TransUnion Unsecured Personal Lending Industry Insights Report

Q1 2023

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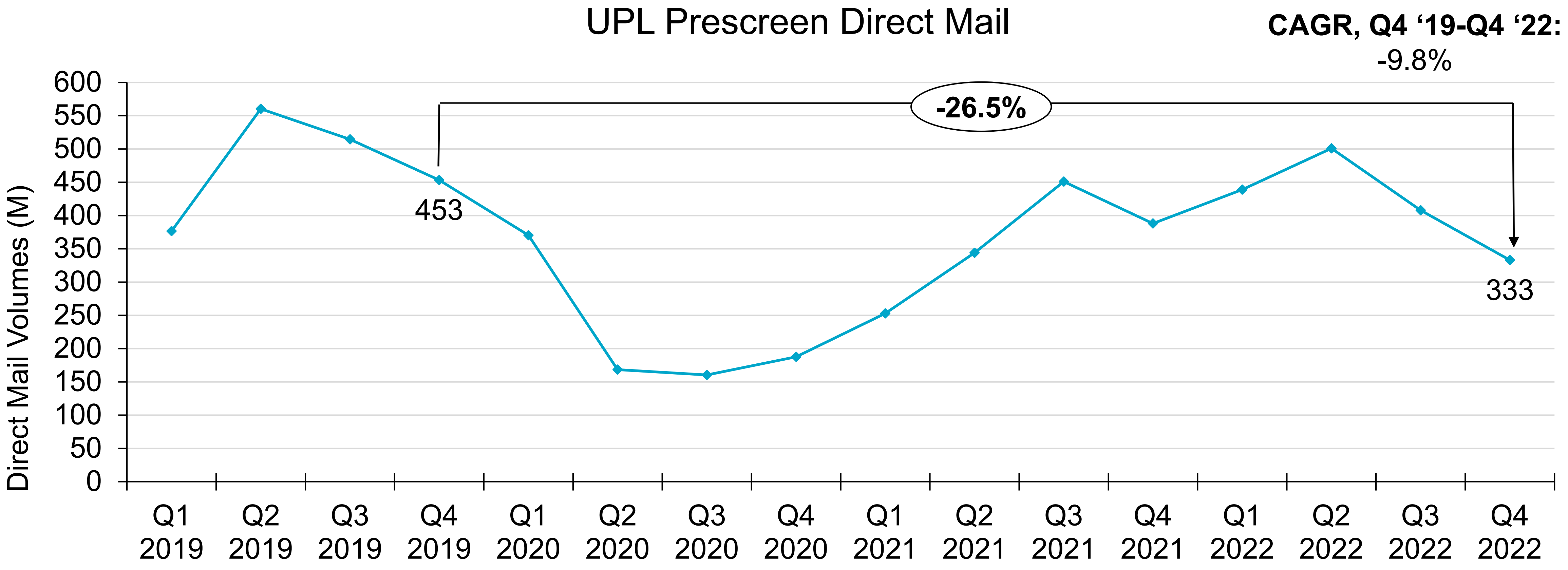
Q1 2023 Quarter Highlights

Key Takeaways

- Demand for unsecured personal loans (UPLs) is slowing down, as is originations which reached 5.2M in Q4 2022 – a reduction from prior year
- Additionally, the distribution of originations has shifted a bit in recent quarters to fewer subprime originations and lower share among FinTechs
- Loan amounts have increased 29% over pre-pandemic levels (2019), while average length of loans has increased 22%, but estimated APR has remained mostly stable
- Balances continue to grow across risk tiers, driving the average balance per consumer higher, to just over $11K – with all risk tiers seeing higher balances
- Consumer-level delinquency rates are slowing down, although they are still elevated

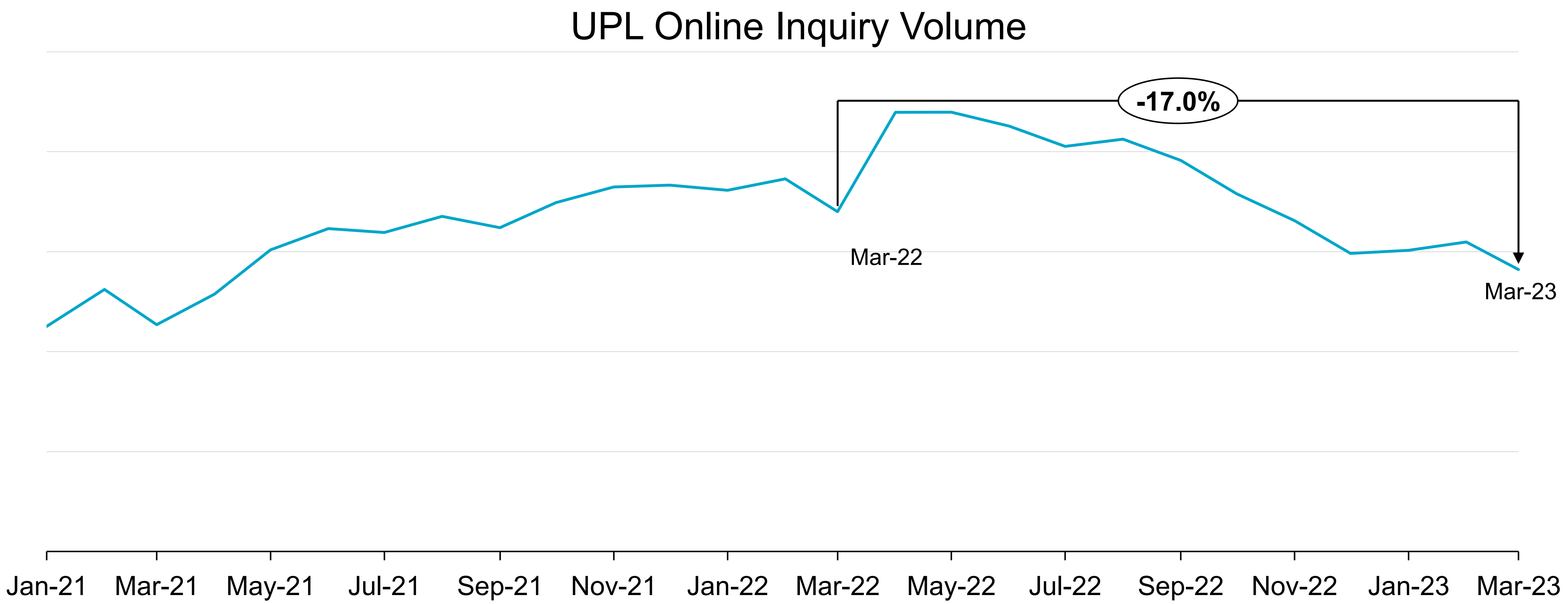
Demand and Supply

Unsecured personal loan (UPL) prescreen mail volumes declined in the second half of 2022 after two years of strong growth



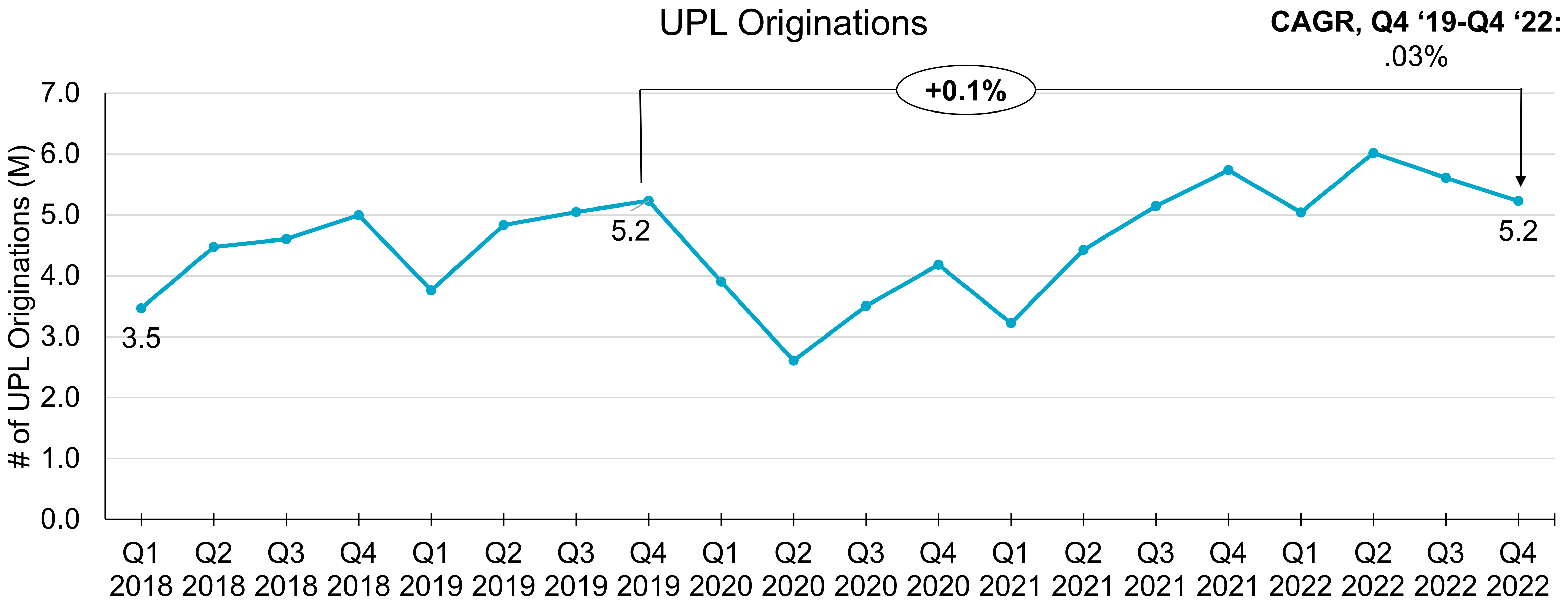
Source: Comperemedia estimated mail volumes

UPL online inquiry volumes have been declining since Q2 2022



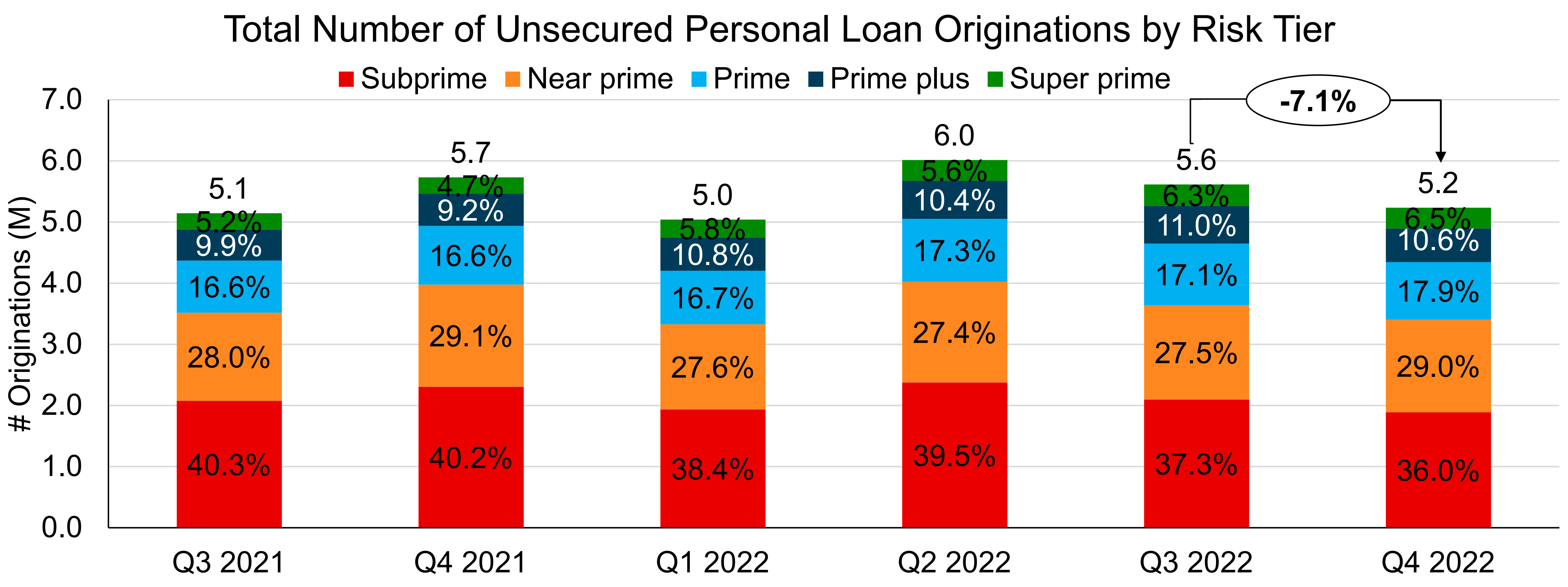
Source: TransUnion US consumer credit database

Q4 2022 UPL origination volume is on par with Q4 2019, but prior quarters surpassed pre-pandemic levels



