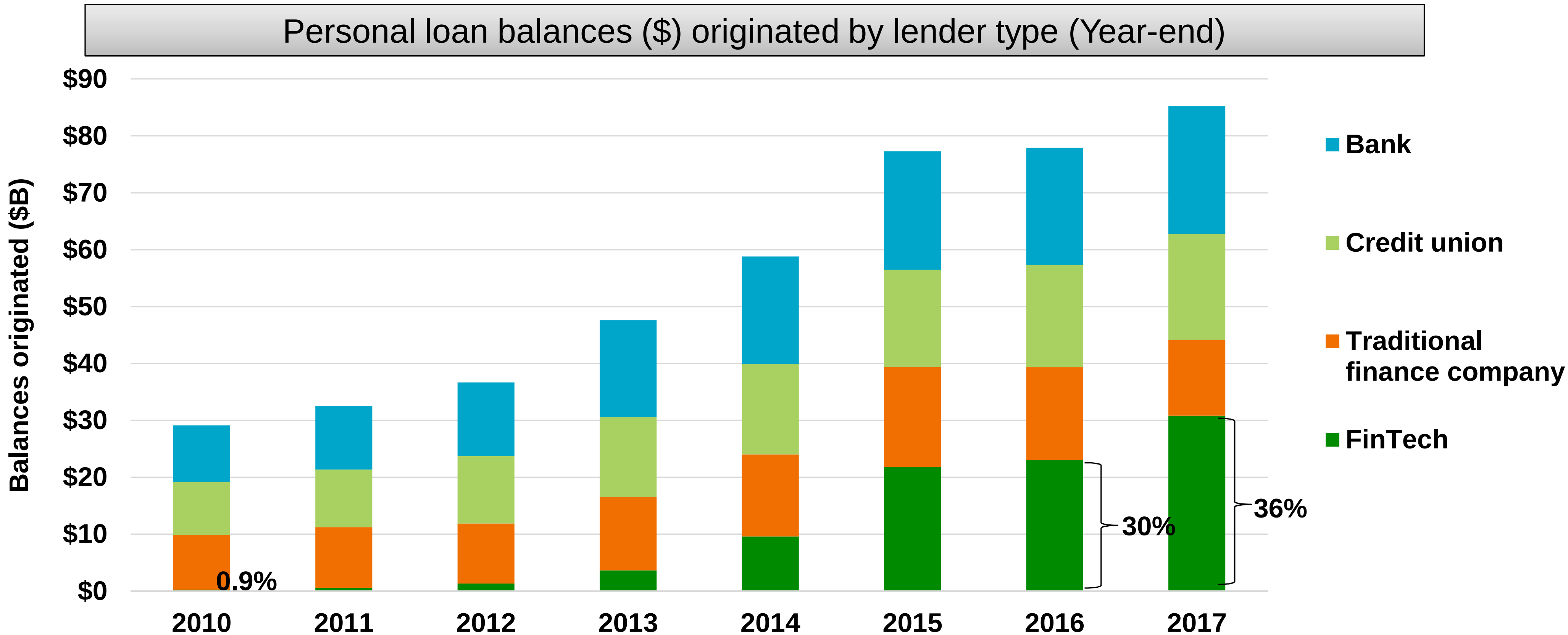
Personal loan adoption is low relative to card and auto loans



VantageScore® 3.0 risk ranges
Subprime = 300–600; Near prime = 601–660; Prime = 661–720; Prime plus = 721–780; Super prime = 781-850

Source: TransUnion consumer credit database

FinTechs have grown share rapidly in the personal loan industry



Source: TransUnion consumer credit database

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But FinTech performance has led to some concern — and some lively debate — in the market

New growth plan for online lenders: layoffs
Source: Wall Street Journal

Investment in marketplace lenders has crashed since the start of 2016
Source: Bloomberg

The FinTech threat: Part bubble, part trouble for big banks
Source: The Globe and Mail

As trouble piles up, online lenders pull back
Source: Los Angeles Times

Marketplace lending may threaten U.S. financial stability
Source: Reuters

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Growth and share shift in the personal loan market have led to many questions that we'll address in this session

Dimensions	Business questions: FinTechs compared to other personal loan lenders
Consumer demographics	• How are FinTech consumers different? *(Age, number of trades, wallet profile, Aggregate Excess Payment)*
Origination strategy	• How are FinTechs different in terms of origination strategy? *(Risk, term, amount, and pricing)*
Credit performance	• Do FinTech loans perform differently?
Risk returns	• How do FinTech loans measure in terms of risk-adjusted returns?

Consumer demographics

We analyzed over 60 million personal loans originated in 2014, 2015, 2016, 2017 and 2018Q1

t
Consumer opens a personal loan

Performance metrics at t
Consumer profile: Origination VantageScore® 3.0 score, age, number of trades, wallet profile, Aggregate Excess Payment
Loan profile: Amount originated, estimated interest rate

t + 12 months

Performance metrics between t to t +12 months
60+ DPD (balance-level)
Monthly ending balances

