FEDERAL RESERVE BANK *of* NEW YORK

The Role of Fintech in Unsecured Consumer Lending to Low- and Moderate-Income Individuals

How Has Fintech Changed Access to Unsecured Consumer Loans

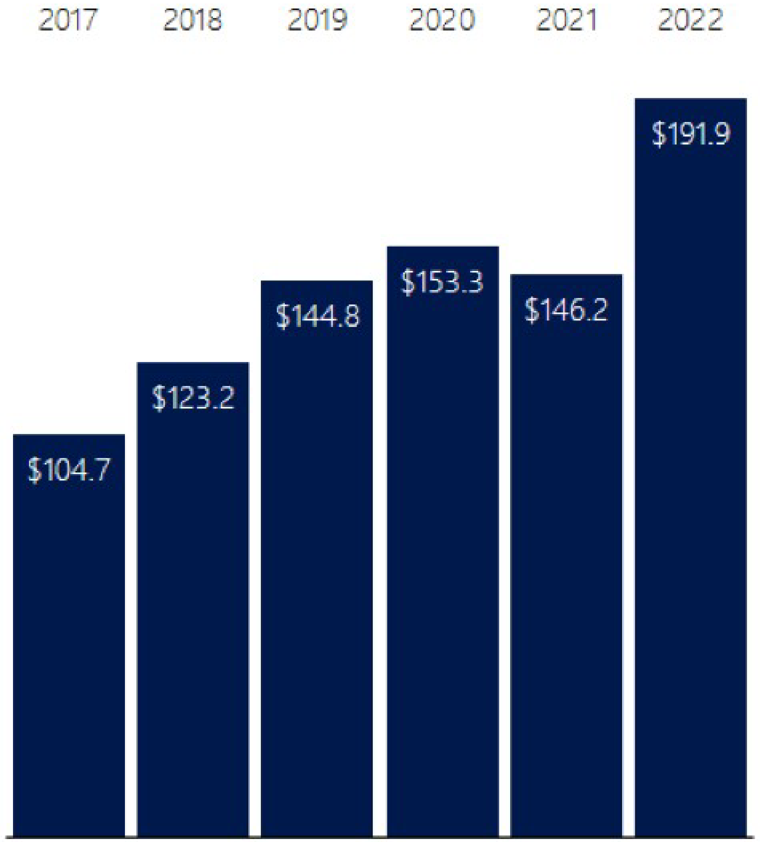
Eldar Beiseitov, Economist, Federal Reserve Bank of Saint Louis

I am grateful to Ambika Nair of the Federal Reserve Bank of New York for her excellent analytical support.

Unsecured personal loans are growing faster than other types of consumer debt. Fintech is mainly responsible for the growth.

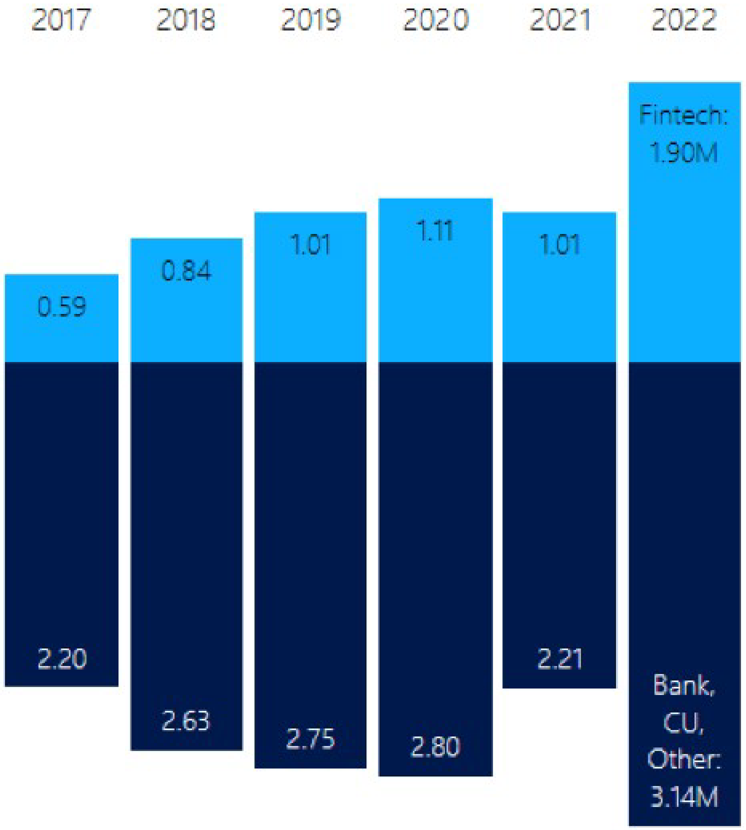
The balances on personal loans are at all-time highs and nearly a third higher than before the pandemic.

