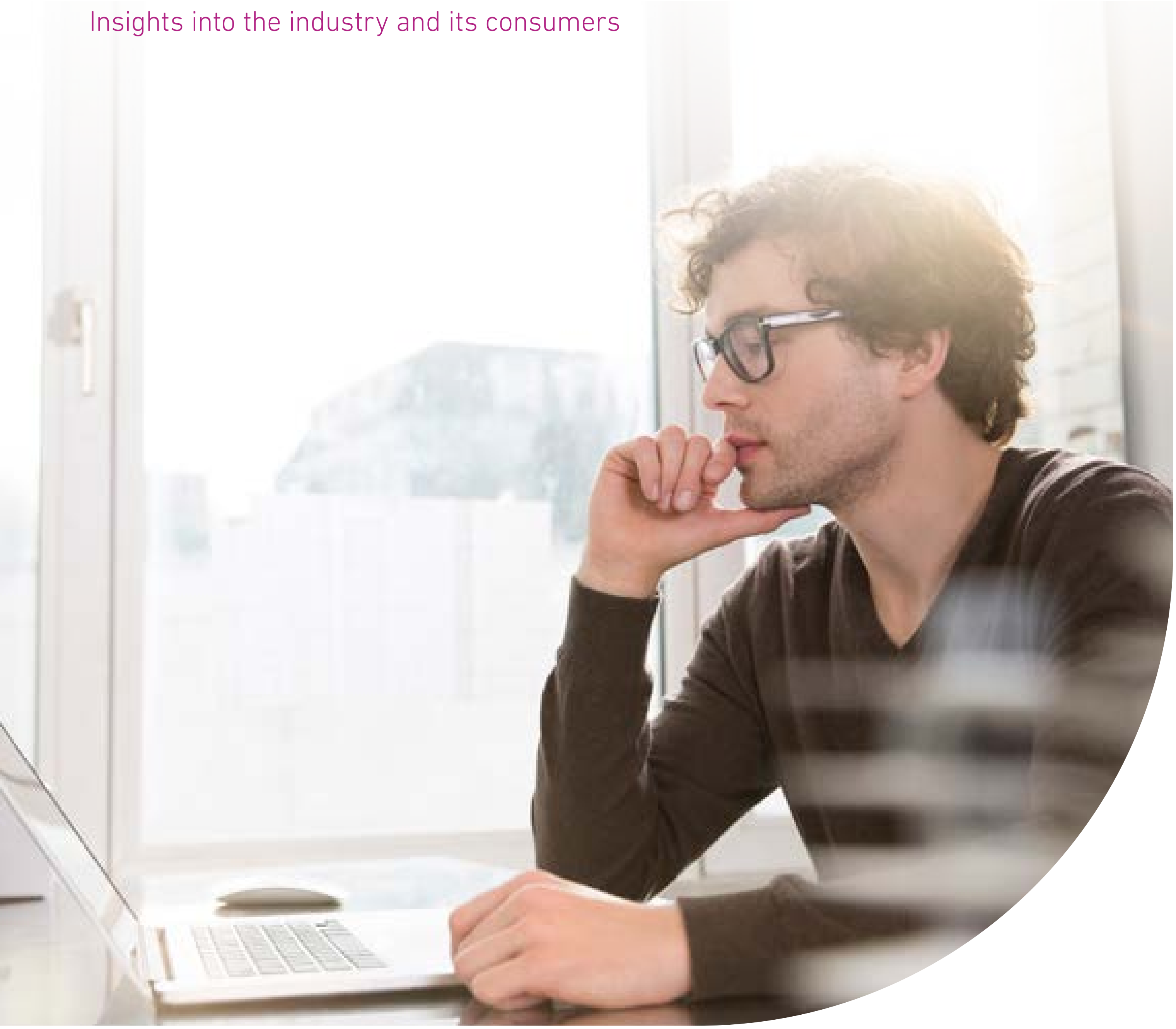
Trends report

2022 Alternative Financial Services Lending Trends

Insights into the industry and its consumers



Introduction

Experian's Clarity Services holds the largest repository of expanded-FCRA data, providing deeper insights into millions of consumers that traditional data alone can't provide. Each year, we study this ever-changing industry and compile the findings into a robust report lenders can't find anywhere else — your Alternative Financial Services Lending Trends Report!

The data in this report offers insights into an array of different consumer trends and behavior, including market size, acquisition channels, demographics, loan performance, score changes, generational data and so much more! This year, we've included important prospecting trends, enhanced demographic statistics and customer journey mapping designed to provide even deeper insights than ever before.

New to the report this year

- **Customer journey mapping** for loan activity and credit score changes
- **Aggregation** of online and in-store loans for all segments to provide a more complete and holistic view of performance
- **Insights** into the rent-to-own market
- **Direct mail** acquisition channel highlights
- **Enhanced demographics** section that analyzes:
  - Differences between AFS consumers and new-to-AFS consumers
  - Differences between consumers who've had a delinquency and those who haven't

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We analyzed the trends and financial behavior of alternative financial services (AFS) consumers from Clarity's credit database. The study extends from 2017–2021 and is based on a sample of ~800 million consumer loan applications and nearly 35 million loans.

Alternative financial services

Alternative financial services (AFS) lenders serve the credit needs of predominantly non-prime consumers, originating various loan types including small dollar loans (installment, single pay, lines of credit, auto title) and rent to own. This AFS information is one example of Experian's expanded-FCRA data assets that can be used by lenders to facilitate inclusion initiatives and enhance decision making across the consumer credit life cycle.

For the purposes of this report, we focused on three loan segments.

Key AFS segments

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

2. **Single pay**
Loans repaid in one lump sum, usually over a shorter time period (days or weeks).

3. **Rent to own***
An agreement where tangible property is leased for regular payments with an opportunity to purchase at the end of the agreement.

While AFS loan performance data is furnished to Clarity, data on traditional loans for many of these same consumers is furnished to Experian's national credit database.

AFS lenders include state-licensed lenders, bank/fintech partnerships and tribal lenders. Lenders offer a diverse suite of loan products that are tailored to the needs of consumers and are customizable to align with consumers' pay dates or more traditional monthly pay cycles.

The consumer of AFS loans 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 United States
- 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

Experian's Clarity credit database provides the most comprehensive view of alternative financial services lending (small dollar lending and rent to own).

* In this report, since we're including rent-to-own contracts as part of the AFS lending industry, we refer to rent-to-own transactions as "loans."

2022 Trends
Executive summary

Below are some of the most valuable insights we've pulled from this data. At the end of the report, we dive into key takeaways that will help you navigate the post-pandemic business environment.

- The overall AFS lending industry was resilient and rebounded back to pre-pandemic levels.
- Installment lending remained strong, while there continued to be a decline in single pay. Rent to own has experienced significant growth.
- Installment loan performance has deteriorated since Q2 2021, and this was observed for both consumers previously seen and new-to-AFS consumers.
- There was significant increase in prescreen and prequalifiaction activity as lenders continued to diversify their acquisition channels.

800 million consumer loan applications

35 million funded loans

5 year study sample

Better understand how your lending operation compares with respect to growth, portfolio performance, consumer demographics and behaviors.

2021

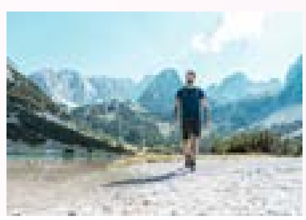
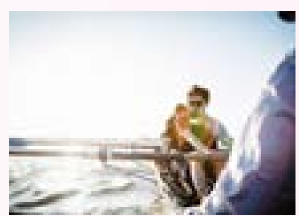
Year in review

This year provided **unprecedented opportunities** for the AFS industry to undergo a metamorphosis.

The past couple of years have been unprecedented to say the least, with changes to our economy that no one could have predicted. We have experienced sharp rises in both gas prices and food prices across the United States. Employment rates in February 2021 were 8.5 million less than in February 2020, and millions of Americans are still being affected by job loss.

While we hope the worst is behind us, we'll still see the effects of a global pandemic for many years to come. We've worked hard to analyze the market trends and behavior of the consumers you serve and provide you with vital insights that will not only help you navigate a post-pandemic world but build a strong portfolio in the process.

No one knows what the future holds for any industry, but our findings in 2021 show that the AFS market has rebounded from the effects of the 2020 pandemic. Continue reading to dive into the market analysis you've been waiting for all year.


1 https://www.worldbank.org/en/news/feature/2021/12/20/year-2021-in review-the-inequality-pandemic

2 https://www.pewresearch.org/fact-tank/2021/04/14/u-s-labor-market-inches-back-from-the-covid-19-shock-but-recovery-is-far-from-complete/

At-a-glance

Market trends | **PAGE 6**
Overall market trends that continue to be in force post-pandemic include robust demand for installment loans and rent to own. There continues to be a rapid decline in the single-pay segment.

Prospecting | **PAGE 12**
AFS lenders continue to value the importance of having diversified acquisition channels, as evidenced by growth in prescreen volumes and a heightened interest in prequalification. In Q4 2021, the number of prescreen campaigns more than doubled compared to Q2 2019.

Consumer behavior | **PAGE 14**
About half of installment and single-pay loan borrowers who opened an AFS loan in 2019 didn't open any AFS loan in 2020 or 2021. For the rent-to-own segment, two-thirds of these borrowers who opened a loan in 2019 didn't open another in the following years. Interestingly, these consumers exhibit very little crossover to other AFS segments — few opened a loan in a different AFS segment in 2021.

Loan characteristics | **PAGE 17**
Average loan amounts have rebounded higher across all loan types, reversing the decrease observed during the pandemic.

Credit quality | **PAGE 22**
First payment default (FPD) rates and serious delinquency rates have increased for installment loans while FPD rates for single pay have declined.

Consumer demographics | **PAGE 32**
Millennials had the highest participation in the AFS market. Rent-to-own users tend to be younger than other AFS segments. Consumers that were new to the AFS market in 2021 were more likely to be from a wider range of generations than consumers in the AFS market overall.

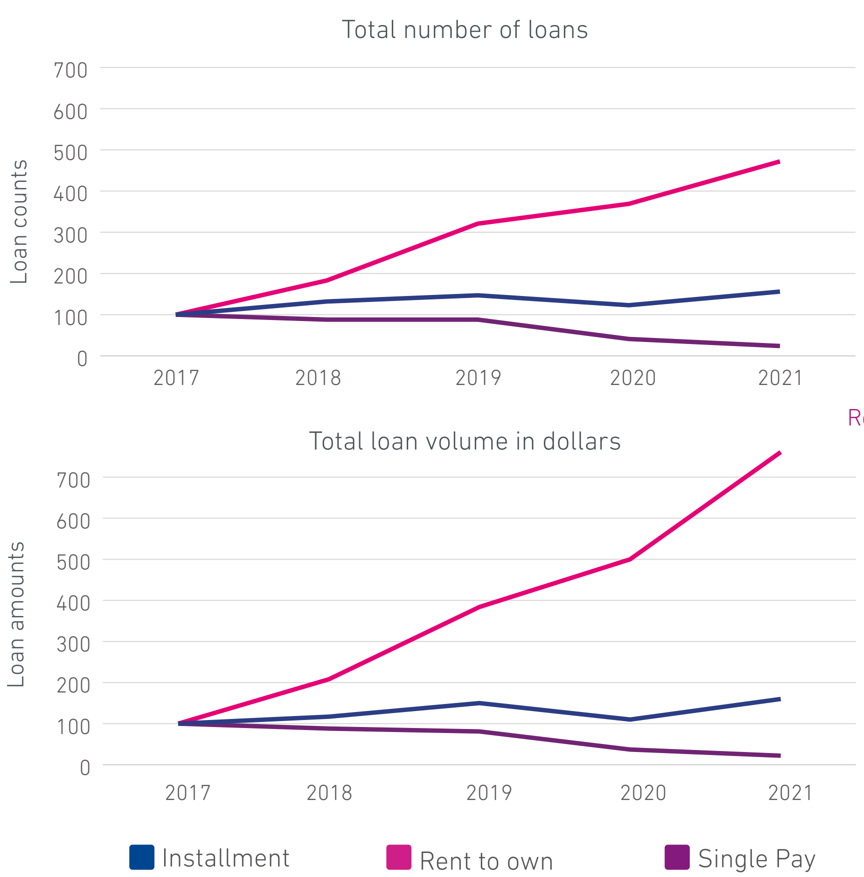
Market trends

AFS lending volume

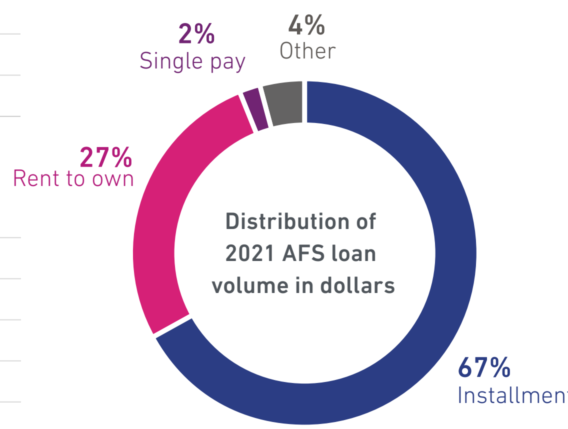
To quantify AFS lending volume over the past five years, both the number of loans and the total funded dollars were measured. **Figure 1** shows the AFS lending volume in units (top chart) and dollar amount (bottom chart) over the last five years for three AFS loan segments. Each loan type is indexed to its specific volume during 2017.

The rent-to-own segment has been growing rapidly during these years, more than 350% in loan count and 650% in total loan amount. The installment segment has shown moderate growth during this time, rebounding in 2021 from declines in 2020. Installment loan count was 56% higher in 2021 than in 2017, and total loan amount was 60% higher. Meanwhile, the single-pay segment has been in decline since 2017, including a 70% decline in originations and total amount since 2019.

Figure 1: AFS lending volume (indexed to 2017)



We observed growth in rent to own and installment loans.