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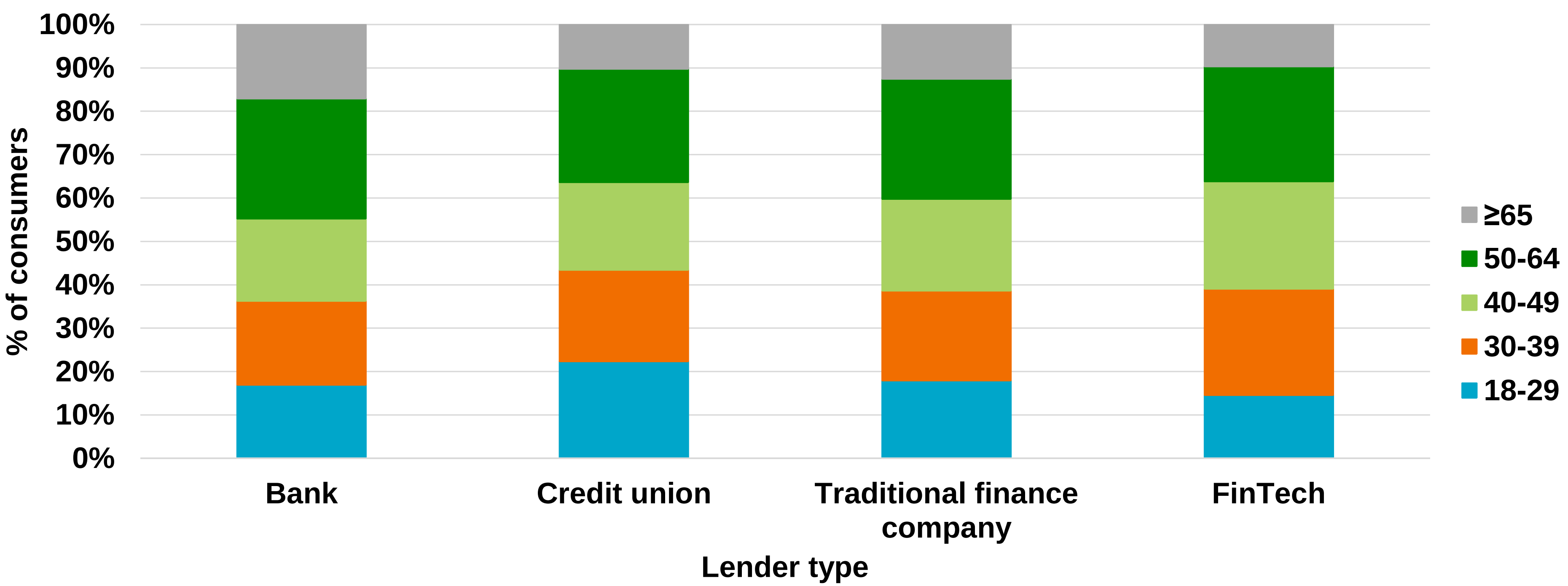
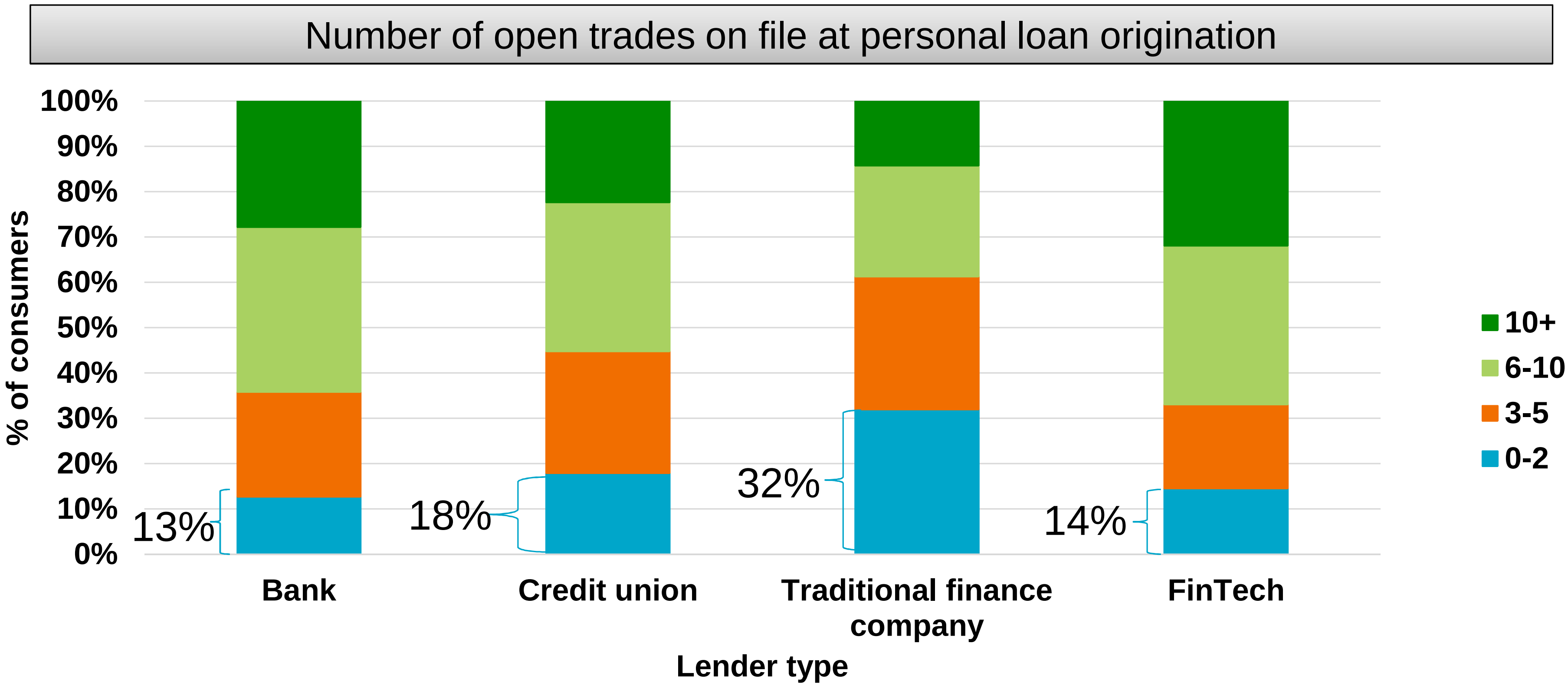
FinTech consumers are similar to those of other lenders in their age groups

Age distribution of consumers by lender type (Q1 2014 – Q1 2018 originations)