Total balances in second quarter, $ billions



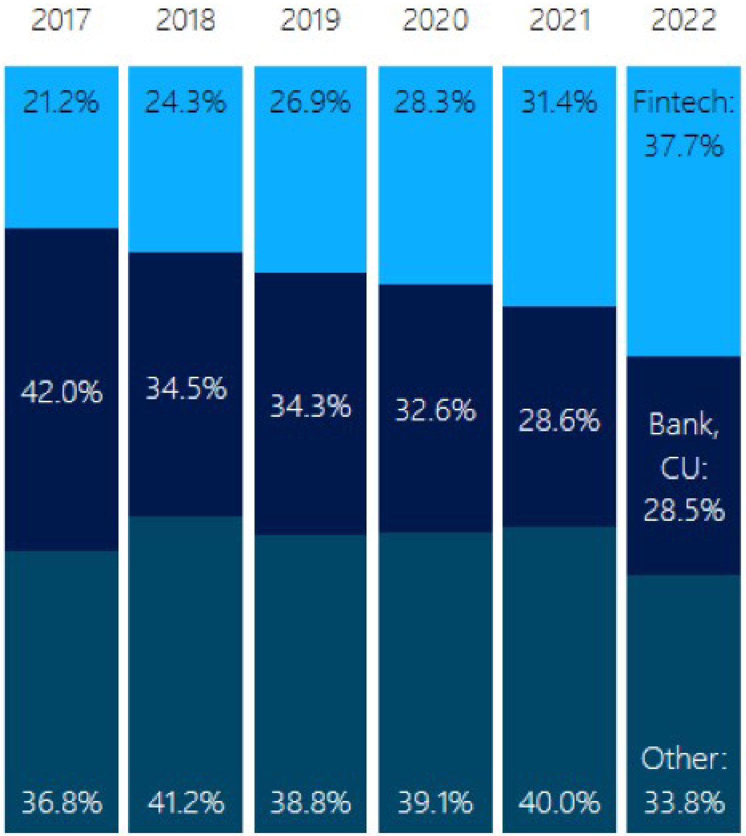
Originations exceed 5 million per quarter.

Number of loans originated per quarter



In just half-a-decade, Fintech has doubled its share of loan originations.

Share of loan originations in second quarter, by source

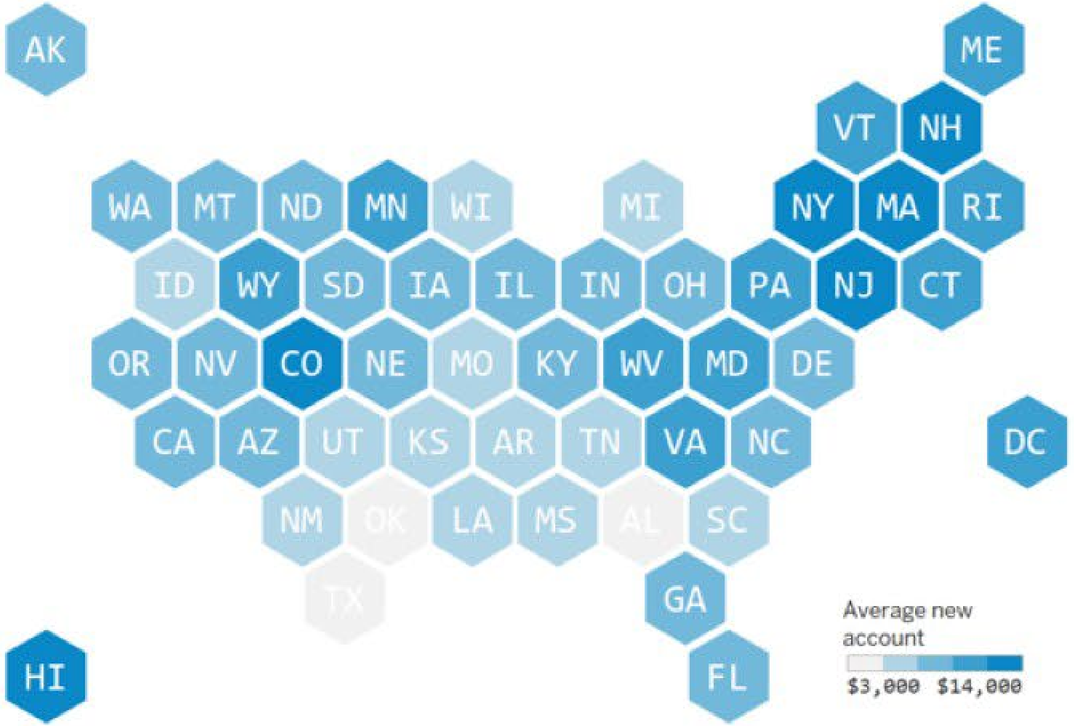


Data source: TransUnion

A size of an average loan differs across U.S. geography, but all states recorded a substantial increase in the last year.

