Trends Report

2020

Alternative Financial Services Lending Trends

Insights Into the Industry and Its Consumers

CLARITY SERVICES INC.
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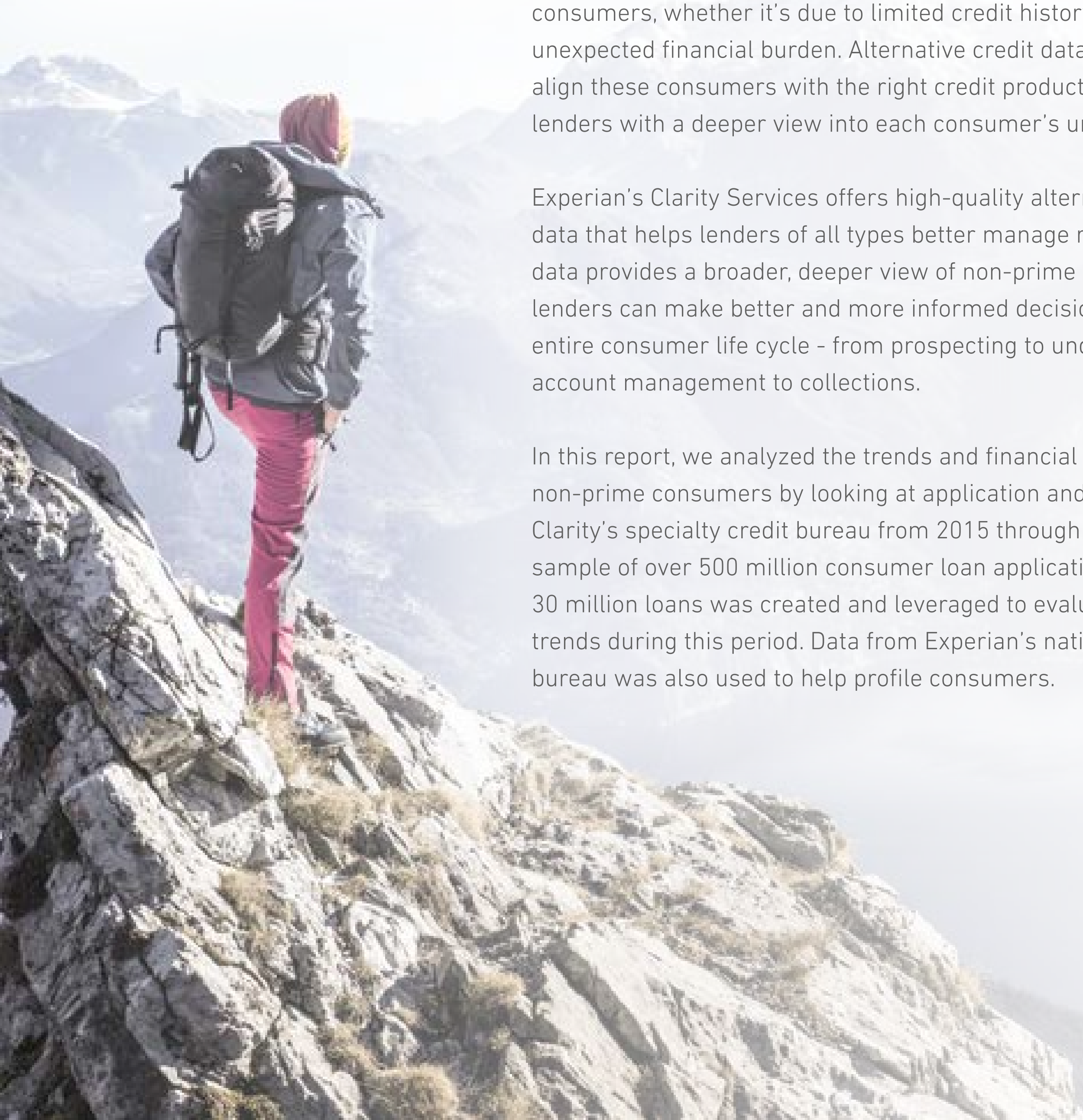
How Non-Prime Consumer Behavior Impacts the Alternative Finance Market



Fully understanding industry trends and consumer behavior is key to providing your consumers with the financial services they need.

Securing traditional credit can be challenging for non-prime consumers, whether it's due to limited credit history or an unexpected financial burden. Alternative credit data can help align these consumers with the right credit products and provides lenders with a deeper view into each consumer's unique situation.

Experian's Clarity Services offers high-quality alternative credit data that helps lenders of all types better manage risk. Clarity's data provides a broader, deeper view of non-prime applicants so lenders can make better and more informed decisions during the entire consumer life cycle - from prospecting to underwriting and account management to collections.

In this report, we analyzed the trends and financial behavior of non-prime consumers by looking at application and loan data in Clarity's specialty credit bureau from 2015 through 2019. A study sample of over 500 million consumer loan applications and nearly 30 million loans was created and leveraged to evaluate market trends during this period. Data from Experian's national credit bureau was also used to help profile consumers.

Alternative Financial Services

Millions of Americans lack the credit history to secure a loan in the traditional credit market. Non-prime consumers are often viewed as a single, uniform segment of the population even though the circumstances, behaviors and intentions behind their use of credit are vastly different. For each consumer, financial service providers must consider what led to their non-prime credit status. The consumer could be:

- A young person without sufficient credit history to properly qualify for a traditional loan
- An otherwise creditworthy consumer who encountered a destabilizing financial event, like a job loss or unexpected medical issue
- A recent immigrant with little to no credit history in the U.S.
- Someone who has been irresponsible with credit
- Someone who needs cash quickly and doesn't have time to wait to be approved for traditional credit products

The alternative financial services (AFS) market is crucial to many of these consumers to help them manage monthly expenses through periods of financially destabilizing events and income volatility. Alternative finance products include, but are not limited to, short-term loans (installment loans, non-prime credit cards, auto title loans, rent-to-own), single pay credit (pawn shops, payday loans) and others. This report references the following loan origination channels and loan types:

Loan Origination Channels

Online – Lenders who conduct business via the internet. The application process and funding is completed without the consumer being present.

Storefront – Lenders with a physical brick and mortar location to serve consumers. The loan application is processed with the consumer present.

Loan Types

Installment – Loans that are structured to be repaid over a period of time (months or years) in a series of payments.

Single Pay – Loans repaid in one lump sum payment, usually over a shorter time period (days or weeks).

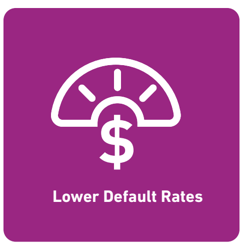
At-a-Glance

Market Trends | Page 5

The alternative financial services market has shown significant growth in online installment lending over the last five years. More specifically, the trends include an increase in both the dollar volume and number of online installment loans, both being about three times higher in 2019 than in 2015. While there was only a 4% increase in number of funded loans from 2018 to 2019, we observed a 25% increase in loan dollar volume (due to larger loan amounts).

Changes in Loan Characteristics | Page 7

The loan characteristics trends we observed in 2019 include higher loan amounts and longer repayment lengths for online installment loans. Larger loan amounts of $2,500 or more have increased steadily from 2016 to 2019.



Credit Quality | Page 11

Based on a comparison of year-over-year cumulative default curves for quarterly online installment loan cohorts, 2019 originations are showing improved performance over 2018. Likewise, online installment loans opened in 2019 are exhibiting lower first payment default (FPD) rates than 2018. Furthermore, we observed a higher percentage of consumers in the prime and near prime space applying for AFS loans in 2019 compared to previous years.

Loyalty | Page 15

Consistent with the previous two years, in 2019 almost half of online installment borrowers had never opened an AFS loan prior to that year. About 76% of consumers who entered the AFS market in 2019 also secured a trade with a traditional lender. Those who left the market in 2019 were less likely to open a traditional trade that year than they were in 2018.

Consumer Demographics | Page 19

In 2019, online borrowers were more likely than storefront borrowers to be female, married, have student loans and have at least a Bachelor's Degree. We also found that online borrowers tend to be younger and have a higher income compared to storefront borrowers.

Market Trends

Online Lending Volume and Product Mix

To quantify the growth of online lending over the past five years, we measured both the number of loans and the total dollars funded. We found that online installment lending has grown steadily from 2015 to 2019.

For example, **Figure 1A** shows continuous growth in the dollar volume of funded online installment loans, with 2019 being three times higher than dollar volume in 2015. Additionally, **Figure 2A** shows a steady increase as well, with the number of online installment loans being three times higher in 2019 than in 2015.

The funded dollar volume of online single pay loans was a bit higher in 2019 than in 2018, as shown in **Figure 1B**. The number of funded loans in this category peaked in 2016 **(Figure 2B**). Lastly, the growth in online installment loans has increased much faster than online single pay loans over the past five years.