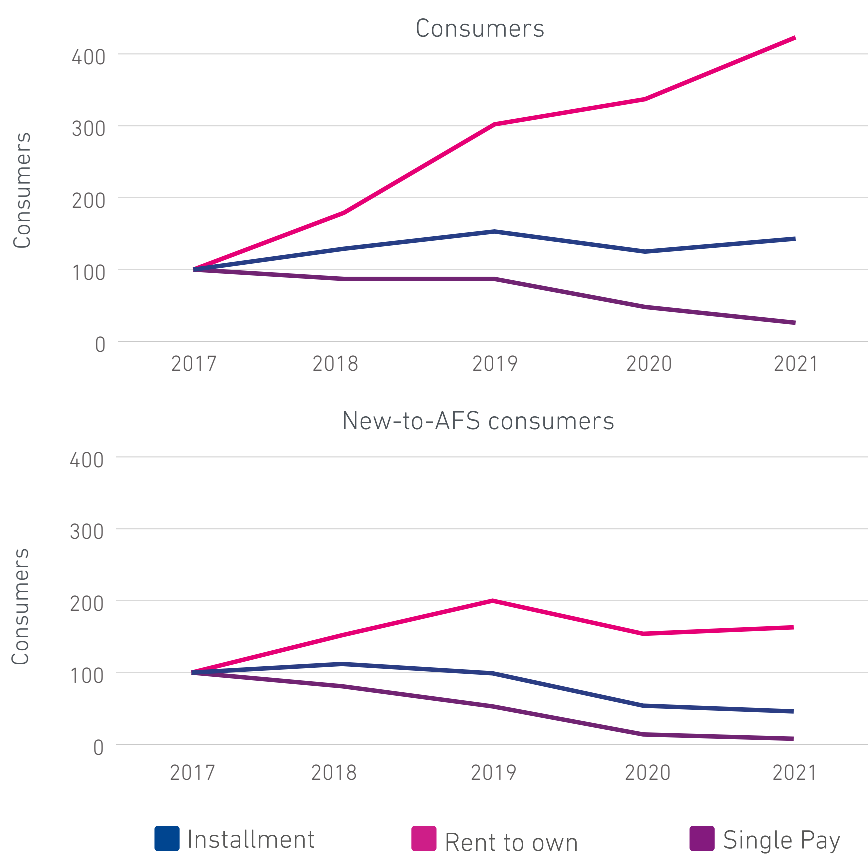


The upper part of **Figure 2** tracks the yearly trend in the number of consumers who originated AFS loans by segment. These trends closely follow the ones seen in origination volume (**Figure 1**). One difference is the number of consumers originating an AFS installment loan was higher in 2019 than in the following years.

The lower part of **Figure 2** shows a departure from the previously noted trends for consumers whose AFS activity began in the noted year (new to AFS). Each AFS industry exhibits a decline in the number of new-to-AFS consumers since 2019. The installment segment attracted less than half the number of new-to-AFS consumers in 2021 as it did in 2017.

There was a rebound in the AFS market as the country passed peak COVID-19. This is visible through the resumption of growth of the rent-to-own and installment segments in loan volume and amounts.

Figure 2: AFS consumer trends (indexed to 2017)



Traditional loan accommodations

Over the past two years, some consumers experienced a financial impact as a result of economic changes and policies related to the COVID-19 pandemic. To gain a comprehensive insight into consumer behavior, loan accommodations on traditional loans were tracked in 2021. This year, we include deferment, forbearance and natural disaster accommodations.

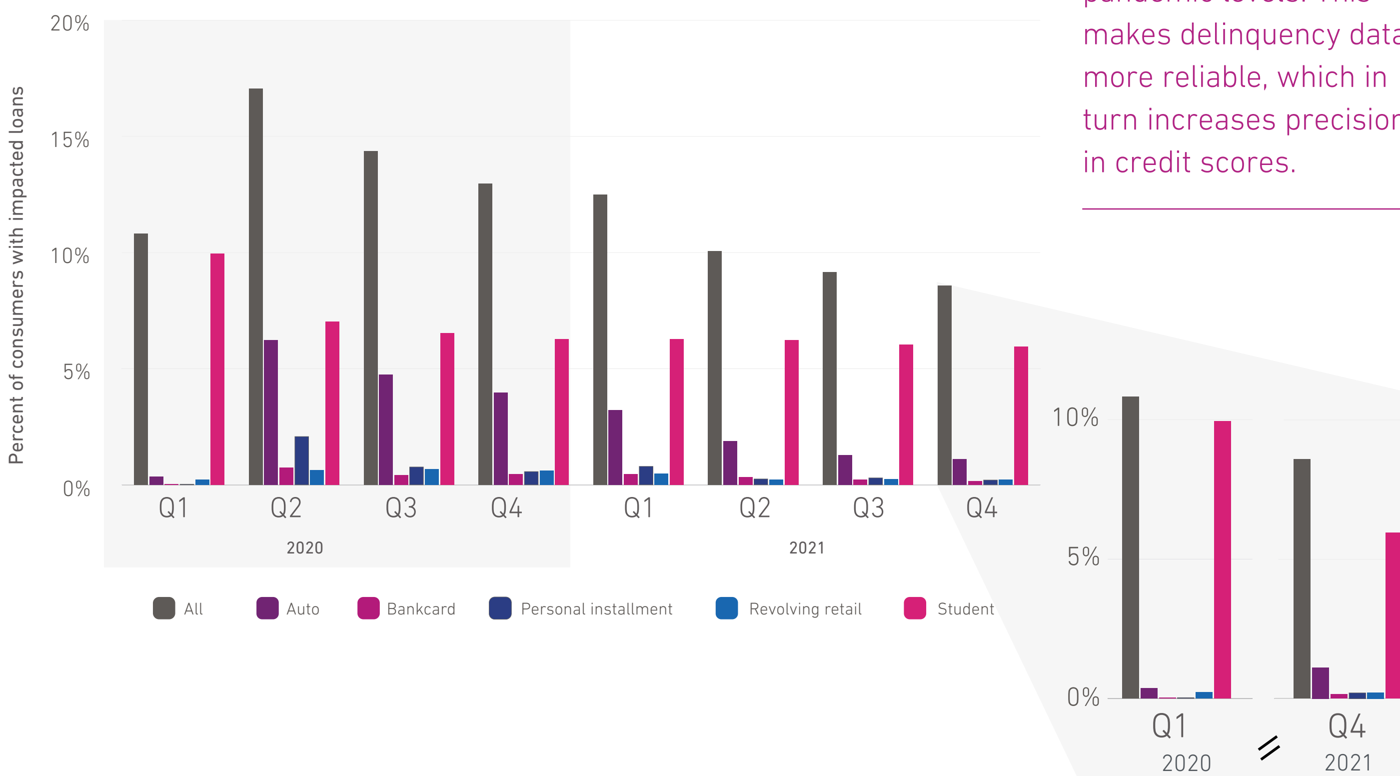
Figure 3 shows the percentage of AFS consumers that had any traditional loans with payment accommodations. The gray bar for each quarter indicates the percentage of all loans. The subsequent bars for each quarter show the percentages for specific industries: auto, bankcard, personal installment, revolving retail and student loans.

The loan types that were immediately impacted were auto loans and retail lending. The percentage of AFS consumers with any traditional loan payment accommodation declined from a high of 17% in June 2020 to less than 9% in December 2021. The auto industry exhibits increased levels of accommodation compared to before the pandemic began. However, only 1% of auto loans are in a deferment status.

Lenders may also report accommodations on AFS loans. No more than 0.25% of open AFS loans were under payment accommodation for most of 2021. By the end of 2021, that percentage had fallen to nearly 0%.

Loan accommodations are back to pre-pandemic levels. This makes delinquency data more reliable, which in turn increases precision in credit scores.

Figure 3: Percent of AFS consumers with impacted traditional loans



Location

Borrower location was examined for loans that were funded from 2017 to 2021. **Figure 4** shows that Texas has surpassed California as the state with the most AFS loans originated in 2021. A likely contributor to California's slip to second was the Fair Access to Credit Act which became effective January 1, 2020. Other states that moved up in the relative rankings for 2021 were Georgia, Missouri and Arizona.

Figure 5 illustrates the percentage change in the number of borrowers who opened a loan with an alternative finance lender from 2020 to 2021. The overall pattern is a general increase in the counts of AFS consumers with a few states experiencing a decrease. Texas, Arizona and Nevada surpassed 25% growth in AFS consumers, while a 17% decline in AFS consumers occurred in Illinois.

Figure 4: Relative loan volume by state 2017-2021

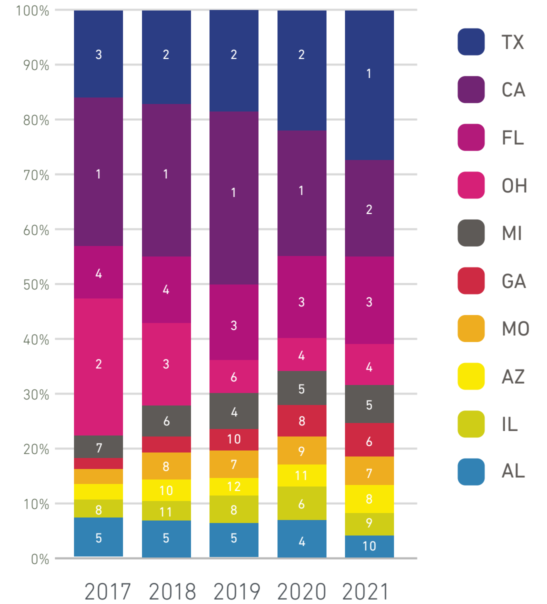
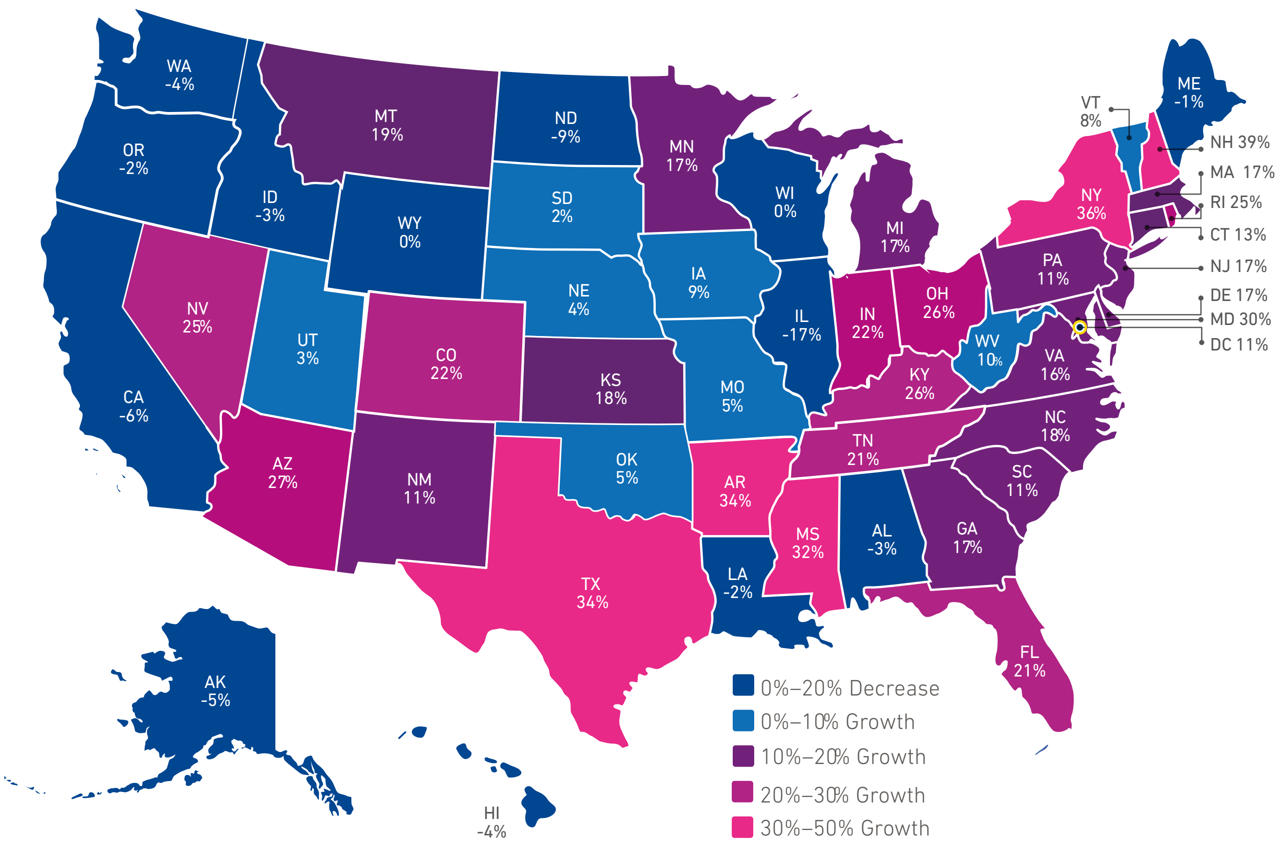


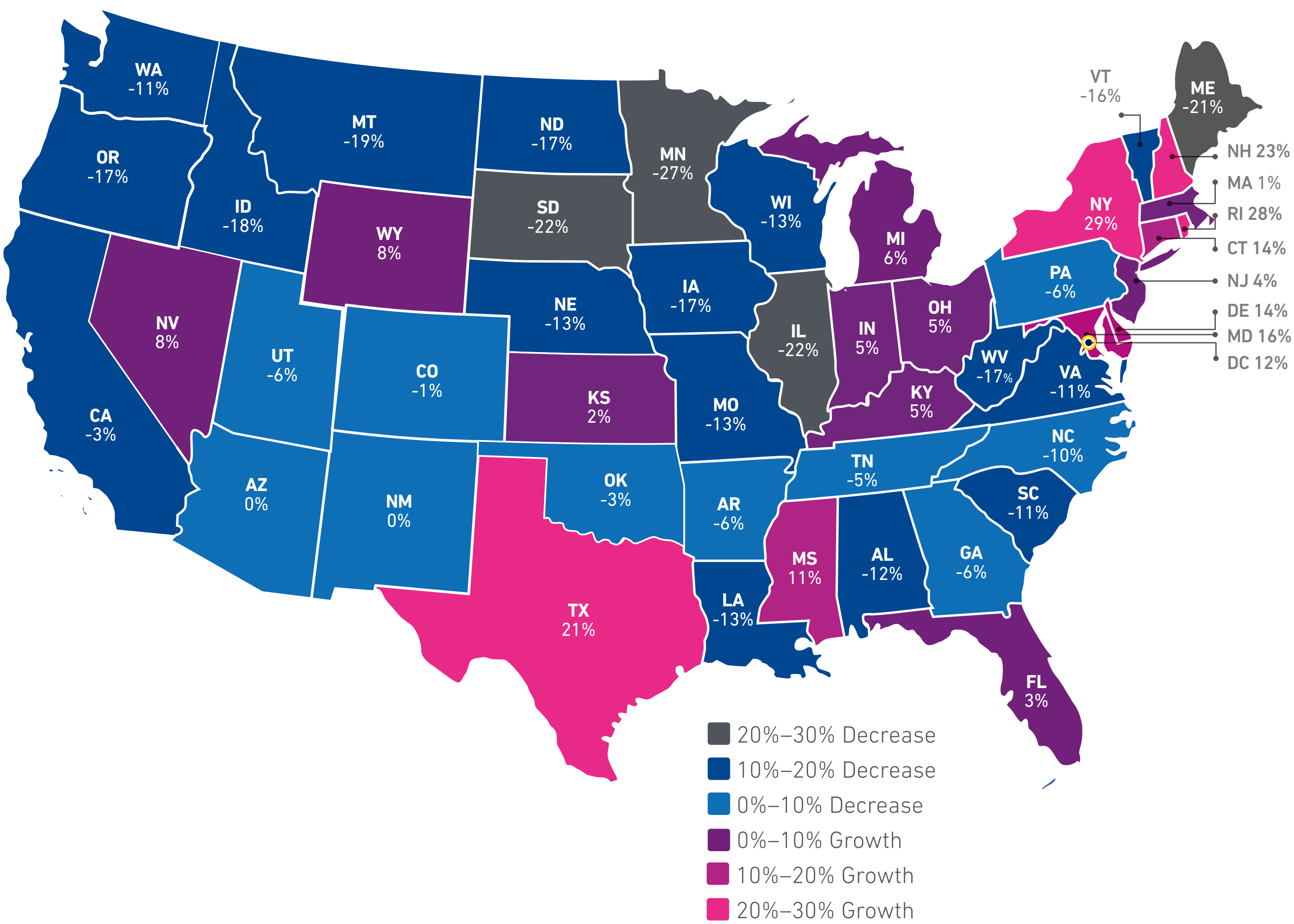
Figure 5: Percentage change in unique borrowers from 2020 to 2021