Source: TransUnion consumer credit database

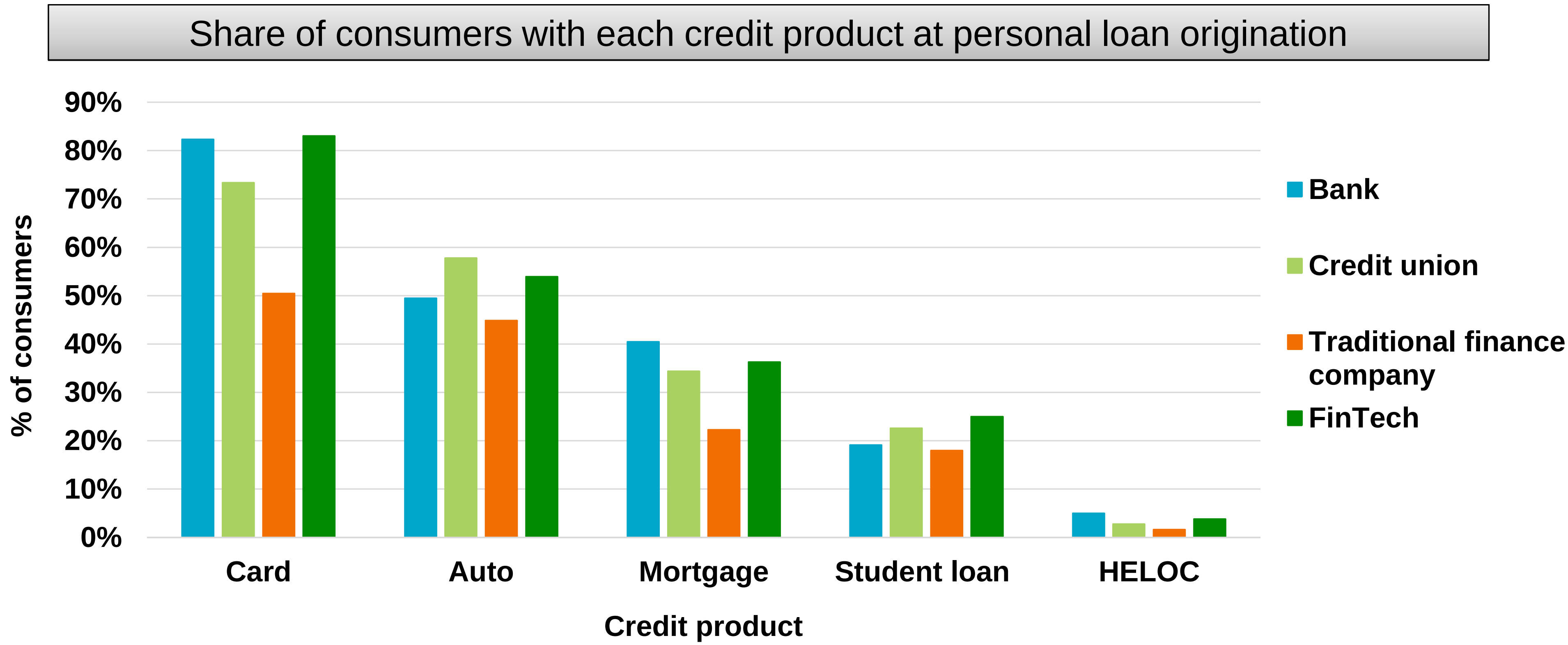
FinTechs and banks have similar proportions of thin-file customers



Note: personal originations 2014-2018 Q1

Source: TransUnion consumer credit database

FinTech consumers are as credit-active as bank and credit union consumers



Note: personal originations 2014-2018 Q1

Source: TransUnion consumer credit database

TransUnion's Aggregate Excess Payment algorithm exhibits a shift in excess payments being made, due to multiple drivers

	Payment Due	Actual Payment
• Mortgage payment	$1,000	$1,000
• Credit card payment #1 (MPD)	$50	$500
• Credit card payment #2 (MPD)	$50	$250
• Student loan payment	$300	$350
Sum of payments	**$1,400**	**$2,100**
Aggregate Excess Payment		**$700**

Risk tier	Average 12-month AEP			2018 YOY growth
	2016Q2	2017Q2	2018Q2	
Super prime	**$ 1,846**	**$ 1,891**	**$ 1,931**	**2.1%**
Prime plus	**$ 1,645**	**$ 1,657**	**$ 1,641**	**-1.0%**
Prime	**$ 1,178**	**$ 1,198**	**$ 1,182**	**-1.3%**
Near prime	**$ 762**	**$ 776**	**$ 754**	**-2.8%**
Subprime	**$ 167**	**$ 161**	**$ 160**	**-0.6%**

VantageScore® 3.0 risk ranges
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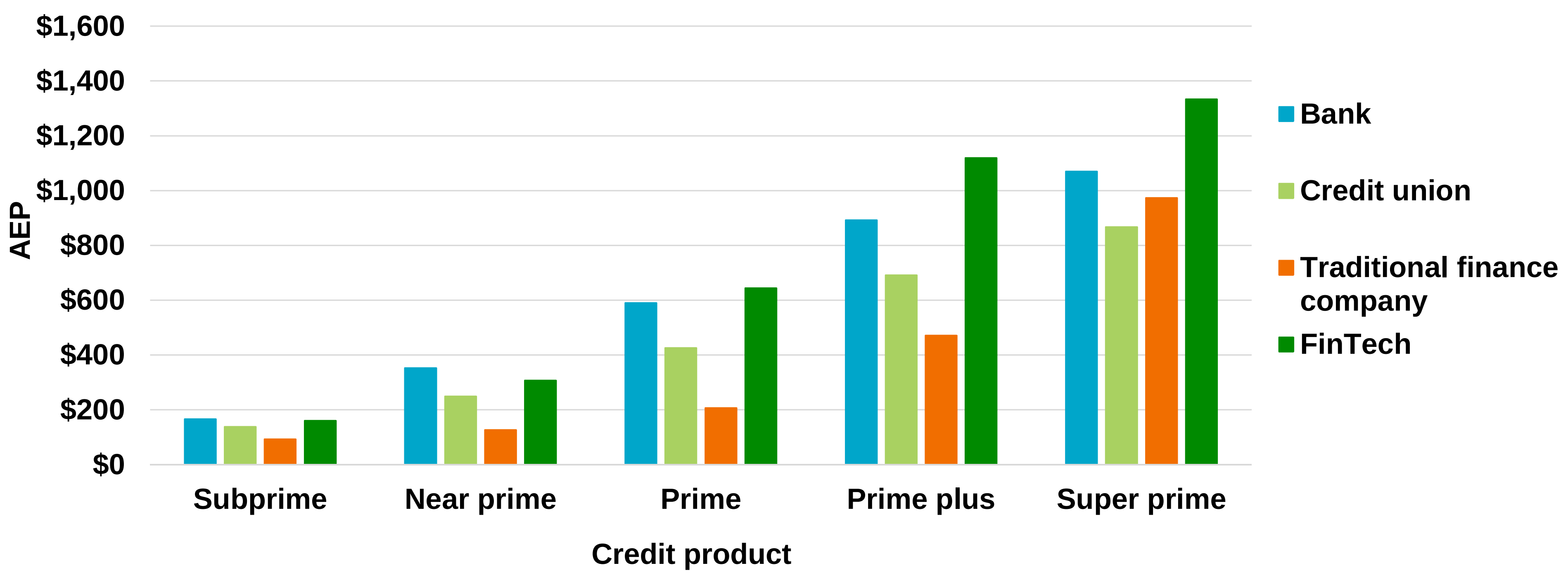
Prime and above FinTech customers have the highest levels of Aggregate Excess Payment at loan origination