A new loan averaged $6,887 in 2021

Loans averaged $7,560 in August 2022



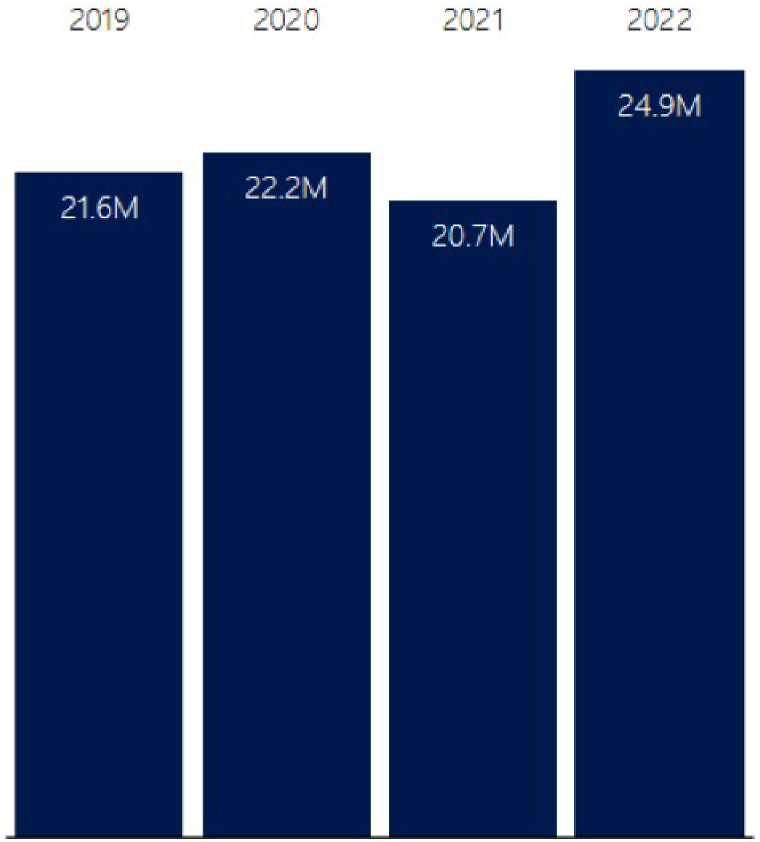
Data source: TransUnion, *the Monthly Credit Industry Snapshot*, August 2022

Level

Unsecured personal loans were once considered consumers' last option when managing debt. Fintech changed that.