Among the states with positive growth in the number of new-to-AFS consumers were states with relatively high lending activity, such as Texas and Nevada. The growth in New York was attributable to rent to own. Two regions of decline in the number of new-to-AFS consumers stand out. States from Illinois to the Pacific Northwest experienced a 10% or more decline in new-to-AFS consumers with the exception of Wyoming. Another region with declines in new-to-AFS consumers occurred from Louisiana to Virginia with the exception of Mississippi.

Figure 6 illustrates the percentage change in the number of new-to-AFS borrowers who opened a loan with an alternative finance lender from 2020 to 2021.

Figure 6: Percentage change in number of new-to-AFS consumers 2020-2021

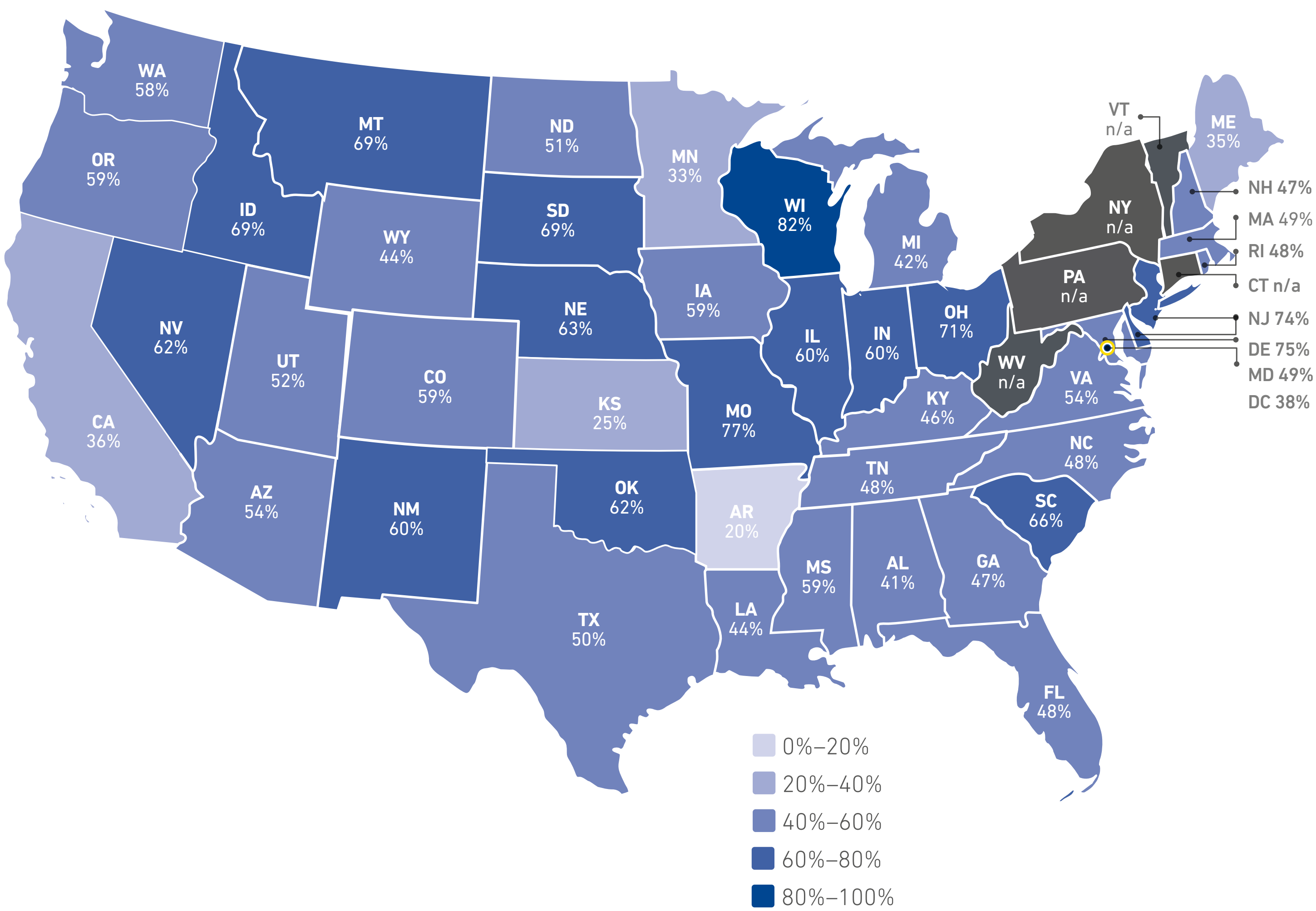


Nationwide, 57% of 2021-originated AFS loans were installment.

Figure 7 shows, for each state, the percentage of AFS loans originated in 2021 that were installment loans.

- 82% of AFS loans in Wisconsin were installment loans, the highest percentage in the United States.
- Other states that had a high concentration of installment loans relative to other AFS products included Nevada, Missouri, Ohio and South Carolina.
- Results for states with a small number of installment loans, a small number of installment lenders, or too much installment segment concentration on one lender have been removed from the view.

Figure 7: Percentage of AFS loans - installment segment



Prospecting

Prescreen and prequalification are two channels that are increasingly being used in the AFS marketplace. Prescreen volume has been at an all-time high, with the number of mailings in each of the last three quarters of 2021 exceeding the volume observed in Q2 2019.

Prescreen for direct mail marketing
Prescreening consumer lists for direct mail marketing has been an increasingly popular way to source new customers for AFS loan products. **Figure 8** shows the number of direct mail campaigns processed each quarter indexed against Q2 2019 (value = 100). The height of the blue bars shows the relative change in the number of campaigns. For example, Q4 2019 had 40% more campaigns than Q2 2019.

Figure 9 displays the quarterly count of prescreen mail pieces resulting from direct mail campaigns indexed to Q2 2019. Prescreen volume was at an all-time high in the latter half of 2021, and in the last three quarters of 2021, the number of mailings exceeded the volume observed in Q2 2019. Looking back in time, the number of prescreen inquiries decreased in 2020 during which there were more campaigns but lower mailed volume per campaign

Both the number of prescreen campaigns and campaign size have rebounded significantly since COVID-19.

Figure 8: Growth in prescreen direct mail campaigns

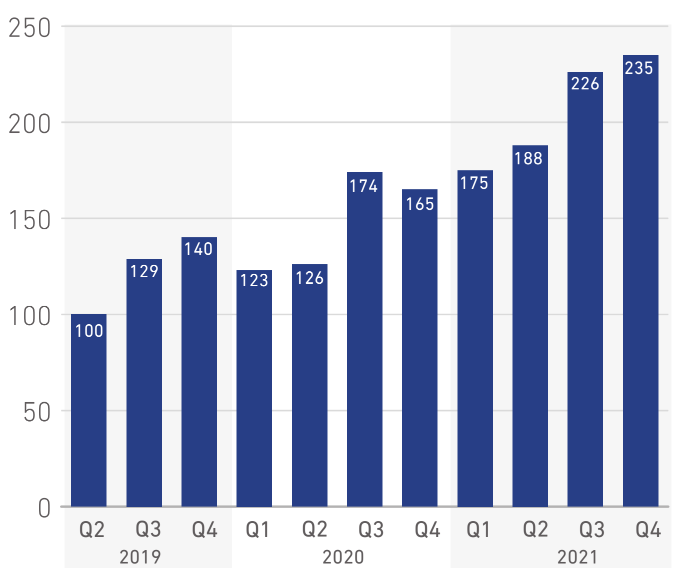
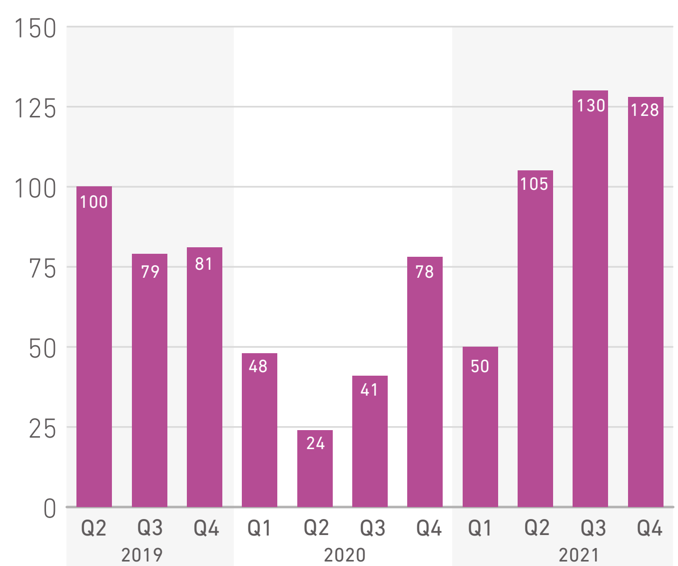


Figure 9: Growth in prescreen volume



- **In Q3 and Q4 2021, the number of prescreen campaigns more than doubled as compared to Q2 2019.**
- **Every quarter from Q2 2020 on had more prescreen campaigns than the same quarter in the prior year.**

Prequalification

AFS lenders are turning to prequalification to connect consumers with credit options.

The use of prequalification grew strongly in 2021. The blue line in **Figure 10** traces the quarter-over-quarter growth in prequalification volume. For example, prequalification volume during Q1 2021 was 35% higher than the volume in Q4 2020. The average quarter-over-quarter growth during 2021 was more than 50%.

AFS lenders increasingly used prescreen and prequalification for customer acquisition.

+35%

PREQUALIFICATION VOLUME

2020–2021

Figure 10: 2021 Quarter over quarter growth in prequalification

Consumer behavior

An important aspect in understanding consumer behavior is to track how borrowers migrate in and out of the AFS industry and from one AFS product to another.

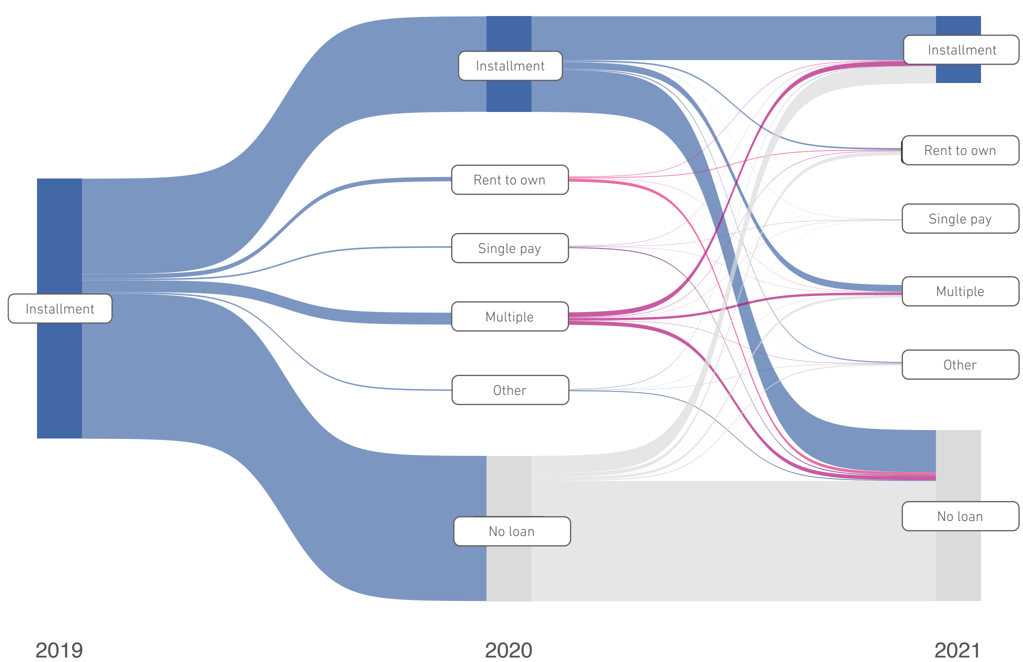
Installment

Figure 11 tracks AFS loan originations through 2021 for consumers who opened an AFS Installment loan in 2019 and paid it off. The width of the flow lines indicates the relative proportion of the cohort that moved on to open a specific type of loan in the following year.

For example, more than half of these consumers didn't open an AFS loan in 2020. And even fewer opened a loan in 2021.