Figure 1A:
Growth of Funded Loan Volume ($) – Online Installment

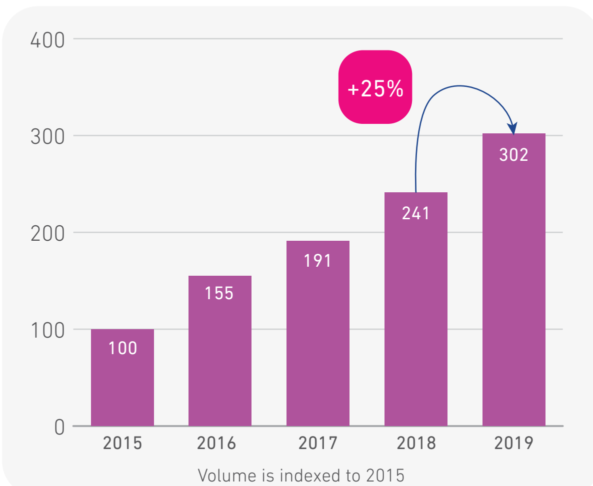


Figure 1B:
Growth of Funded Loan Volume ($) – Online Single Pay

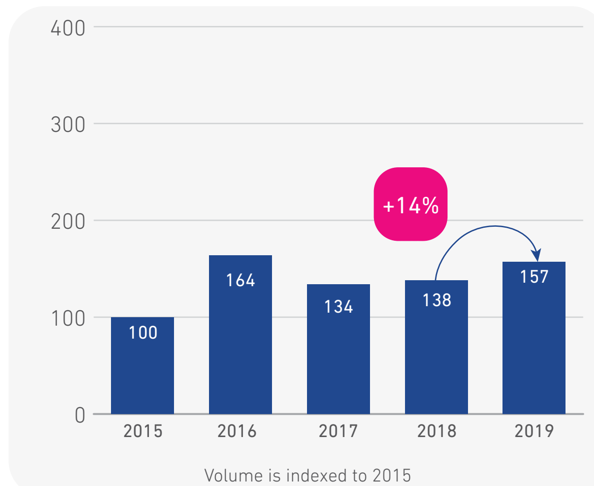


Figure 2A:
Growth in Number of Funded Loans – Online Installment

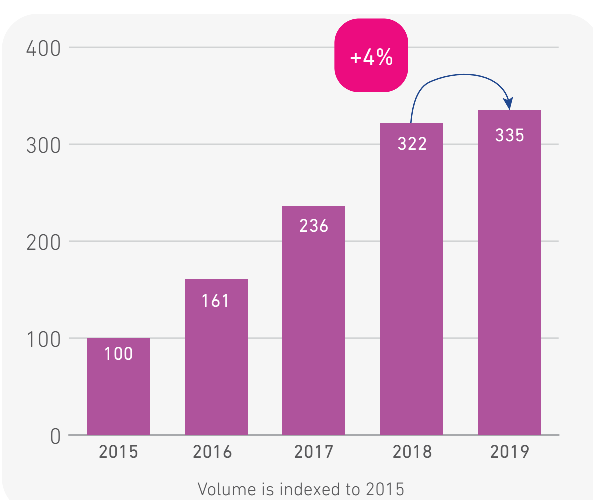
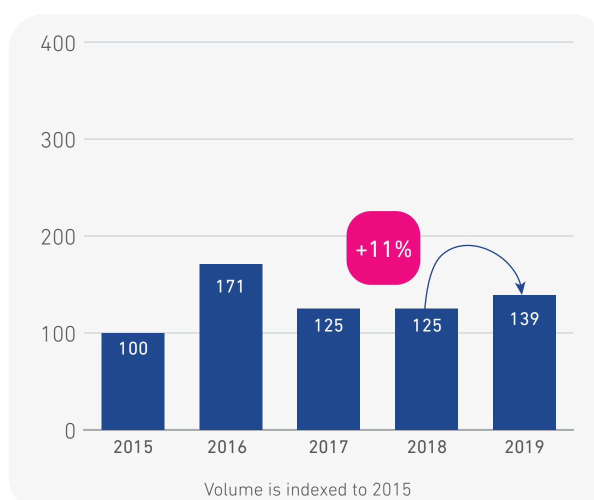


Figure 2B:
Growth in Number of Funded Loans – Online Single Pay



Year-Over-Year Growth of Online Installment Loans

As shown in **Table 1,** the year-over-year percentage change in funded dollar volume of online installment loans has been around 25% over the past three years. The growth of funded online installment loans lowered to 4% from 2018 to 2019. The growth in unique borrowers from 2018 to 2019 was 15%, after being nearly 30% the previous three years.

For online single pay loans, we observed solid growth from 2018 to 2019 in funded loan volume (+14%), number of loans (+11%) and number of unique borrowers (+8%).

Table 1:

Year-to-Year Percentage Change in Online Loans and Borrowers

	Funded Loan Volume		Number of Funded Loans		Number of Unique Borrowers	
	Installment	Single Pay	Installment	Single Pay	Installment	Single Pay
2015-2016	55%	64%	61%	71%	32%	25%
2016-2017	23%	-18%	46%	-27%	30%	-12%
2017-2018	26%	3%	37%	0%	32%	-5%
2018-2019	25%	14%	4%	11%	15%	8%

Funded Loans

The funded loan dollar volume growth rate continued to be a robust 25% .

Unique Borrowers

The growth rate in number of unique borrowers using installment loans also decreased, being at around 30% over the last couple years and dropping to 15% from 2018 to 2019.

Changes in Loan Characteristics

Observations + Trends

Installment Loans

The distribution of loan amounts, repayment terms and scheduled payment amounts for installment loans have been analyzed to show how they've changed over the last five years.

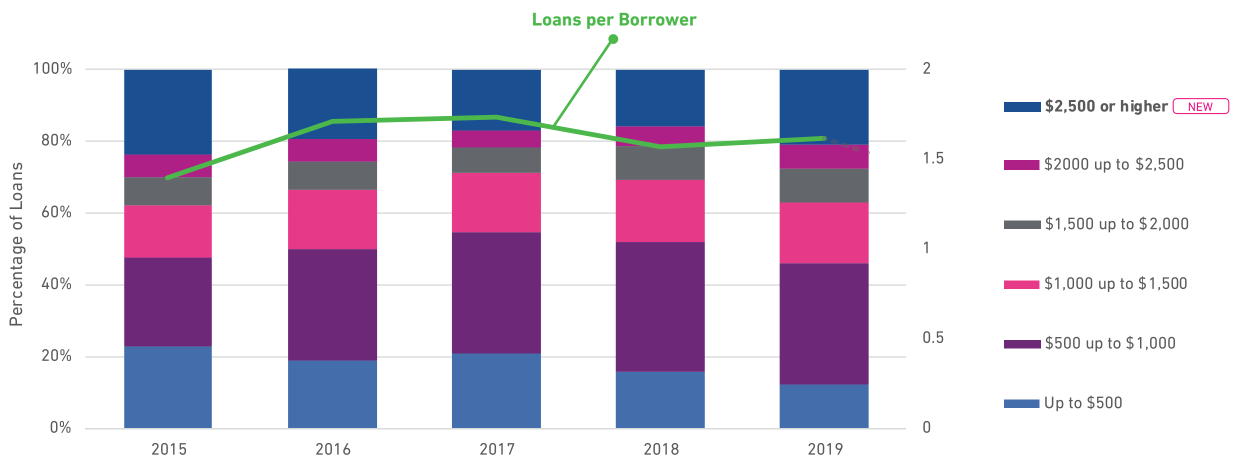
Loan Amount

Figure 3 shows the distribution of loan amounts over time. Each bar represents installment loans for that particular year, with each segment of the bar identifying the percentage of loans that fall into the specific range of loan amounts. These percentages can be determined from the left vertical axis.

The line tracks the average number of installment loans per borrower for each year. The scale for average number of funded online installment loans is shown on the right vertical axis.

Figure 3:

Online Installment Loan Amounts



In 2019

21% of online installment loans had an original amount of $2,500 or greater.

The average number of loans per borrower was static from 2018 to 2019.

The smallest category was $2,000 to $2,500 at 7% and the largest was $500 - $1,000 at 34%

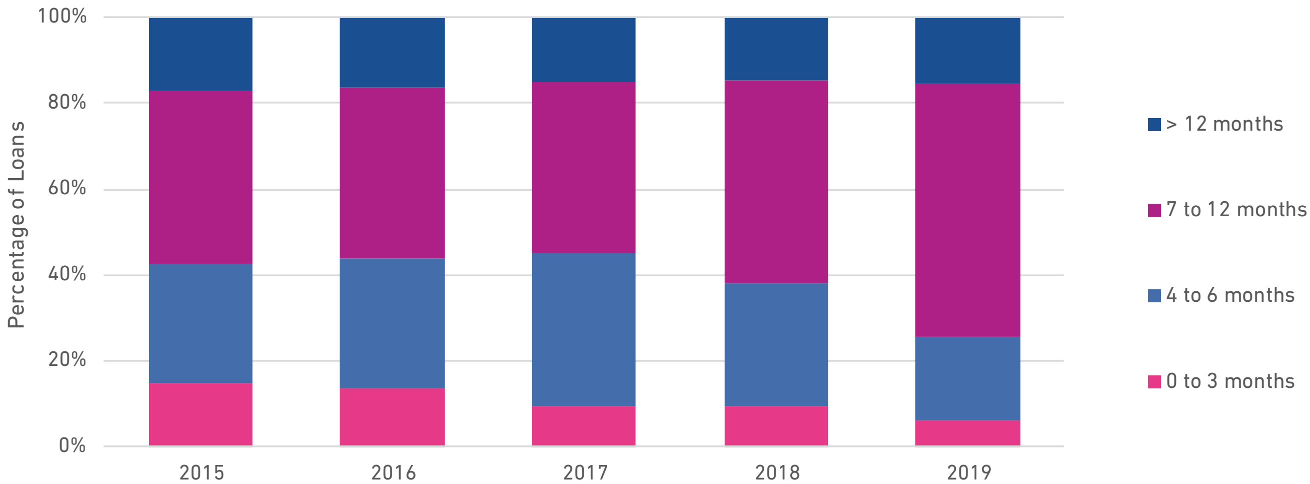
Observations and Trends

We continued to see a trend toward higher loan amounts in 2019. This year, we break out loans of $2,500 or more. The proportion of loans made for $2,500 or more has grown from 16% of all installment loans in 2018 to 21% of all installment loans in 2019. About 12% of online installment loans in 2019 were for less than $500, compared to 16% in 2018. The average number of loans per borrower was static from 2018 to 2019—staying at 1.6 loans per borrower in 2019.

Length of Repayment

Figure 4 shows the distribution of repayment terms over time for online installment loans. Each bar represents installment loans for that particular year, and each segment of the bar identifies the percentage of loans that fall into the specific range of repayment length. These percentages can be determined from the left vertical axis.

Figure 4:
Repayment Length Distribution



In 2019

74% of the online installment loans had a repayment length of seven months or longer.

6% had a repayment length of three months or less.