Source: TransUnion US consumer credit database

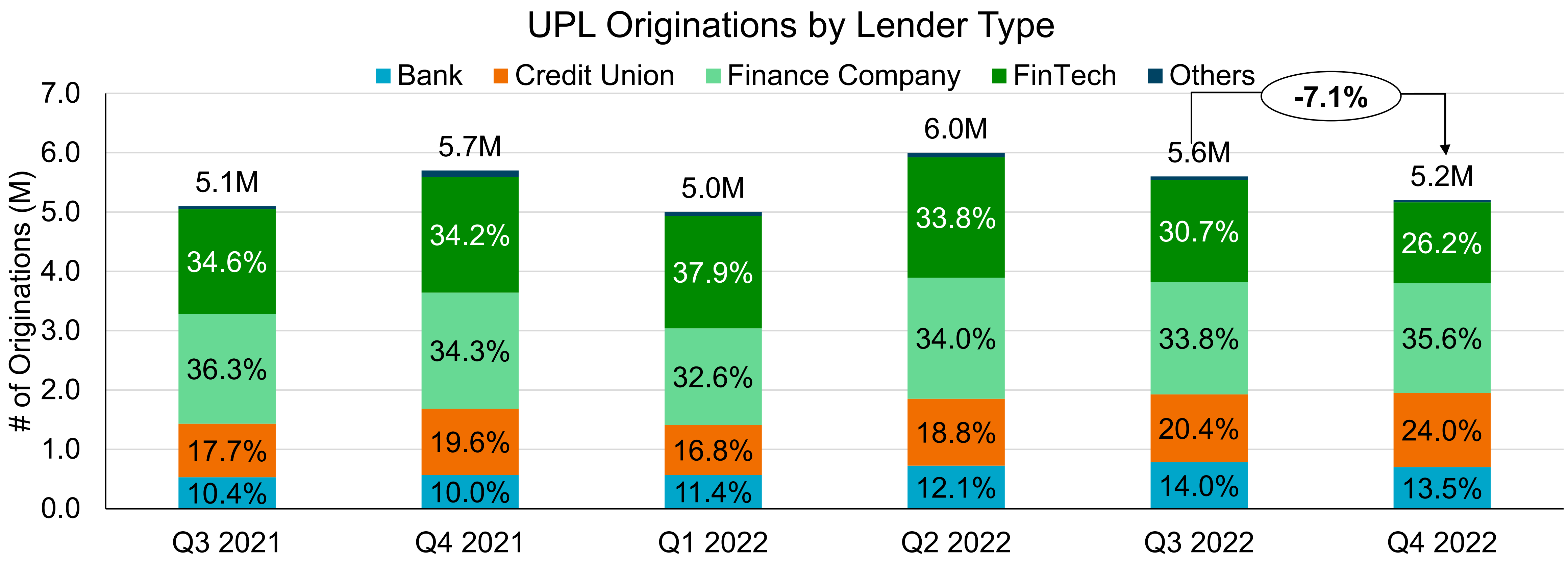
Originations have decreased both YoY and QoQ with the subprime risk tier losing share gradually



VantageScore® 4.0 risk ranges:
Subprime = 300–600, Near prime = 601–660, Prime = 661–720, Prime plus = 721–780, Super prime = 781+

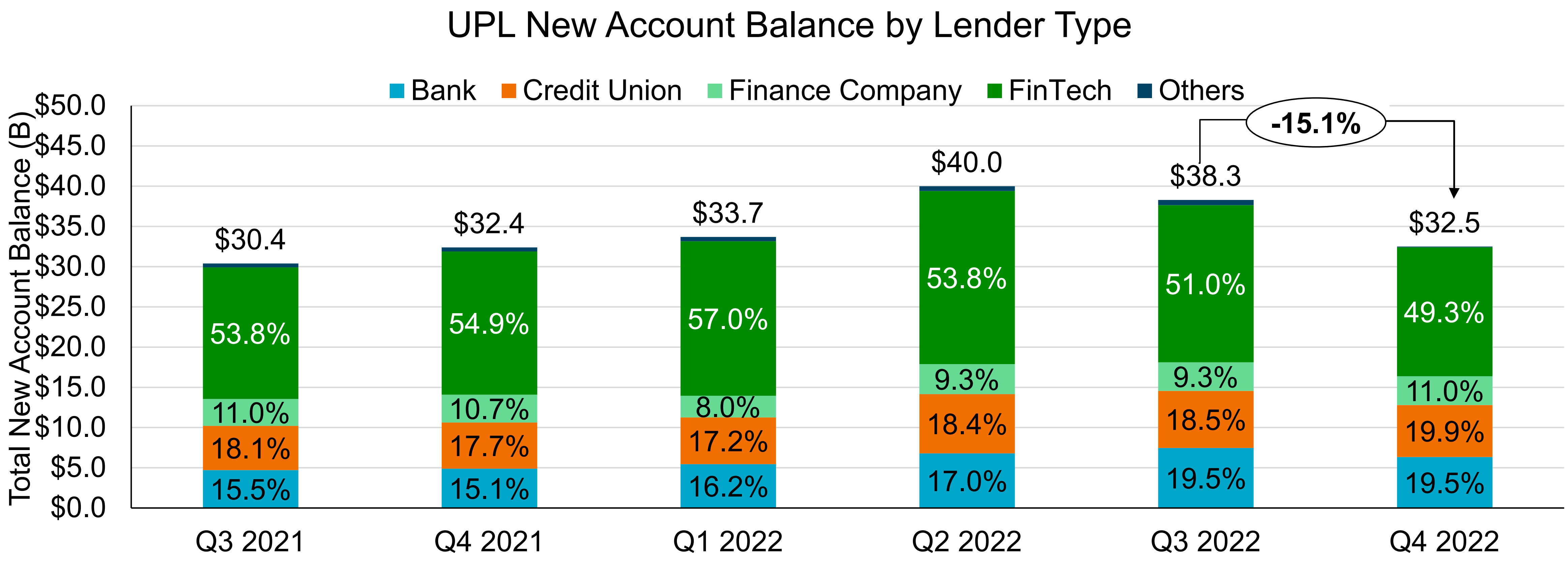
Totals may not equal 100 due to rounding
Source: TransUnion US consumer credit database

FinTech's share of originations has decreased significantly in recent quarters



Totals may not add up due to rounding
Source: TransUnion US consumer credit database

Total new account balance has dropped in recent quarters, with FinTechs’ share declining to just under 50%



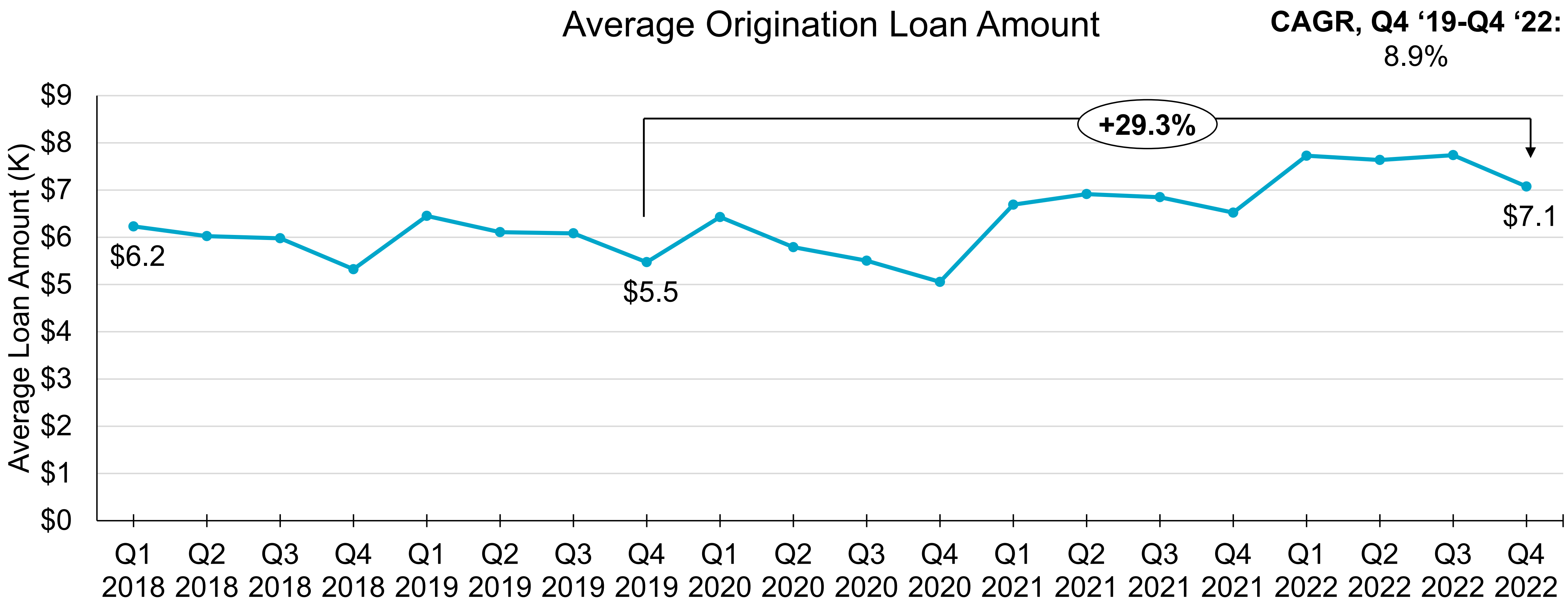
Totals may not add up due to rounding
Source: TransUnion US consumer credit database

Key Takeaways: Demand & Supply

- Prescreen direct mail volume for UPLs in Q4 2022 has fallen by -24.5% as compared to Q4 2019
- UPL originations in Q4 2022 have fallen back to 2019 pre-pandemic levels
- Origination distribution by risk tier and lender type has shifted a bit in recent quarters to fewer subprime originations and lower share among FinTechs
- FinTechs also have a smaller share of new account balances: just under 50% of total

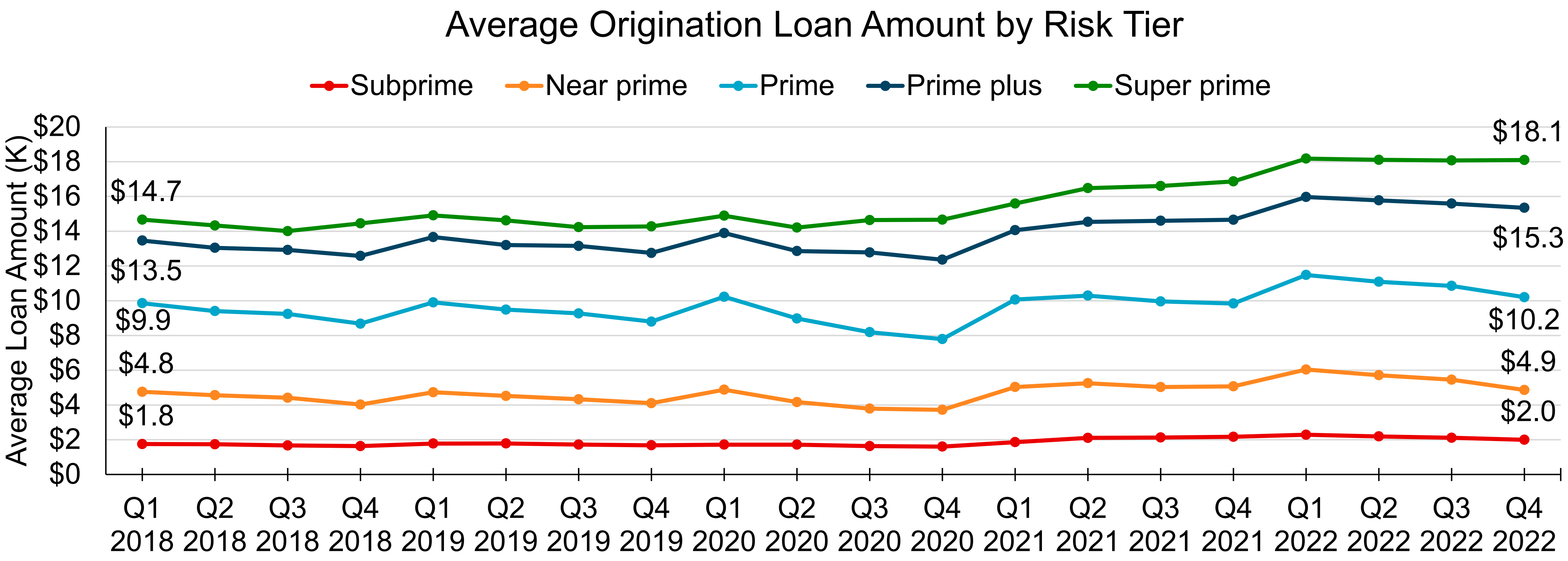
Loan Terms

Average origination loan amounts are significantly higher than before the pandemic



Source: TransUnion US consumer credit database

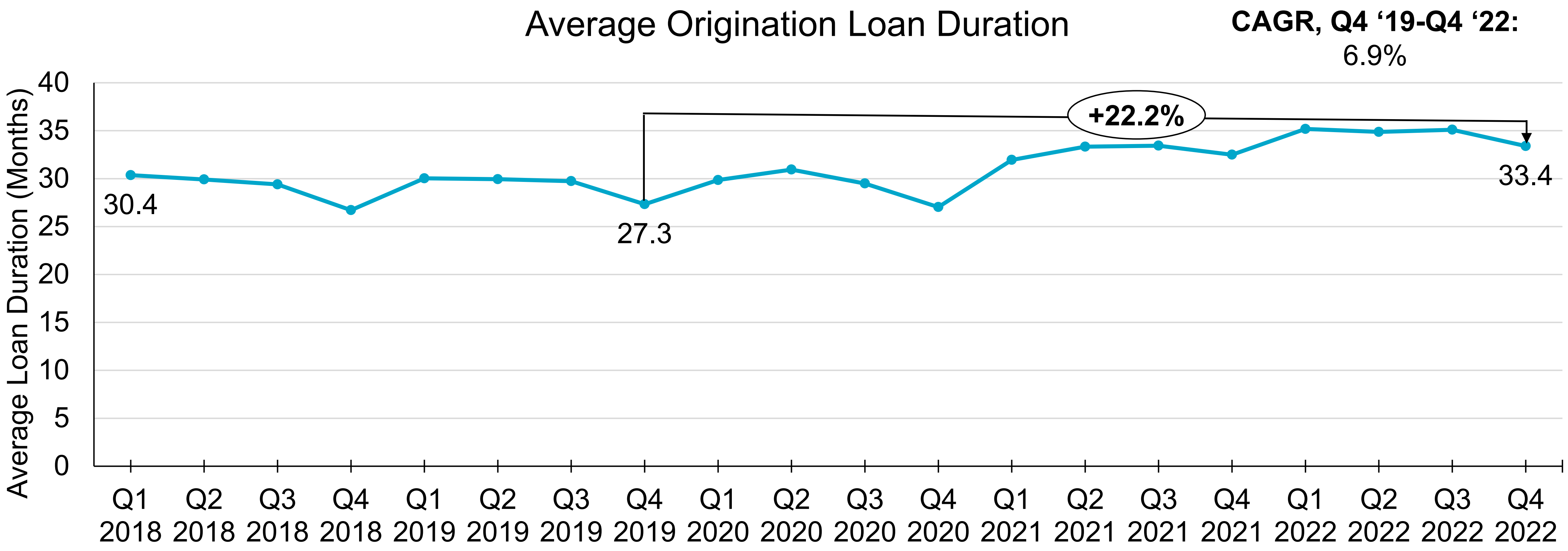
The average loan amount has increased significantly since 2020 across most risk tiers, though declining in the last year