Median 1-year AEP at personal loan origination



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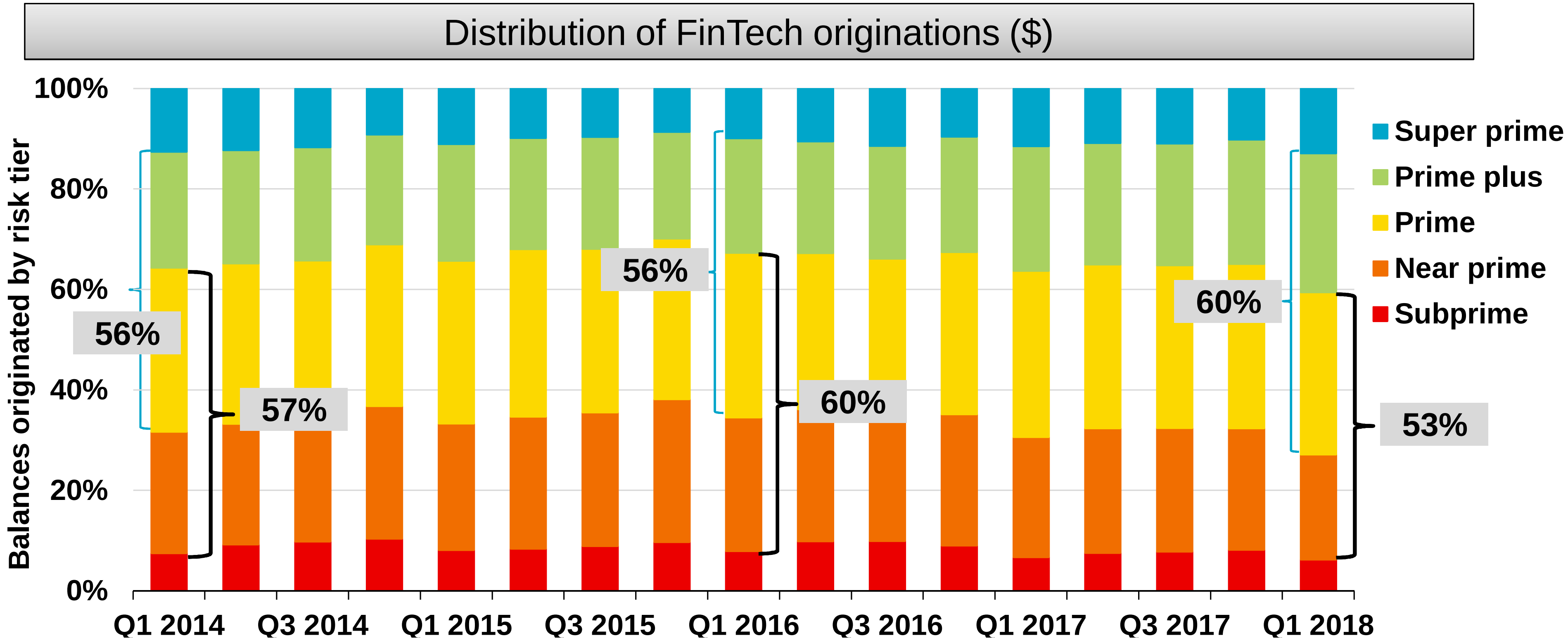
Source: TransUnion consumer credit database

Origination strategy

FinTech focus is gradually shifting towards lower risk consumers



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Source: TransUnion consumer credit database