Observations and Trends

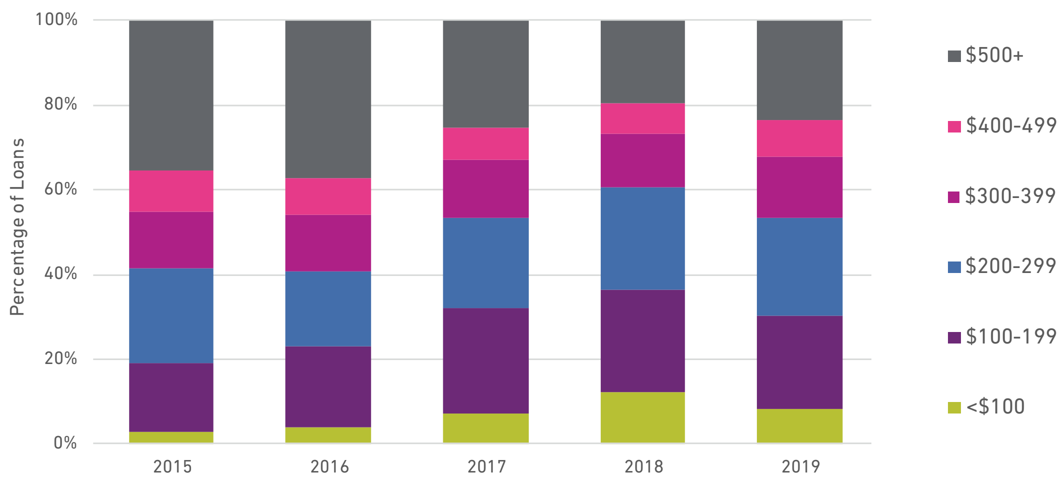
The proportion of loans in the **4 to 6 month** category is decreasing, as the **7 to 12 month** category becomes more popular. From 2018 to 2019, the percentage of loans in the **7 to 12 month** category increased from 47% to 59%, while the **4 to 6 month** category decreased from 29% to 20%.

The **0 to 3 month** category has steadily declined since 2015. In 2015, 15% of installment loans had a repayment length of **0 to 3 months**, while in 2019, only 6% of loans fell into this category.

Scheduled Monthly Payment Amount

Figure 5 shows the distribution of scheduled monthly payment amounts over time. Each bar represents online installment loans for that particular year, and each segment of the bar identifies the percentage of loans that fall into the specific range of payment amounts. These percentages can be determined from the left vertical axis. Since many online installment loans have a bi-weekly repayment frequency, all have been converted to a monthly equivalent for comparative purposes.

Figure 5:
Scheduled Payment Amount



In 2019

Over 23% of loans made in 2019 had a scheduled payment amount over $500.	Overall, the previous trend towards lower monthly scheduled payment amounts did not continue in 2019.

Observations and Trends

The trend towards lower monthly scheduled payment amounts did not continue in 2019. For example, the percentage of loans with a scheduled payment of less than $100 decreased from 12% to 8%, and the percentage of loans with payments of $500 or greater increased from 20% to 23%.

The increase in scheduled payment amounts greater than $500 is a result of the rise in loans with loan amounts over $2,500 with repayment terms of seven to twelve months.

Single Pay Loans

This section explores how the single pay loan has changed over the last five years.

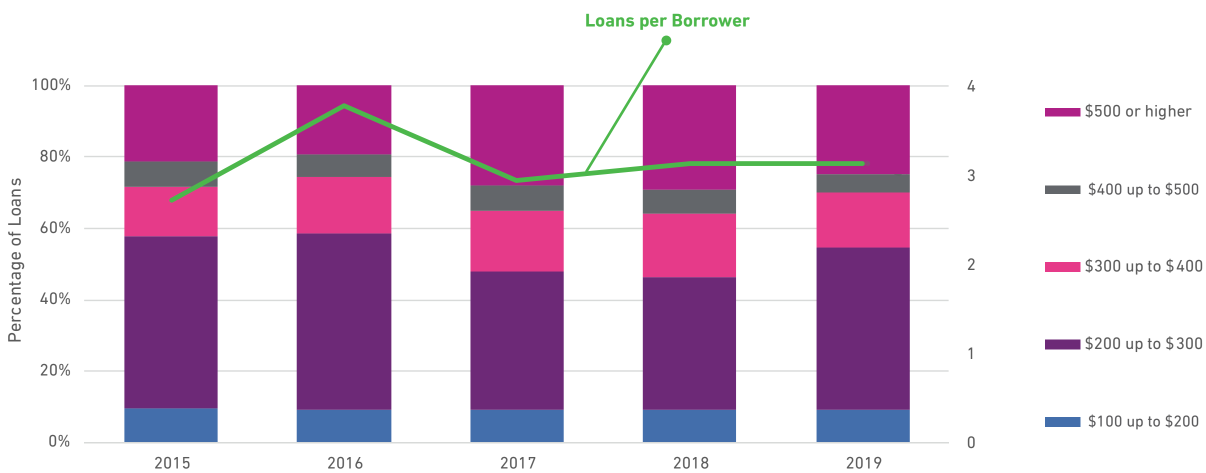
Utilization

Figure 6 shows the distribution of loan amounts over time. Each bar represents single-pay loans for that particular year, and each segment of the bar identifies the percentage of loans that fall into the specific range of loan amounts. These percentages can be determined from the left vertical axis.

The line is tracking the average number of single-pay loans per borrower for each year. Values are on the right vertical axis.

Figure 6:

Single Pay Loan Utilization



In 2019

5% of funded online single pay loans had amounts between $400 and $500

46% were between $200 and $300

Observations and Trends

In the single-pay market, we are seeing a trend toward smaller loan amounts as opposed to a trend of increasing loan amounts in the installment market. The proportion of loans with loan amounts less than $300 has increased from 47% in 2018 to 55% in 2019. Meanwhile, 25% of single-pay loans had loan amounts of $500 or more in 2019, compared to 28% in 2018. The number of single-pay loans opened per borrower has remained steady over the past three years. In 2018 and 2019, the average was 3.1 loans per borrower

Credit Quality

Loan Performance in the Market

Online Installment Loan Performance

Cumulative loan default curves for online installment loans were constructed by origination quarter to control for seasonality. This year, we focus on the first 12 months of each loan and show first month performance for fourth quarter 2019 loans.

The following figures show cumulative default curves for funded loans in each quarter from 2015 through 2019. Ultimate default rates within 12 months of loan origination have mostly averaged out to 35% to 40% for each quarter of each year. More than half of defaults occur within three months following origination. Loans originated in 2019 are exhibiting lower default rates than those originated in 2018. This information is based on Clarity's view of the industry for loan originations and their corresponding performance.

Figures 7A-D Cumulative Default Curves Based on Date of Funding Quarter for Online Installment Loans