VantageScore® 4.0 risk ranges:
Subprime = 300–600, Near prime = 601–660, Prime = 661–720, Prime plus = 721–780, Super prime = 781+

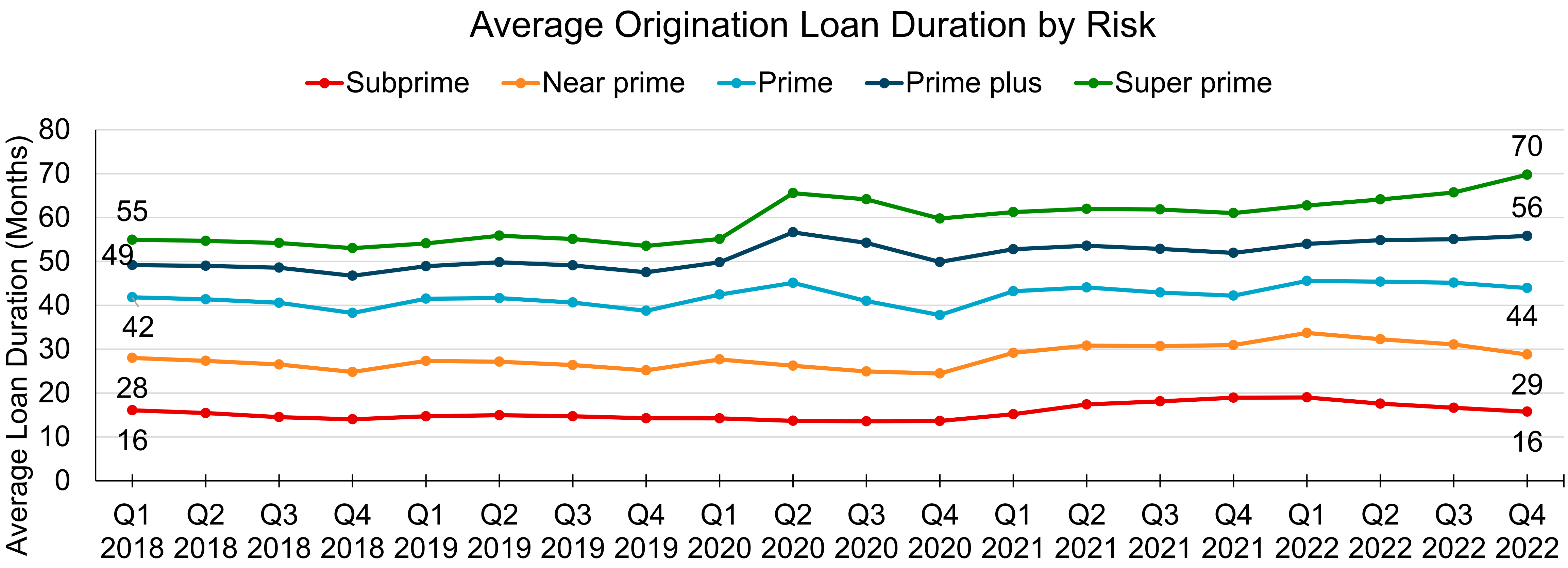
Source: TransUnion US consumer credit database

Average origination loan duration has increased, particularly since Q4 2020, and currently is at just under three years



Source: TransUnion US consumer credit database

Loan durations have moderately increased for above prime risk tiers in recent quarters, while they have slightly fallen for other risk tiers



VantageScore® 4.0 risk ranges:
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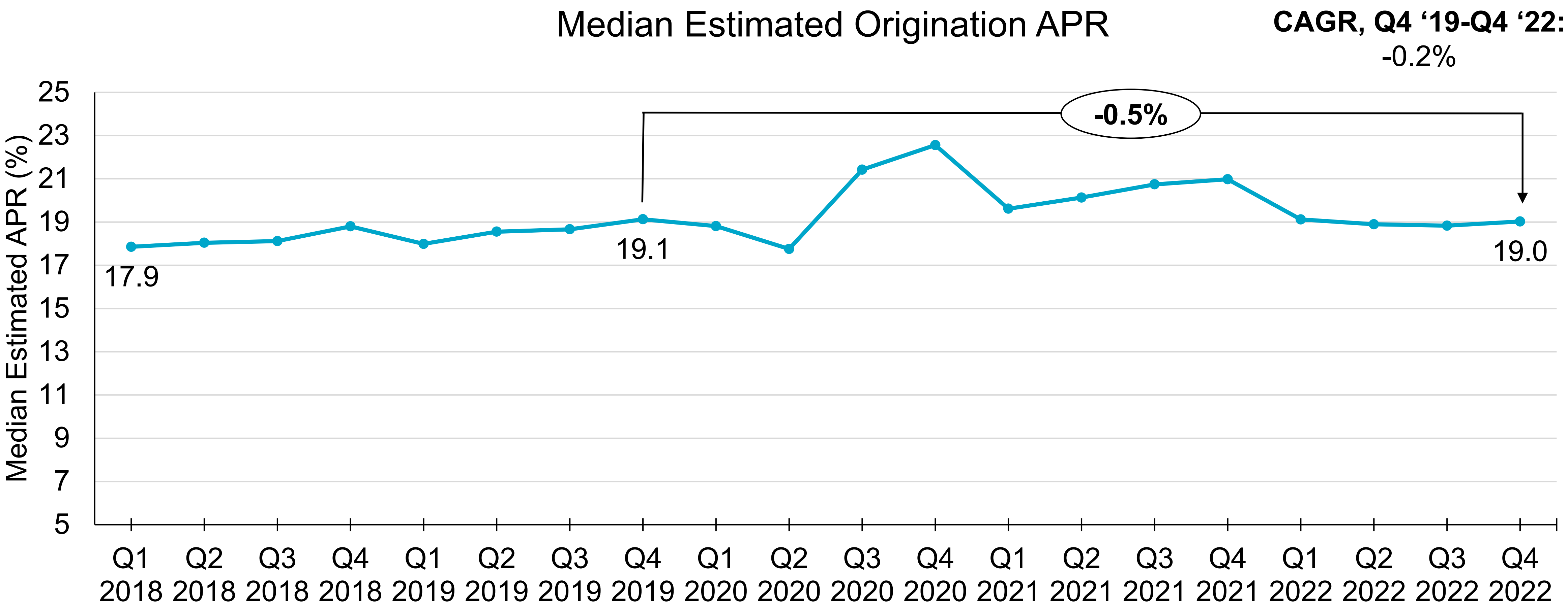
Source: TransUnion US consumer credit database

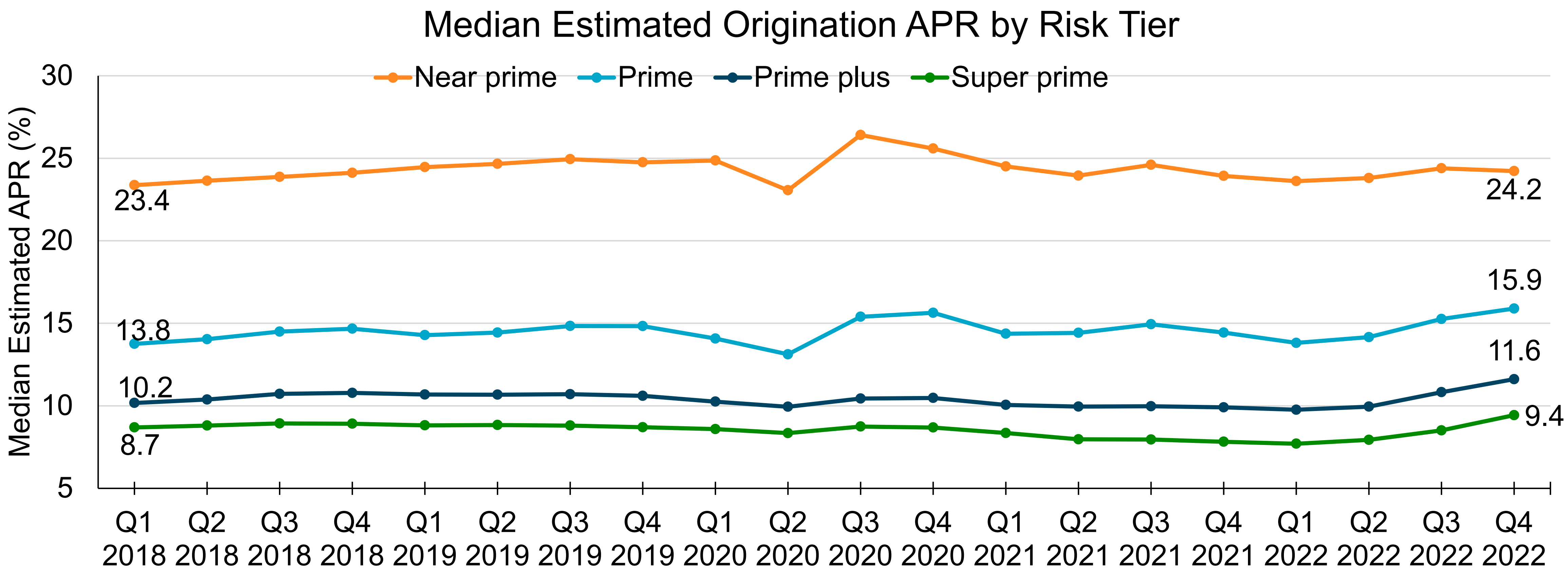
Median estimated APRs increased at the start of the pandemic but have moderated to rates similar to those pre-pandemic



NOTE: Estimated APR is a calculated field based on payment frequency, loan amount, and the due amount; it does not account for fees.

Source: TransUnion US consumer credit database

Median estimated APRs are increasing for the prime and above risk tiers while remaining mostly stable for near prime



NOTE: Subprime is not shown as it is too sensitive to outliers; hence, its trendline is not reflective of what is occurring in the marketplace overall versus what is occurring with specific lenders
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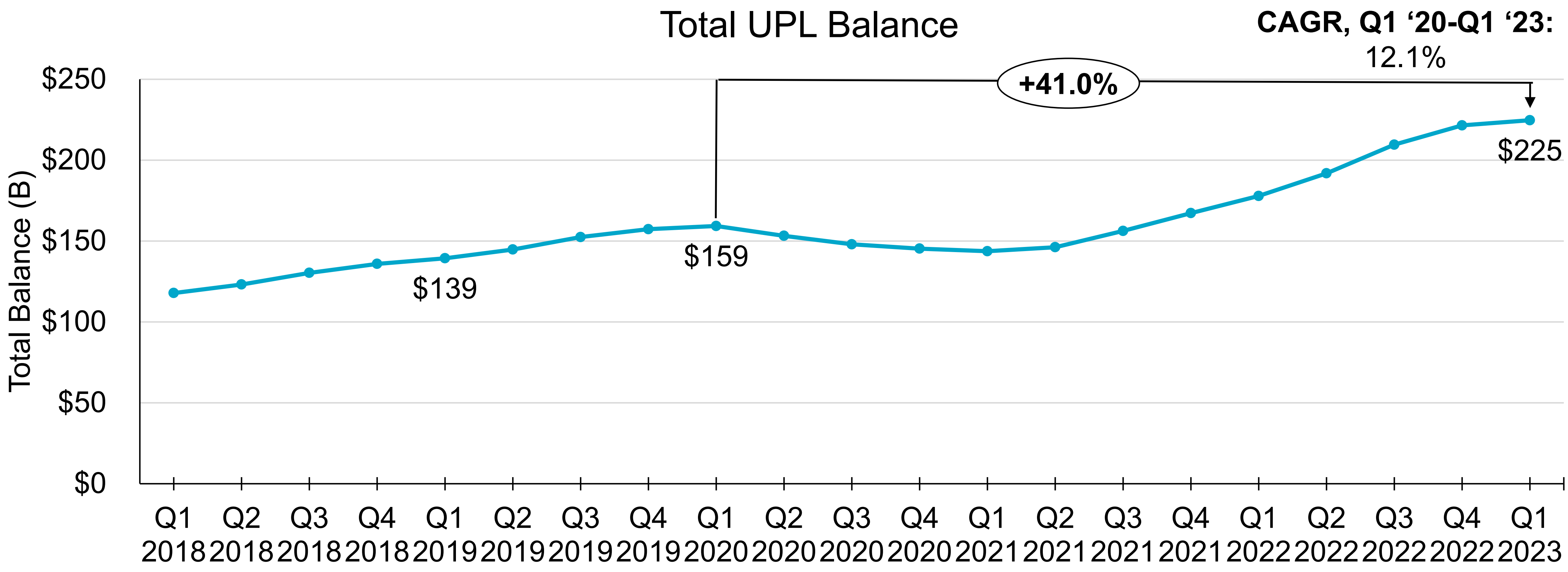
Source: TransUnion US consumer credit database

Key Takeaways: Loan Terms

- UPLs are being originated at larger amounts than pre-pandemic – a trend seen across risk tiers – and now are on average issued for $7.1K
- Alongside larger loan amounts, the duration of UPLs has lengthened across risk tiers to just under three years on average
- Estimated median APRs have increased in recent quarters, for the prime and above risk tiers, but overall are similar to pre-pandemic rates

