

FINTECH REPORT



\$25.9M Total Bank Balance

\$17.9M Working Capital

03.41%	2760	12.84%
-65.82%	220.9	02.83%
-27.7%	641.3	41.01%
-67.26%	932.2	12.63%
-29.2%	59.4	-19.76%
23.97%	1920	30.53%
20.01%	8260	27.31%
-45.87%	0	12.84%
03.41%	2760	68.09%
-65.82%	220.9	02.83%
-27.7%	641.3	41.01%
-67.26%	932.2	12.63%
-29.2%	59.4	-19.76%
23.97%	1920	30.53%
20.01%	8260	27.31%
-45.87%	0	12.84%

Unsecured personal loan credit trends

Profit and Loss summary



How do fintechs fare with traditional Fls?

In this report, Experian® data scientists and analysts take a deep look at one of the most popular lending products in the industry, the unsecured personal loan. In the next several pages, our team will offer key insights into the consumer credit landscape and analyze trends on this emerging and important industry segment using historical data from August 2018 to December 2022.*

Report at a glance

Our summary of findings and three main takeaways are:

- ✓ Average balances for the digital loan steadily increased over the last year and is almost near pre-pandemic levels, reaching an average \$7 billion. However, overall year-over-year (YOY) growth for the digital loan to those from traditional lenders has declined.
- ✓ Most digital borrowers have prime credit or better, although VantageScore® distributions show borrower migration to higher risk tiers.
- ✓ Delinquent balances are rising after a period of historic lows during the pandemic. The uptick in delinquency rates could be driven from a combination of societal, regulatory and economic impacts, from moratoriums expiring, inflationary pressures and the general deterioration in financial health of higher risk tiers—subprime consumers.

Let's take a closer look on the following pages.

For brevity, this paper refers to such unsecured personal loans as digital loans. We refer to fintech companies that make these loans as digital lenders and to the consumers who borrow from those companies as digital borrowers.

*A note about our data sources: For details about the Experian studies, including source data, please visit the section ["ABOUT THE REPORT"](#) at the end of the report.

Origination volume trends

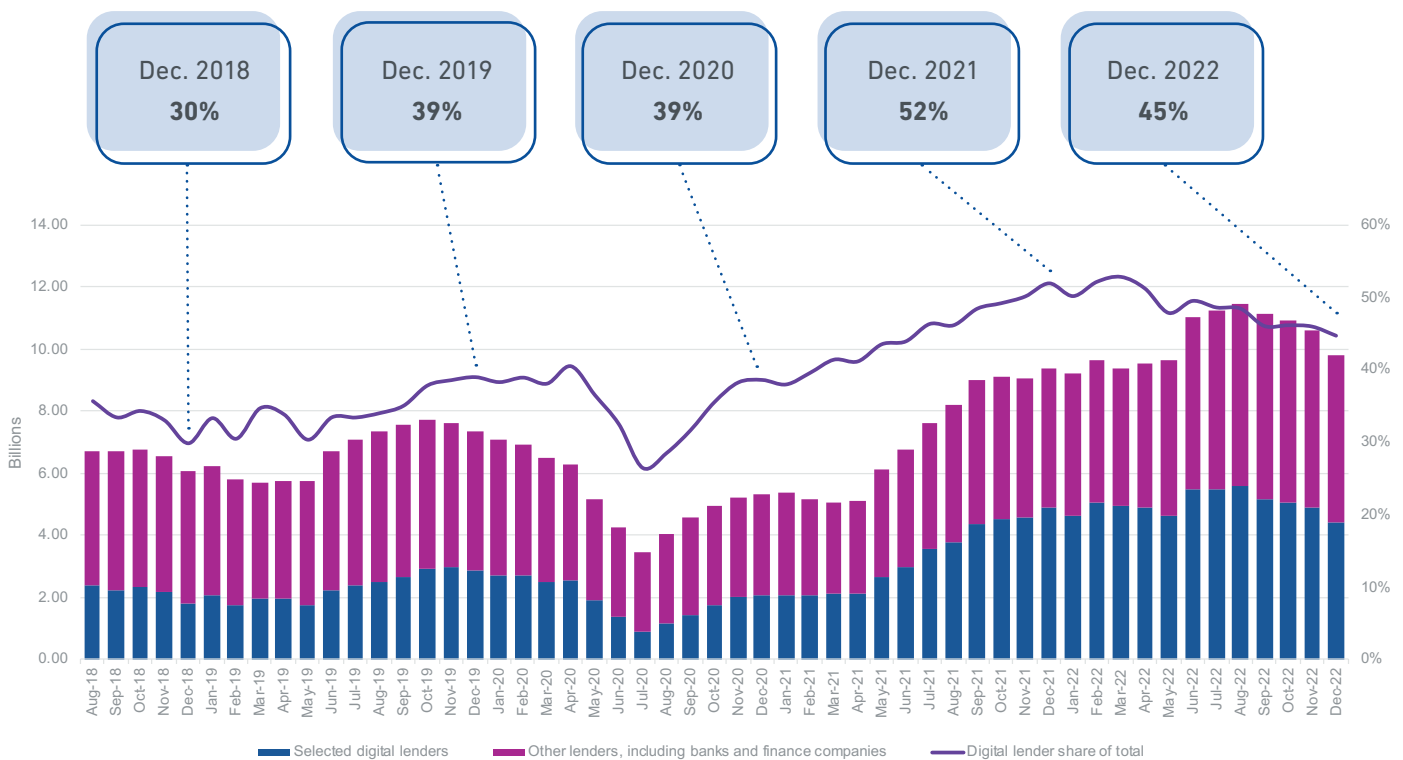
Market share: digital vs. traditional lenders