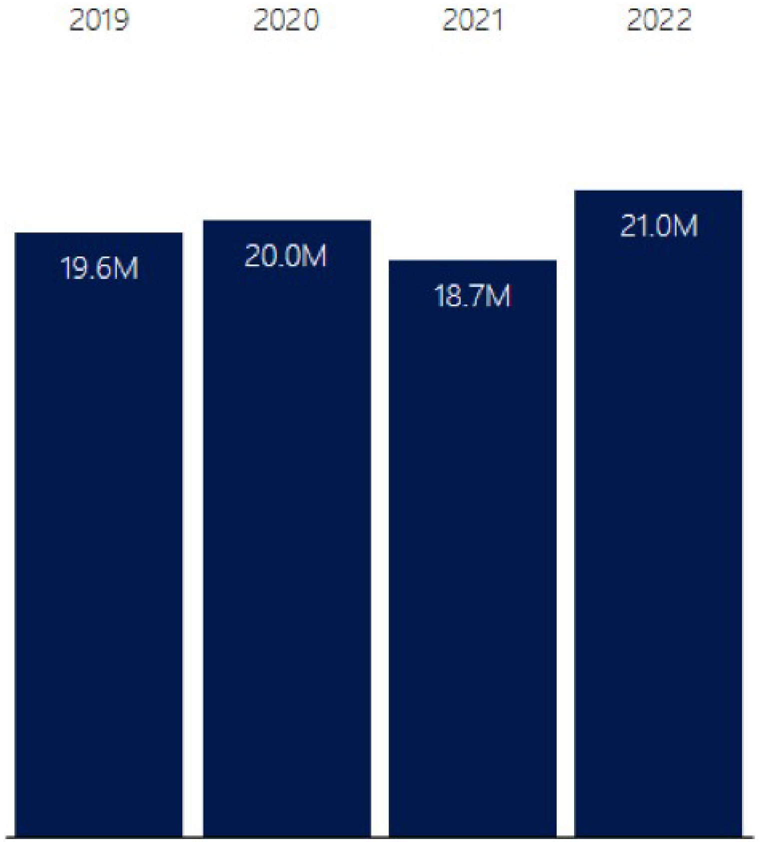
Number of unsecured personal loans

of loans originated in the second quarter of each year



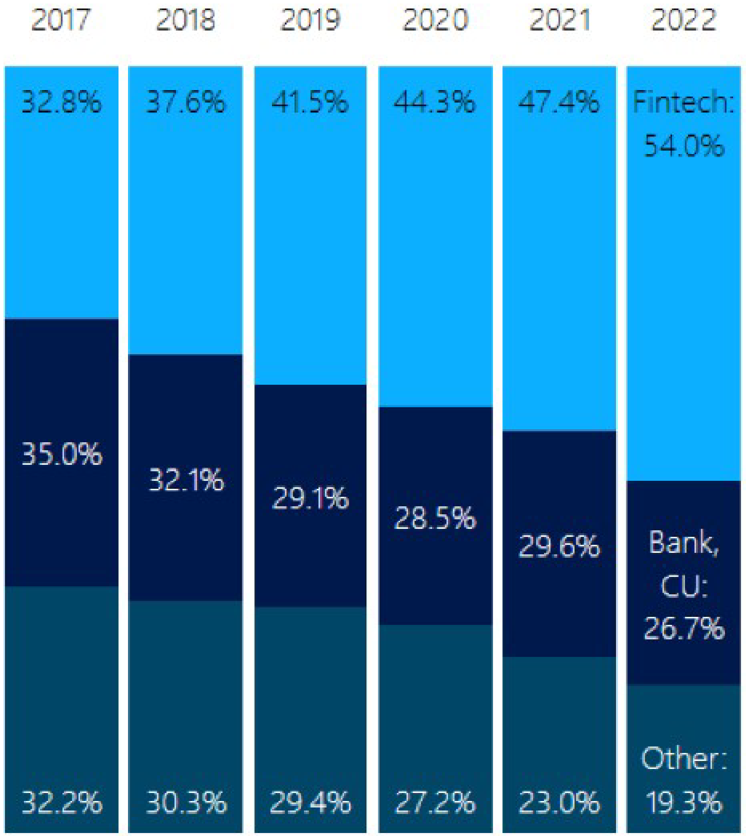
Number of consumers with unsecured personal loans

of consumers at the end of the second quarter of each year



Fintech accounts for more than half of total personal loan balances

Balances the end of the second quarter of each year



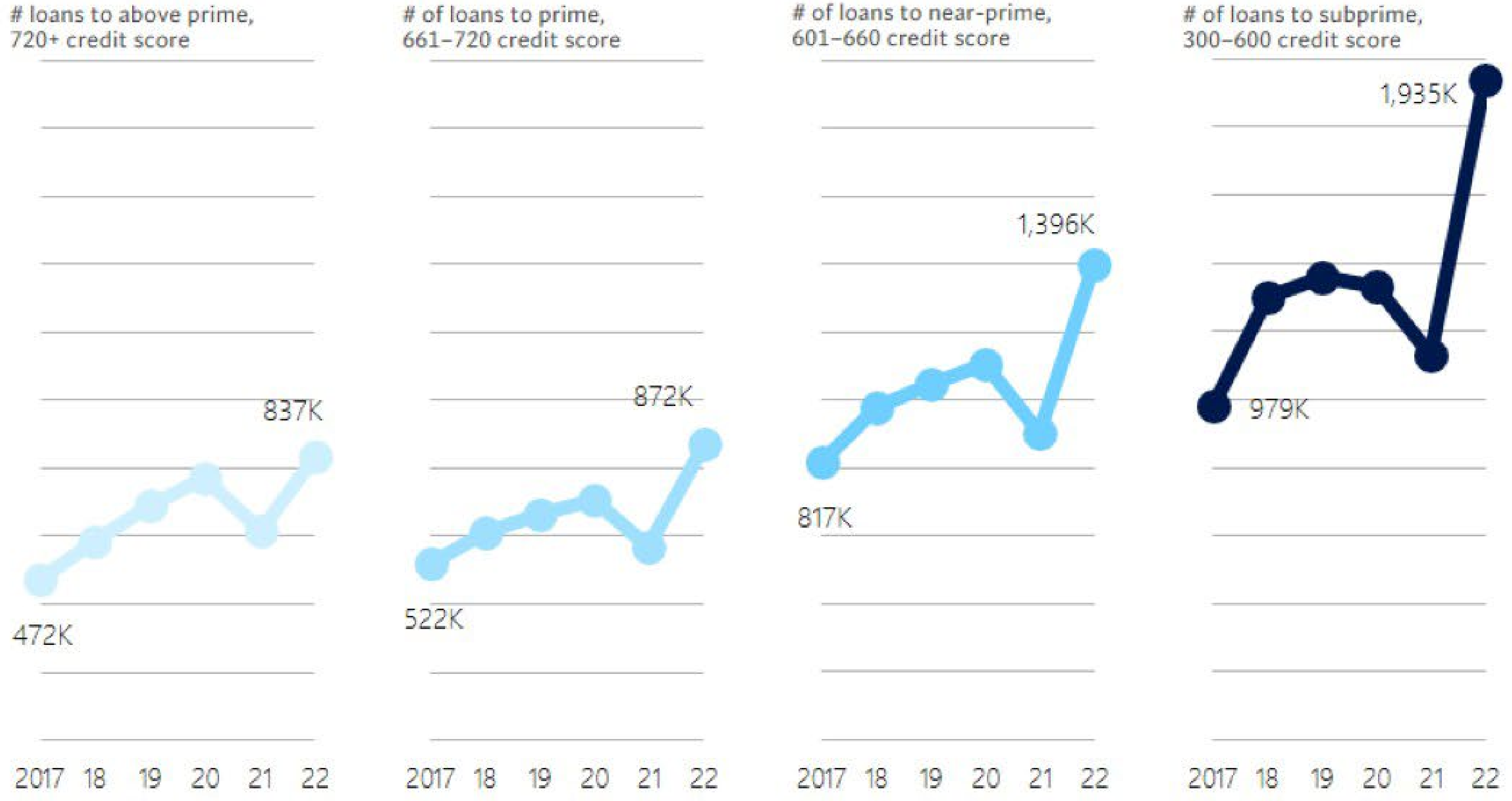
For an overview of historic trends see, E. Beiseitov, Unsecured Personal Loans Get a Boost from Fintech Lenders *The Regional Economist*, Federal Reserve Bank of St. Louis, vol. 2019.27(2).