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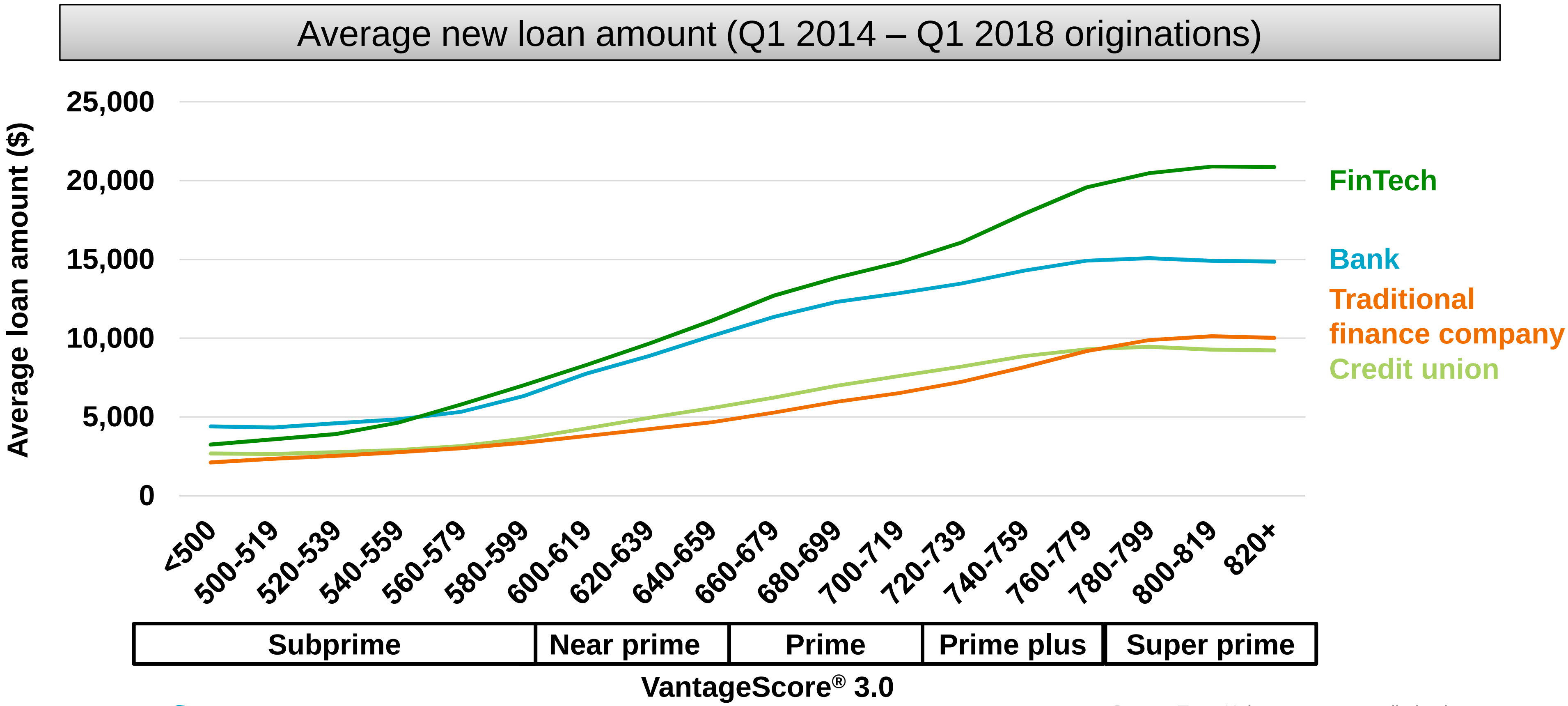
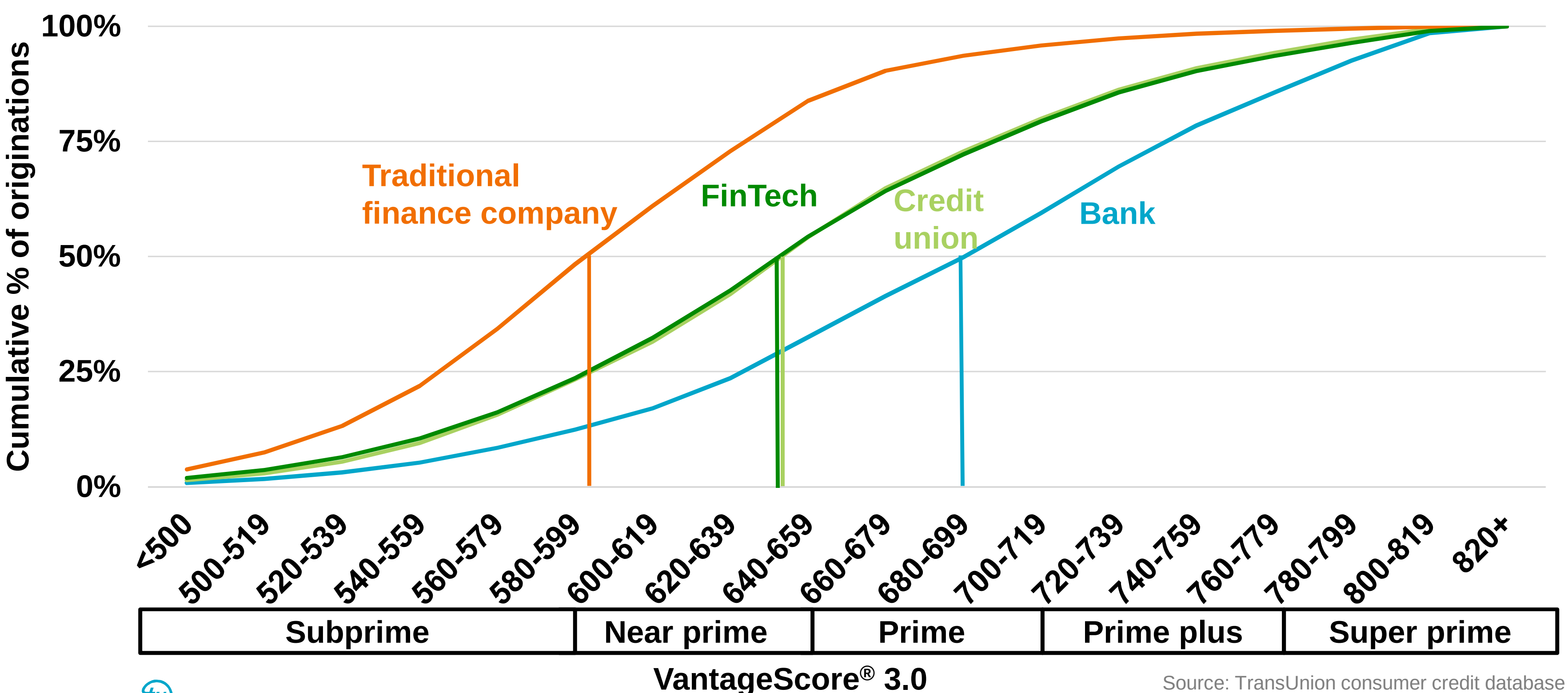
FinTechs issue the largest loans across the risk spectrum above 570



Source: TransUnion consumer credit database

FinTechs have more risk appetite than banks, but are more conservative than traditional finance companies