While total loan originations fell for both digital and traditional lenders towards the tail end of 2022, total unsecured loan volume is now almost double pre-pandemic levels reaching \$9.8 billion in originations. The data reveals that the contribution of digital lenders to unsecured lending continues to increase. A YOY comparison shows that in December 2018, digital lenders made up only 30 percent of the market, whereas in December 2022 digital lenders made up nearly half of loans originated, garnering a 50 percent YOY increase in the five-year span.

However, there was a dip in loan originations observed from both digital and traditional lenders in December 2022. **Digital loans accounted for 45 percent of the market – down from 52 percent from December 2021, a year earlier.**

Monthly loan origination volume

Marketshare Digital Lenders



Source: Experian data

Our take on why digital lenders' share continues to grow

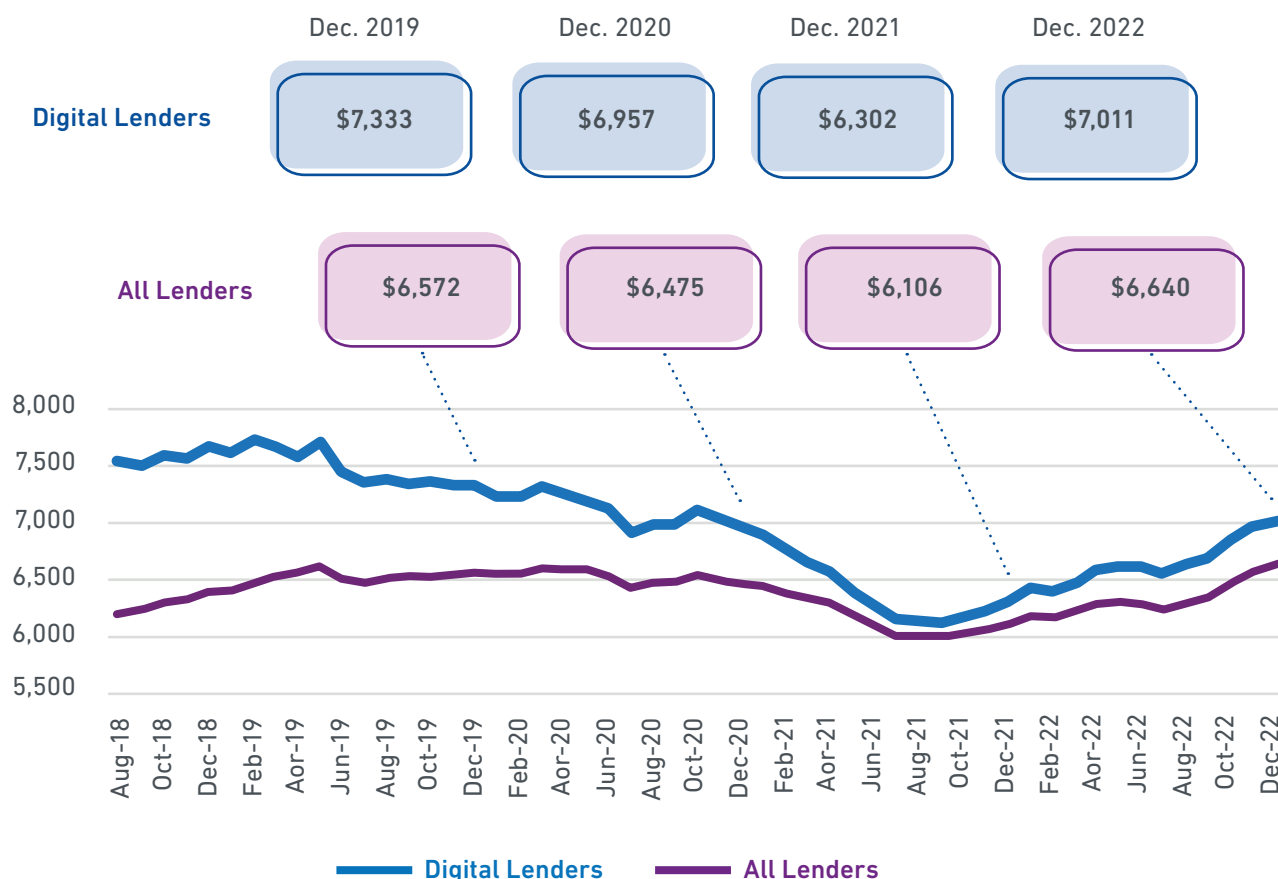
Digital lenders have traditionally expanded their portfolio by providing credit to borrowers with subprime scores, or thin credit files – segments who may have not been served historically by traditional financial institutions. This expansion into higher risk tiers have been a key driver of growth in personal loan originations for digital lenders.