Figure 7A:
First Quarter

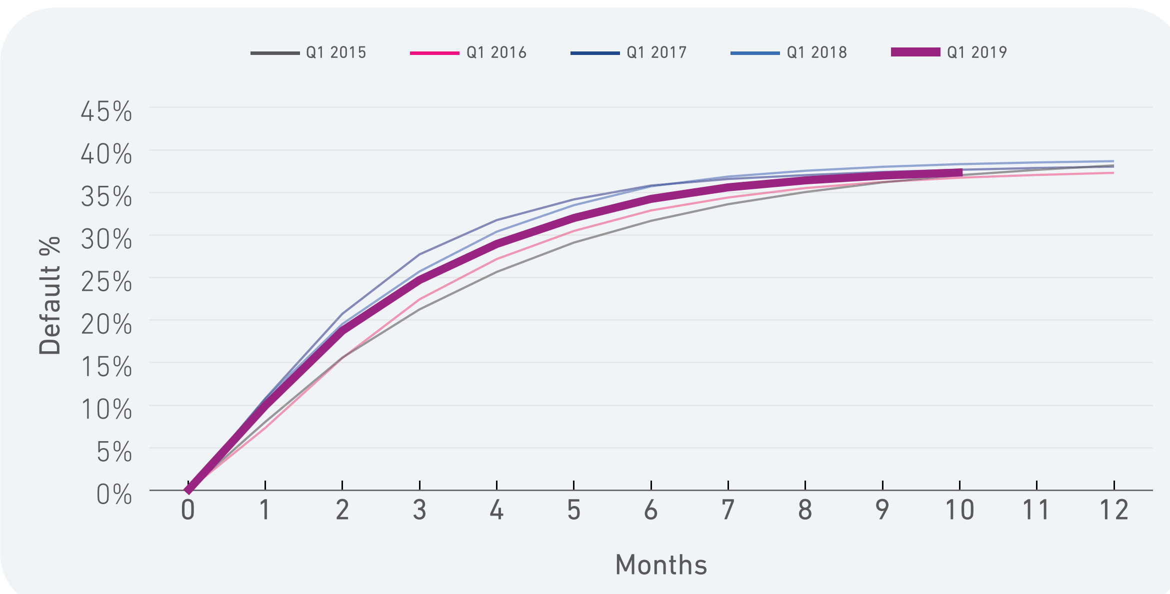


Figure 7B:
Second Quarter

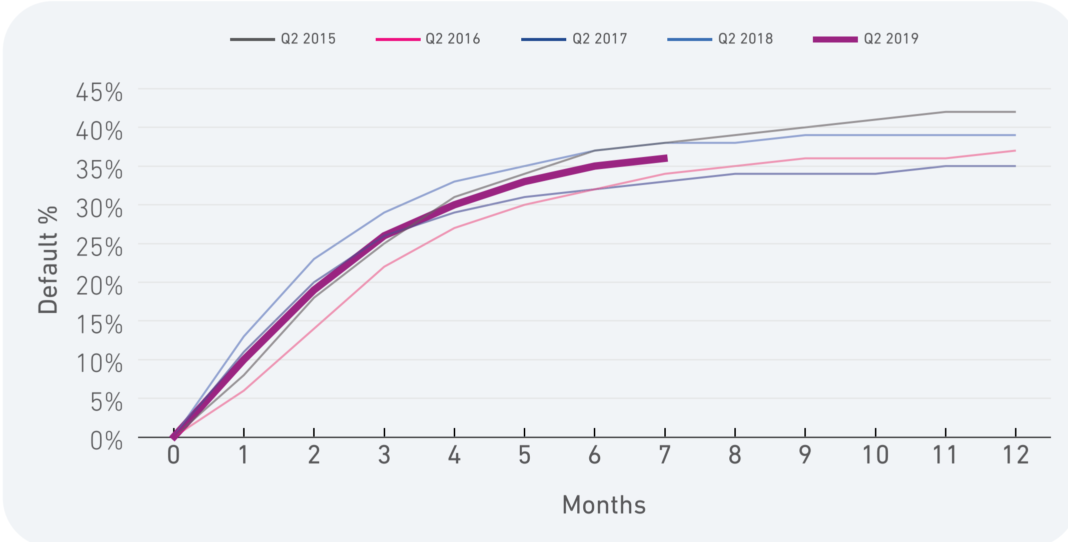


Figure 7C:
Third Quarter

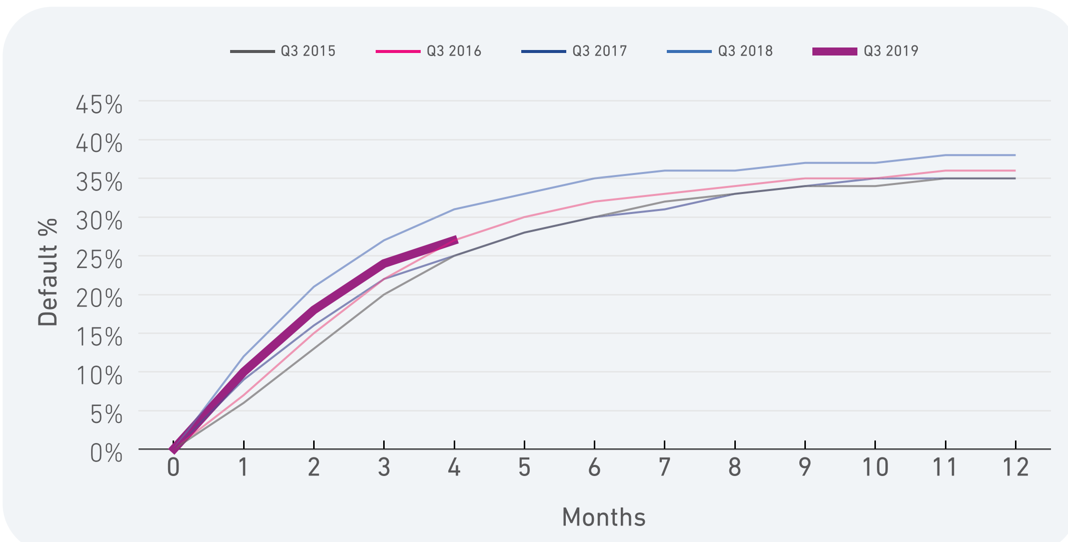
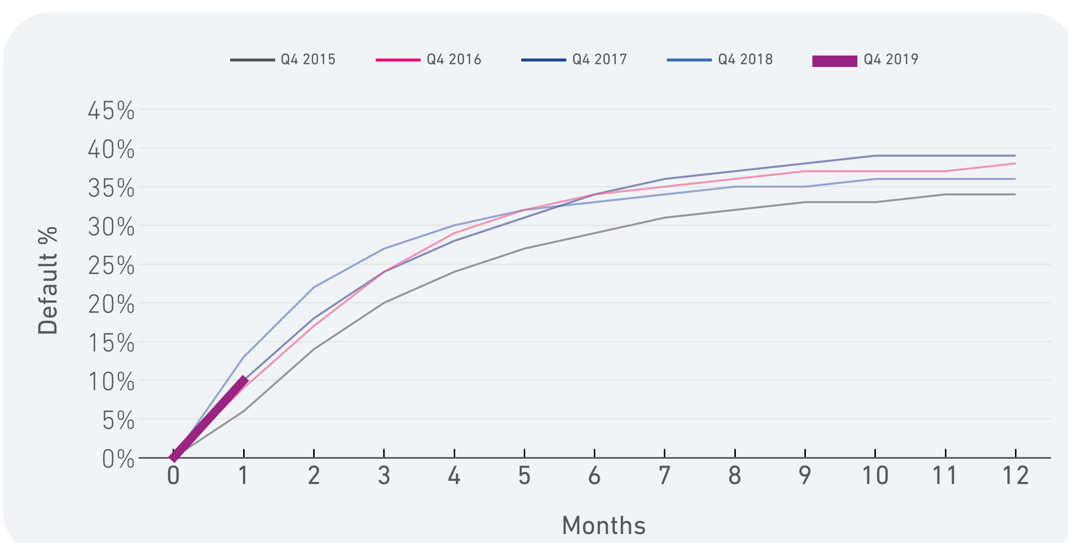
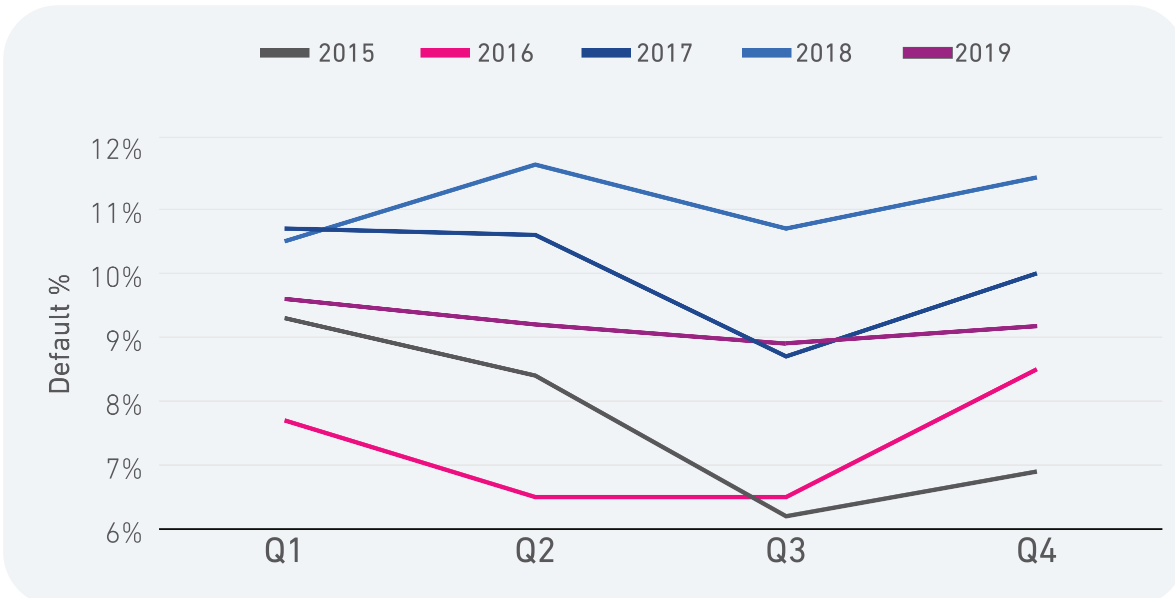


Figure 7D:
Fourth Quarter



This year, we added something new: a view of first payment default (FPD) rates for online installment loans. Each line in **Figure 8** represents the year the loan was originated with a measurement of FPD for each quarter. The height of the line relates to the FPD rate, which can be read on the left hand scale. There are clear differences in the FPD rate between years. The FPD rate for 2019 is lower than the rate observed for 2018, but is higher than the rates observed for 2015 and 2016 originations. Each year there is an uptick in FPD rate from Q3 to Q4, indicating a seasonal change in risk.

Figure 8:
First Payment Default Rates: Online Installment Loans



Online Single Pay Loan Performance

First payment default is a commonly used metric for evaluating single pay loan performance. As shown in the following table, we break out loans into three categories:

- The only loan a consumer opened that year
- The first of multiple loans a consumer opened that year
- Subsequent loans a consumer opened that year after the first one

If a consumer's first opened loan in a year was within one month of a loan opened with the same lender in the previous year, then all loans for that consumer are treated as subsequent loans in that year–regardless of how many loans the consumer had.

The following table contains the first payment default rate for online single pay loans for consumers with only one loan in the year, the first of multiple loans in a year and any subsequent loans. Multiple loans are not necessarily from the same lender as the first loan.

In 2019, there was an observed increase in FPD compared to 2018. For example, consumers with only one loan had an FPD rate of 26% in 2019 compared to 22% in 2018. The FPD rate for all loans was highest in 2015.

Table 2:

Online Single Pay Loan Performance: First Payment Default Rates

	Only One Loan	Multiple Loans			All Loans
Year		First Loan*	Subsequent Loans	All Multiple Loans	
2015	34.1%	8.5%	11.3%	10.7%	15.7%
2016	38.2%	10.8%	11.8%	11.7%	14.9%
2017	25.7%	12.4%	13.0%	12.9%	15.4%
2018	22.4%	9.5%	12.0%	11.6%	13.6%
2019	26.0%	10.4%	12.1%	11.8%	14.1%

*First loan in calendar year

Applicant Credit Profiles

We evaluated whether there have been shifts in the credit classification of consumers with alternative finance loan application inquiries based on their VantageScore® 4.0 from 2015 to 2019. This year we continue to see more consumers in higher credit classifications applying for alternative credit. About 34% of consumers with an alternative credit inquiry fell into the prime or near prime categories in 2019, compared to about 22% in 2017.

The following table shows the percentage of consumers with alternative financial services (AFS) inquiries that fall into each credit categorization, based on their VantageScore 4.0 from 2015 to 2019.

Table 3:

Distribution of Credit Classification for Consumers with AFS Inquiries

VantageScore 4.0 Distribution

	No Score	Deep Subprime	Subprime	Near prime	Prime
2015	1.0	22.3	52.2	17.1	7.3
2016	1.3	21.7	53.6	17.0	6.4
2017	1.5	22.8	54.1	16.0	5.6
2018	1.4	18.4	51.6	19.1	9.5
2019	1.4	15.6	48.8	21.5	12.6

VantageScore Categorization

300-499 Deep Subprime

500-600 Subprime

601-660 Near prime

661-850 Prime

Loyalty

Prior AFS Presence for Online AFS Borrowers

In this section, we'll discuss the trends we observed regarding prior AFS presence for online borrowers, future activity of consumers who opened AFS loans and the characteristics of consumers who leave the AFS market, those who stay and those who enter as new.