For 46% of these borrowers, no further AFS loans were opened in either 2020 or 2021, indicating the AFS borrowing needs for these consumers were met by their 2019 loan. Of the installment borrowers that opened another installment loan in 2020, 46% opened another installment loan in 2021. There was little migration to other AFS industries for this cohort. In 2021, only 9% of the cohort opened an AFS loan outside of the installment

Figure 11: AFS industry migration for 2019 installment borrowers



Rent to own

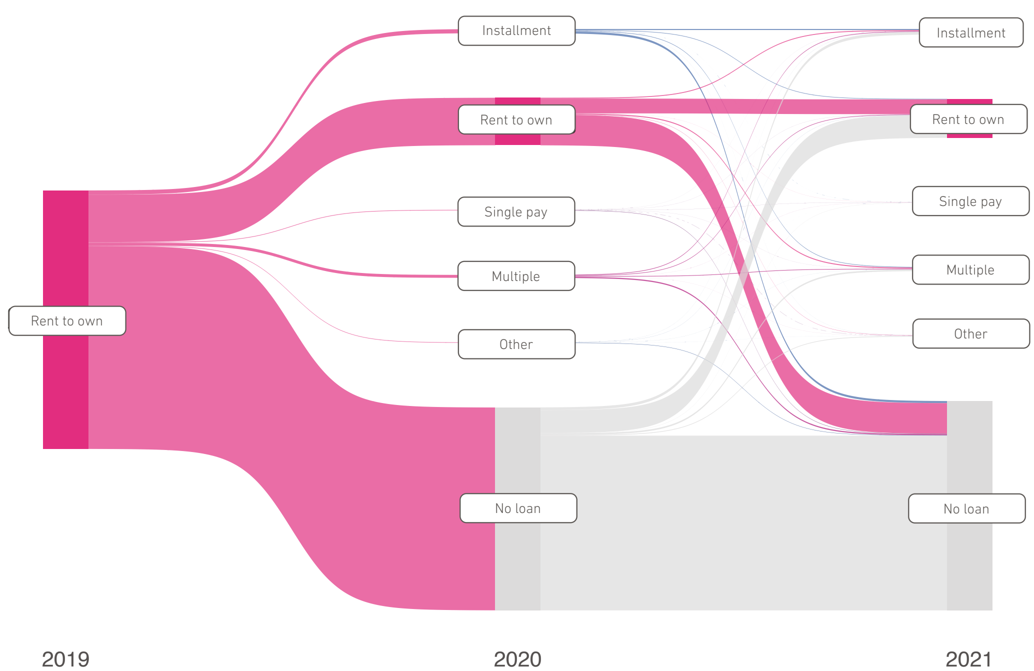
A majority of the borrowers (68%) who paid off a rent-to-own loan that was originated in 2019 didn't open any AFS loan in 2020 or 2021 (**Figure 12**). The next most common path (12%) was for consumers to take an additional rent-to-own loan in 2020 but no AFS loan in 2021. Only 6% of the cohort opened rent-to-own loans in all three years.

A particularly noteworthy finding is that these consumers exhibit very little crossover to other AFS products. Only 4% of them opened a loan in a different AFS segment in 2021.

LENDER INSIGHT

Almost half of installment and single-pay consumers who opened a loan in previous years returned to the marketplace within the next two years. Retaining consumers for future lending opportunities can be part of both a short- and long-term lending strategy.

Figure 12: AFS industry migration for 2019 rent-to-own borrowers



Single pay

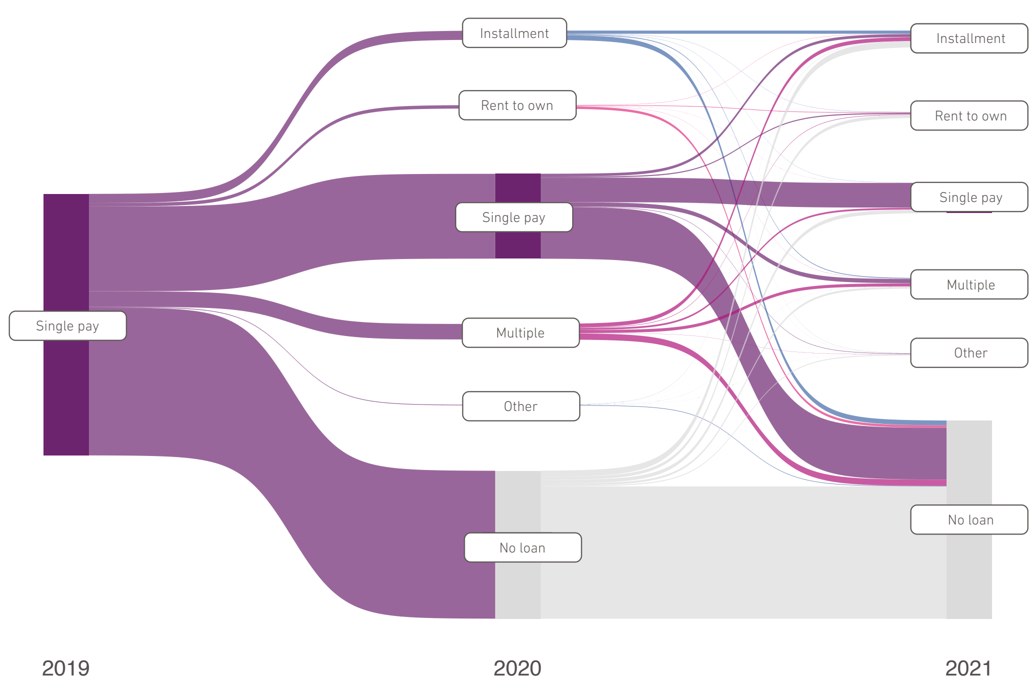
Finally, Figure 13 illustrates the AFS future credit usage of consumers who opened a single-pay loan in 2019 and paid it off. As with other AFS loan types, the most common scenario for this consumer cohort (51%) was no additional AFS loans originated in either 2020 or 2021. Only 9% of the cohort proceeded to open single-pay loans in both 2020 and 2021.

These consumers were more likely to open other AFS loan types than consumers who opened installment or rent-to-own loans in 2019. In fact, it was more likely for them to open other AFS loan types in 2021 (13%) as to remain in single pay (12%). Installment loans were the most popular destination loan product with 6% of the cohort opening an installment loan in 2021.

LENDER INSIGHT

Consumers who opened a single-pay loan in 2019 were more likely to open other types of AFS loans compared to consumers who opened installment or rent-to-own loans.

Figure 13: AFS industry migration of 2019 single-pay borrowers



Loan characteristics

Installment loans

The distribution of loan amounts, repayment terms and scheduled payments for installment loans were analyzed in this section to show how they've changed over the last five years.

Loan amounts

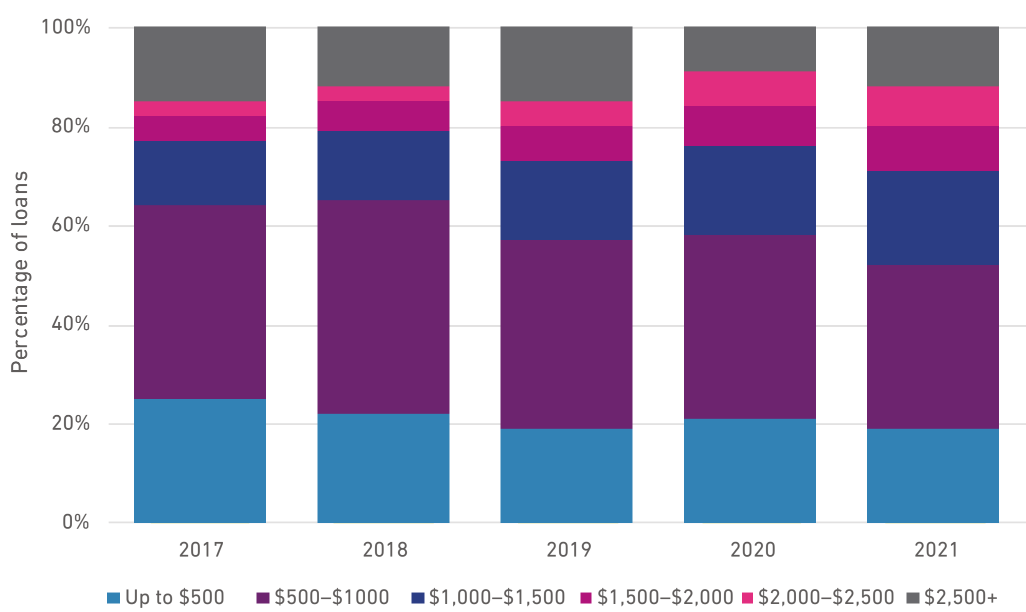
Figure 14 shows the distribution of loan amounts over time. Each bar represents installment loans that were funded in that particular year with each segment of the bar identifying the percentage of loans that fell into the specific range of loan amounts.

In 2021, there was more than a $150 increase in average loan amount for the installment loan market (**Table 1**). This is a reversal of the decrease in loan amounts observed in 2020. The percentage of loans with loan amounts less than $1,000 decreased from 59% to 52% in 2021.

Table 1: Average installment loan amounts

Year	Average amount
2017	$1,226
2018	$1,081
2019	$1,252
2020	$1,087
2021	$1,250

Figure 14: Installment loan amounts



Length of repayment

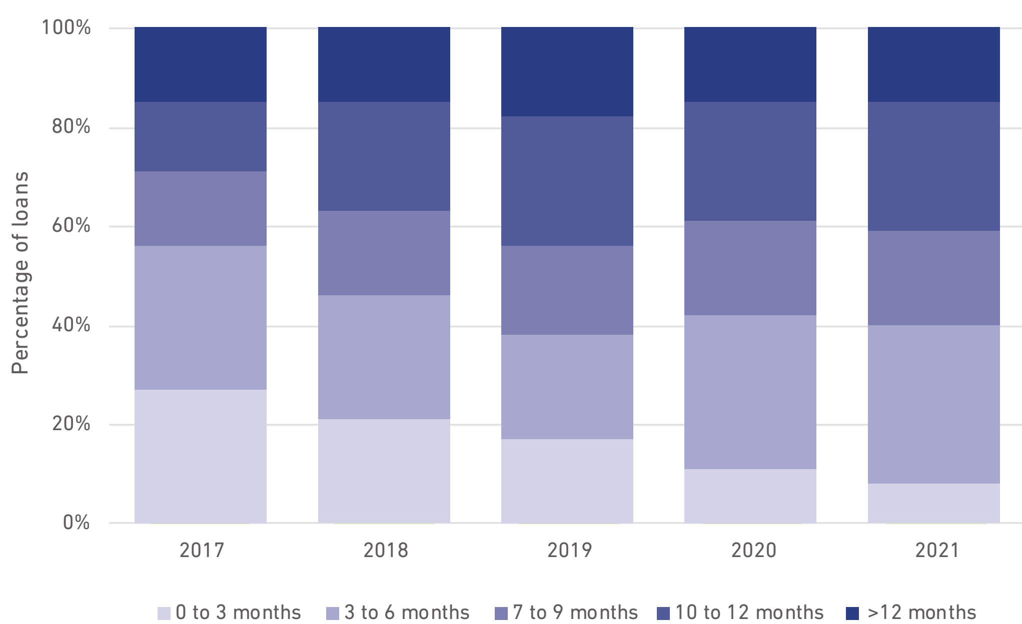
Figure 15 shows the distribution of repayment terms over time for installment loans. Each bar represents installment loans funded in that particular year. The colors within each bar represent the number of months of scheduled repayment for the loan and reveal the relative frequency of each category.

In 2021, there was a 2 percentage point decrease in installment loans with a term length of less than 3 months and a 2 percentage point increase in installment loans with a term length of at least 10 months compared to 2020. Despite this, the average length of repayment decreased to 8.1 months in 2021 (**Table 2**). The highest average repayment term of 9.4 months occurred in 2019.

Table 2: Average months of repayment for installment loans

Year	Average length
2017	8.0
2018	8.4
2019	9.4
2020	8.4
2021	8.1

Figure 15: Length of repayment — installment loans



Scheduled monthly payment amount

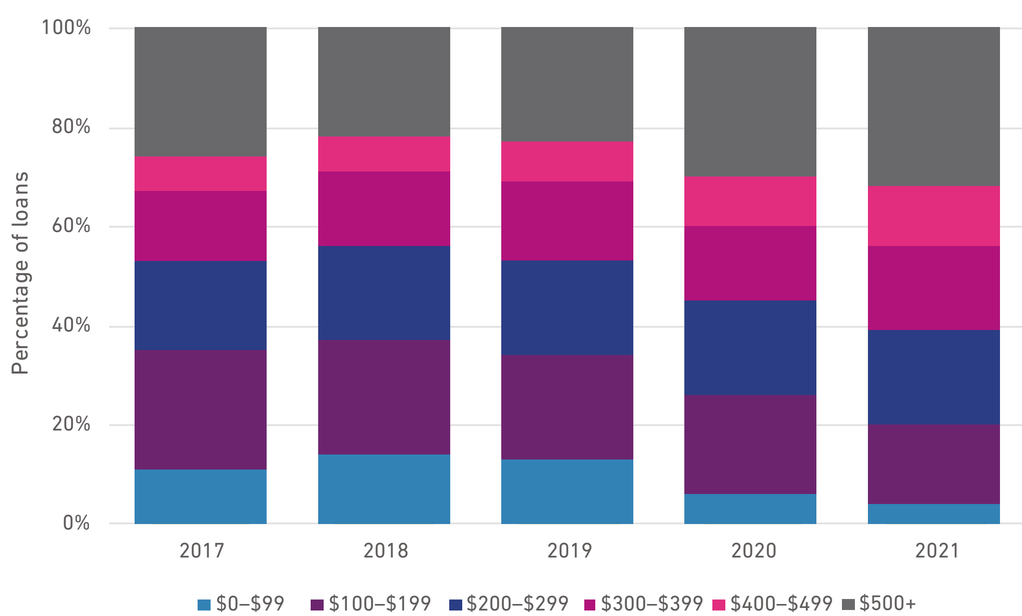
Figure 16 shows the distribution of scheduled monthly payment amount over time. Each bar represents AFS installment loans that were funded in the specified year, and each segment of the bar identifies the percentage of loans that fell into the specific range of payment amount. Since many AFS installment loans don't cycle on a monthly basis, all have been converted to a monthly equivalent.

The distribution of scheduled monthly payments changed some from 2020 to 2021. The percentage of loans with payments of less than $200 declined 6 percentage points, while AFS installment loans with a scheduled monthly payment amount between $200 and $500 made up 4 percentage points more of the market. Overall, the average scheduled monthly payment increased by $8 (**Table 3**).