Portfolio composition: average loan balances & risk tier distributions

The average loan balance is increasing for both digital and traditional lenders, after a period of significant decreases.

In 2018, the average loan balance from a digital lender was 20 percent more than the average unsecured personal loan. Those average balances declined steadily, and from December 2021 to December 2022, digital lenders have been making loans with nearly the same balances as traditional lenders.

Average Loan Balance



Average VantageScore® | Credit score trends

70% > 56%

December 2021 December 2022

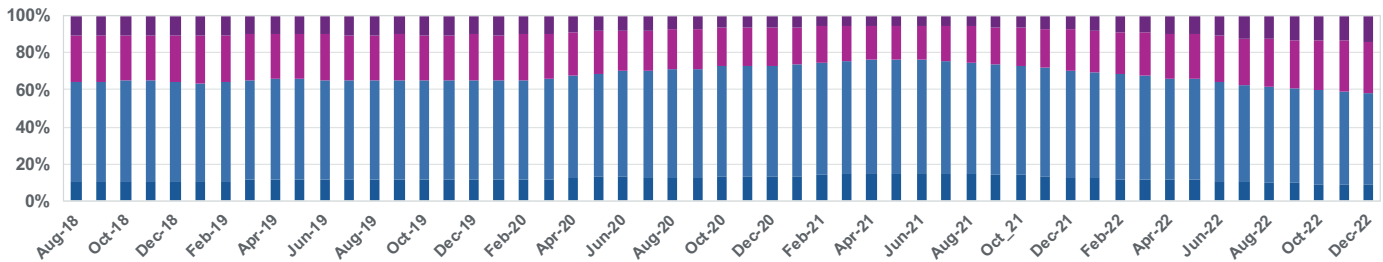
OF DIGITAL BORROWERS

less than prime credit
(VantageScore® **660** or below)

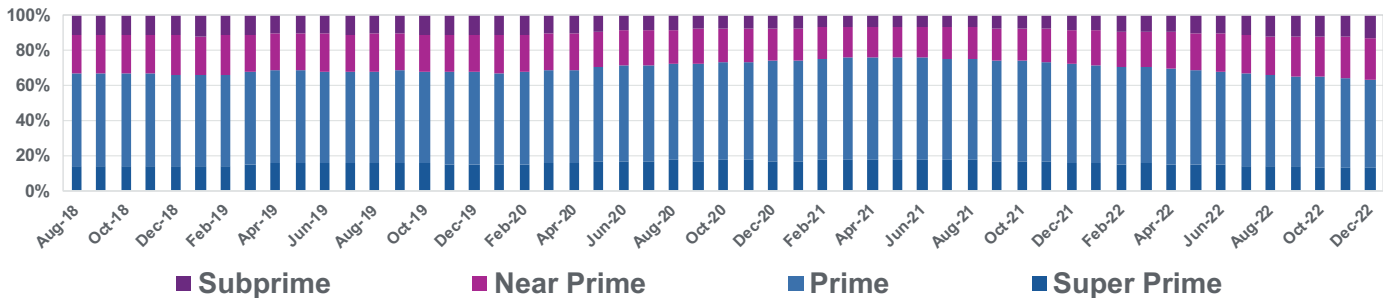
At the same time, digital lenders are lending to borrowers with an average VantageScore® of 662 compared to 699 for traditional, but VantageScore® distributions in 2022 are showing a migration to higher risk tiers.