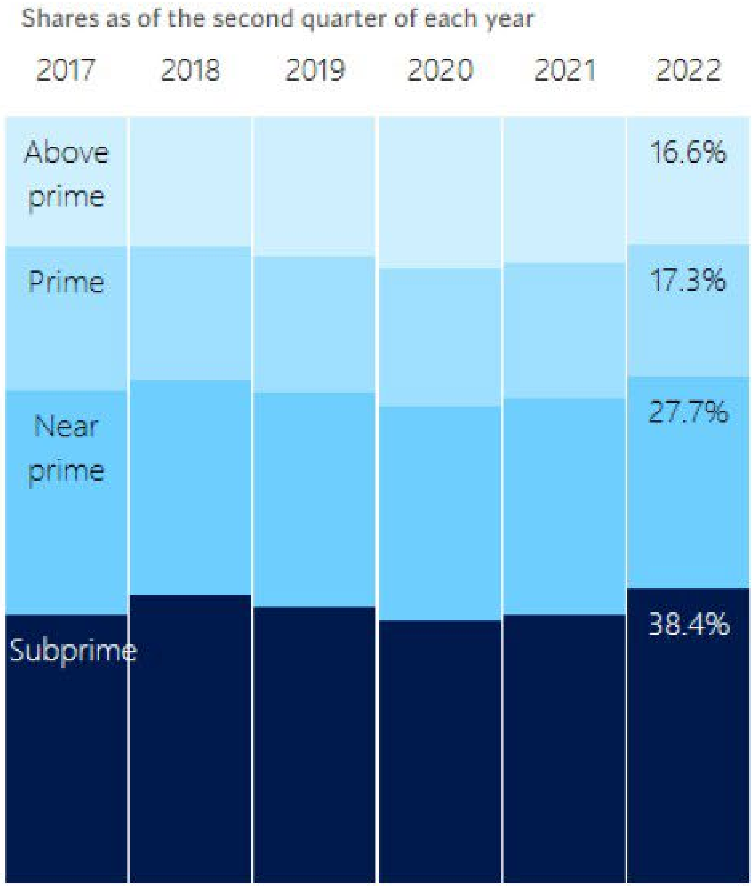
Data source: TransUnion

Over the past few months, lenders, particularly Fintech lenders, have increased their originations to consumers with lower credit scores.

Loans to consumers with below prime credit have nearly doubled.

The share of borrowers with credit scores below prime has reached 66%.