Table 3: Average scheduled monthly payment for installment loans

Year	Average payment
2017	$394
2018	$367
2019	$377
2020	$452
2021	$460

Figure 16: Scheduled monthly payment amount — installment loans



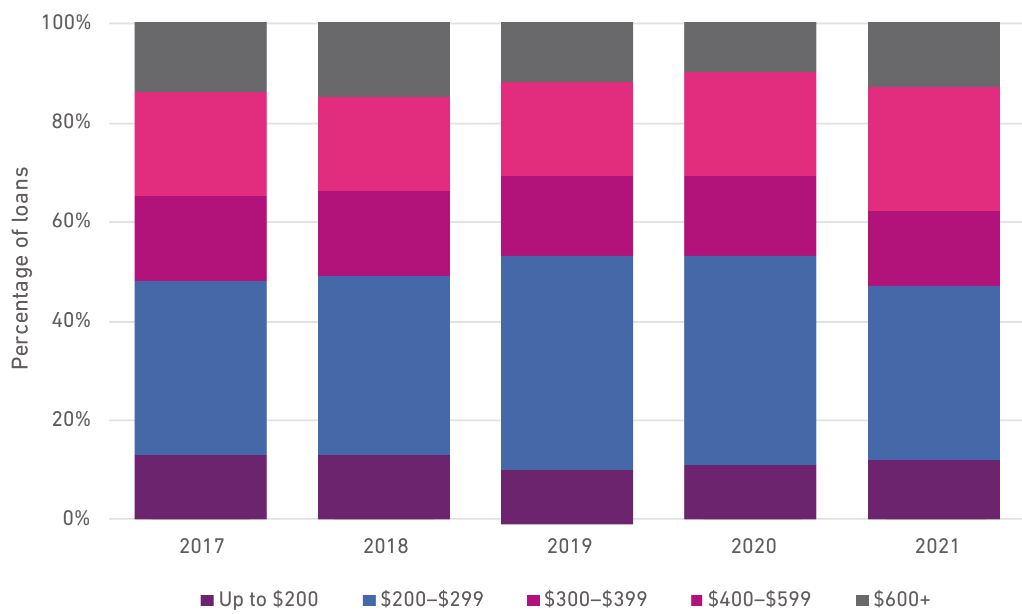
Single-pay loans

This section explores how single-pay loan amounts have changed over the last five years. **Figure 17** shows the distribution of loan amounts over time. Each bar represents the loans funded in that year. There was a shift towards larger loan amounts in 2021. The percentage of single-pay loans for $400 or more was 31% in 2020 and 38% in 2021. Given the increased prevalence of larger loan amounts in 2021, the segment average rose by $14.

Table 4: Average loan amount for single pay

Year	Average amount
2017	$390
2018	$389
2019	$359
2020	$352
2021	$366

Figure 17: Single-pay loan amount distribution



Rent to own

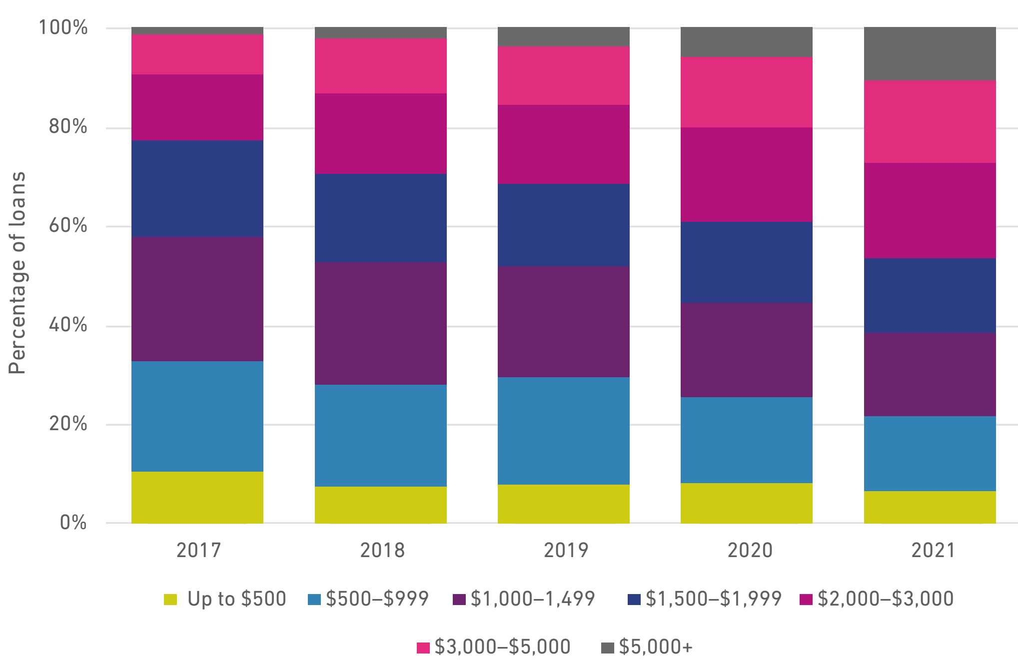
Debuting in this year's report, this section explores how rent-to-own loan amounts have changed over the last five years. **Figure 18** exhibits the distribution of loan amounts with each bar representing rent-to-own loans funded in that year. Each color of the bar identifies the percentage of loans that fell into the specific range of loan amount.

In the past five years, there has been a rapid increase in the percentage of rent-to-own loans that are $2,000 or more. These loans made up 23% of the market in 2017 and 47% of the market in 2021. **Table 5** indicates that the average rent-to-own loan is almost $1,000 higher in 2021 than it was in 2017.

Table 5: Average rent-to-own amounts

Year	Average amount
2017	$1,558
2018	$1,751
2019	$1,839
2020	$2,072
2021	$2,507

Figure 18: Rent-to-own loan amounts

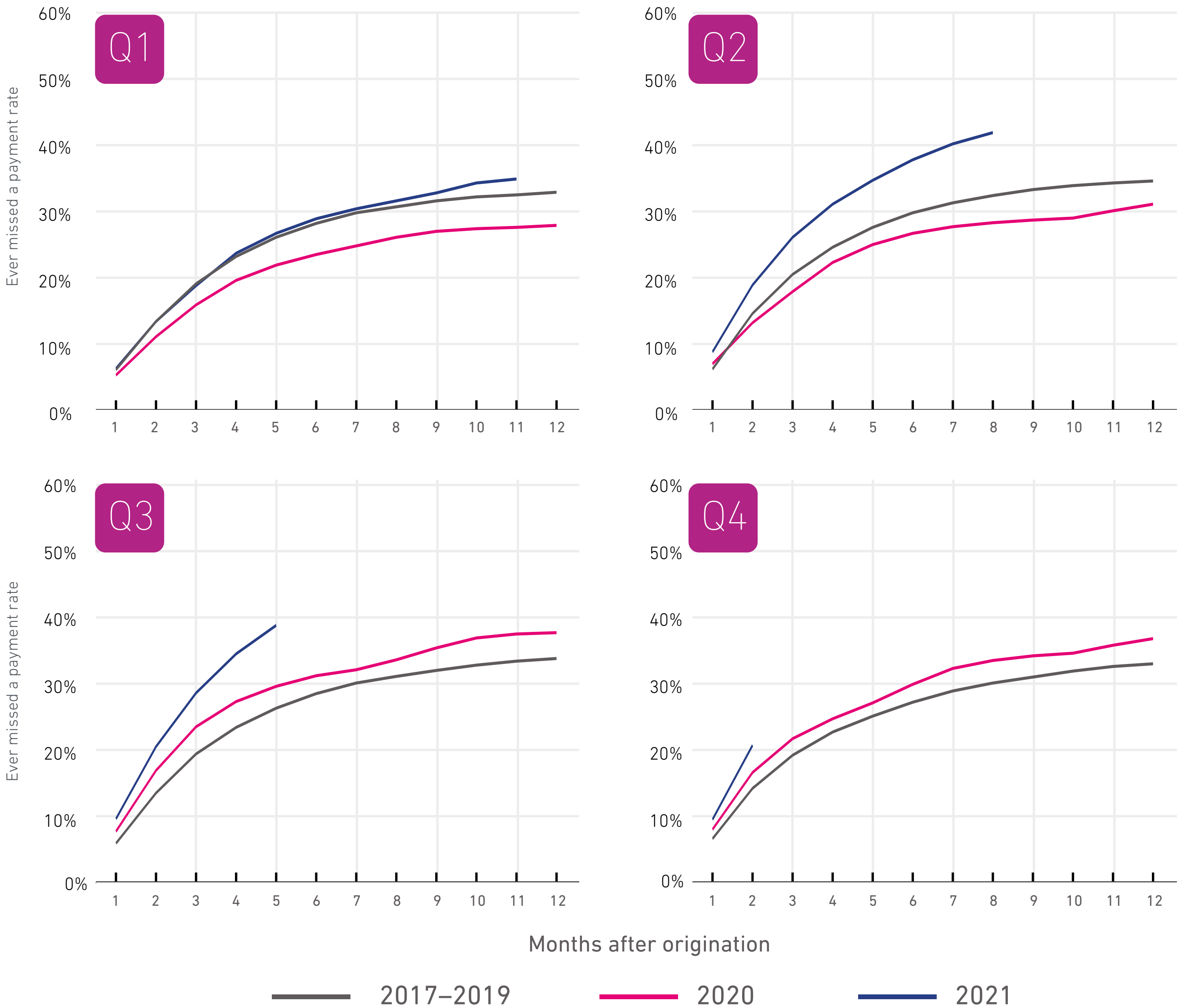


Credit quality

Installment loan performance

Figure 19 shows cumulative default curves* for AFS installment loans constructed by origination quarter to account for seasonal performance patterns. The gray line is the average for years 2017 to 2019, pink is 2020 and the dark-blue line is 2021. Cumulative default rates within 12 months of loan origination have averaged 33% to 35% for each quarter of 2017–2019. Loans originated in 2020 had lower default rates in Q1 and Q2 but higher rates in the other quarters.

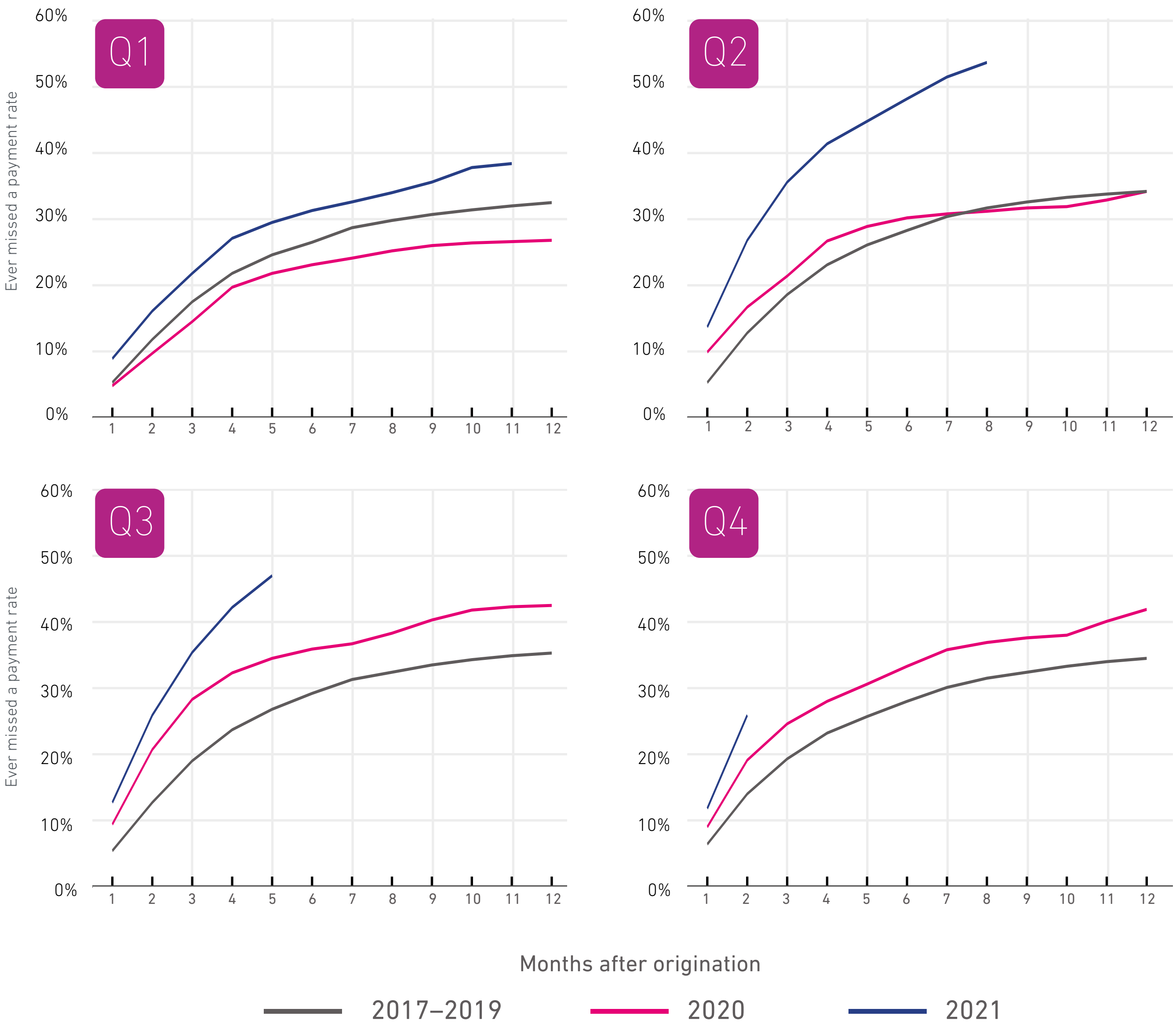
Figure 19: Installment loan default curves by origination quarter



*These cumulative default curves are technically cumulative "ever-missed-one-payment" curves.

- Loans originated in Q1 2021 tracked closely to the default rates observed from 2017 to 2019 over the first eight months after origination but have shown increased defaults in the last three months.
- Loans originated in Q2 2021 defaulted at a higher rate than in prior years. By the seventh month after origination, 40% of those loans have defaulted.
- Loans originated in Q3 2021 experienced a 34% default rate by the fourth month after origination outpacing the rates observed in previous years.
- Loans originated in Q4 2021 also exhibit increased default activity; 21% defaulted in the first two months.

Figure 20: Installment loan default curves by origination quarter — new to AFS



Installment loan performance — new to AFS

Figure 20 (previous page) shows cumulative default curves for the installment loans opened by new-to-ASF consumers. Default rates within 12 months of loan origination for this population have typically averaged from 33% to 35% from 2017 to 2019. There was a departure from the historical performance in Q3 and Q4 2020 when the first loans for new-to-AFS consumers defaulted at over 40%.