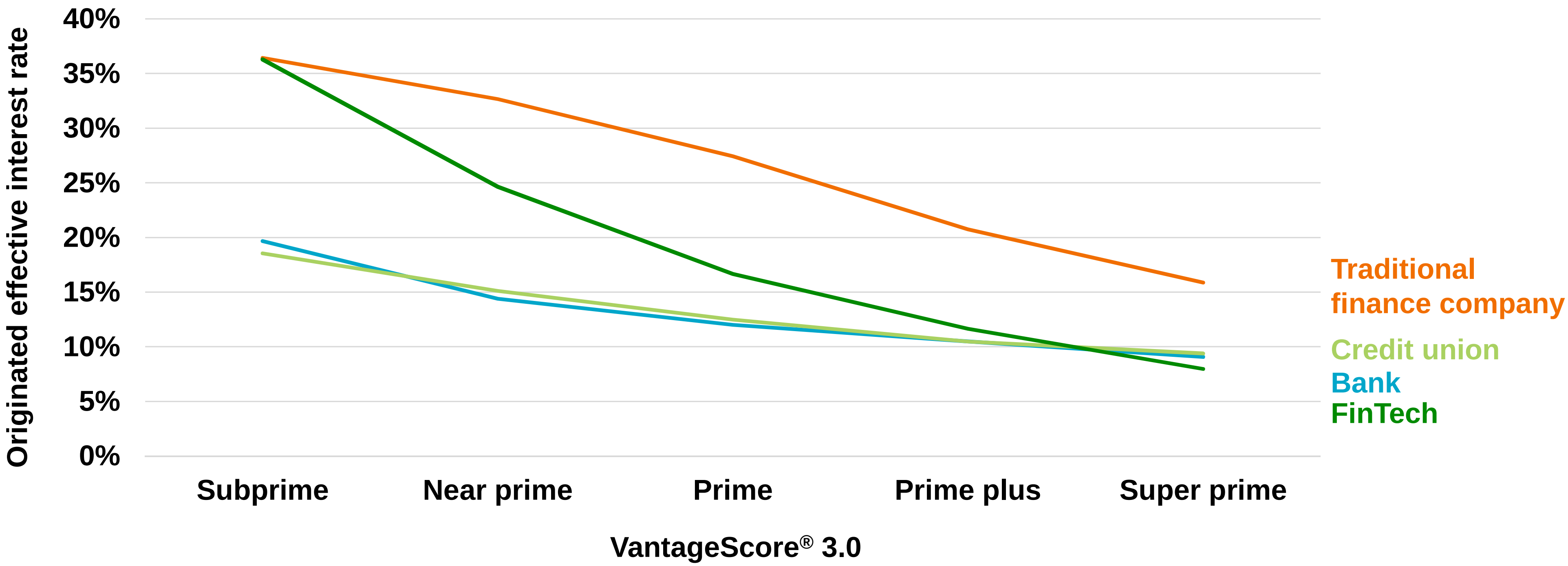
Risk distribution of originations at t (Q1 2014 – Q1 2018 originations)



Source: TransUnion consumer credit database

FinTechs have the most robust, risk-based pricing

Originated implied interest rate* (Q1 2014 – Q1 2018 originations)



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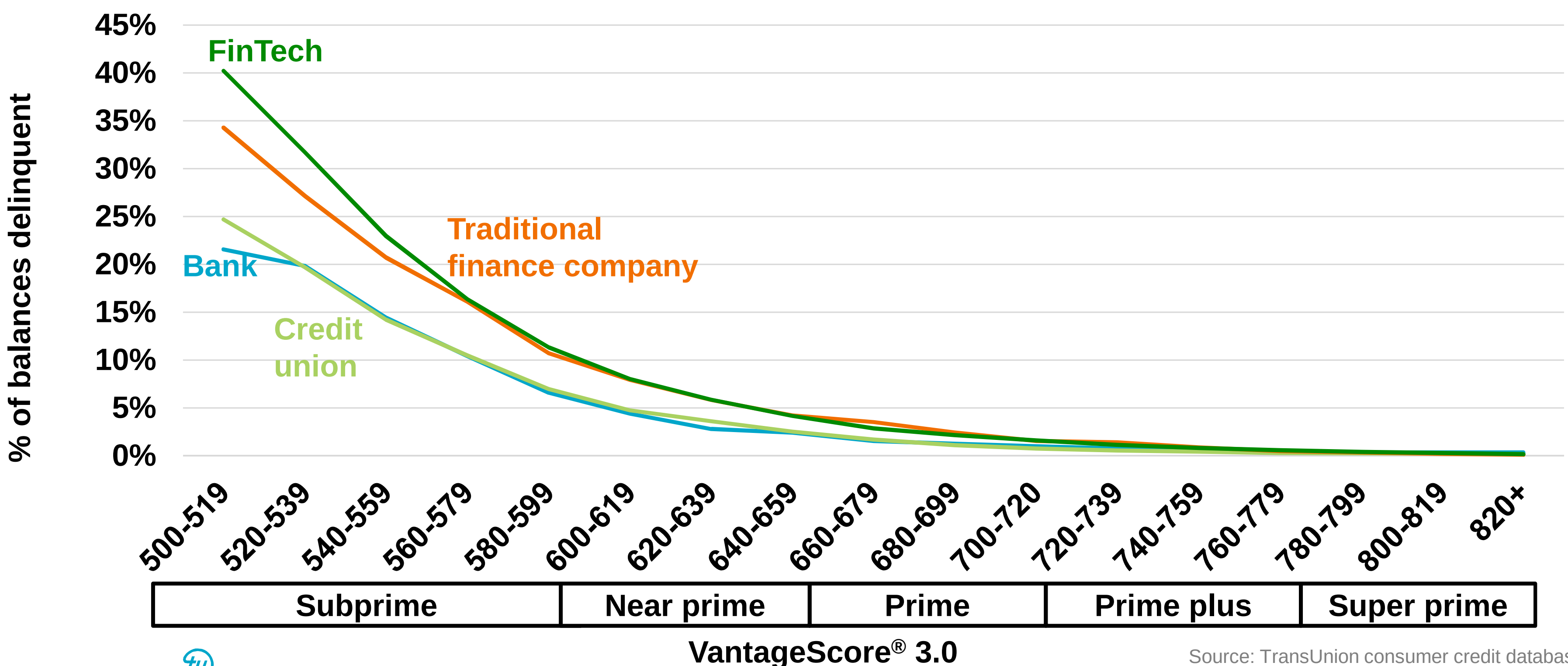
*Interest rate is calculated using originating balance, term, and payment due at origination;