In December 2021, 70 percent of digital borrowers had prime or super prime credit (VantageScore® 660 or above). Fast forward a year: In December 2022, only 56 percent have scores in that range. Borrower's loan scores are defined as Super Prime: 781-850, Prime: 661-780, Near Prime: 601-660, Subprime: 500-600 and Deep Subprime: 300-499.

Digital Lenders



All Lenders



Delinquency Trends

A lender's credit risk ordinarily shows up not only in the origination and portfolio credit mix, but also in the performance of the loans in the portfolio. The ultimate measure of loan performance, of course, is what portion of loan balances are eventually written off.

An earlier and equally important indicator is the delinquency of the loans in a lender's portfolio of consumer credit. Loan delinquency is a leading indicator of impending credit losses. Perhaps less obvious, delinquent loans drive operating expenses by driving the size and scope of the lender's servicing department.

Despite credit delinquency reaching record low levels during 2020 and 2021, over the course of the last year between December 2021 to December 2022, we've started to see an uptick in delinquency levels across the board for both digital and traditional lenders. Our analysis reveals that in December 2022, 1.44 percent of traditional loans were 90+ days past due, representing a 69 percent increase when compared to the year prior. Digital lenders have a similar percentage (1.62%) of loans 90+ days past due, representing a 92 percent YOY increase.

	Digital Lenders			All Lenders		
	30-59 DPD	60-89 DPD	90-180 DPD	30-59 DPD	60-89 DPD	90-180 DPD
December 2020	0.73%	0.66%	0.84%	0.77%	0.54%	0.81%
December 2021	0.91%	0.63%	0.84%	0.85%	0.55%	0.85%
December 2022	1.53%	1.25%	1.62%	1.28%	0.96%	1.44%

Unsecured personal loan delinquencies have increased across all delinquency buckets

Source: Experian data

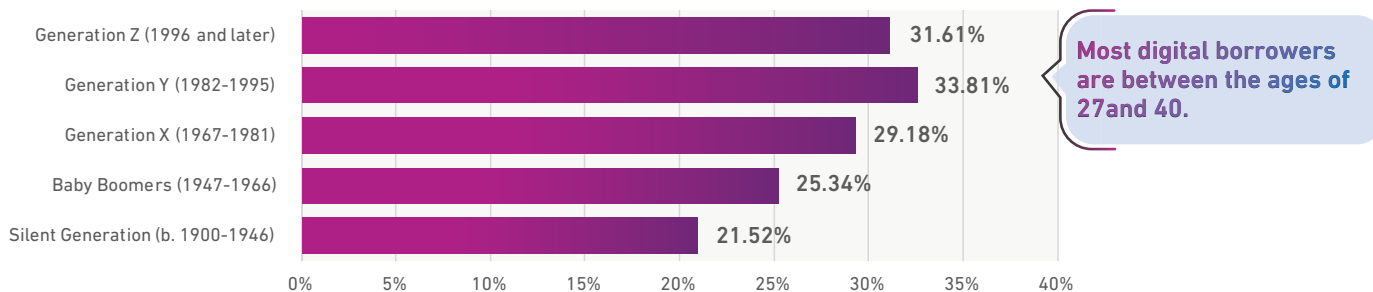
With today's economic backdrop being uncertain, coupled with delinquencies rising, digital lenders are under increased pressure to fuel profitable growth while monitoring their risk profile of their loan portfolio. Where traditionally digital lenders have expanded into higher credit risk tiers, the uptick in delinquencies observed may give way for digital lenders needing to shift their origination focus toward prime and above to moderate risk.

Who's the digital borrower?