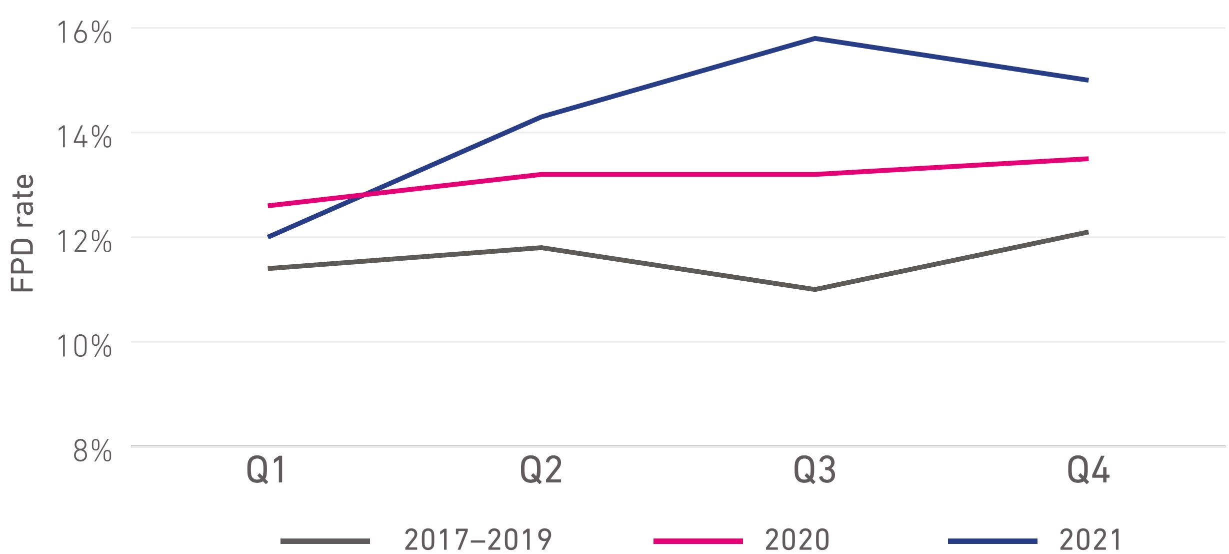
- Loans originated in Q1 2021 for new-to-AFS consumers have a default rate about 6 percentage points higher than those originated in the same quarter from 2017 to 2019.
- Loans originated in Q2 2021 for new-to-AFS consumers are defaulting at a dramatically higher rate than in prior years. By the seventh month after origination, 51% of those loans had missed one or more payments.
- Loans originated in Q3 2021 for new-to-AFS consumers outpaced the rate in previous years with a 20% increase by the fourth month since origination.
- Loans originated in Q4 2021 for new-to-AFS consumers had a higher default trajectory than in previous years.

Installment first-payment default rates

Installment loan performance was also evaluated using first-payment default (FPD). **Figure 21** shows FPD rates for installment loans for each quarter of the year. The gray line is the average for years 2017 to 2019, magenta is 2020 and the dark-blue line is 2021.

These rates will usually be close to the rate of default in the first month after origination seen in **Figures 19 and 20**. FPD rates over 2017 to 2019 were 11%–12% for all quarters. FPD rates in 2020 were a bit higher at 13%–14%. The FPD pattern for 2021 changed from near 12% in Q1 to nearly 16% in Q3.

Figure 21: Trend in FPD — installment

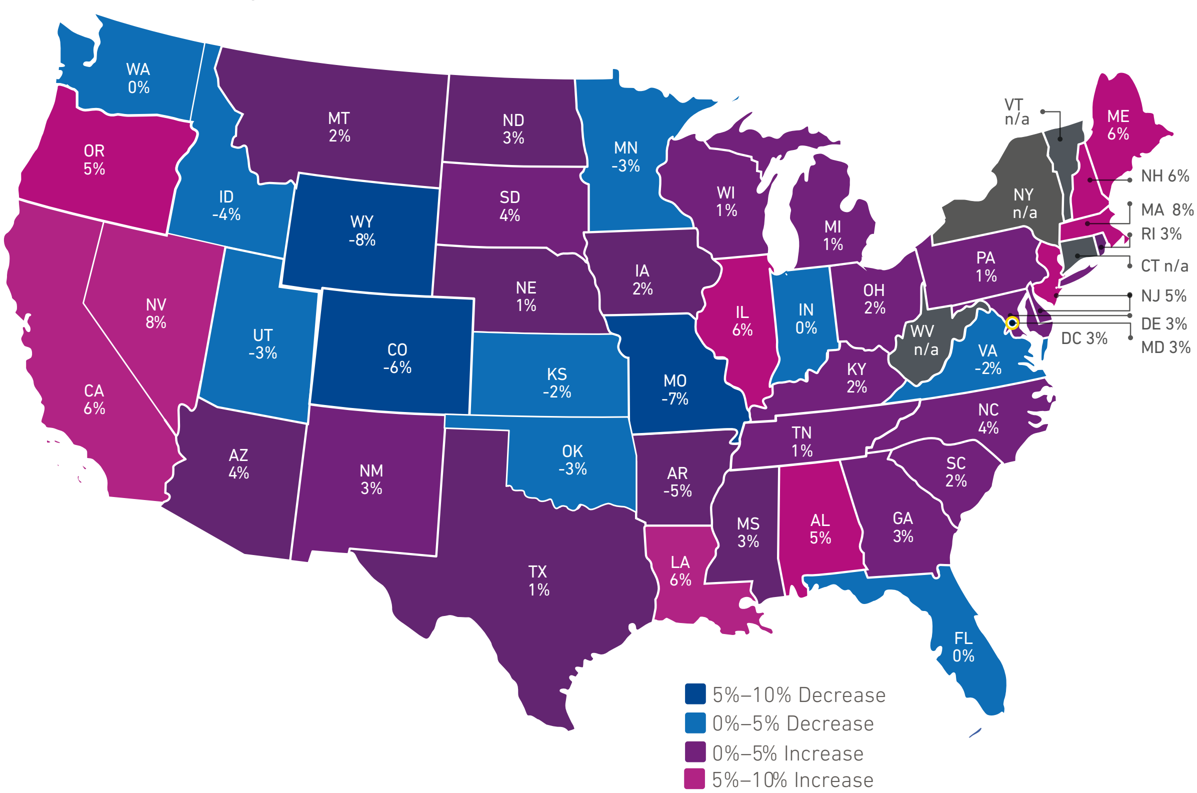


In addition to looking at the overall FPD trend in installment loans, trends across the United States were also reviewed. **Figure 22** shows the change in FPD rate from 2019 to 2021, for the lower 48 states. The year 2020 was not used for comparative purposes due to the impact of the pandemic. Purple hues indicate an increase in FPD rate while blue hues signify a decrease.

Several states exhibited a five percentage point or higher increase in FPD rate, most notably the cluster of California, Nevada and Oregon along with Illinois and Louisiana. On the other hand, several states saw a relatively large decrease in FPD rates. Missouri, Colorado, Wyoming had greater than a five percentage point decrease.

Installment loan delinquencies for the lower score band increased at the greatest rate. Compared to 2017–2019, FPD rates for installment loans have increased from 12% to nearly 16%.

Figure 22: Difference in installment FPD rates — 2021 compared to 2019



Clear Credit Risk™ score performance for installment loans

- The Clear Credit Risk™ (CCR) score continued to effectively rank-order consumers based on their likelihood of first payment default (**Figure 23**).
- FPD rates increased for all CCR score bands from Q1 through the end of the year. For example, consumers in the 541–560 CCR score band had a 13% FPD rate in Q4 2021, up from 10% in Q1.
- The FPD rate for consumers was near the lowest point during Q1 2021 for almost every CCR score band.
- The increase in FPD rate was especially large for consumers scoring 520 or less.
- Potential reasons FPD rates in the same CCR score bands have increased include:
  - Seasonality
  - Increased debt levels due to proliferation of buy-now-pay-later loans
  - Increased debt payments due to the end of pandemic-related accommodations
  - Inflation and macroeconomic factors

Although FPD rates have traditionally been a primary default metric for small dollar loans, longer term delinquency metrics provide even greater insight into true credit risk for installment loans.

Figure 24 examines the percentage of loans 30 or more days past due in the first 90 days (quarterly view 2020–2021). For example, the dark-gray line shows 7.8% of consumers with a CCR score above 600 were reported as being 30 or more days past due in the first 90 days in Q1 2020. This serious delinquency rate for these consumers decreased to 5.4% in Q1 2021.

- Similar to FPD rates, these longer term delinquency rates were at or near their low in Q1 2021.
- Default rates increased for loans originated in Q2 and Q3, with the greatest increases occurring within the lower CCR score bands. The greatest increase was exhibited by the consumers scoring 300–520, where 40% of Q3 2021 loans went delinquent.

Delinquencies increased for AFS installment loans and decreased for single-pay.

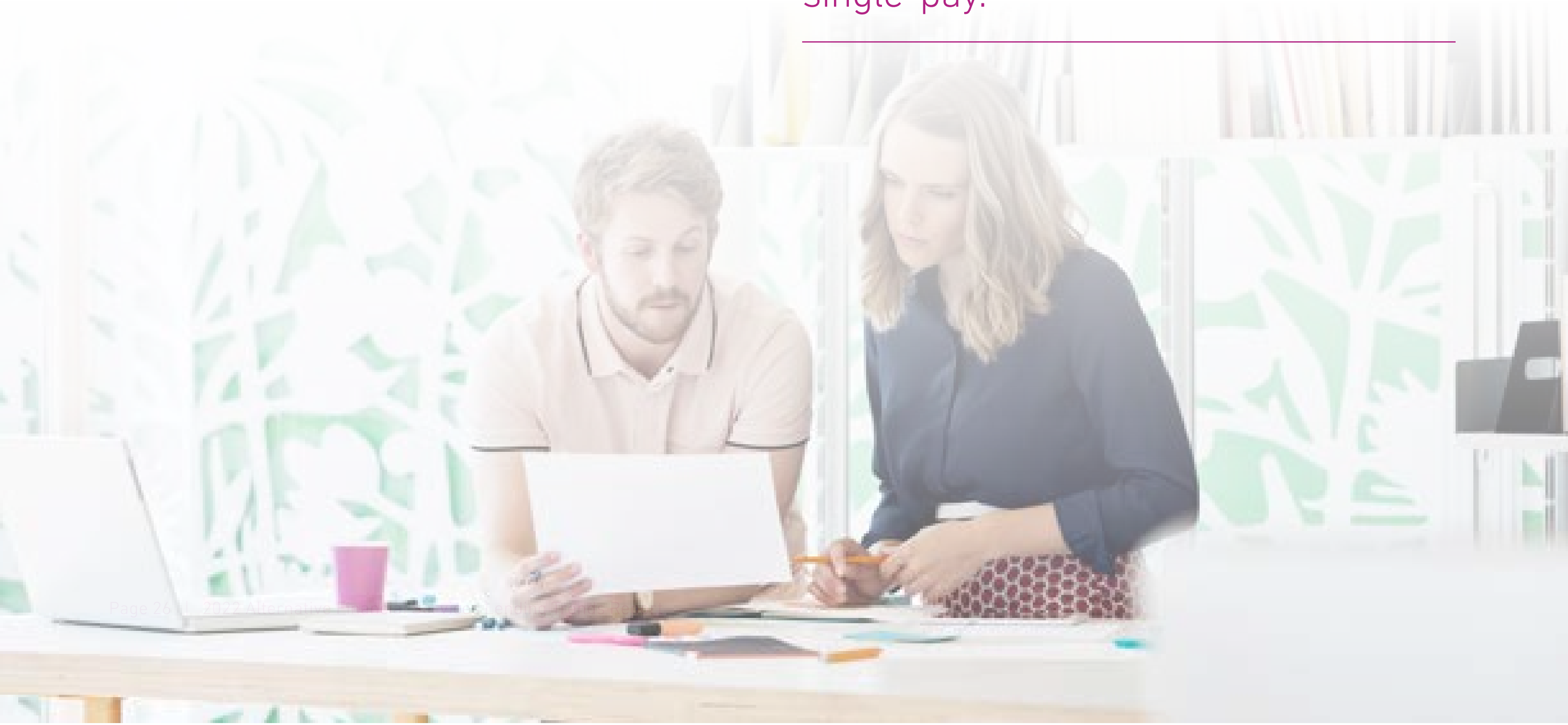


Figure 23: Installment loan first payment default (FPD)

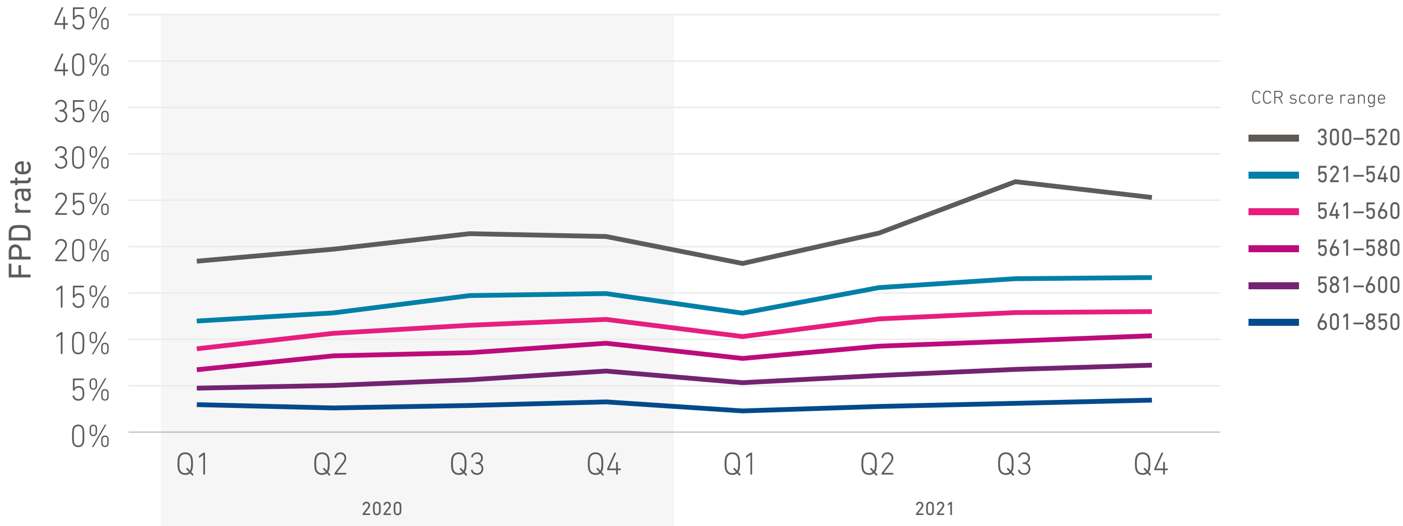
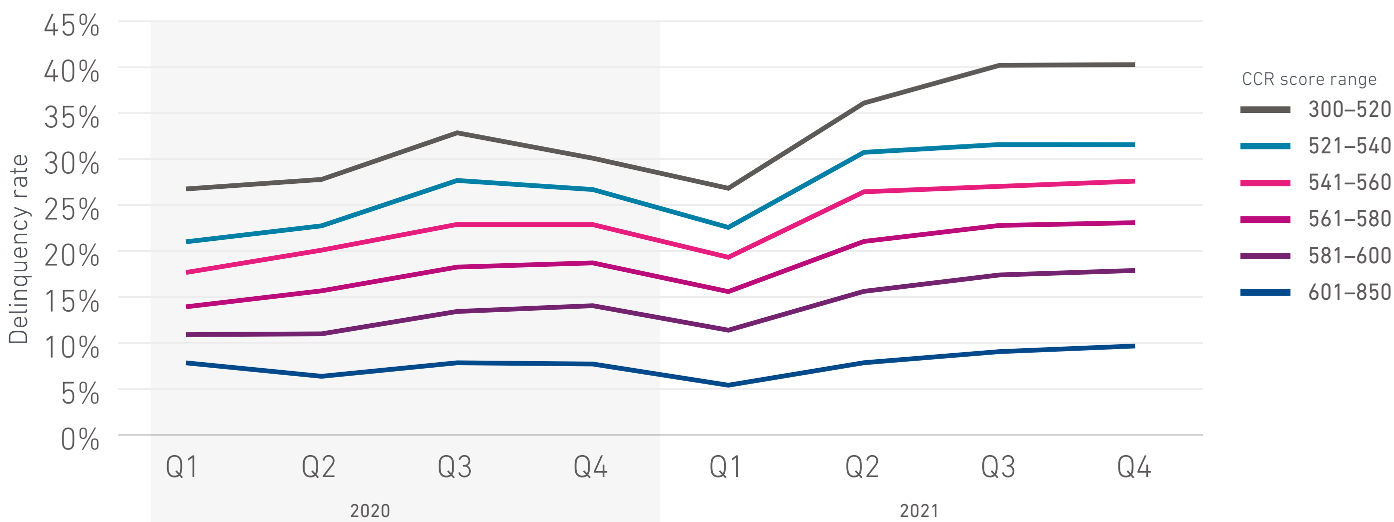