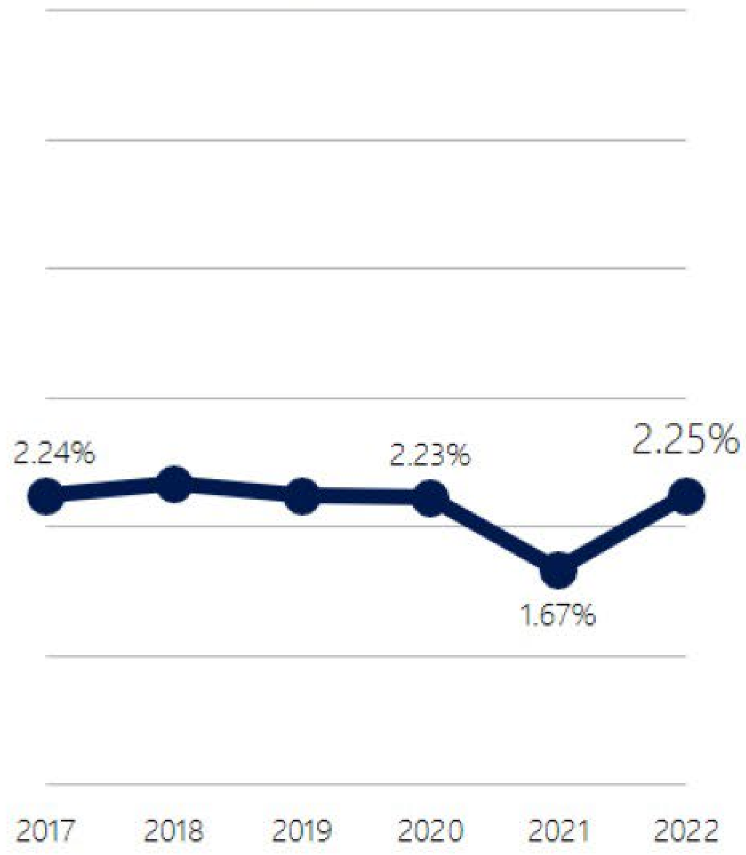


Data source: TransUnion; loan originations in the first quarter of each ear.

Delinquency levels have reached or exceeded pre-pandemic levels.

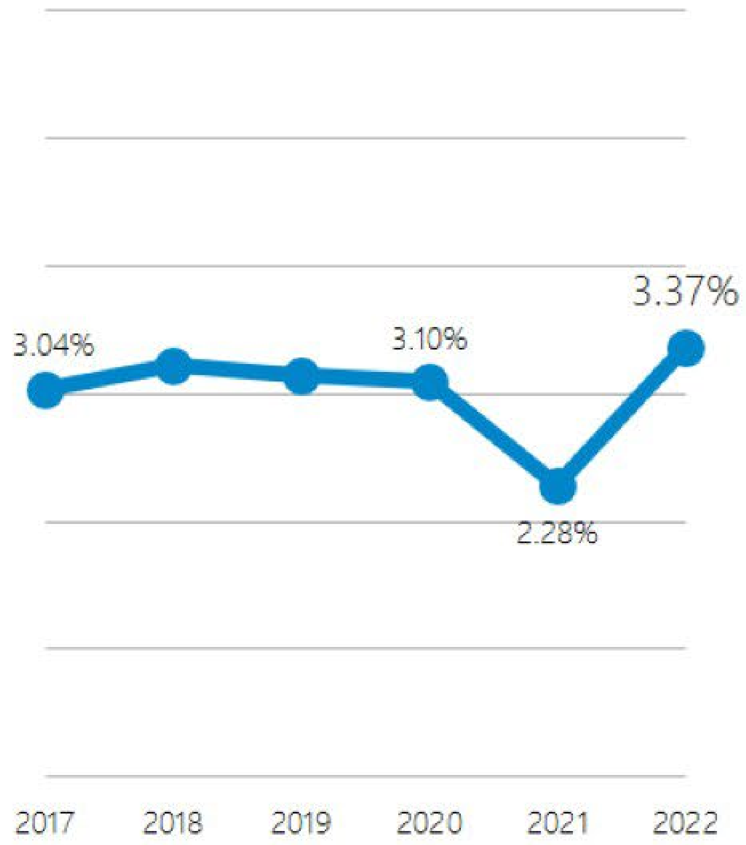
Serious delinquency rates rose for four consecutive quarters...