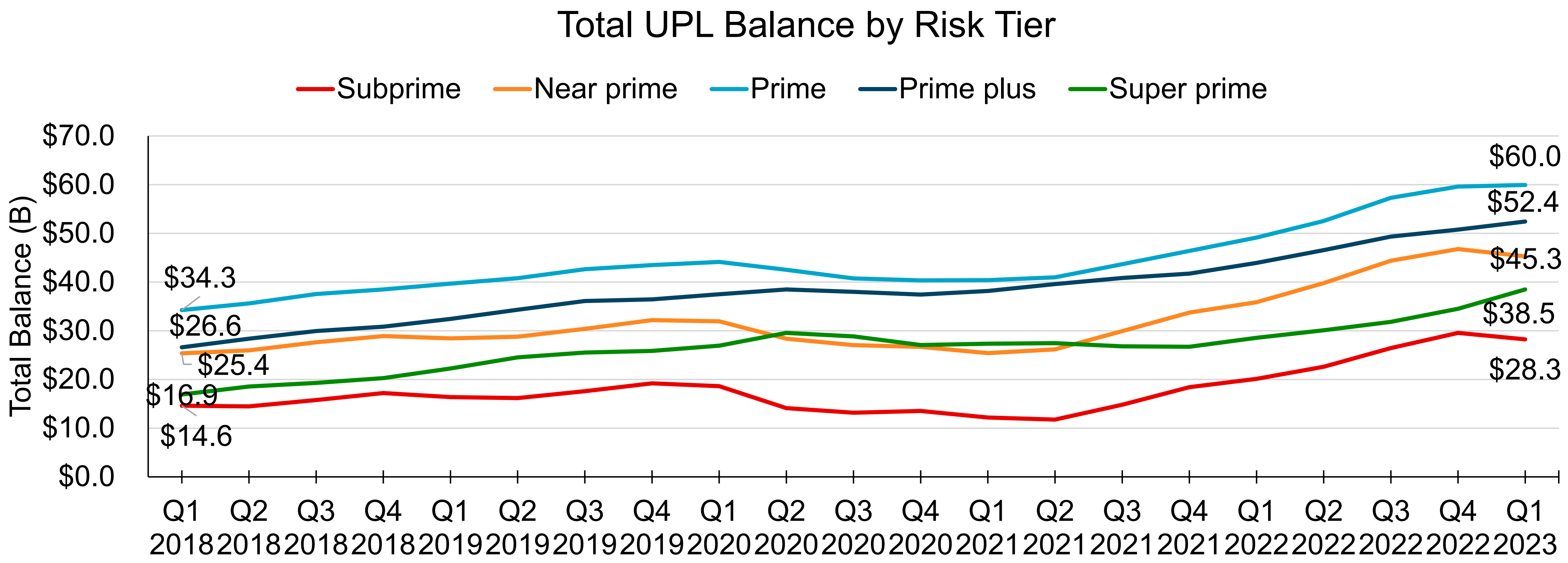
Balances

Total UPL balances have grown significantly since pre-pandemic quarters



Source: TransUnion US consumer credit database

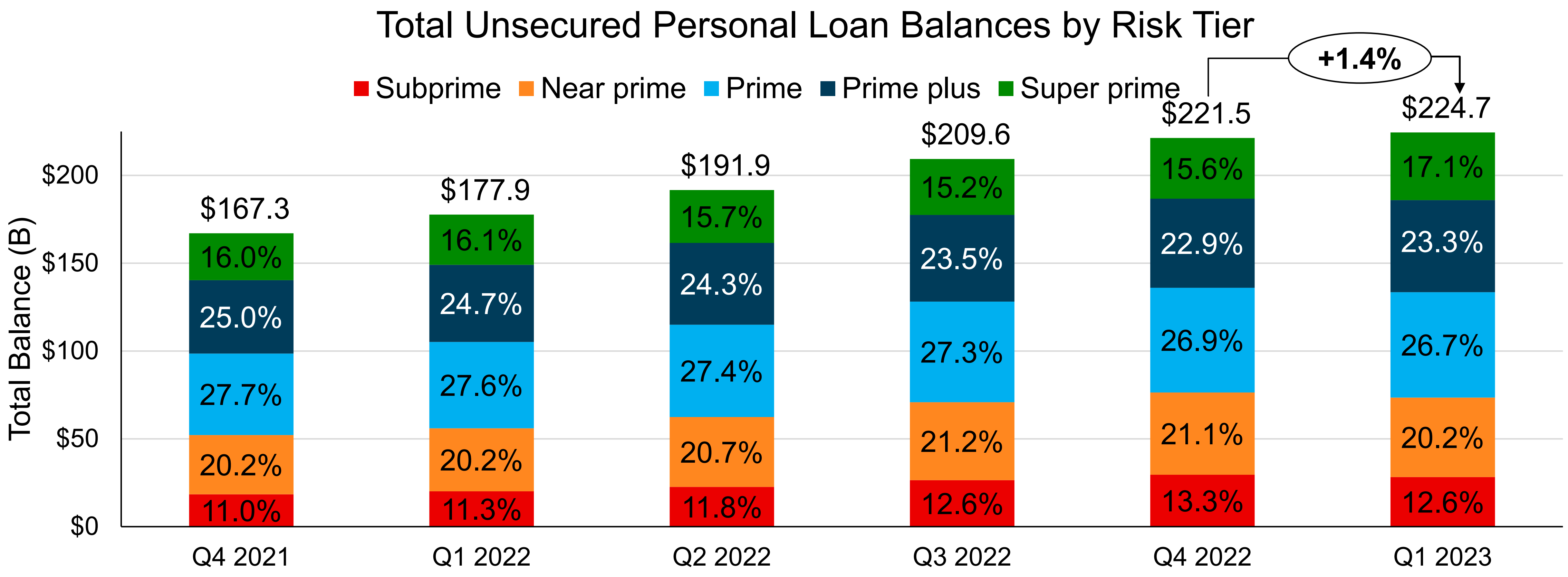
Total UPL balances have had strong growth across risk tiers since 2020



VantageScore® 4.0 risk ranges:
Subprime = 300–600, Near prime = 601–660, Prime = 661–720, Prime plus = 721–780, Super prime = 781+

Source: TransUnion US consumer credit database

As total UPL balance has increased, the risk tier distribution has remained mostly stable since at least Q4 2021



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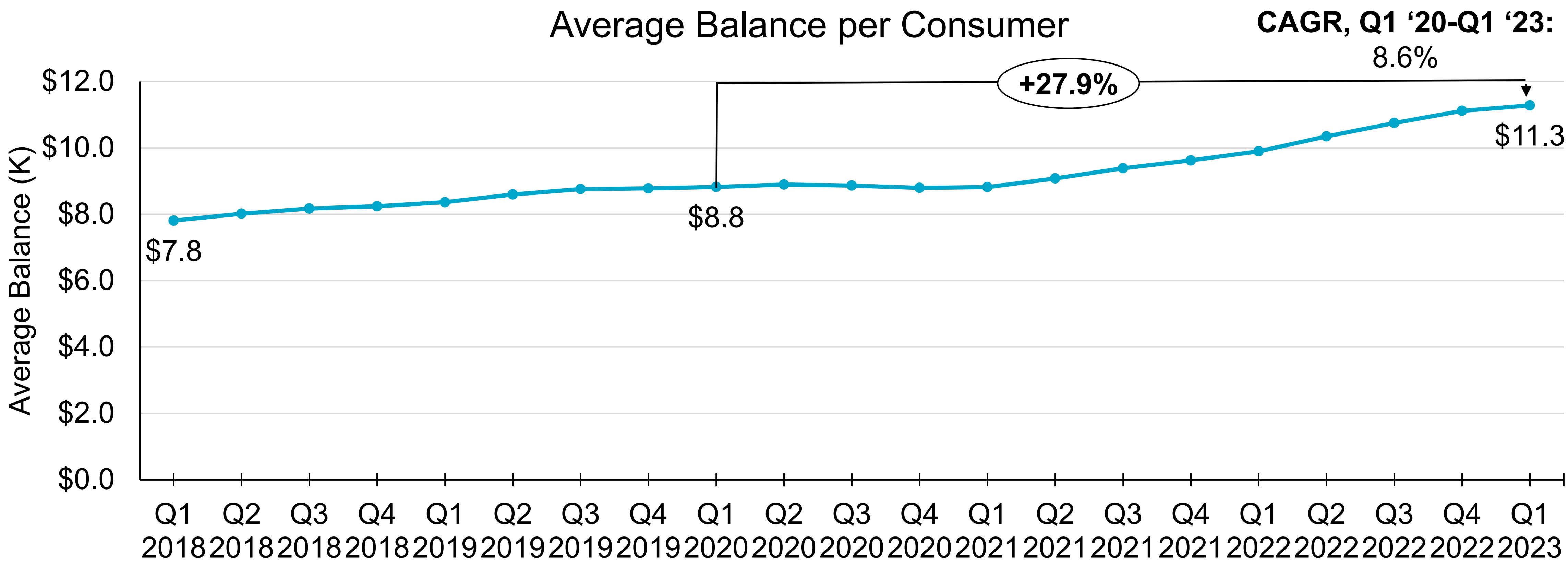
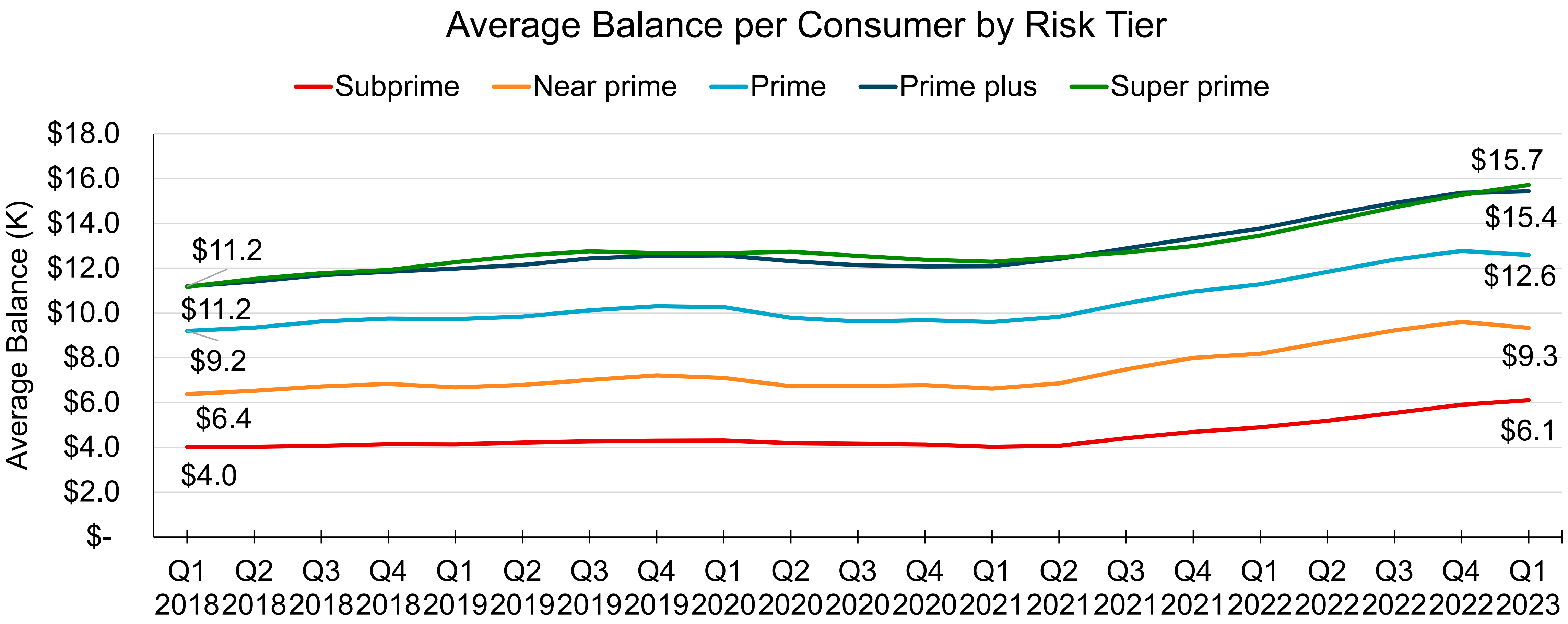
Totals may not equal 100 due to rounding
Source: TransUnion US consumer credit database

Consumers' average UPL balance has gone up steadily since at least 2018 to just above $11K



Source: TransUnion US consumer credit database

For each risk tier, consumers' average account balance has increased



VantageScore® 4.0 risk ranges:
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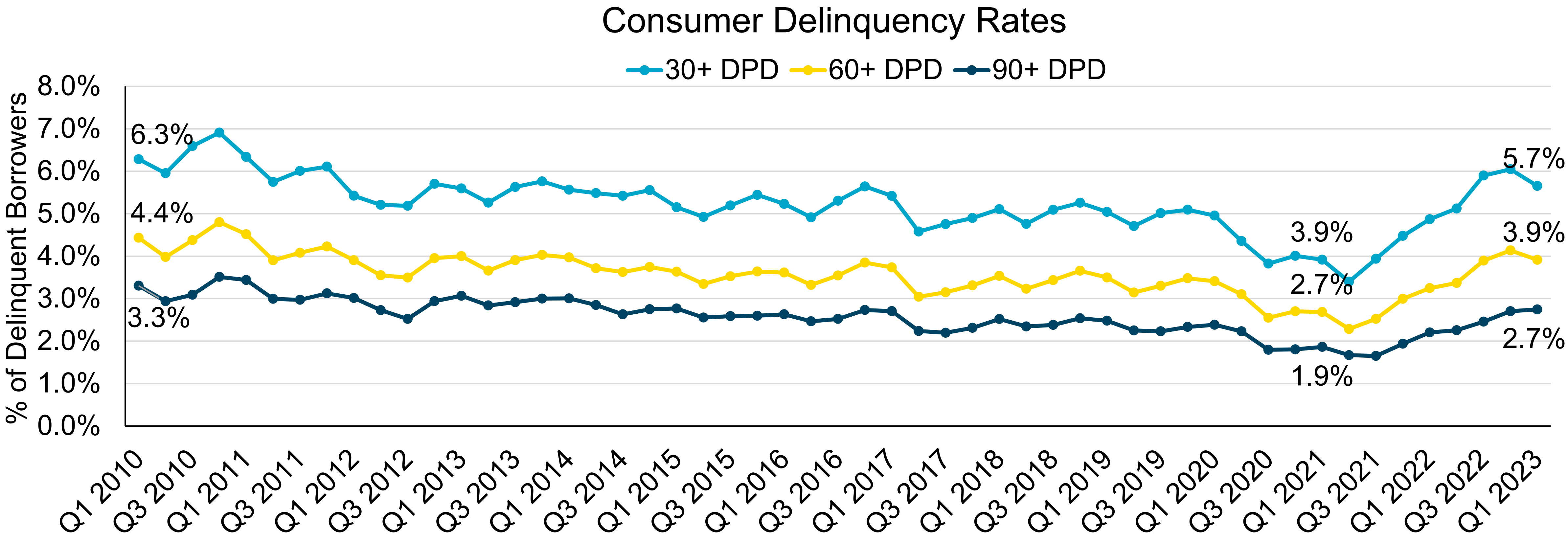
Source: TransUnion US consumer credit database

Key Takeaways: Balances

- Total UPL balances grew significantly, reaching $225B in Q1 2023 – 41% higher than Q1 2020
- The large increase in balances was apparent across all risk tiers, so the distribution across risk tiers has remained mostly stable over the past several quarters
- The average balance per consumer increased to just above $11K, with the per consumer balance increasing for all risk tiers

