Online Short-Term Lending Second Annual Statistical Analysis Report

Data Fact Sheet

AT A GLANCE: THE CUSTOMER

Who is Using Online Short-Term Loan Products?

- Median age of the customer is 41 years old [increase from 39 in 2014 report].
- Median household income is $30,235 [increase from $30,000].
- Customers are primarily paid bi-weekly [consistent with last year's study].

Who is Using Online Installment Loan Products?

Product was not evaluated in 2014, no prior comparison available.

- Median age of the customer is 43 years old.
- Median household income is $40,263.
- Customers are primarily paid bi-weekly.

AT A GLANCE: THE LOAN

Online Short-Term Loan Usage Characteristics

- Median loan amount is $428 [increase from $388 in 2014 study].
- Median loan cost is $113.
- Median loan terms are 20 days.
- Median annual number of days indebted is 73 days [ranged from 70 to 106 days in 2014].

Online Short-Term Loan Performance Characteristics

- 67% of loans reported were paid [down from 71% in 2014 study].
- 72% of loans reported had no delinquency flag [consistent with 2014 study].
- 79% of loans reported had no charge-off flag [down from 89% in 2014 study].

Online Installment Loan Usage Characteristics

- Median loan amount is $667.
- Median loan cost is $690.
- Median loan terms are 148 days.
- Median annual number of days indebted is 135 days.

Online Installment Loan Performance Characteristics

- 56% of loans reported were paid as agreed.
- 70% of loans reported had no delinquency flag.
- 78% of loans reported had no charge-off flag.

Conclusions

- A significant number of customers pay their loan as agreed.
- There is a movement from the traditional two week "payday" product to Installment (3 to 12 month terms). Single payment loans are still a significant portion of the market, but are declining and installment loans are increasing.
    - Several of the lenders represented in this analysis have either eliminated single payment products or are migrating to the installment product while still offering the single payment loan.
- Traditional, short-term loans fit into a continuum of credit services and can be less costly than overdrafts.

- The results of this study in conjunction with other relevant analyses do not indicate the consumer is harmed by either the single payment or installment loan.

ABOUT THE STUDY

In early 2015, the Online Lenders Alliance commissioned Bretton-Woods, Inc. to conduct an update to last year's statistical analysis of the customer and loan characteristics of online short-term loans.

The 2015 study includes:

- 15.3 million records from three specialty credit bureaus, covering a three-year period (2012-2014).
- 3.7 million single payment and installment loan records from seven lenders, covering a three-year period (2012-2014).

The intent of the study was to:

- Augment the credit bureau data with lender data to analyze both single pay and installment loan usage characteristics;
- Compare to the baseline data for single pay loans from the 2014 study;
- Comment on the salient trends from 2012 to 2014;
- Review the migration from single pay to installment loan products;
- Catalogue and understand customer demographics and loan characteristics; and
- Comment on these initial customer and loan characteristics metrics.

Additionally, a study was conducted to review and discuss the underwriting techniques of participating lenders, including an analysis of ability to repay.

UNDERWRITING SURVEY

Bretton Woods conducted a survey of several lenders to better understand the industry's approach to approve applications. The following represent some of the questions posed to the lenders as well as a summary of the most common responses.

Products Offered

- Single payment
- Installment
- No open ended credit

What And How Many Types of Data Sources and Data Points are Currently Utilized to Underwrite Loans?

- Up to 25 distinct data sources with anywhere from 1,000 to 2,000 data points;
- Instant Bank Verification that is consumer provided. Other tools, such as "Hello Soda," are being considered for their psycho-linguistic models.
- Utilize other tools in the underwriting process to verify a borrower's identity, account number and balance in real-time as necessary.

At What Frequency Do You Evaluate Your Underwriting Methodology?

Daily to monthly based on the sophistication of the underwriting algorithms.

What Types of Tools And Models Are Being Used?

- Traditional credit, anti-fraud, credit worthiness, trend assessments, decision trees, scorecards, internal filters and lending rules.
- The source data comes from the application and third party databases.

What Are the Greatest Challenges in Determining an Applicant's Ability to Repay?

- Fraud detection.
- Ability to access information on other debt obligations.
- Incomplete reporting back of loan activity to the alternative credit bureaus.

What is Your Estimate of the Additional Costs of Operating in Multiple Jurisdictions Versus a Federal Charter?

Most respondents indicated that their costs are somewhere between 10 to 25 percent higher by operating in multiple jurisdictions. One lender indicated higher costs of 50 percent.

How Would You Differentiate Your Underwriting From Traditional Bank Underwriting for Unsecured Consumer Loans?

To facilitate this object some lenders have two streams of underwriting:

- Fraud detection and prevention
- Credit worthiness

One lender that responded to the survey pointed out its focus on meeting its customers' need for a quick answer to their money shortfalls. As result, the lender uses an automate decision-making algorithm the relies on traditional trade lines, payment history and the customer's declared information like income and places of employment to make a good credit decision about customer willingness to repay the loan.

Lenders also look at several aspects from verification of the application including loan to income ratio, payment to income and big data, machine learning and credit scoring as part of their processes.

To What Extent Do You Use "Big Data" (Extremely Large Data Sets That May Be Analyzed Computationally To Reveal Patterns, Trends, And Associations) in Analyzing Loan Applications?

Lenders utilize underwriting responses from third parties, such as credit bureaus, which can include up to 6,000 attributes per loan application, and they run internal statistical analysis on this data monthly.

Emerging Underwriting Technologies

Alternative credit bureaus are developing solutions that review months of bank statements to analyze both deposit trends for sources of income as well as spending patterns for recurring household expenses and other debt obligations. This paired with the ongoing evolution of algorithms to assess fraud and credit risk, provide sophisticated underwriting for this market.

Underwriting Criteria

We believe that underwriting should include the willingness to repay, the ability to repay and the ability to collect. This is similar to the traditional underwriting criteria banks have used for decades.

That is, the five C's of credit:

- *Character – willingness to repay*
- *Capacity – capability to repay as measured by income and total obligations*
- *Conditions – loan and payment structure*
- Capital
- Collateral