% of borrowers 90+ days past due

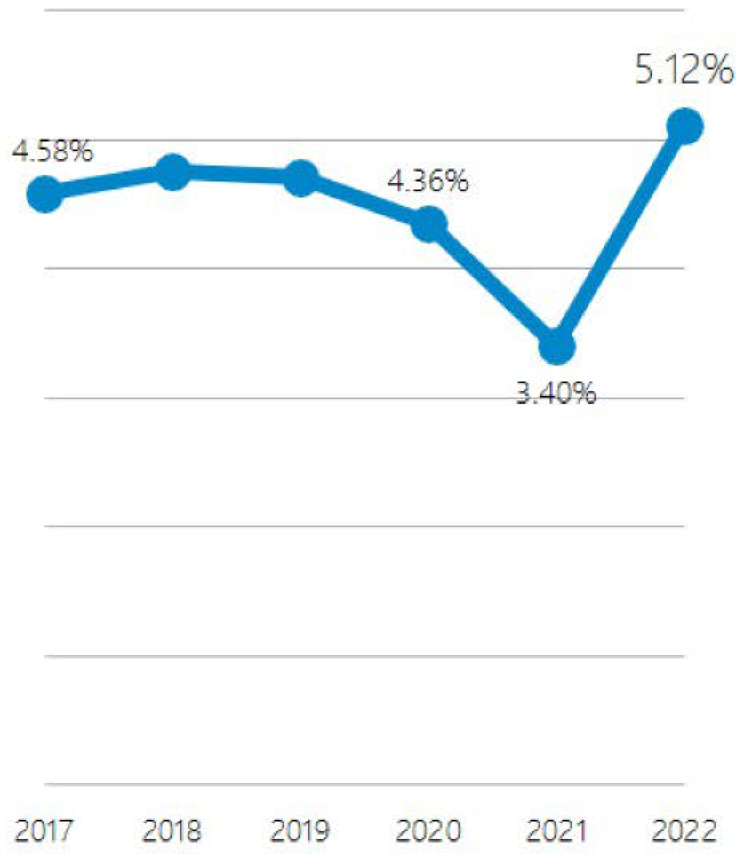


... the rise is attributed to larger share of subprime borrowers

% of borrowers 60+ days past due



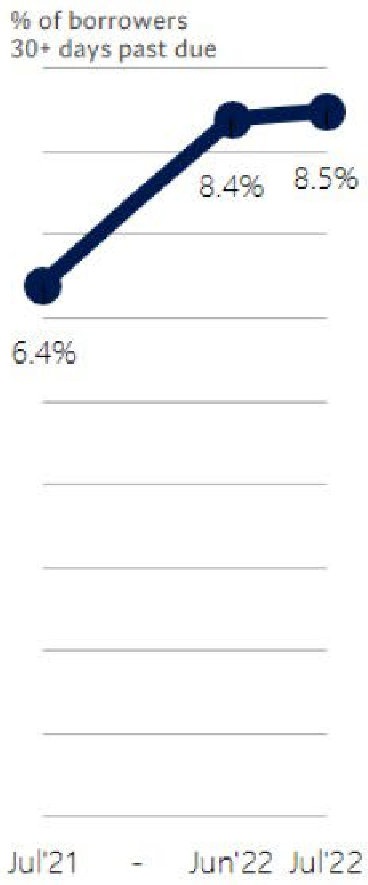
% of borrowers 30+ days past due



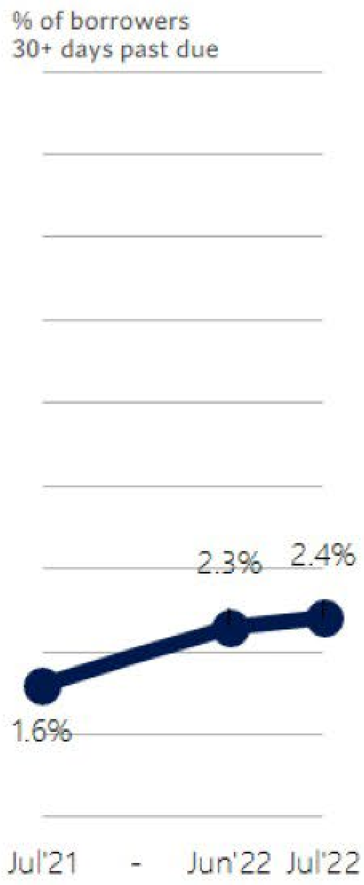
Source: TransUnion US consumer Credit Database

Lenders of all types increased lending to borrowers in below prime risk tiers. Delinquencies reflect that and the waning of financial support and accommodations.