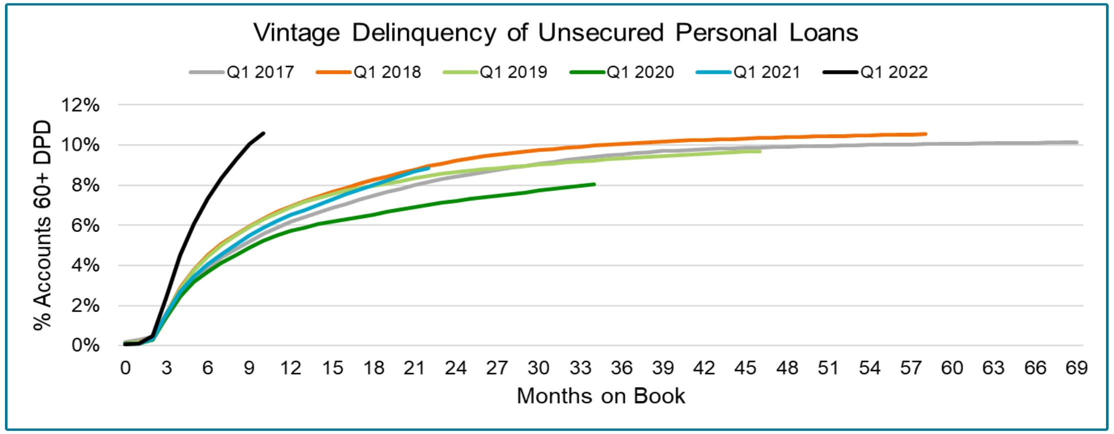
Delinquencies

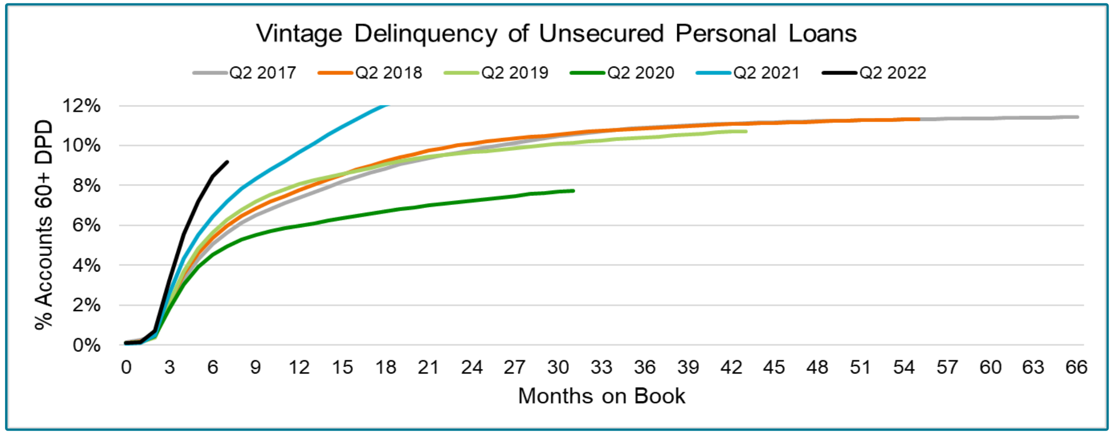
Consumer-level delinquency rates were increasing consistently since Q2 2021, but are starting to stabilize for 30+ and 60+ DPD

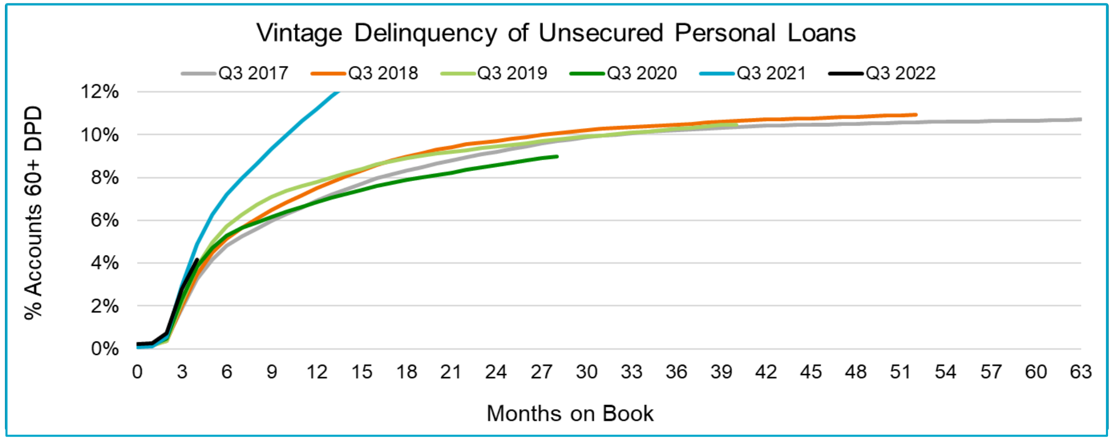


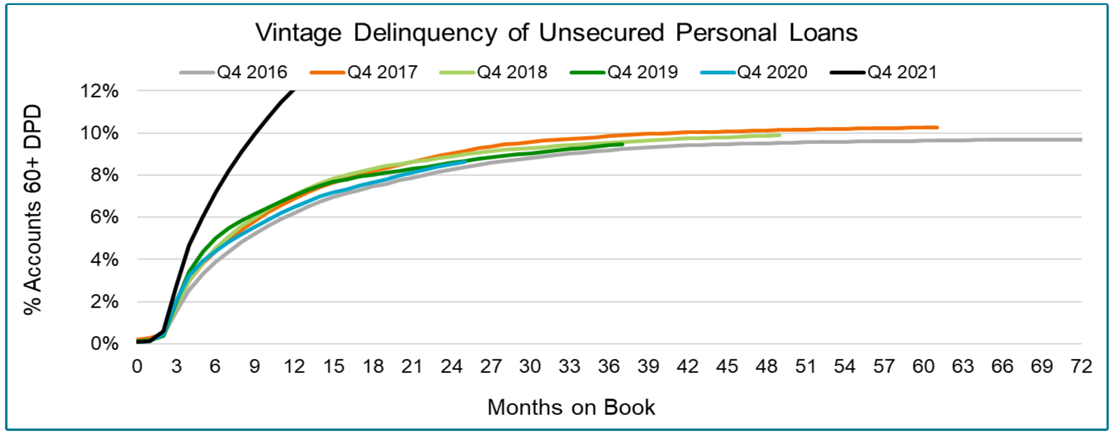
Source: TransUnion US consumer credit database

Vintage delinquency of UPLs for Q1-Q4 highlights that recent vintages are decelerating









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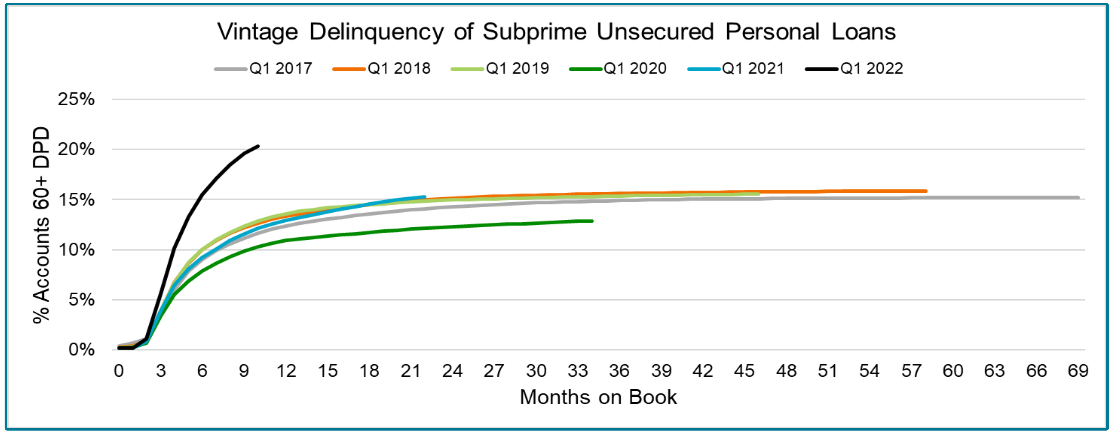
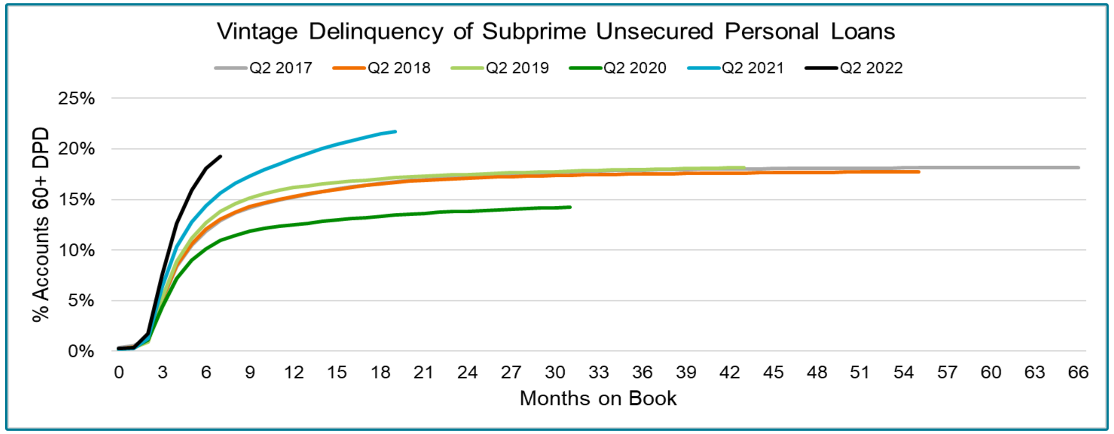
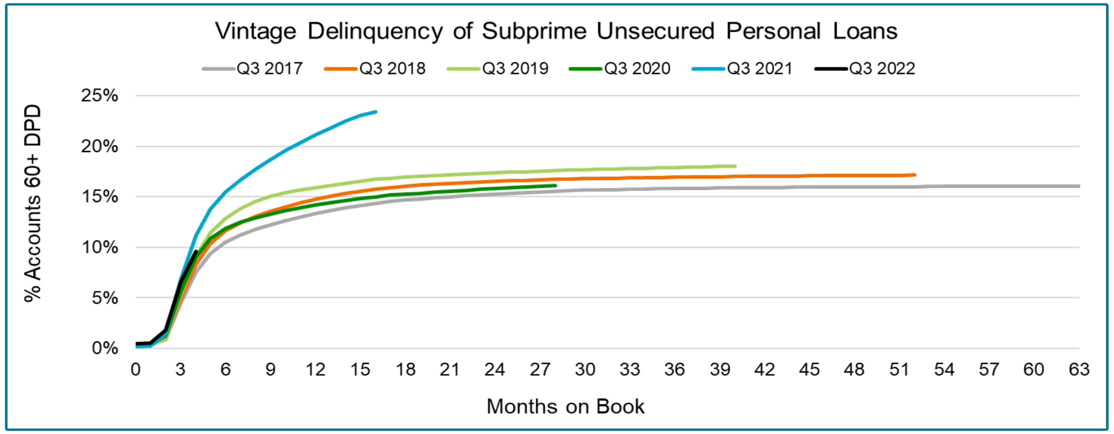
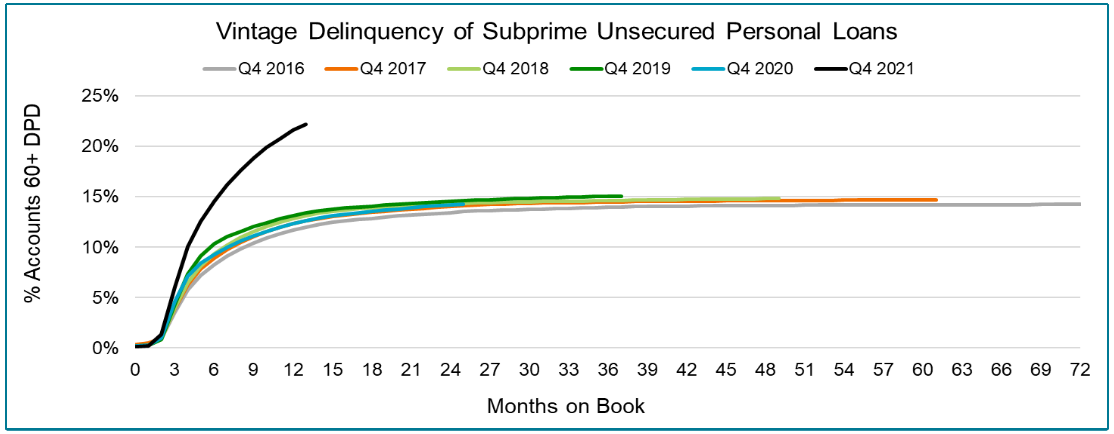
Source: TransUnion TruIQ

Subprime vintage delinquency of UPLs for Q1-Q4 highlights that recent vintages are decelerating