A borrower is defined as a consumer who opened an AFS loan during the year in question. We evaluated the past behavior of consumers who opened online AFS loans from 2017 through 2019. The following table breaks down the presence consumers had in the AFS market prior to the year they opened an online AFS loan. For example, 48.6% of 2019 online borrowers had never opened an AFS loan prior to that year. In 2018, this group came in a little higher at 50.8%.

'Continuous online presence' refers to a consumer opening an online AFS loan within consecutive years. In 2019, the two-year continuous online borrower portion (16.0%) was higher than the previous year (14.8%), reflecting a higher prevalence of first time online borrowers in 2018.Finally, 'other AFS presence' indicates non-continuous online borrowing or a mix of storefront and online borrowing. This category reached nearly 20% of online borrowers in 2019.

Table 4:

Prior AFS Presence for 2019 Online Borrowers

<table>
<tr><th>Borrower Type</th><th>Pattern</th><th>2017 Online Borrowers</th><th>2018 Online Borrowers</th><th>2019 Online Borrowers</th></tr>
<tr><td colspan="2">First Seen Online That Year</td><td>48.3%</td><td>50.8%</td><td>48.6%</td></tr>
<tr><td rowspan="4">Continuous Previous Online Presence</td><td>Over 2 Year Period</td><td>19.7%</td><td>14.8%</td><td>16.0%</td></tr>
<tr><td>Over 3 Year Period</td><td>10.1%</td><td>7.9%</td><td>6.7%</td></tr>
<tr><td>Over 4 Year Period</td><td>3.1%</td><td>5.0%</td><td>4.3%</td></tr>
<tr><td>Over 5 Year Period</td><td>2.2%</td><td>2.8%</td><td>4.5%</td></tr>
<tr><td colspan="2">Other AFS Presence</td><td>16.5%</td><td>18.7%</td><td>19.9%</td></tr>
</table>

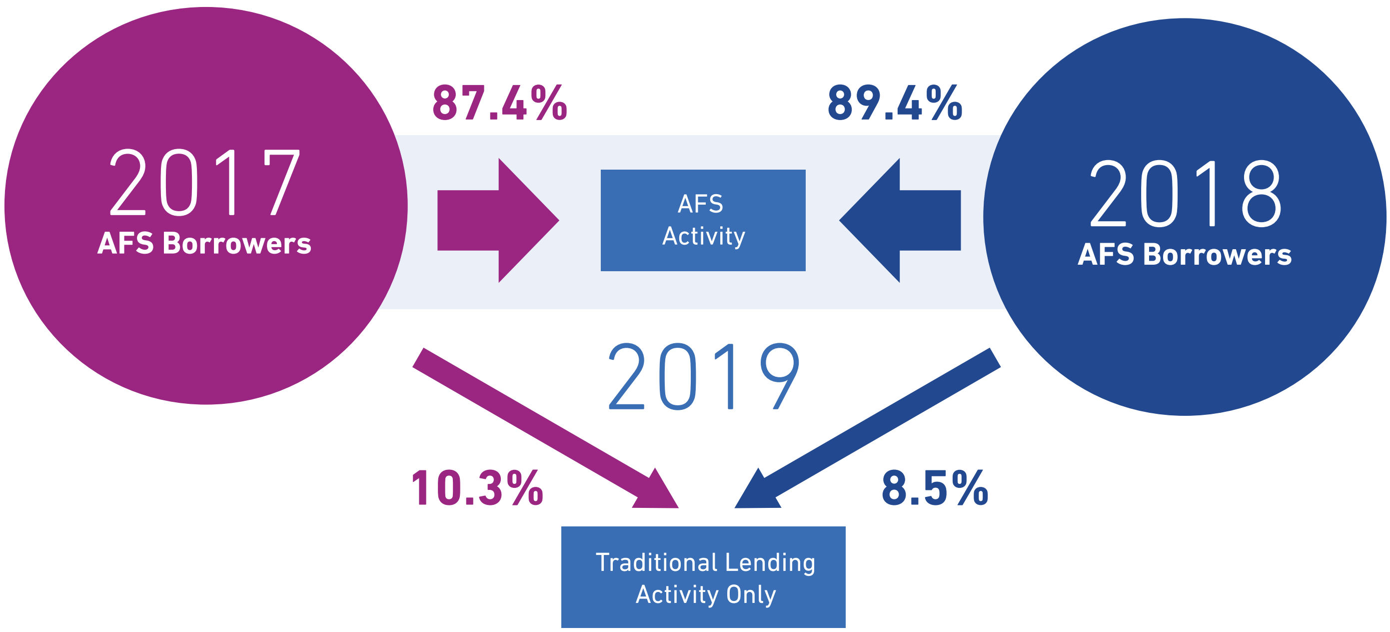
Future Activity of AFS Borrowers

We also tracked the future activity of consumers who opened alternative finance loans. Borrowers in a given year are classified each subsequent year by the first criterion they meet:

- Any AFS activity (opening, inquiring on, or having reported AFS loans)
- Traditional lending activity only (opening, inquiring on, or having reported trades)
- No lending activity

The following figure shows that 2018 borrowers were more likely to stay with AFS lending than 2017 borrowers (89.4% vs 87.4%). Following that trend, 2018 borrowers were less likely to have only traditional lending presence the following year than 2017 borrowers (8.5% vs 10.3%).

We also tracked 2017 borrowers into 2019. Over this two-year period, nearly 20% of borrowers ended up with only a traditional lending presence—while 76% had AFS activity in 2019.



Characteristics of AFS Consumer Groups

What characteristics distinguish between consumers who leave the AFS market, those who stay and those who enter the AFS market as new? We examined year-end 2018 and 2019 characteristics for consumers in these three groups:

- **Left AFS:** Consumer opened an AFS loan in 2018 and had only traditional lending activity in 2019
- **Remained in AFS:** Consumer opened an AFS loan in 2018 and continued to have AFS activity in 2019
- **New AFS entrant:** Consumer opened an AFS loan in 2019 but did not in the previous four years and had an AFS inquiry in 2018

There are differences between the traditional lending activity of these three groups. The following figures **(Figures 9 - 12)** show that AFS consumers are more likely to open trades and apply for bankcards than the average consumer (purple line).

Consumers who left AFS in 2019 (pink line) were less likely to open a traditional trade that year than they were in 2018. In fact, they opened trades at about the same rate as all consumers nationwide in 2019. This group also had a decline in bankcard inquiries in 2019.

In contrast, consumers who entered AFS in 2019 (gray line) were simultaneously active in traditional lending. About 76% of these consumers opened a traditional trade the same year they entered the AFS market, compared to 65% in 2018.

Consumers who remained in AFS (blue line) fell between the other two consumer groups in their traditional lending activity.

Figure 9:
Percentage Of Consumers Who Opened At Least One Trade In The Last 12 Months

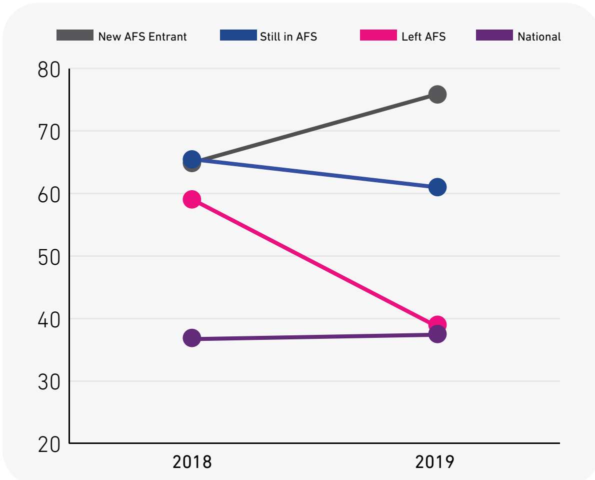
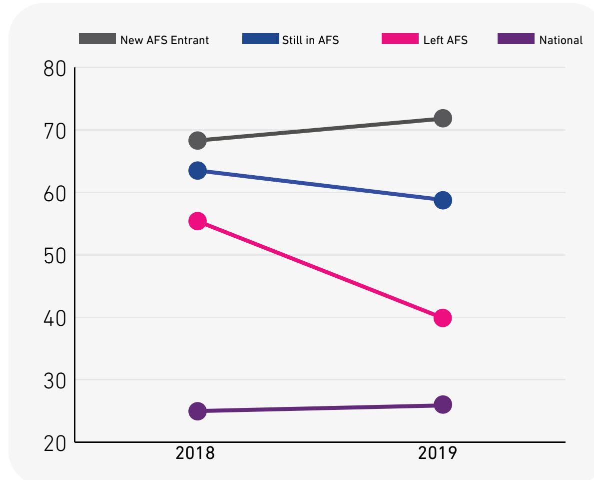


Figure 10:
Percentage Of Consumer With At Least One Bankcard Inquiry In The Last 12 Months



How have consumers in these groups managed their traditional credit? The following charts indicate that consumers in AFS are more likely to have a past due balance and have over 100% revolving credit utilization compared to the national average (purple line).

Those who left AFS in 2019 (pink line) made good strides in paying off past due balances (a third less likely to have past due balances in 2019 compared to 2018). They were also about half as likely to have a revolving credit utilization over 100% in 2019 compared to 2018.

In contrast, new AFS entrants in 2019 (gray line) were trending in the other direction. Over half of the new entrants had a past due balance on traditional credit in 2019. Although this group had the lowest rate of revolving credit overutilization in 2018, nearly 20% of them had over 100% utilization in 2019.