Credit performance

FinTech loans experience higher delinquencies, specifically within lower credit tiers

60+ DPD balance-level delinquency rate at 12 MOB (Q1 2014 – Q2 2017 originations)



Source: TransUnion consumer credit database

Risk returns

We estimated lenders' risk-return measure using a straightforward approach

t

Originated loans = $100M

t+12 months

Annual interest income earned

At t+12 months
Interest income earned = $10.8M

Subtract

60+ DPD balances during 12 MOB
(current status not observed since last DQ)

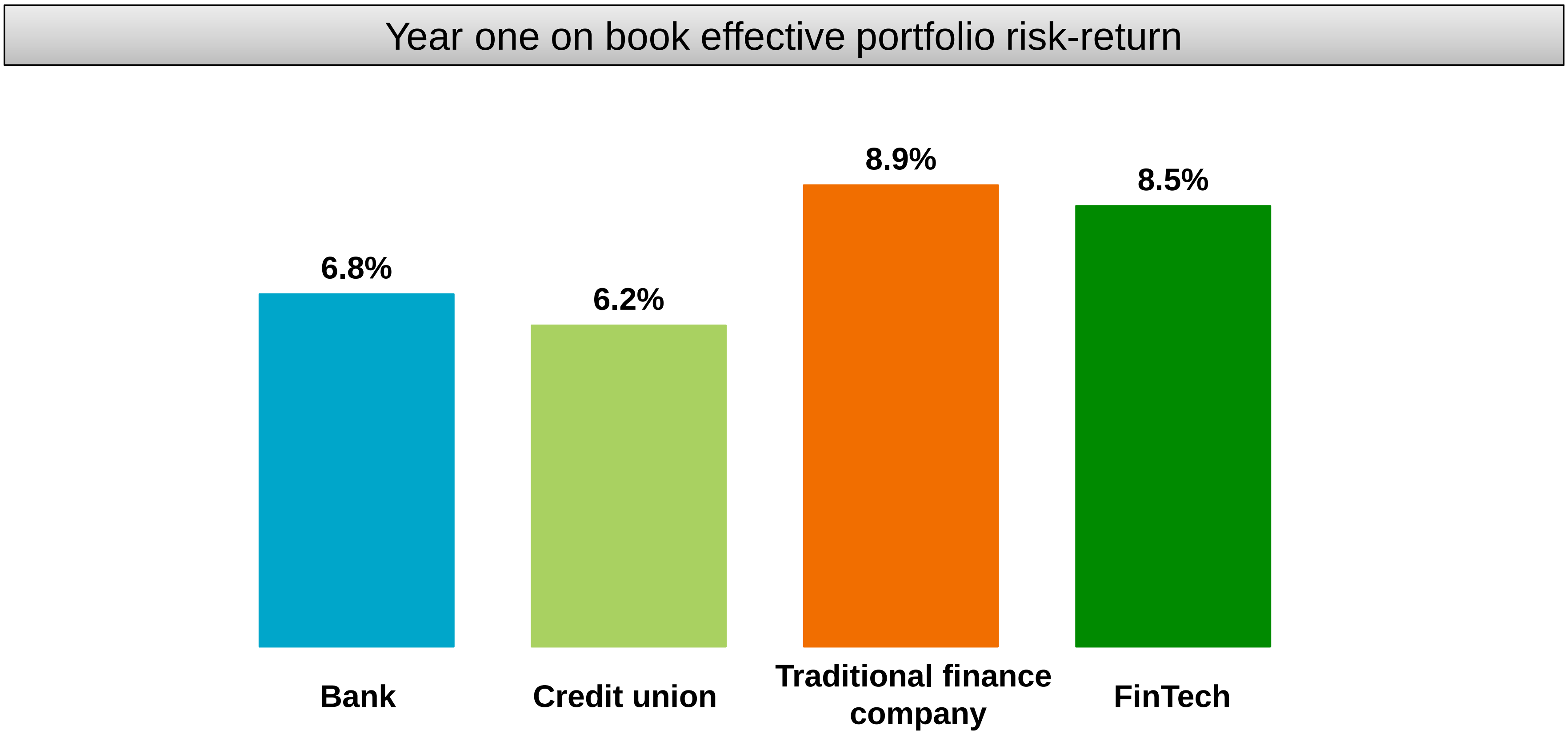
First 12 MOB
60+ DPD Balances = $5.1M

Yr. 1 Interest Income Earned Net of Delinquent Balances= $10.8M − $5.1M = $5.7M
Yr. 1 Risk-Return Measure = $5.7M/$100M = 5.7%

Note:
Costs associated with funding, branch, operating expenses, collections, and technology not included