Consumer demographics

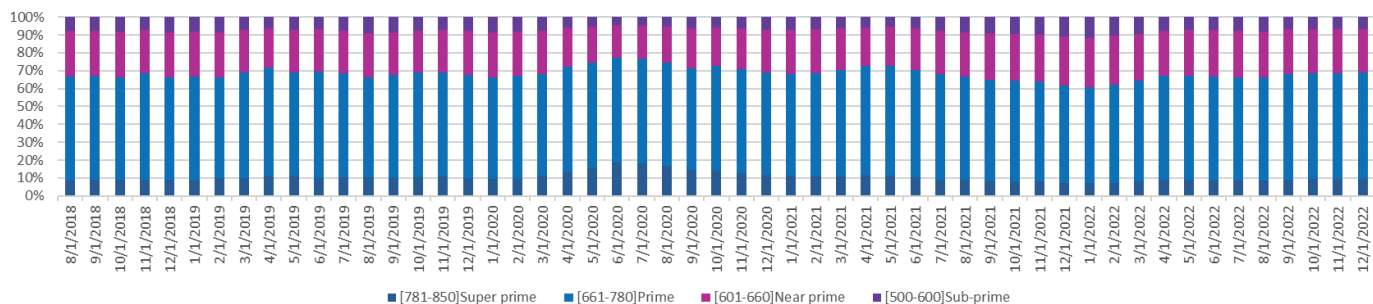
Our analysis shows that the digital borrower may be of any age and credit tier. In December 2022, most digital borrowers were between the ages of 27-40. If you're seeking to reach new online audiences, insights into a consumer financial profile and behaviors can allow lenders to go deeper into expanding personalized offers.

Generational Breakdown of Digital Borrowers in December 2022

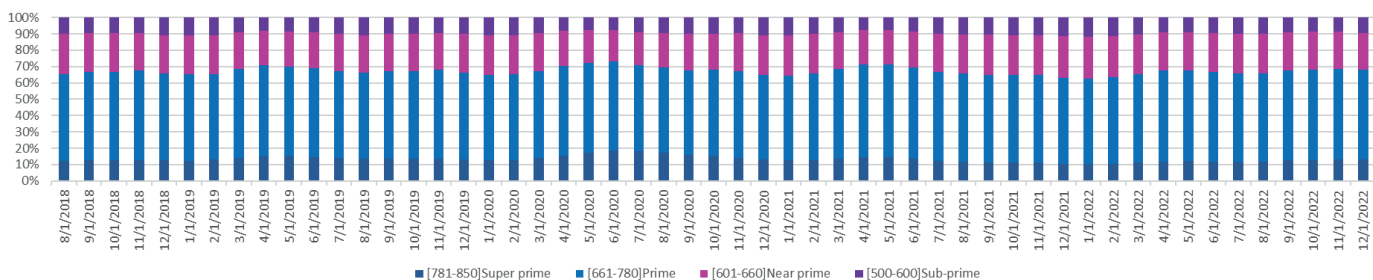


Source: Experian Data

Distribution of Unsecured Personal Loans Amount by VantageScore® for Digital Lenders



Distribution of Unsecured Personal Loans Amount by VantageScore® for All Lenders










Digital borrowers: Profile Analysis

Consumers with an Unsecured Personal Loan by Generation

	Silent		Boomer		Gen X		Gen Y		Gen Z	
	Digital	Traditional	Digital	Traditional	Digital	Traditional	Digital	Traditional	Digital	Traditional
Avg. VantageScore for those a new loan	713	709	692	692	672	668	667	647	656	634
Avg. loan amount (trade)	\$10,774	\$6,081	\$11,483	\$7,450	\$11,841	\$8,489	\$9,927	\$7,497	\$5,880	\$4,955
Avg. loan balance (trade)	\$5,954	\$5,324	\$7,577	\$6,366	\$7,636	\$7,326	\$6,029	\$6,539	\$3,507	\$4,817
%Consumers 90+	1.7%	1.0%	1.6%	1.0%	2.0%	1.4%	2.4%	2.0%	2.9%	2.1%







Interestingly, we break down the various attributes to help us understand who exactly the digital borrower is when compared to that of a traditional borrower. Below we cite income, spending power and various other behaviors to lend additional insight to tap new opportunities.