VantageScore® 4.0 risk ranges:
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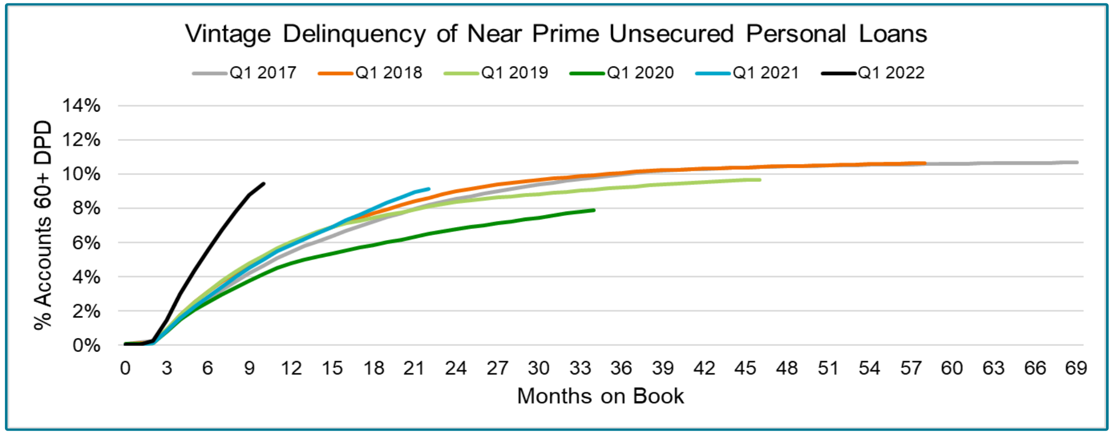
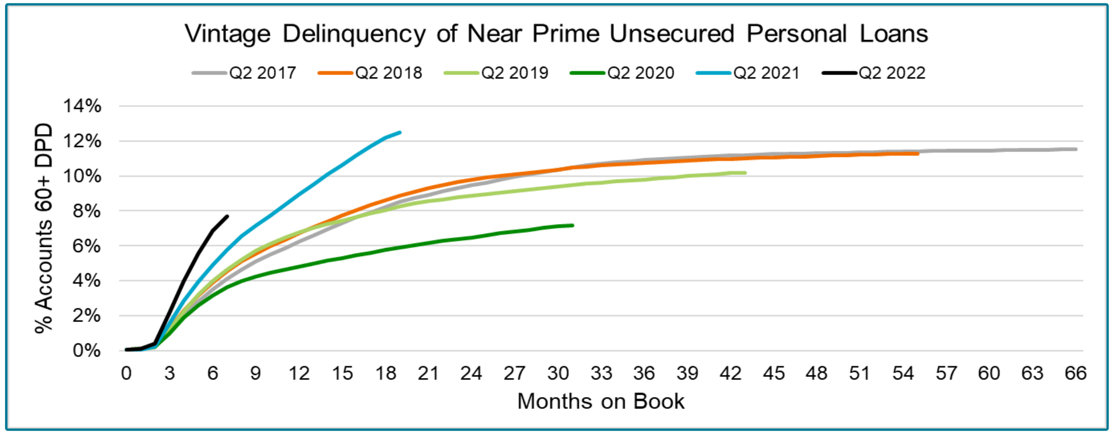
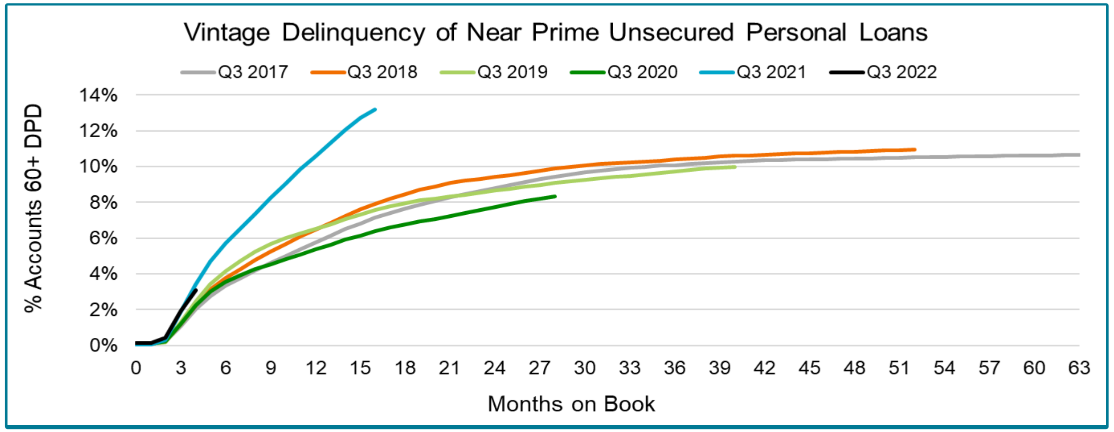
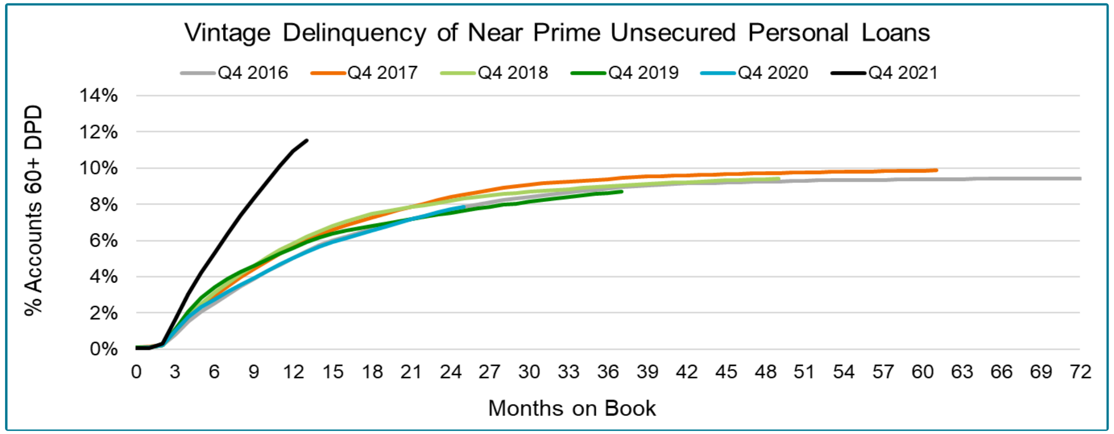
Source: TransUnion TruIQ

Near prime vintage delinquency of UPLs for Q1-Q4 highlights that recent vintages are decelerating









VantageScore® 4.0 risk ranges:
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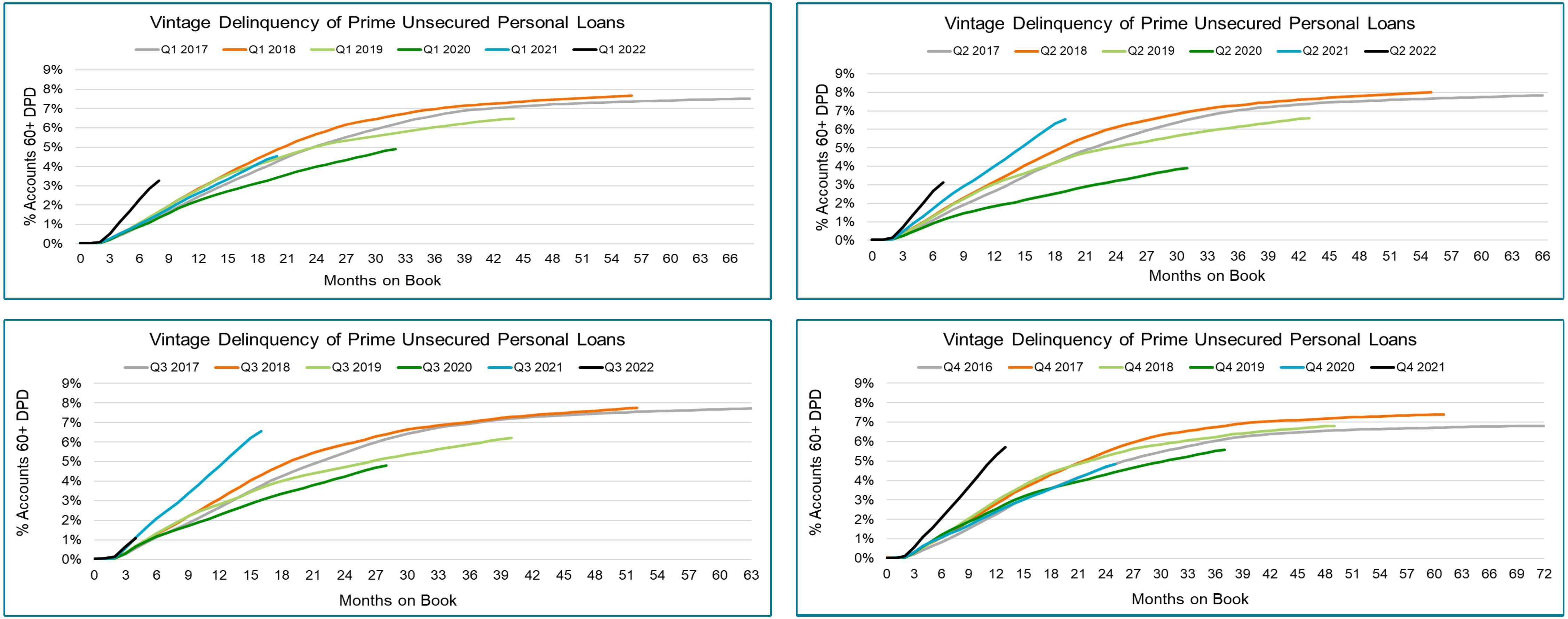
Source: TransUnion TruIQ

Prime vintage delinquency of UPLs for Q1-Q4 highlights that recent vintages are decelerating



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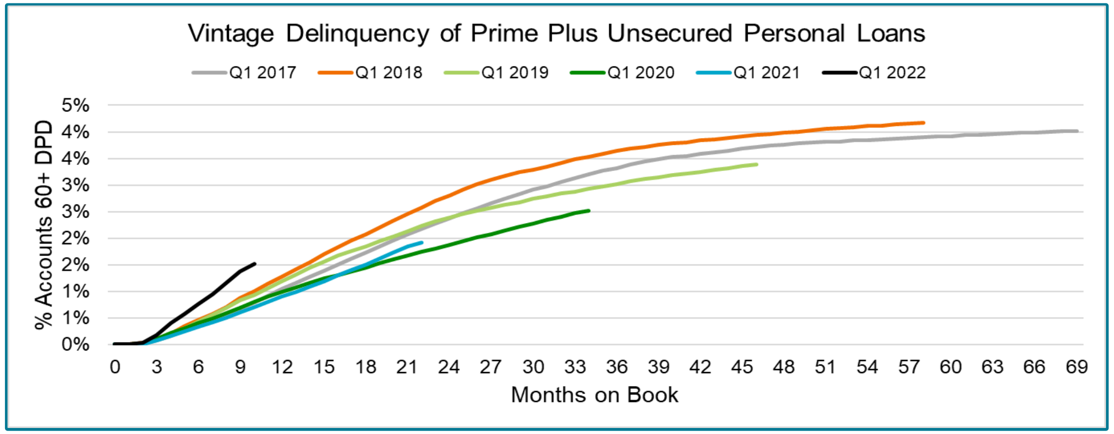
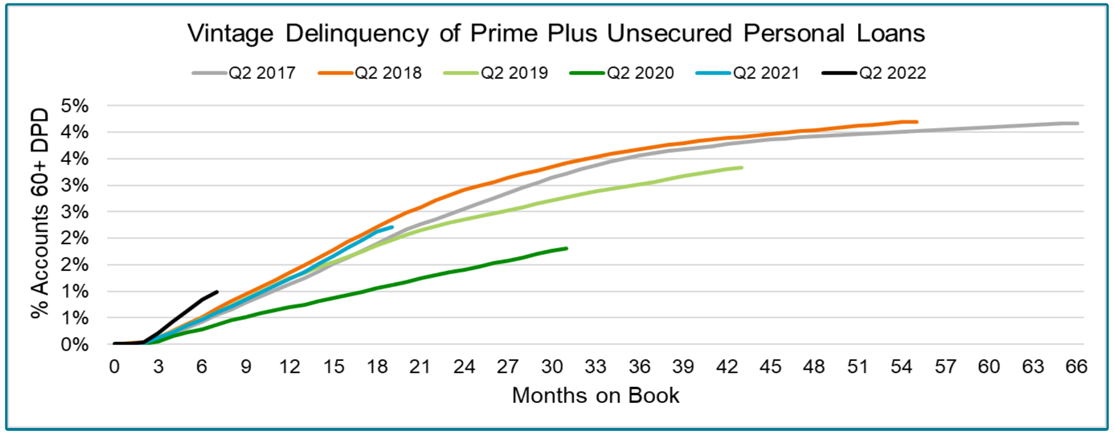
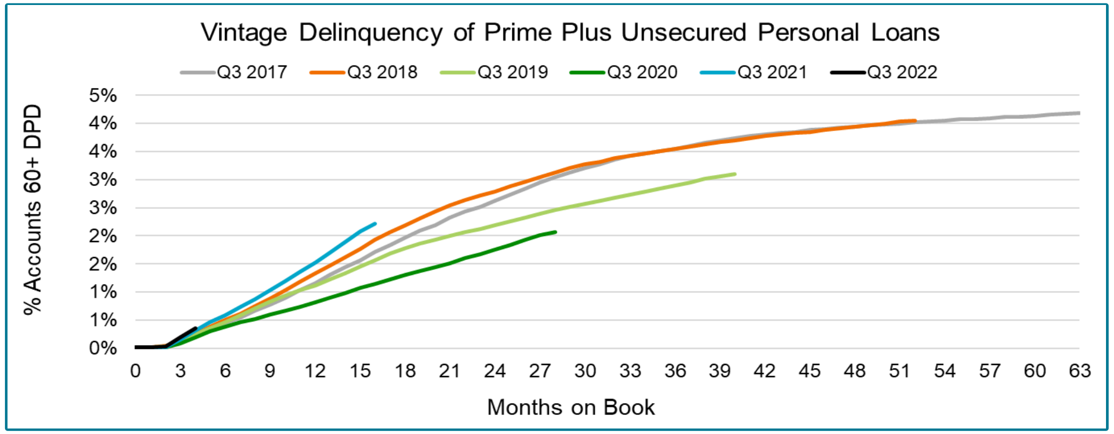
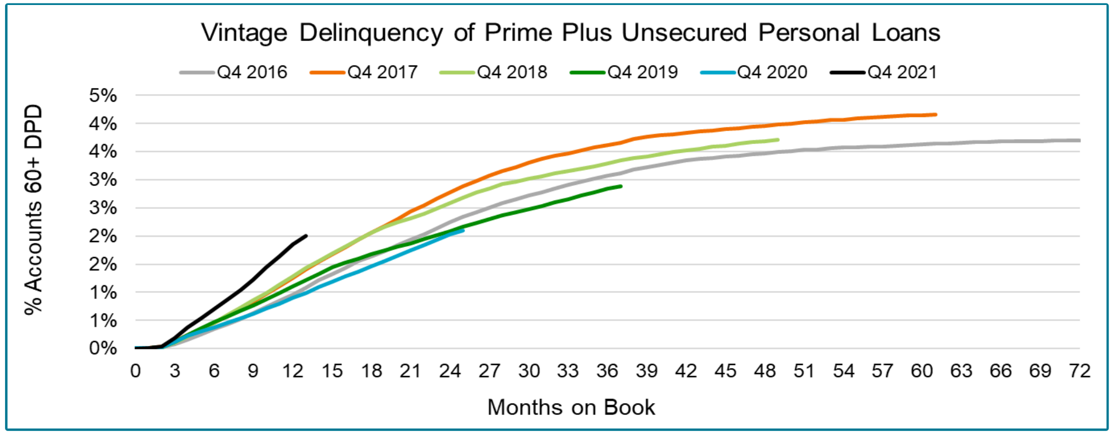
Source: TransUnion TruIQ