For illustration purposes only

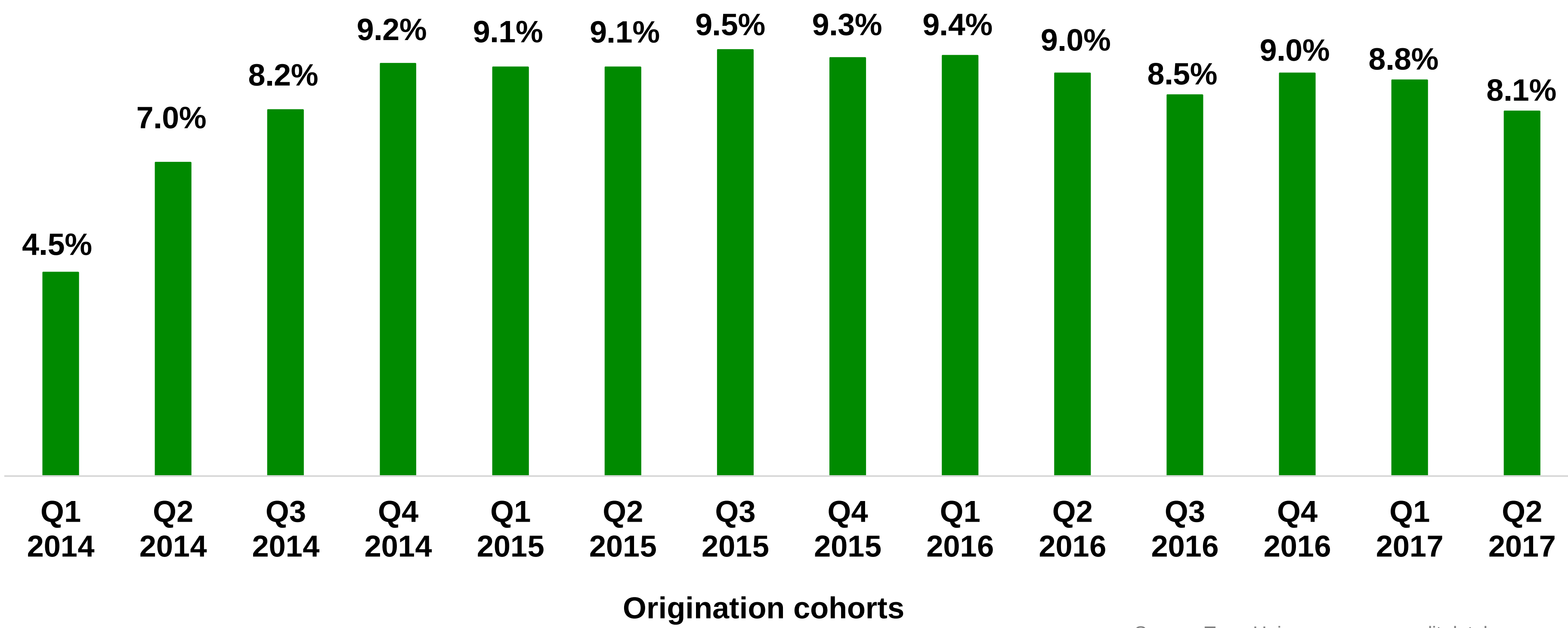
FinTechs generate effective portfolio risk-return ratios that exceed those of banks and credit unions



Source: TransUnion consumer credit database

After an initial ramp-up, FinTech risk-return performance has stabilized

Year one on book effective portfolio risk-return for FinTechs



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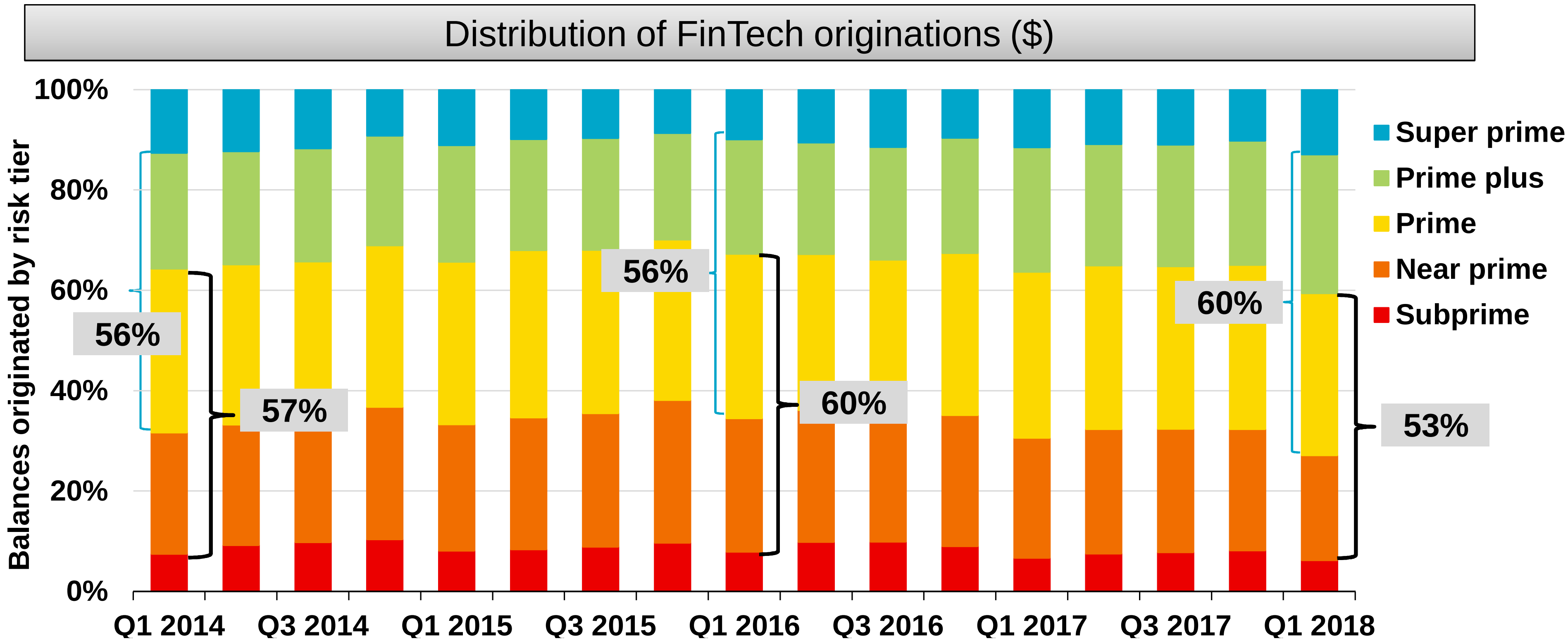
FinTech focus is gradually shifting towards lower risk consumers



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Thank you!

Questions? Contact me at:

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