	 #Adults small: (percentage of consumer population with 1-2 adults living in household)	 Homeowner	 Average Length of Residence	 Average Household Income	 Average Household Income Up to \$80k	 Credit Hungry Switcher	 Likely to use Digital Display
Digital Lenders	58%	61%	10.77	\$92.56	28%	28%	66%
All Lenders	52%	72%	13.74	\$95.22	22%	23%	50%

Credit differences between digital borrowers and other U.S. consumers

Credit, however, is another piece of the financial wallet. One big difference between the typical digital borrower and typical American consumer is reflected in how they use credit. Some digital borrowers have less experience with credit. Some have more open accounts. Many have larger total balances or have used a greater portion of their available credit. These factors and more contribute to a lower median credit score for the digital borrower than for other U.S. consumers.

Digital borrowers compared to the average U.S. consumer

Digital borrowers		All U.S. consumers
662	 Credit score	699
13	 Years of credit history	18
6	 Open trade lines	5
\$11	 Outstanding balances (\$ thousands)	\$20
1.2	 Credit inquiries in last 12 months	0.7
63%	 Credit utilization	52%

Looking Ahead to 2023

As we look ahead into the rest of 2023, economic uncertainty looms. It's important for digital lenders to have access to data and tools to fuel loan portfolio growth, while mitigating as much risk as possible.

Rereview your portfolio review

Periodic portfolio reviews are standard practice for financial institutions. If you haven't done so already, doing an analysis of your current lending portfolio is imperative to ensure you are minimizing risk and maximizing profitability. It's important to understand if your portfolio is overexposed to customers who are squeezed with financial obligations, impacting their overall financial health.

At the account level there may be opportunities to reevaluate customers based on a different risk appetite or credit criteria. A portfolio review will help identify which of your customers could benefit from second chance opportunities they may not have otherwise been able to receive.

Retool and validate your data, analytics and models

Digital lenders have realized many of the traditional data inputs that informed credit models and underwriting may not be giving the complete picture of a consumer. To stay competitive, they must make sure they have access to the freshest, most predictive data. This means adding alternative data and attributes to your data-driven decisioning strategies as much as possible.

Alternative data, like rental, and income and employment data, works to enhance your ability to see a consumer's entire credit portfolio, which gives lenders the confidence to continue to lend – as well as the ability to track and monitor a consumer's historical performance (which is a good indicator of whether or not a consumer has both the intention and ability to repay a loan).

Remodel your lending criteria

Digital lenders need the freshest, most predictable data inputs. But even with the right data, analytics can still be tedious, prolonging deployment when time is of the essence. Traditional models are too slow to develop and deploy, and they underperform during sudden economic upheavals. To stay ahead in volatile times, digital lenders need high-quality analytics models, running on large and varied data sets that they can deploy quickly and decisively. They are advantageously positioned to nimbly take advantage of market opportunities. Once your models are performing well, they should be immediately deployed into the market to actualize on credit-worthy current and future borrowers.

Experian offers robust solutions, rich data, analytics and expertise to help lenders stay ahead of constantly changing market conditions and uncover opportunities that lie ahead.

To learn more about how Experian is supporting fintechs meet their business goals and power profitable growth, visit experian.com/fintech or contact your Experian account executive today.

About the report

Fintech companies who lend money offer any of several financial products. These include mortgages; student loans; and buy now, pay later contracts. In this report, Experian data scientists and analysts take a deep look at one of the most popular lending products in the industry: the unsecured personal loan. For brevity, this paper refers to such unsecured personal loans as digital loans. We refer to the fintech companies that make these loans as digital lenders and to the consumers who borrow from those companies as digital borrowers.

- ▶ Our study considered a statistically relevant sample of the loans reported to our national credit bureau between August 2018 and December 2022.
- ▶ The sample encompassed loans to nearly 52 million digital borrowers in the United States. We compared the entire set of unsecured personal loans during that period to the subset of those loans reported by select digital lenders.
- ▶ The digital lenders in our study accounted for nearly 31 percent of the balances of this type of loan at the beginning of our study period and close to 49 percent at the end. Most of the remaining balances were originated by traditional financial institutions such as banks, credit unions and finance companies.
- ▶ To maintain confidentiality, we don't name the lenders selected as part of our subset and have applied a proprietary weighting scheme when calculating our reported statistics.
- ▶ There's a significant overlap between the population used in our study, however, we have no reason to believe the overlap biased any of our results.