Prime plus vintage delinquency of UPLs for Q1-Q4 highlights that recent vintages are decelerating









VantageScore® 4.0 risk ranges:
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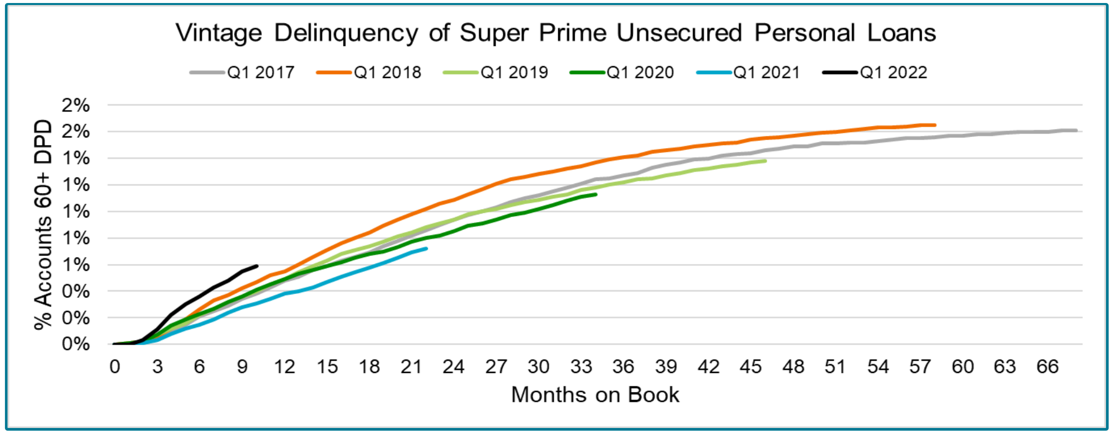
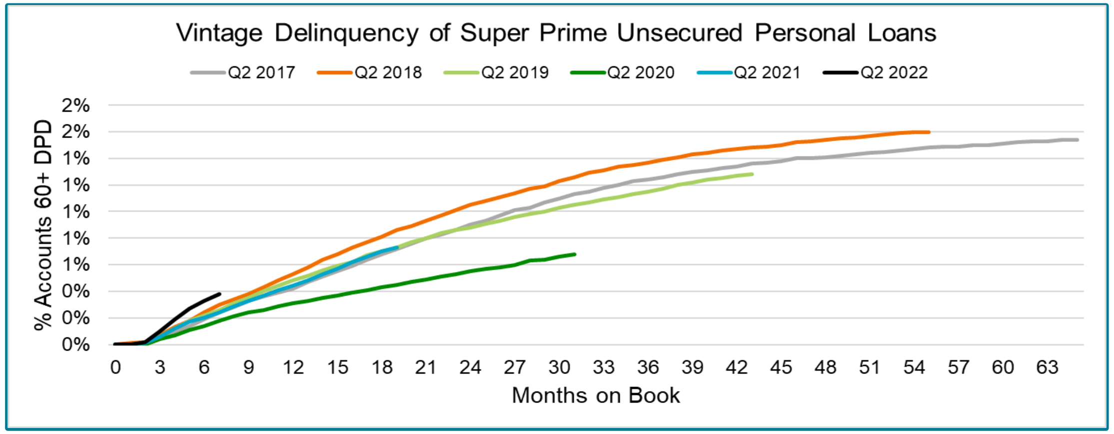
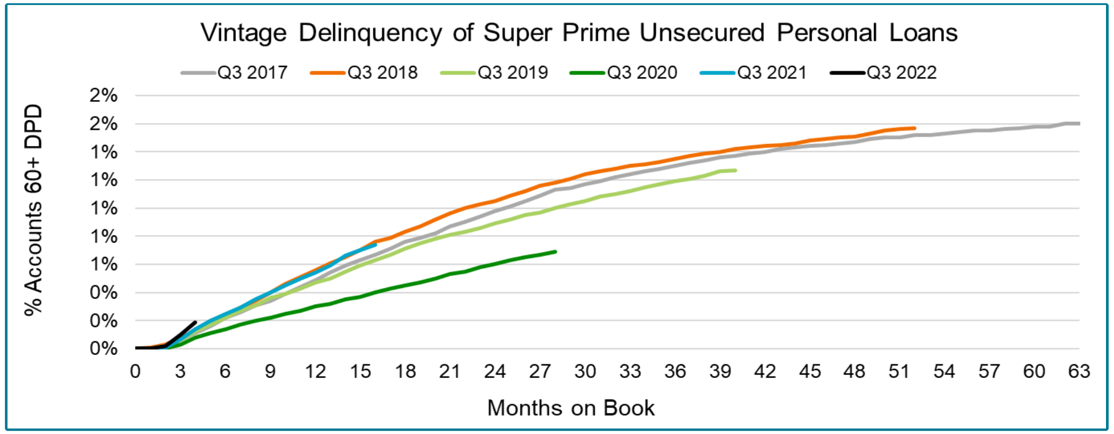
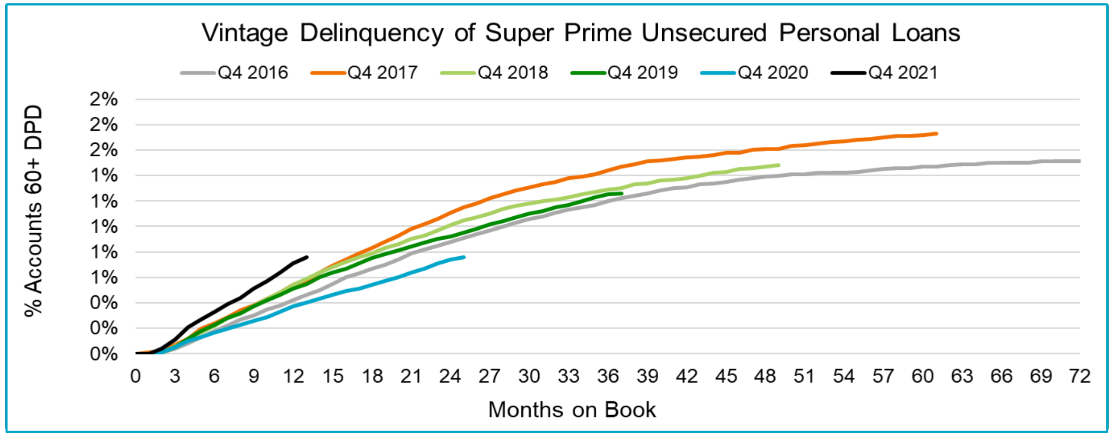
Source: TransUnion TruIQ

Super prime vintage delinquency of UPLs for Q1-Q4 highlights that recent vintages are decelerating









VantageScore® 4.0 risk ranges:
Subprime = 300–600, Near prime = 601–660, Prime = 661–720, Prime plus = 721–780, Super prime = 781+

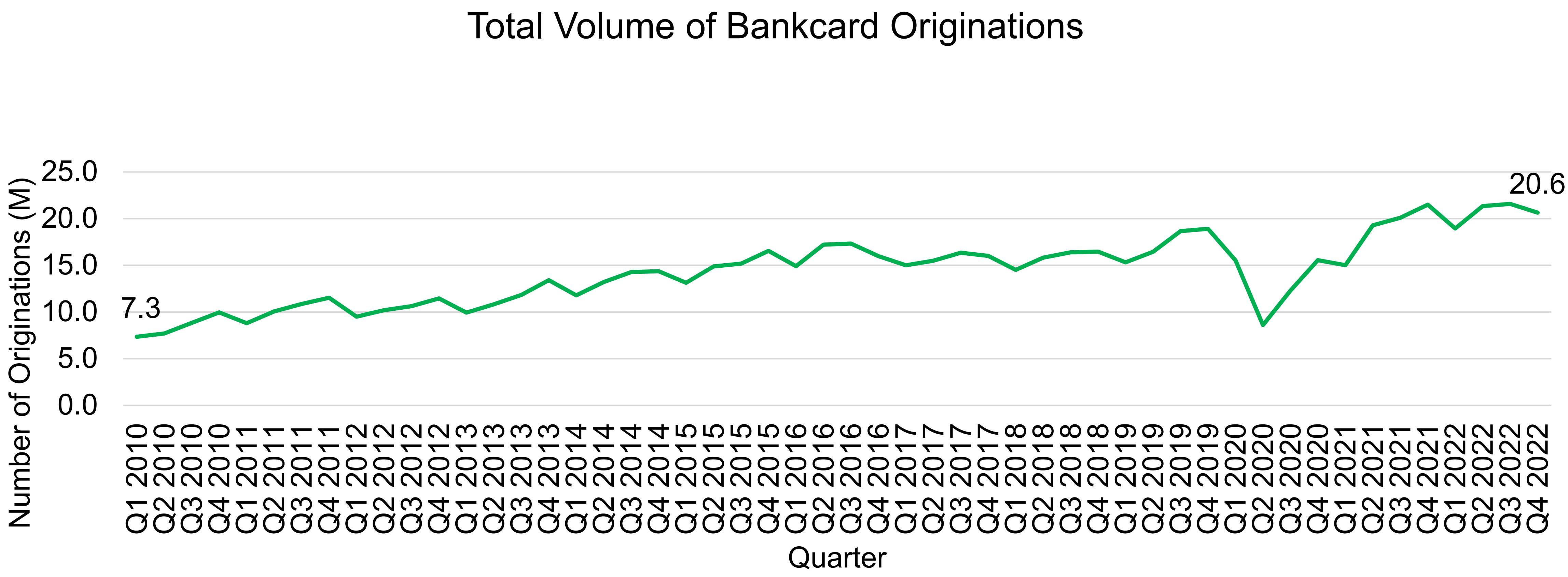
Source: TransUnion TruIQ

Key Takeaways: Delinquencies

- Consumer-level delinquencies are still elevated, but are starting to stabilize for 30+ and 60+ DPD
- 2022 account-level vintage delinquencies are deteriorating faster than most historical vintages, but the pace is decelerating in aggregate for the later quarters
- Vintage delinquencies by risk tier indicate decelerating deterioration, especially for the prime and below risk tiers

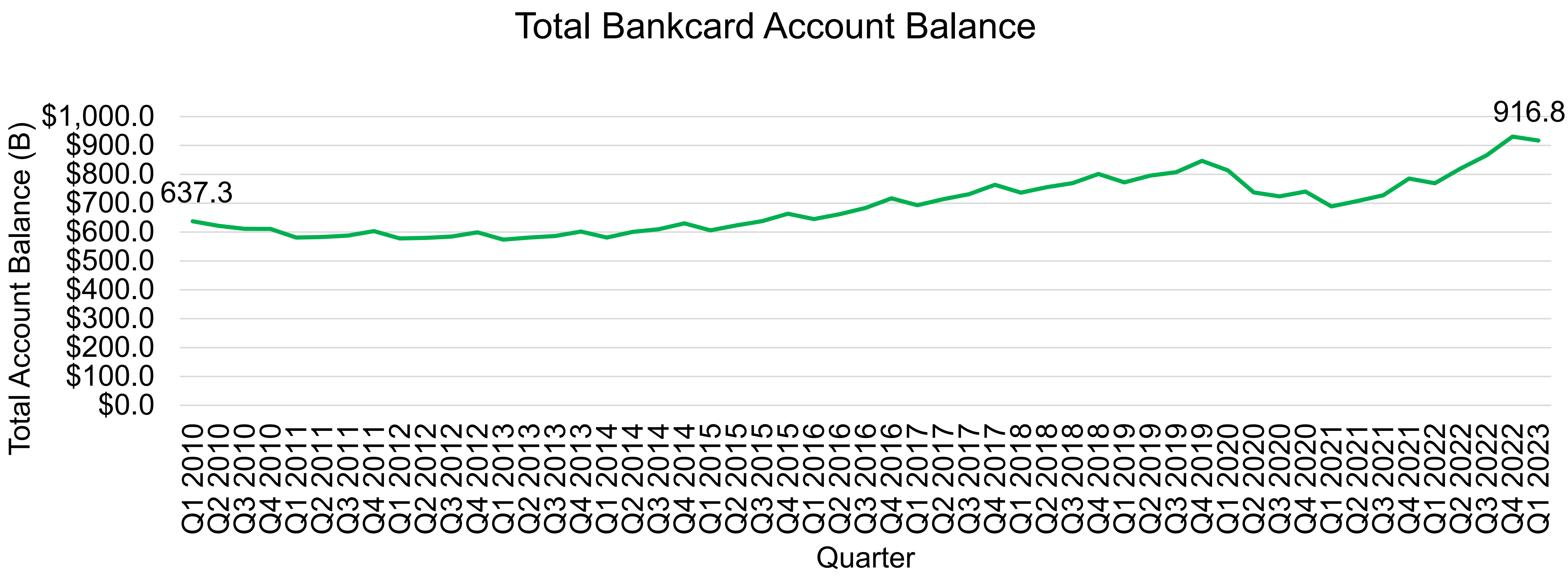
Spotlight: Debt Consolidation in a Rising Rate Economy

Bankcard originations have increased significantly in recent quarters and reached 20.6M in Q4 2022



Source: TransUnion US consumer credit database

Total bankcard balances continue to be high at nearly $917B in Q1 2023



Source: TransUnion US consumer credit database

Given recent market growth, we will look at UPLs used for debt consolidation and their impact on consumer credit health

- **Scope:** UPLs used for
  - Credit card debt consolidation
  - Refinancing existing personal loans
  - Other use cases (e.g., home improvement, one time expense, unknown)

- **Key Questions:**

  Focus of Spotlight
  - What has been the trajectory of UPLs for debt consolidation?
  - What is the profile of consumers using UPLs for debt consolidation (“consolidators”)?
  - How does the credit behavior and payment trends for consolidators vary: overall, over time?
  - Are consolidators’ credit scores impacted by their decision to consolidate?
  - Do consolidators perform better or worse than non-consolidators on their resulting UPL?