Figure 11:
Percentage Of Consumers With A Past Due Balance On Any Trade Presently 30 Days Delinquent Or Worse

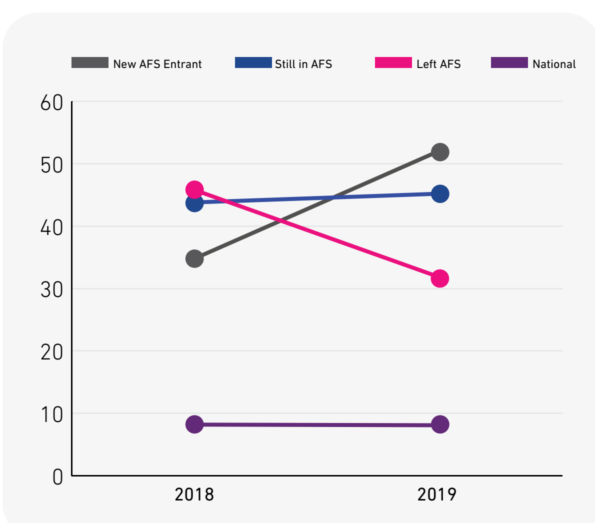
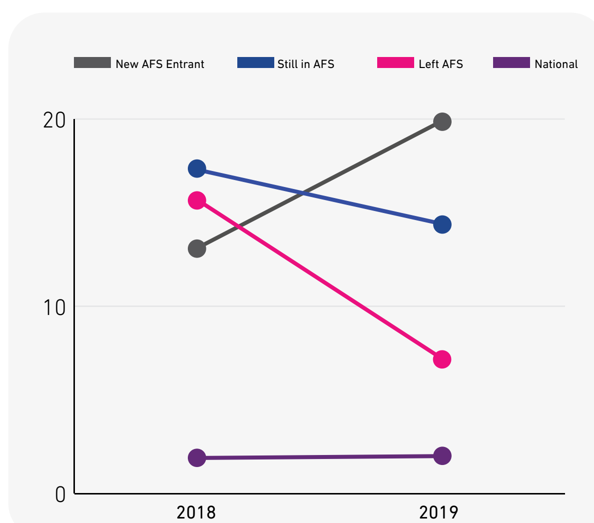


Figure 12:
Percentage Of Consumers With More Than 100% Utilization On Their Open Revolving Trades



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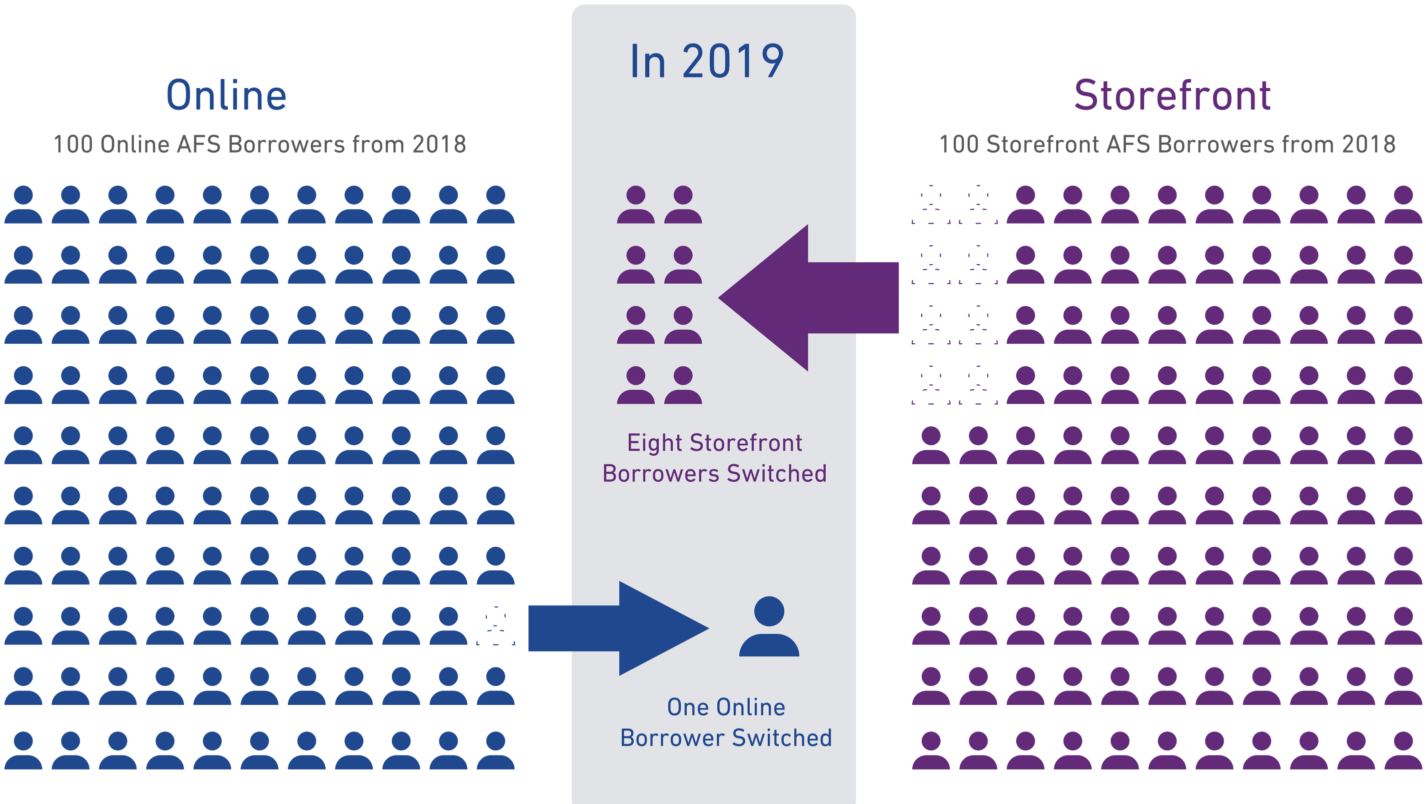
Borrowing Channel of AFS Consumers

The following figure shows how consumers navigated AFS borrowing channels (online or storefront) across 2018 and 2019. The blue figures on the left represent 100 consumers who exclusively borrowed via the online channel in 2018, while the purple figures on the right represent a similar group of storefront borrowers. In 2019, only one online borrower for every 100 switched to storefront lending, while eight storefront borrowers for every 100 went the other direction.



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Consumer Demographics

Age and Income

For this section, we looked at basic demographics such as age and stated income of borrowers across various markets.

Borrower Age

Our findings indicate that online installment borrowers tend to be older than borrowers of online single pay loans. Furthermore, consumers who take out online loans were found to be younger than those who take out storefront loans. Storefront single pay borrowers have the largest average age of 48 years old, while online single pay borrowers had the lowest average age at 41 years old. **Table 6** shows the difference in distribution of ages for 2019 online and storefront borrowers.

Table 6:

Age of 2019 Borrowers

	Online Installment	Online Single Pay	Storefront Installment	Storefront Single Pay
Average	43	41	46	48
25%	33	31	34	35
Median	42	40	45	47
75%	52	50	57	59

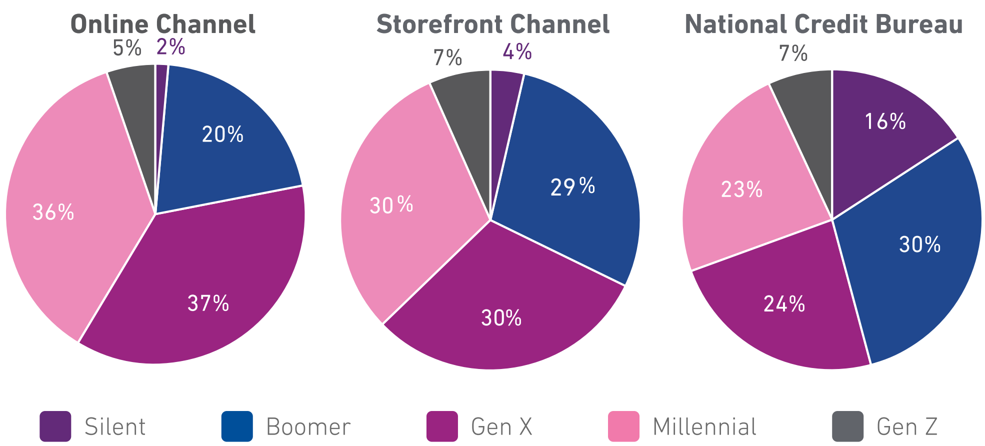
Generational Differences in Borrowing

In 2019, we saw significant generational differences in consumer borrowing behavior. Online alternative financial services borrowers are more likely to be a part of Gen X or the Millennials generation compared to storefront borrowers. Another notable finding was that the Silent and Boomer generations account for almost half of all borrowers at a national credit bureau. However, in the alternative financial services market, they only account for 22% to 33% of all borrowers.

Figure 13 illustrates the distribution of borrowers by generation in the online and storefront alternative financial services space, as well as in a national credit bureau. The online and storefront data is represented by Clarity's specialty bureau, and the national credit bureau data is provided by Experian.

Figure 13:

Distribution of Generations by Channel vs a National Credit Bureau



Defining Generations

	Birth Year
Gen Z	**1996 – 2017**
Millennial	**1982 – 1995**
Gen X	**1967 – 1981**
Boomer	**1947 – 1966**
Silent	**1900 – 1946**

Income Trends

Over the last five years, we've found that consumer reported incomes trended higher in the online installment channel than in the storefront installment channel. Although online installment borrowers reported higher incomes, the values have remained steady at $36,000 since 2016. The reported incomes of storefront installment borrowers increased slightly in 2019—after having been flat since 2015.

Figure 14 illustrates the median annual reported income for consumers who obtained an installment loan using an online or storefront channel from 2015 through 2019. The difference in reported income between online and storefront borrowers may reflect different applicant screening in these two channels.