Figure 24: Installment loan: ever 30 or more days past due in first 90 days



Single-pay loan performance

First payment default (FPD) is a commonly used metric for evaluating single-pay loan performance.

Figure 25 shows that FPD rates for single-pay loans originated in 2021 generally remained lower than prior years. The third and fourth quarter of 2021 had the lowest FPD rates observed for those specific quarters.

Figure 26 limits the consumer population to only those who were new to AFS in the year the loan was originated. Although new-to-AFS consumers had higher rates of FPD in 2021 than previously seen consumers, the performance in 2021 was similar to previous years.

Figure 25: FPD rate for single pay — all consumers

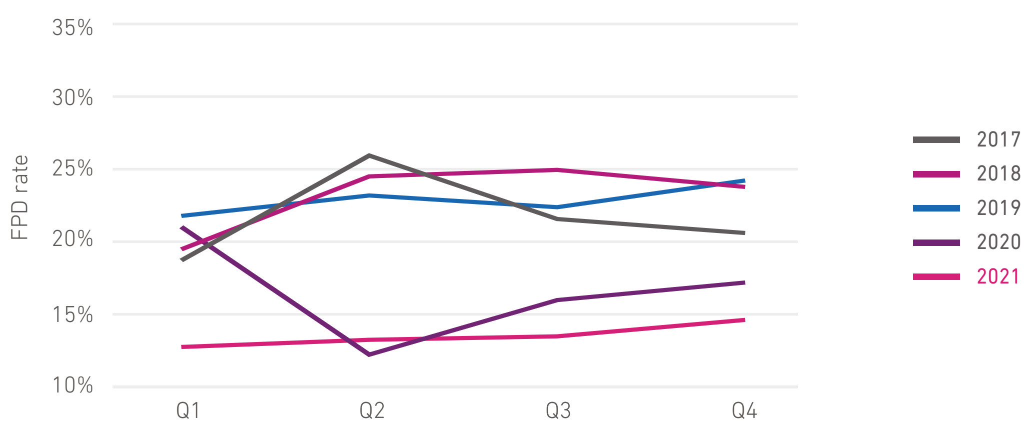
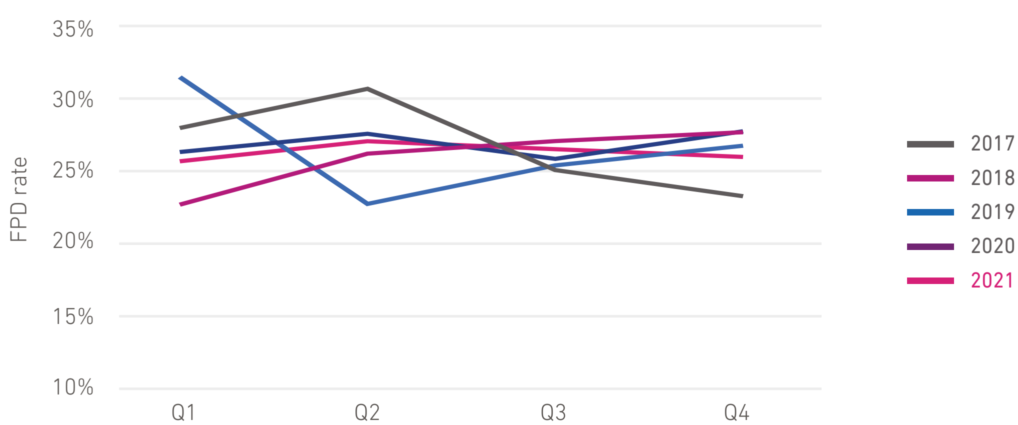


Figure 26: FPD rate for single pay — new-to-AFS consumers



Applicant credit profiles

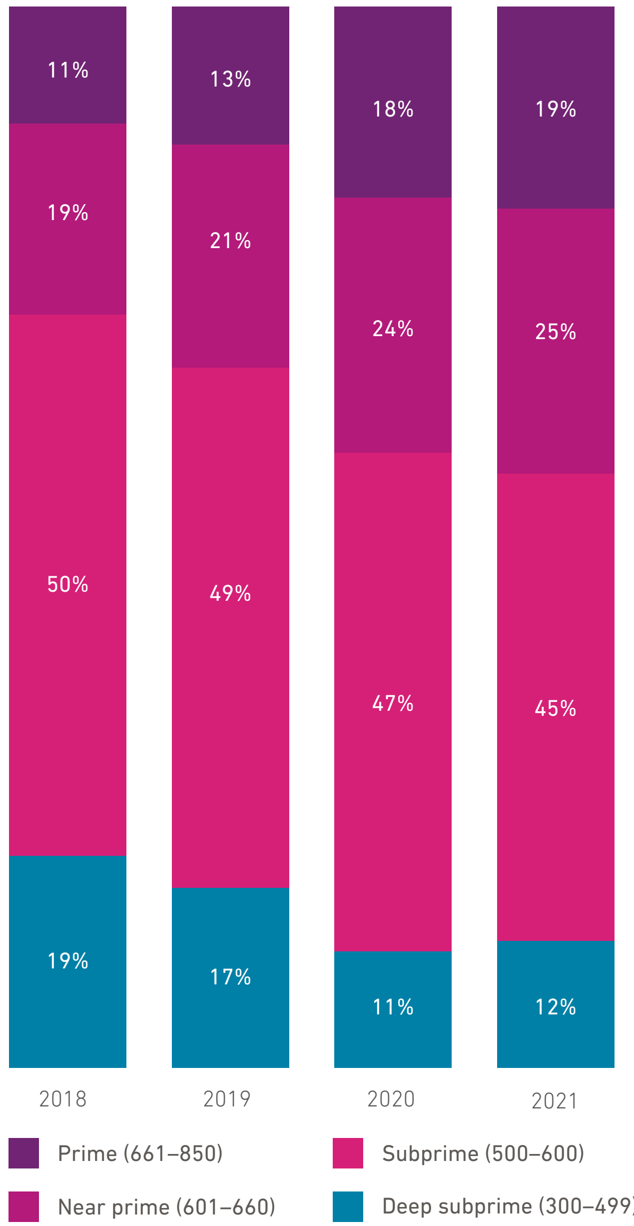
There have been distributional shifts in the traditional credit classifications (as defined by VantageScore® 4.0) of consumers that applied for AFS loans. A traditional credit score view of applicant quality shows improvement in creditworthiness as shown in **Figure 27**. Each bar represents VantageScores calculated for consumers who applied for AFS loans in the specified years. End-of-year scores were used. Each bar is split into colors representing the credit classification bands (magenta is prime, purple is near prime, dark purple is subprime and dark blue is deep subprime). In 2021, 44% of AFS applicants had a near-prime or prime VantageScore.

Some potential reasons for the increased representation of consumers in higher VantageScore bands include:

- AFS lenders have been utilizing alternative acquisition channels to expand their target universes
- Multiple government stimulus programs enabled consumers to make timely loan payments
- Accommodations on traditional loans may have masked or deferred true delinquencies

Many AFS lenders assess the credit quality of consumer applicants using the CCR score, a score specifically developed for the AFS market. While there has been a slight increase in average CCR score for AFS consumer applicants from 2020 to 2021, this should not be interpreted as a slight improvement in credit quality. As stated earlier, the CCR score continued to effectively rank-order consumers based on likelihood of default. However, due to changing market and economic conditions, we have also observed that default rates have increased within score bands over time.

Figure 27: AFS market VantageScore® 4.0 bands by year



Applicant credit profiles

This year, we tracked the traditional credit scores of AFS consumers. We initially selected a random sample of 200,000 consumers who opened an AFS loan in 2018. The distribution of their VantageScores is displayed on the left hand side of **Figure 28a**. VantageScores® 4 were then tracked at the end of each year from 2019 to 2021. The size of the VantageScore bars indicate the relative proportion of consumers within each VantageScore band for the given year.

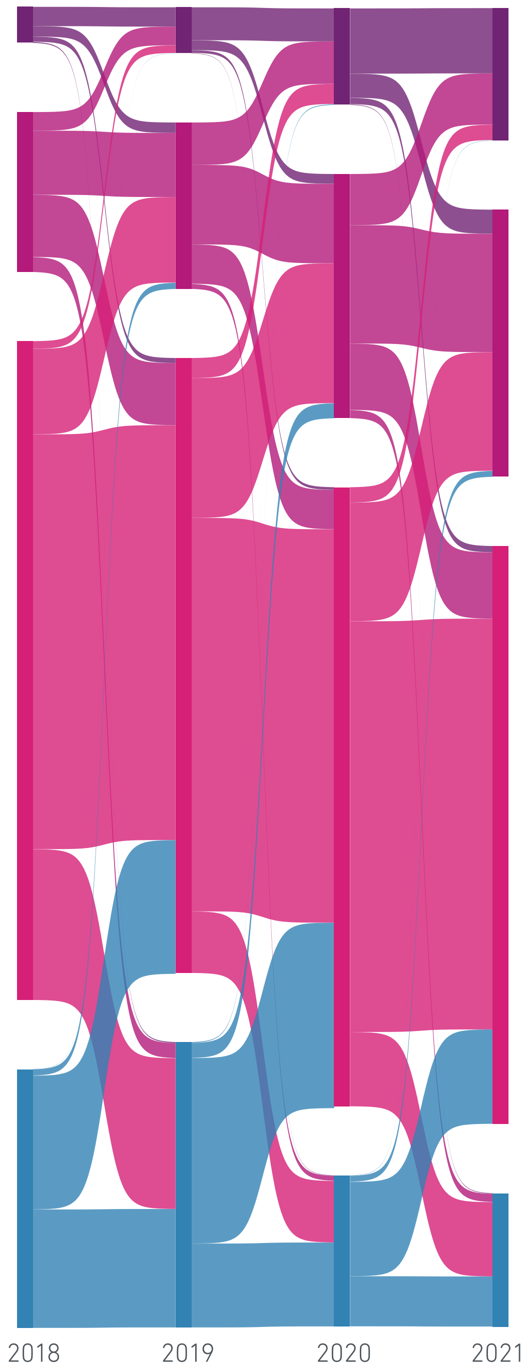
For 2018 AFS loan recipients, about 23% moved up in credit classification and 22% moved down by the end of 2019. However, in each subsequent year, far more consumers had moved up in credit classification than moved down (25% more in 2020, 10% more in 2021). As of 2018, 82% of these consumers had a subprime or deep subprime VantageScore, while in 2021 only 64% fell into these same categories.

Fifty-nine percent of consumers had a subprime score in 2018. The flow lines indicate how the consumers transitioned VantageScore bands to the next year. Of the subprime consumers in 2018, they migrated to the following VantageScore categories in 2019.

For example

A consumer with yearly scores of 580 (2018), 610 (2019), 630 (2020) and 700 (2021) would start in the subprime category in 2018, move to near prime in 2019, stay in near prime in 2020, and finally move to prime in 2021.

Figure 28(a): AFS consumer VantageScore® 4.0 band migration (detail)



*

VantageScore 4.0 classification

- **Prime** 661–850
- **Near prime** 601–660
- **Subprime** 500–600
- **Deep subprime** 300–499

*For the purposes of this analysis, super-prime and prime have been combined due to small volumes

Consumer demographics

An overview of demographic trends reveals patterns and insights into the ever-changing AFS market. Bolster your market intelligence and dive deeper into these 2021 AFS consumer demographic trends.