Since UPLs used for debt consolidation are not tagged when reported, we created definitions to identify them

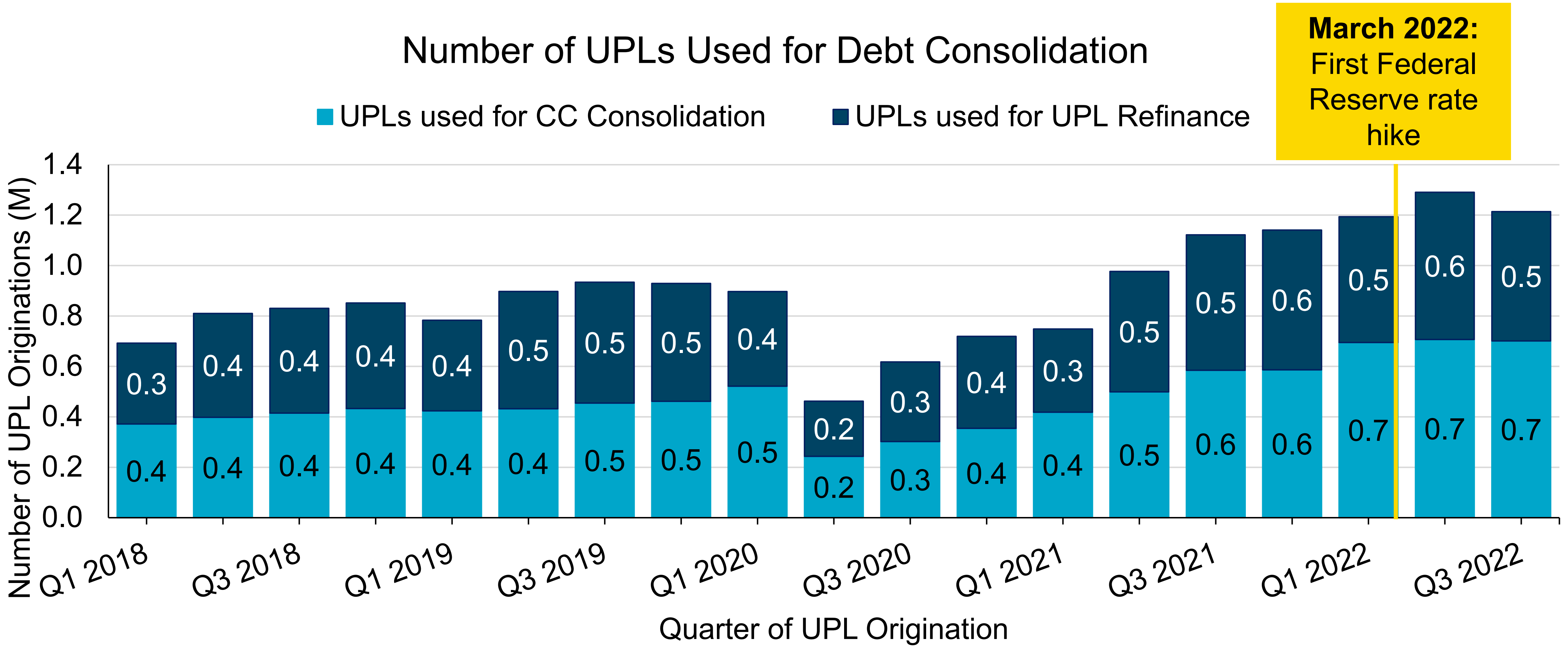
Credit Card (CC) Debt Consolidation Loan Definition

- opens an unsecured installment loan with
- a $2,000 minimum loan amount, and whose
- bankcard balance declines by at least 25% of the loan amount
- but no more than 125% of loan amount

UPL Refinance Definition

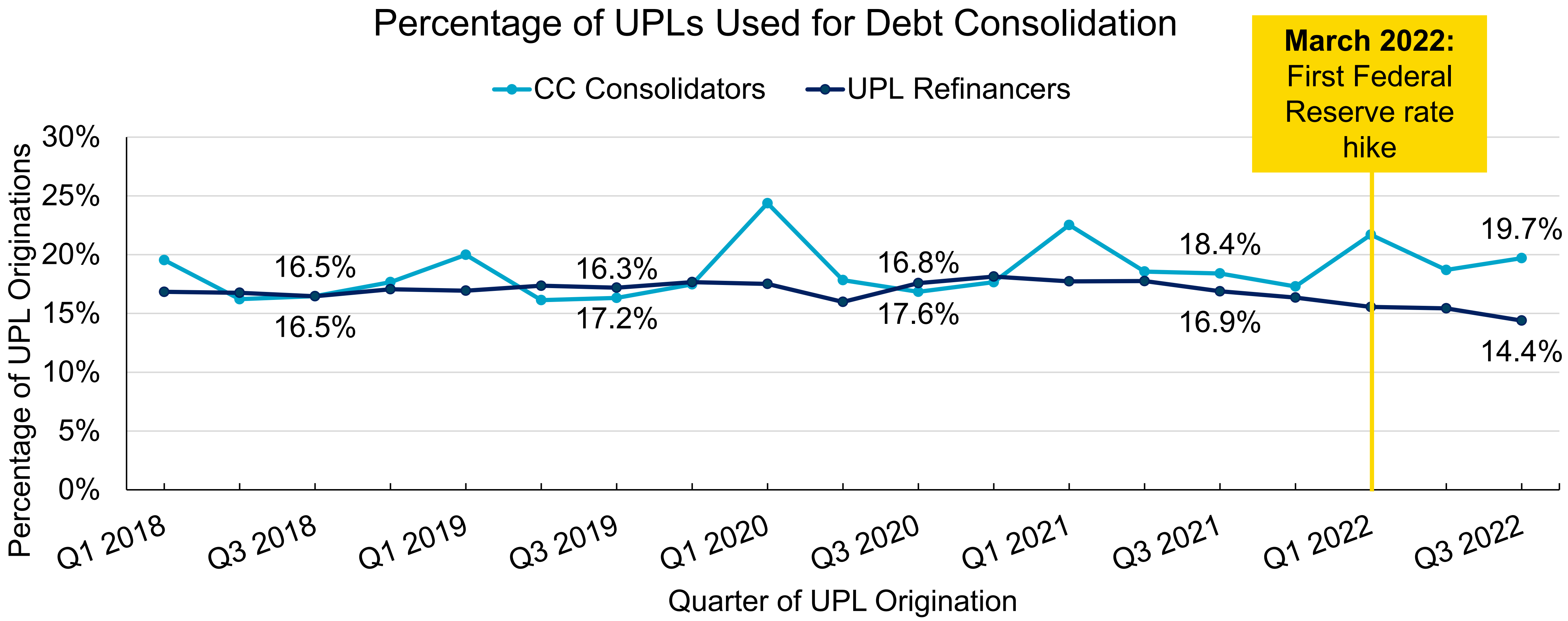
- opens an unsecured installment loan with
- a $2,000 minimum loan amount, and who
- has pre-paid UPL(s) within 30 days of the new UPL originating, with
- the sum of the pre-paid UPLs totaling at least 25% of the new UPL amount
- but no more than 125% of loan amount

The number of UPLs used for credit card consolidation is higher than pre-pandemic quarters; UPL refinance is similar to those prior years



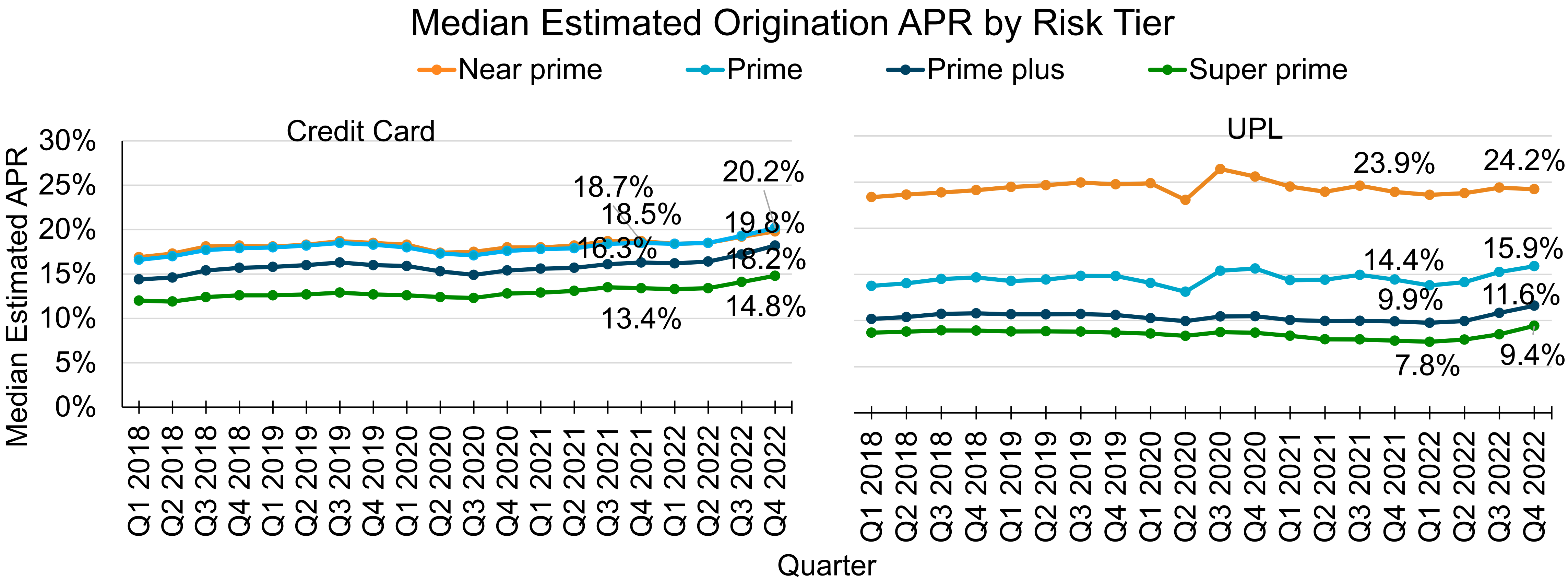
Source: TransUnion US consumer credit database; Ryan Ermey, “It’s been a year since the Fed began hiking rates—where things go from here remains ‘muddy’,” CNBC

The proportion of UPLs used for credit card consolidation has been increasing since 2020, while use for UPL refinancing has been falling



Source: TransUnion US consumer credit database; Ryan Ermey, “It’s been a year since the Fed began hiking rates—where things go from here remains ‘muddy’,” CNBC

The median estimated APRs for UPLs are still lower than that of bankcard for most credit risk tiers



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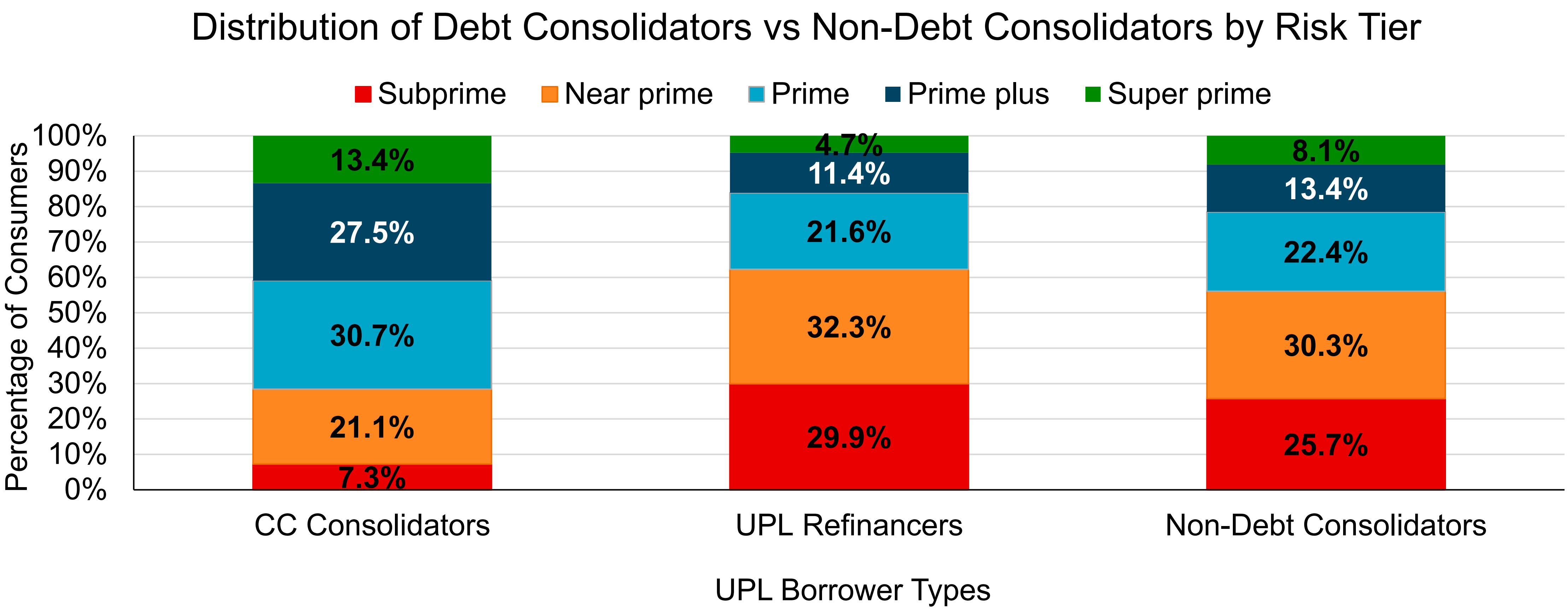
Source: TransUnion US consumer credit database

CC debt consolidators are concentrated in prime and above risk tiers while the other groups are more weighted towards below prime



Risk distribution is calculated over the last 18 months i.e. April 2021 – Sep 2022 and based on credit score at time of origination
VantageScore® 4.0 risk ranges:
Subprime = 300–600, Near prime = 601–660, Prime = 661–720, Prime plus = 721–780, Super prime = 781+

Source: TransUnion US consumer credit database

Thank You

For more information about this study please reach out to your TransUnion account team.