Figure 14:

Average Annual Income Trends by Channel – Installment Loans

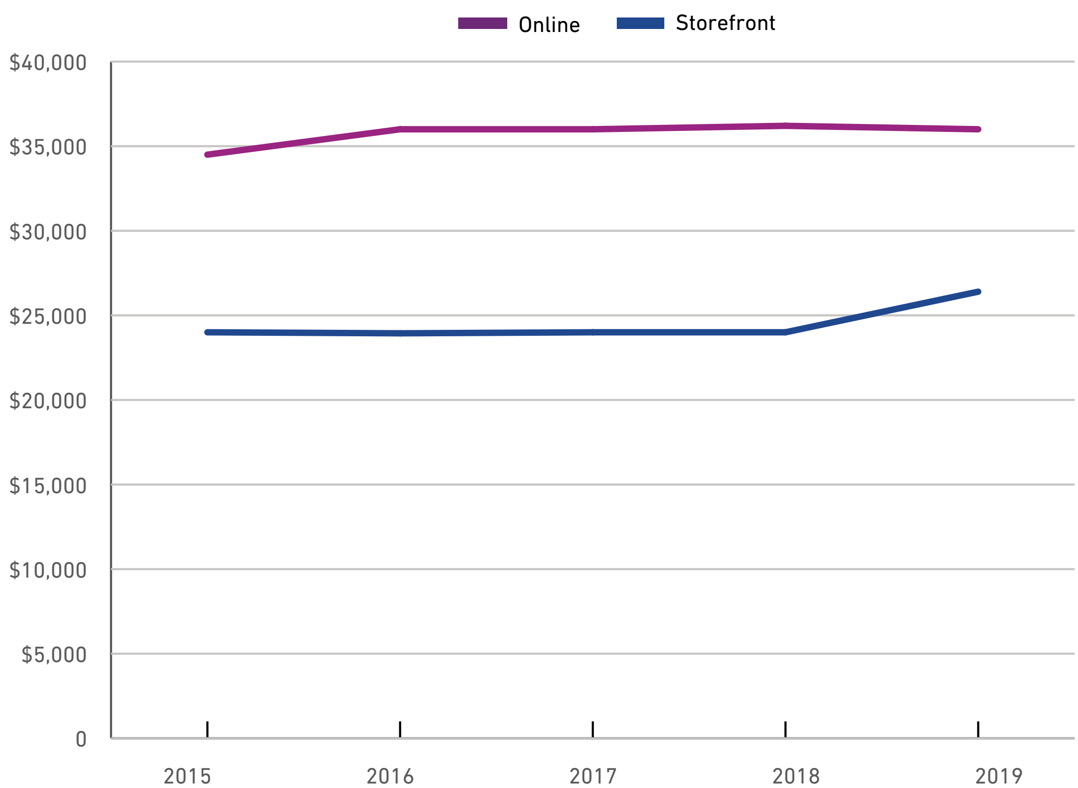


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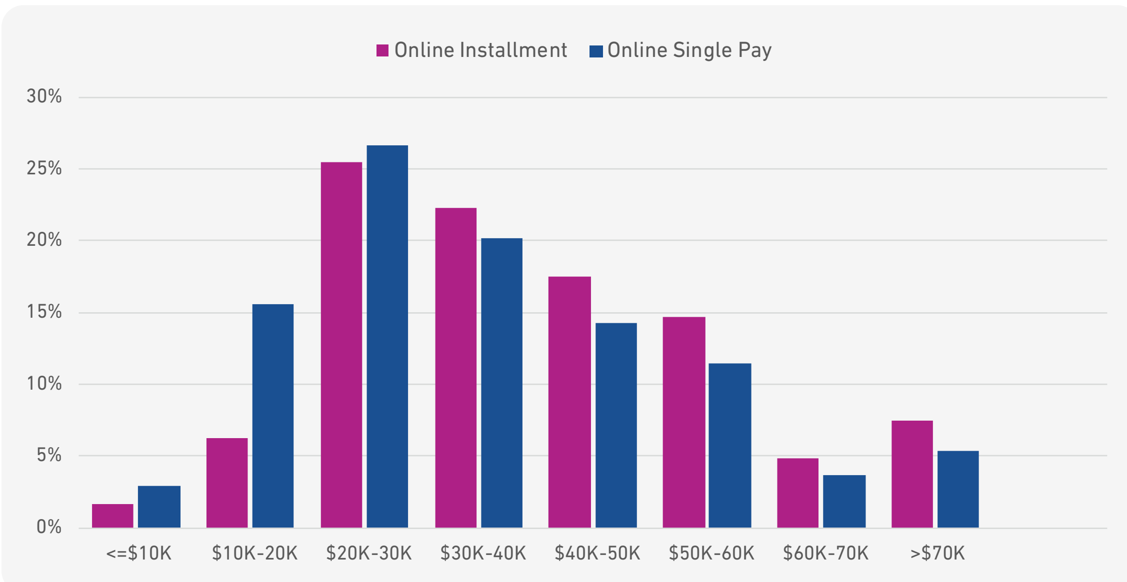
Figure 15 compares the distribution of reported borrower income for online installment and online single pay borrowers in 2019, reinforcing that income for those that obtained installment products tends to be higher than for single pay products. The largest difference in income is in the lower range. For example, 19% of single pay borrowers reported an income of less than $20,000, as opposed to only 8% of installment borrowers. This gap has grown since 2018, in which 15% of single pay borrowers reported less than $20,000 in income compared to 8% of installment borrowers.

Looking at the income distributions, it's clear that online installment borrowers have a higher average income than online single pay. Single pay lenders must only recover one payment. Installment lenders must take into consideration a series of repayments from the borrower over a longer time period.This exposes lenders to increased risk due to possible income volatility for the borrower during the term of their loan.

Figure 15:

Online Borrower Income Distribution by Product in 2019



Demographics of Applicants and Borrowers in 2019

The demographic differences between new applicants to the alternative financial services space and applicants seen in previous years were also examined for this report. This year, we examined additional measurements of credit behavior: whether the applicant had a student loan, trade balance in the traditional lending market on trades reported in the last six months and whether the applicant had a 90-day (or more) delinquent or derogatory status reported in the last 12 months. These measurements are from Experian's traditional credit bureau and were taken as of November 2019.

Table 7 summarizes the demographic differences in age, annual income, gender, education, marital status and credit quality for 2019 online applicants. This was broken down into applicants first seen in 2019, applicants with an observed application in 2018 and applicants with an observed application prior to 2018.

One of the most noteworthy differences with online applicants was that new applicants in 2019 had considerably higher credit scores and less delinquencies than applicants in 2018. Their VantageScore 4.0 was 27 points higher on average. Only 28% of new 2019 applicants had a delinquency or derogatory account compared to 41-47% for other applicants. These applicants were also the least likely to have student loans, more likely to be married and more likely to have at least a Bachelor's Degree.

Table 7:

Demographics for 2019 Applicants

Demographic	First Observed Application was in 2019	Had an Observed Application in 2018	Had an Observed Application prior to 2017	All
Age	39	38	41	40
Median Net Annual Income	$31,500	$32,784	$34,998	$33,600
% Female	49%	49%	54%	51%
% Married	65%	62%	62%	63%
% with At Least a Bachelor's Degree	19%	17%	17%	18%
Average VantageScore 4.0	582	555	541	558
% with Student Loans	10%	13%	14%	12%
Median Traditional Trade Balance On Trades Reported in Last 6 Months	$22,162	$19,938	$18,736	$19,989
% with Any Delinquent or Derogatory Traditional Trades in Last 12 Months	28%	41%	47%	40%

28% of new applicants in 2019 that had trades in the traditional lending market had a trade with a delinquent or derogatory status in the last 12 months, compared to 41-47% for returning applicants.

The average VantageScore 4.0 was 582 for new applicants in 2019 compared to 555 for applicants that had a previous application in 2018.

Table 9 shows the differences in age, median net annual income, marital status, education and credit quality between storefront and online borrowers in 2019.

In 2019, online borrowers were more likely than storefront borrowers to be female, married, have student loans and have at least a Bachelor's Degree.

Table 9:

Demographics for 2019 Borrowers

Demographic	Online	Storefront
Average Age	42	47
Median Net Annual Income	$36,000	$21,888
% Female	57%	53%
% Married	64%	61%
% with At Least a Bachelor's Degree	21%	16%
% with Student Loans	18%	11%
Average VantageScore 4.0	540	543
Median Traditional Trade Balance On Trades Reported in Last 6 Months	$19,532	$15,503
% with Any Delinquent or Derogatory Traditional Trades in Last 12 Months	45%	44%

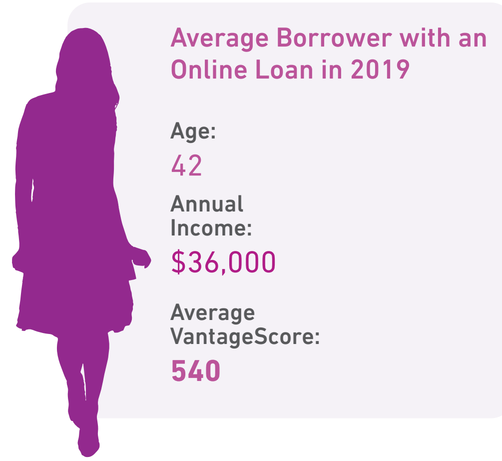


Figure 16 compares the likelihood of being in a certain demographic between online borrowers and storefront borrowers. For example, it is 46% less likely that an online borrower has a 'blue-collar' job compared to storefront borrowers. Job category definitions are from Experian's Marketing Services.

Figure 16:

Online vs. Storefront Demographic Comparison

Location

Where Are Borrowers Located?

We examined borrower location by online loan count. **Table 9** shows the top 10 states ranked by online loan count for 2015 through 2019.

Partly due to their large population sizes, California and Texas have remained the largest markets for online lenders. Most of the other states have remained consistent over the last five years, except for Michigan which climbed nine spots in the last five years.