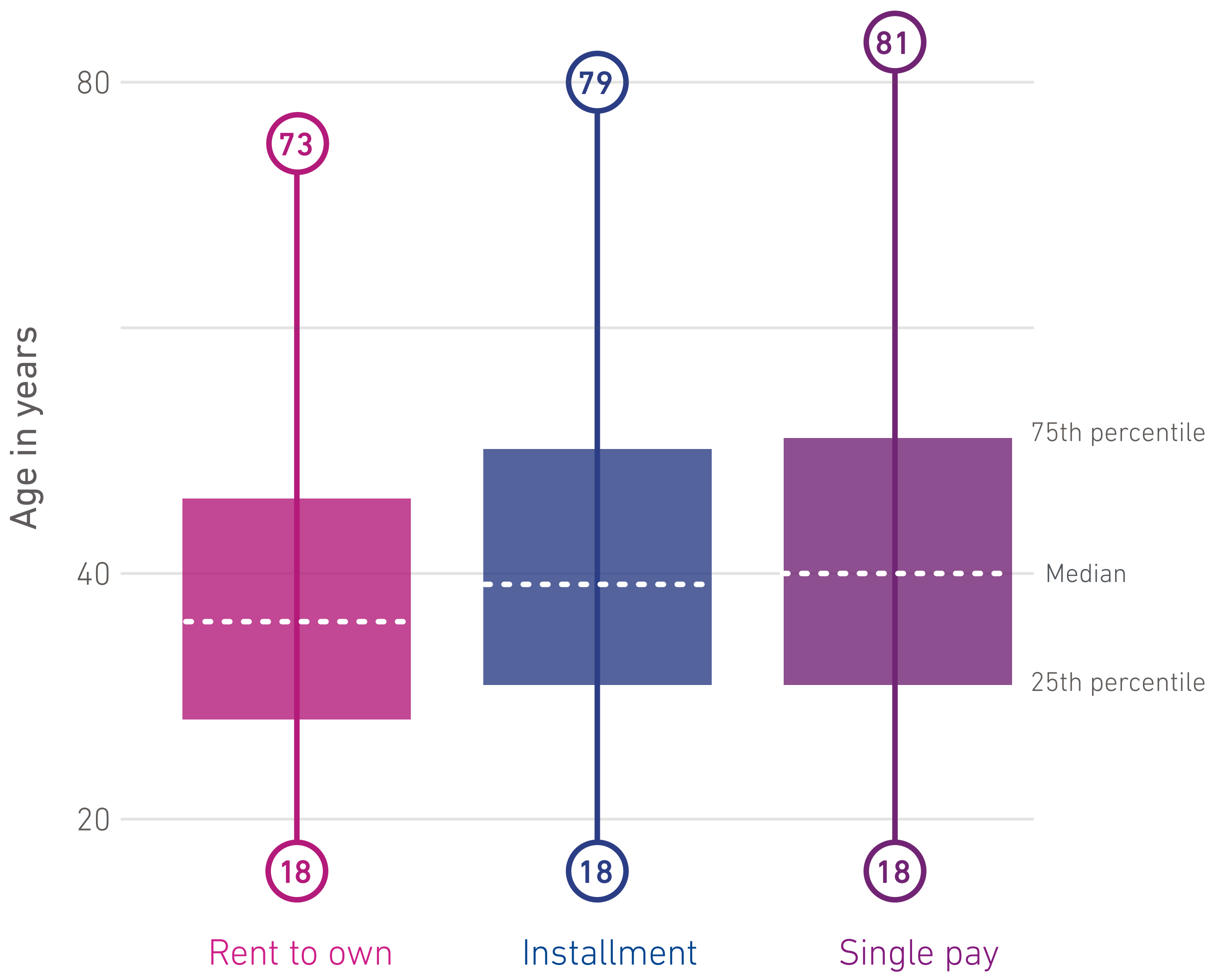
Age and income

For this section, basic demographics, such as applicant age and stated income, are reported across AFS loan segments.

Applicant age

Rent-to-own applicants tend to be about three years younger on average than applicants in other loan segments (**Figure 29**).

Figure 29: Age profile of AFS applicants

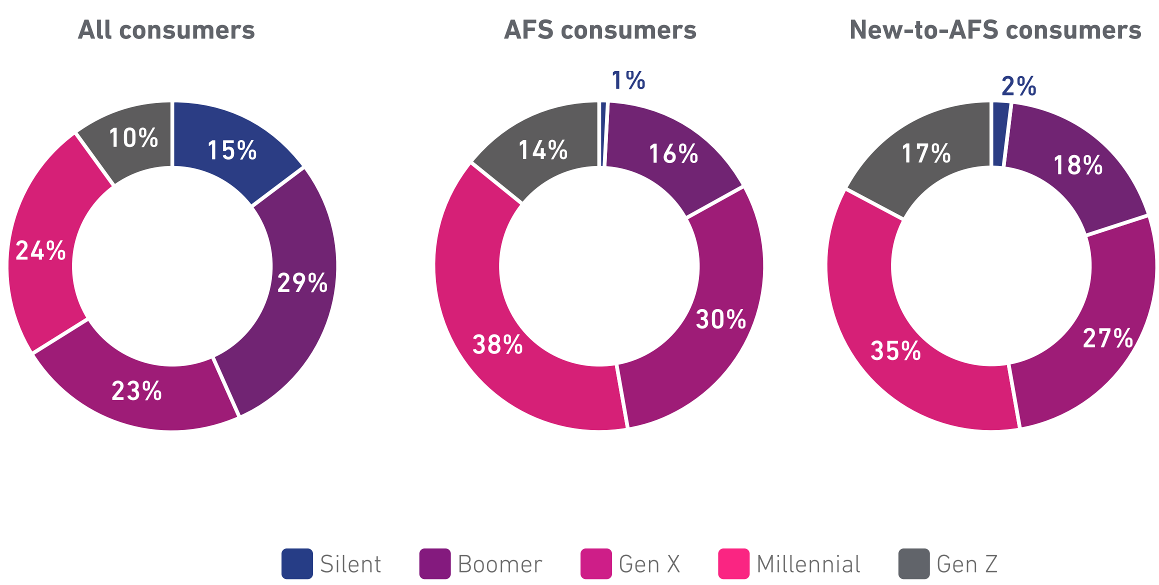


In 2021, there were generational differences in AFS applicants compared to consumers in Experian's national credit database. Eighty-three percent of AFS applicants were Gen X or younger, while these groups only made up 57% of consumers overall (**Figure 30**). Consumers who were new to the AFS market in 2021 were more likely to be from a wider range of generations than consumers in the AFS market overall. Gen Z has a 3 percentage points higher representation among new-to-AFS consumers, but the boomer and silent generations combined also have a 3 percentage point higher representation for new-to-AFS consumers.

DEFINING GENERATIONS

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

Figure 30: Distribution of generation by market in 2021



Generation

This year, we examined what proportion of the consumers in each generation who applied for an AFS loan in 2021 (**Figure 31**). Millennials had the highest participation in the AFS market at 15%, while Gen X and Gen Z appear at 13% and 12% rates, respectively.

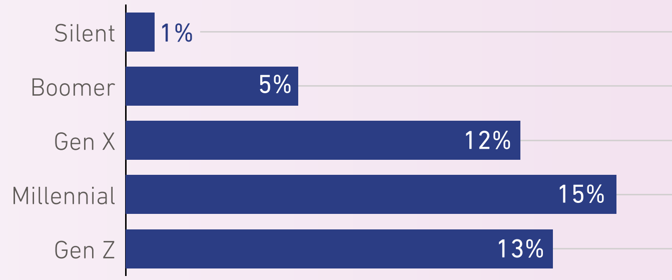


Figure 31: Percent in AFS Market

Income

Figure 32 compares the distribution of annual income* for AFS loan applicants during 2021.

- Incomes in the $30,000–$40,000 range were the most common across all AFS loan types.
- Applicants for rent-to-own loans had the highest average annual reported income of over $46,000 (**Table 6**).
- About 10% of rent-to-own applicants reported a net annual income of $80,000 or more.
- Applicants for single-pay loans had the lowest average income of about $42,500.

*stated income from loan applications

Over 50% of all AFS applicants have a stated income of $50K or less.

Table 6: Average stated incomes

Industry	Income
Installment	$44,700
Rent to own	$46,200
Single pay	$42,600

Figure 32: Reported net annual income distribution by AFS segment

Additional demographics of AFS applicants

Table 7 compares consumers previously seen in the AFS market to those who were new in 2021. By the end of 2021 new-to-AFS consumers were much less likely to have:

- A single-pay inquiry
- A delinquency of 30 days or more past due on a traditional loan

A traditional inquiry in the past 12 months on the other hand, new-to-AFS consumers had:

- Higher VantageScores
- Larger bankcard balances
- Greater Gen Z representation

Table 7: Comparison of new-to-AFS consumers

Demographic	Previously seen in AFS	New to AFS in 2021
Single-pay inquiry	29%	13%
Any delinquency on a traditional loan	91%	75%
Traditional inquiry in the past 12 months	64%	52%
Traditional installment loan	88%	79%
In generation Z	12%	17%
Average bankcard balance	$4,300	$5,900
Average VantageScore 4.0	576	619

For 2021 AFS applicants, **Table 8** shows the generation with the highest likelihood of having a traditional loan by industry. For example, 84% of boomers had a bankcard loan, 87% of Gen X had an installment loan and 34% of millennials had a student loan.

34% of millennials in the AFS market had student loan debt with an average balance of $34,000.

Table 8: Distribution of generation by market in 2021

Generation most likely to have had a traditional...	Generation	% with loan	Average balance
Auto loan	Gen X	73%	$25,000
Bankcard loan	Boomer	84%	$6,500
Installment loan	Gen X	87%	$39,000
Mortgage loan	Boomer	30%	$170,000
Retail loan	Boomer	69%	$1,800
Student loan	Millennial	34%	$34,000

Other notable insights for 2021 AFS applicants by generation include:

- 46% of Gen Z was new to AFS.
- 89% of millennials have a 30 or more days-past-due delinquency on a traditional loan.
- The average traditional loan balance for Gen X was over $80,000.
- At 614, boomers were the only generation with an average VantageScore 4.0 over 600.

Table 9 provides a comparison of 2021 AFS applicants based on the presence of any 30 or more days-past-due delinquency on their traditional loans.

Table 9: Comparison of AFS consumers by presence of traditional loan delinquency

Demographic	No delinquency	Any delinquency
New to AFS	61%	32%
Average bankcard balance	$8,012	$4,202
Traditional mortgage loan	25%	17%
Open traditional loan	95%	83%
Single-pay inquiry	11%	25%

The consumers with no traditional loan delinquency:

- Are twice as likely to be new to AFS.
- Have $3,800 higher bankcard balances.
- Had an open traditional loan 12% more often.

Consumers with a delinquency on their traditional credit report are more than twice as likely to have a single-pay inquiry.

Better understand a changing world with Experian's Clarity data

Following is a summary of key insights resulting from our analysis of a study sample with nearly 800 million consumer loan applications and nearly 35 million loans from Clarity's credit database.

Key takeaways

Optimism and growth returns

- The AFS market rebounded in 2021 as evidenced by the growth in installment loans.
- Rent to own became a high-growth segment.
- Loan accommodations were at their lowest since the beginning of 2020.

Customer acquisition channel diversification

- Prescreen volume was at a record high in 2021, a result of both more and larger campaigns.
- Prequalification volume increased quarter over quarter during 2021.
- Applicant credit profiles have been impacted by shifts in lenders' acquisition channels.

Behavior and migration

- Consumers that open AFS loans and pay them off satisfactorily tend to either open the same type of AFS loan or no follow-up AFS loan.
- Consumers who opened AFS loans migrated from "deep subprime" to "subprime" more frequently than those without AFS loan activity.

Loan characteristics have changed

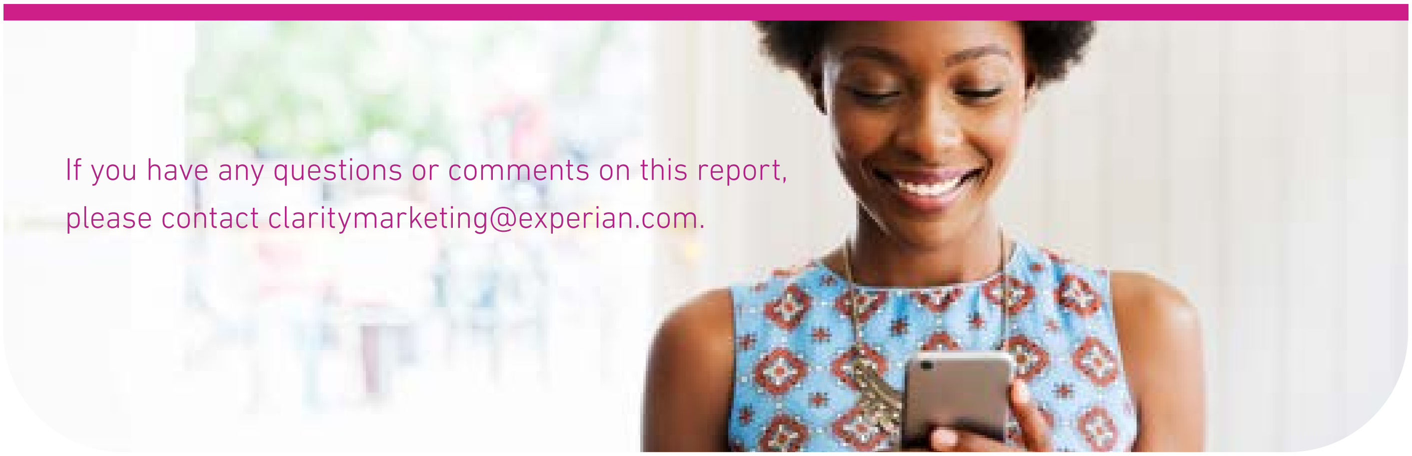
- Installment loan amounts and monthly equivalent loan payments have continued to increase.
- Rent-to-own loan amounts grew significantly.

Consumer performance has deteriorated

- First payment default and serious delinquency rates have increased for AFS installment loans since Q2 2021.
- Consumers in the lowest scoring bands had the greatest increase in installment loan default rates.
- Single-pay loans continued to default at lower rates.
- New-to-AFS consumers performed worse than those consumers previously seen in the AFS lending ecosystem.

The AFS consumer population shifted toward a younger demographic

- The majority of AFS applicants were Gen X or younger.
- Rent-to-own applicants tended to be younger than applicants in other AFS loan segments.



If you have any questions or comments on this report, please contact claritymarketing@experian.com.

In closing

We're pleased to report that there continued to be very robust demand for AFS loans and that AFS lenders were able to serve the credit needs of so many consumers. The only unfavorable trend observed was an escalation of delinquency and default rates for AFS installment loans. Given the current economic environment, one in which everyday expenses are rising even more quickly than wages, it will be interesting to see how AFS consumers continue to behave. We encourage our lender partners to continue to utilize Clarity's products to their fullest to facilitate their inclusion initiatives and enhance their decision-making throughout the consumer life cycle.

Each year we review and enhance the report to provide you with analysis, trends and insights that are intended to help you better understand how your specific lending business compares to the overall industry. We encourage you to provide us with feedback so that we can continue to improve the report and provide you with the most valuable information and insights.

About Experian's Clarity Services

Clarity Services is Experian's real-time credit bureau that's focused on the alternative financial services lending industry.

Experian
475 Anton Blvd.
Costa Mesa, CA 92626
www.clarityservices.com