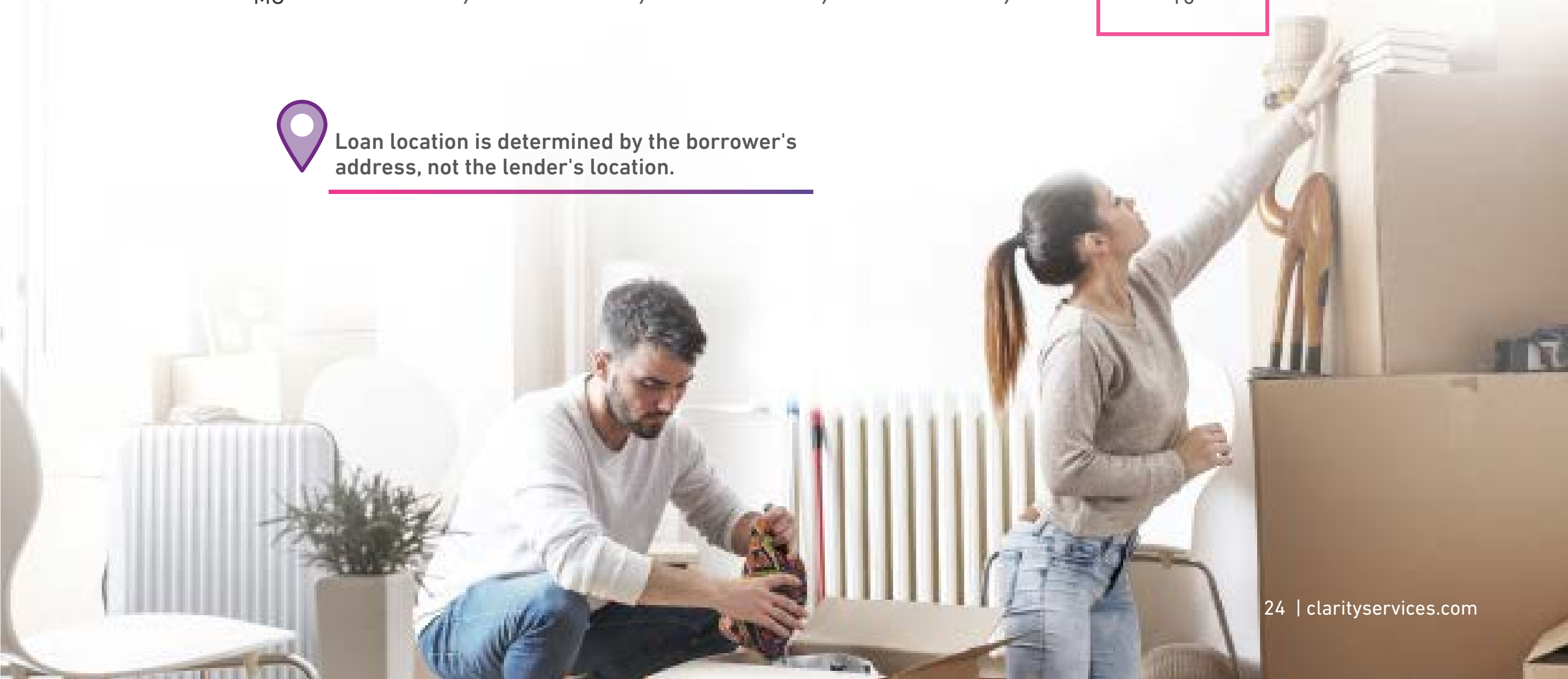
Oklahoma has joined the top 10 ranking for the first time, coming in at #9. Most states from last year have kept their relative position with the exception of Ohio falling from #3 to #7, pushing Florida to the #3 spot.

Table 9:

Top 10 States by Online Loan Count 2015-2019

State	2015	2016	2017	2018	2019
CA	1	1	1	1	1
TX	2	2	2	2	2
FL	8	4	4	4	3
MI	13	13	7	5	4
LA	5	5	6	6	5
AL	3	6	5	7	6
OH	6	3	3	3	7
IL	10	8	8	8	8
OK	11	12	11	12	9
MO	9	9	9	9	10

Loan location is determined by the borrower's address, not the lender's location.



This year, we also ranked states by number of online loans per adult population of the state. **Table 10** shows the top 10 states ranked by number of loans per capita.

Even when accounting for population, California and Texas still rank in at the top 10. Alaska, Nevada, Michigan and North Dakota have quickly risen in the rankings over the past four years.

Table 9:

Top 10 States by Online Loan Count Per Capita* 2015-2019

State	2015	2016	2017	2018	2019
LA	3	2	1	1	1
AL	2	3	2	2	2
WY	6	5	3	3	3
AK	8	15	12	10	4
CA	4	4	4	5	5
OK	7	6	8	6	6
MI	27	28	14	8	7
NV	18	22	13	12	8
TX	14	8	6	9	9
ND	16	20	16	15	10

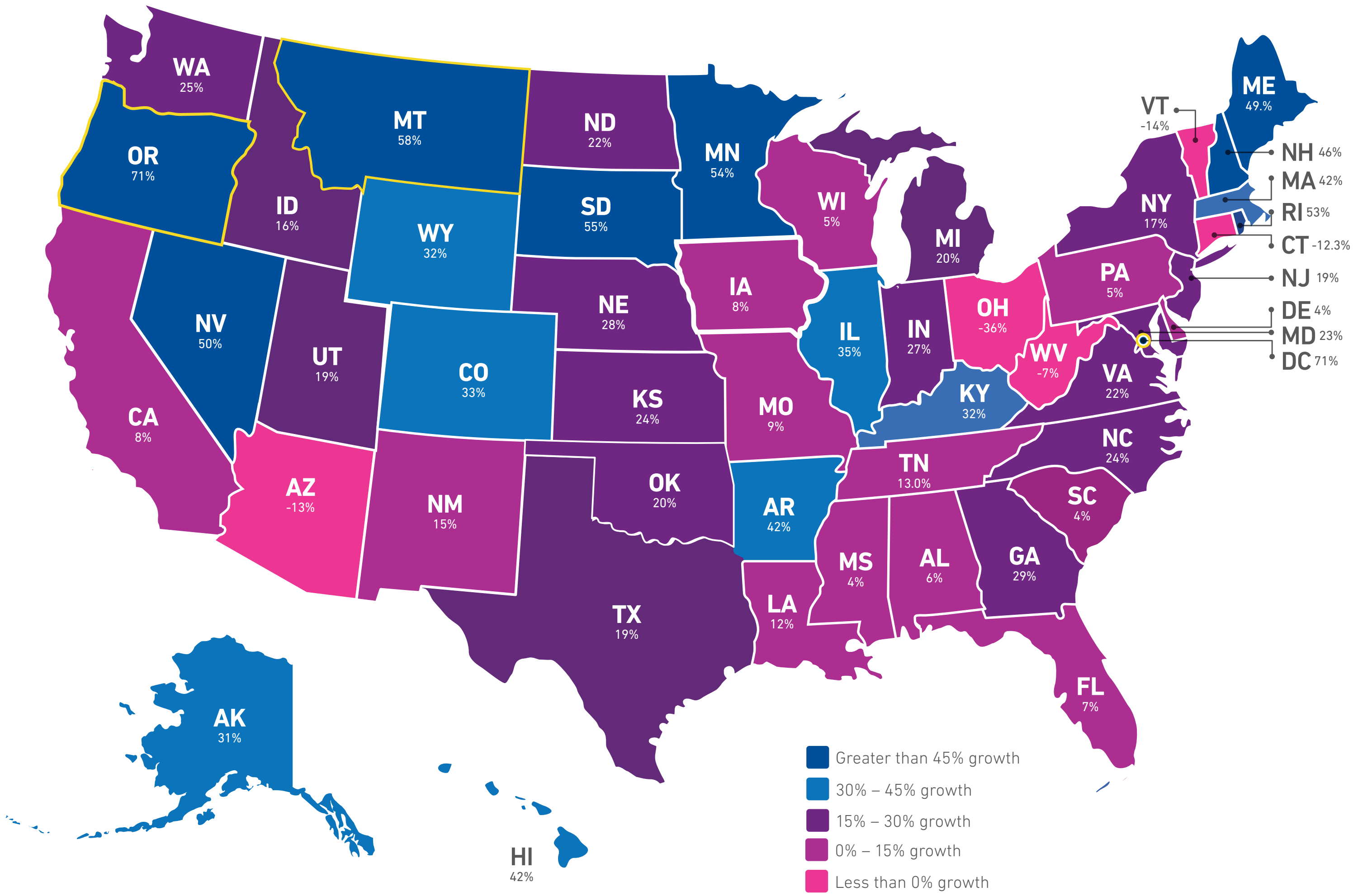
*US Census Bureau: State Population by Characteristics: 2010-2019
https://www.census.gov/data/tables/time-series/demo/popest/2010s-state-detail.html

Finally, we analyzed the growth percentage in the number of unique consumers (by state) obtaining alternative credit between 2018 and 2019. In particular, large increases were observed in the Northwest.

Figure 17 illustrates the percentage change in the number of consumers (by state) who opened a loan with an alternative finance lender from 2018 to 2019. Oregon has the highest growth rate of 71%. Ohio, West Virginia, Connecticut, Arizona and Vermont all saw a decline in the number of unique borrowers

Figure 17:

Growth of Unique Borrowers from 2018 to 2019



Closing

The Lending Landscape is Changing

Start gaining ground in the non-prime market by getting a deeper, broader view of the consumers you serve.

Following is a summary of key insights resulting from our analysis of a study sample with over 500 million consumer loan applications and nearly 30 million loans from Clarity's alternative credit database.

Key Takeaways:

- The online small-dollar installment market has seen continued significant growth, with the increase in funded dollar volume significantly outpacing unit growth due to larger loan amounts.
- In 2019, we continued to see the trend toward larger online installment loan amounts as well as longer repayment terms.
- A larger percentage of online installment applications for credit from AFS lenders are coming from consumers with higher traditional credit scores.
- While online installment loan performance deteriorated in 2018, we observed a bounce back in 2019. This is evident in both cumulative default curves as well as first payment default rates.
- Partly due to their large populations, California, Texas and Florida have remained the largest markets for online small-dollar lenders. Most of the other states have remained consistent over the last five years, except for Michigan which climbed nine spots over the last five years.

Results from this trends report will serve as a critical baseline of the small-dollar lending marketplace prior to the impact of COVID-19. Next year's trends report will provide unique insights due to the significant disruption caused by this pandemic.

If you have any questions of comments on this report, please contact ClarityMarketing@Experian.com

About Clarity

Clarity Services, Inc., a part of Experian, is the leading credit reporting agency for near-prime and nonprime consumers. Clarity's growing specialty credit data encompasses more than 60 million unique consumer identities that helps businesses mitigate risk using alternative credit data.

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