Finance company

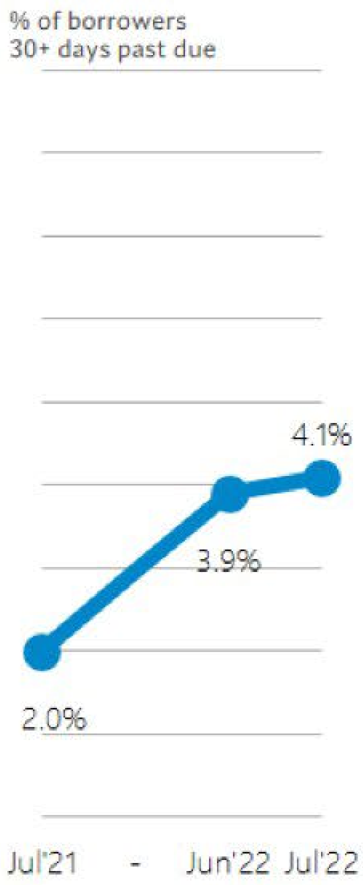


Credit Union

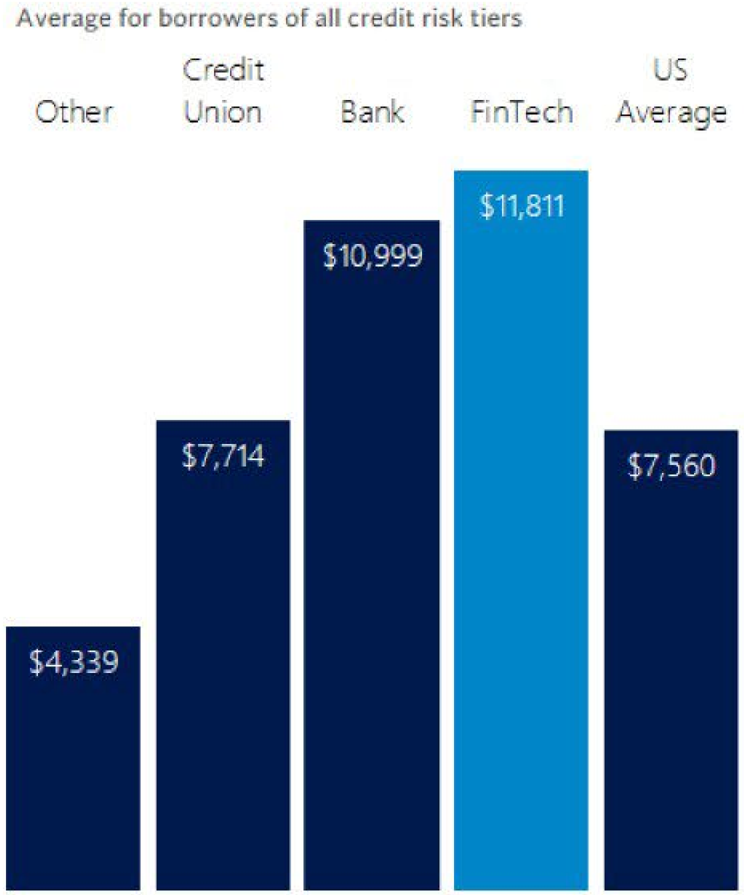


Bank

Fintech



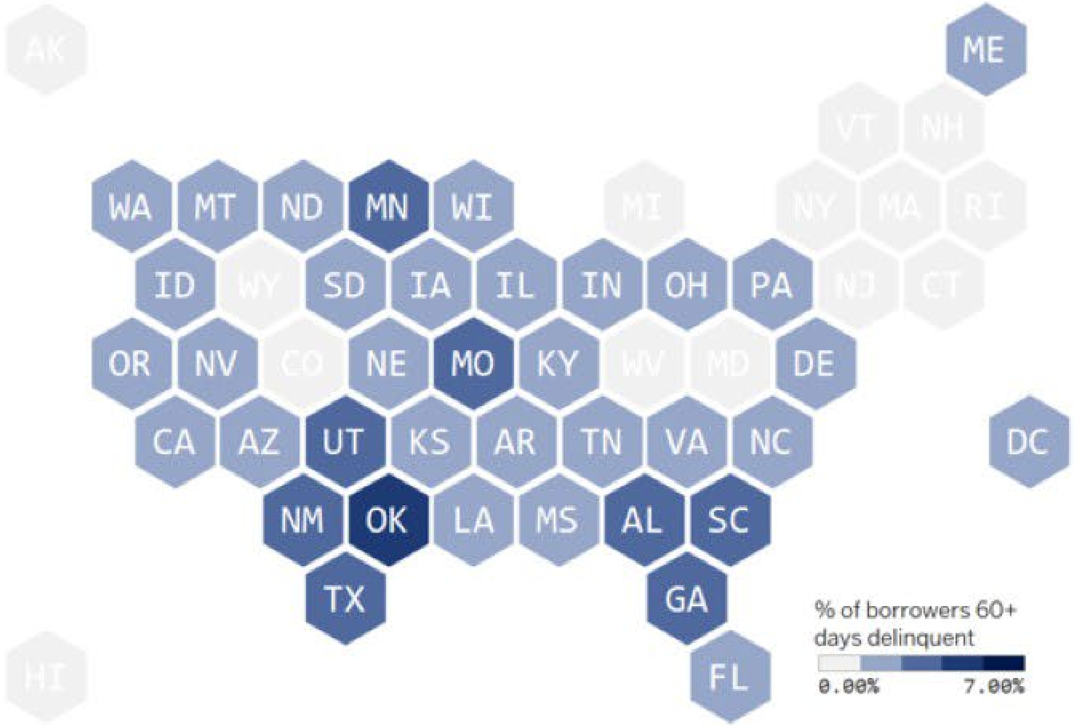
Loan amount by lender type in August 2022



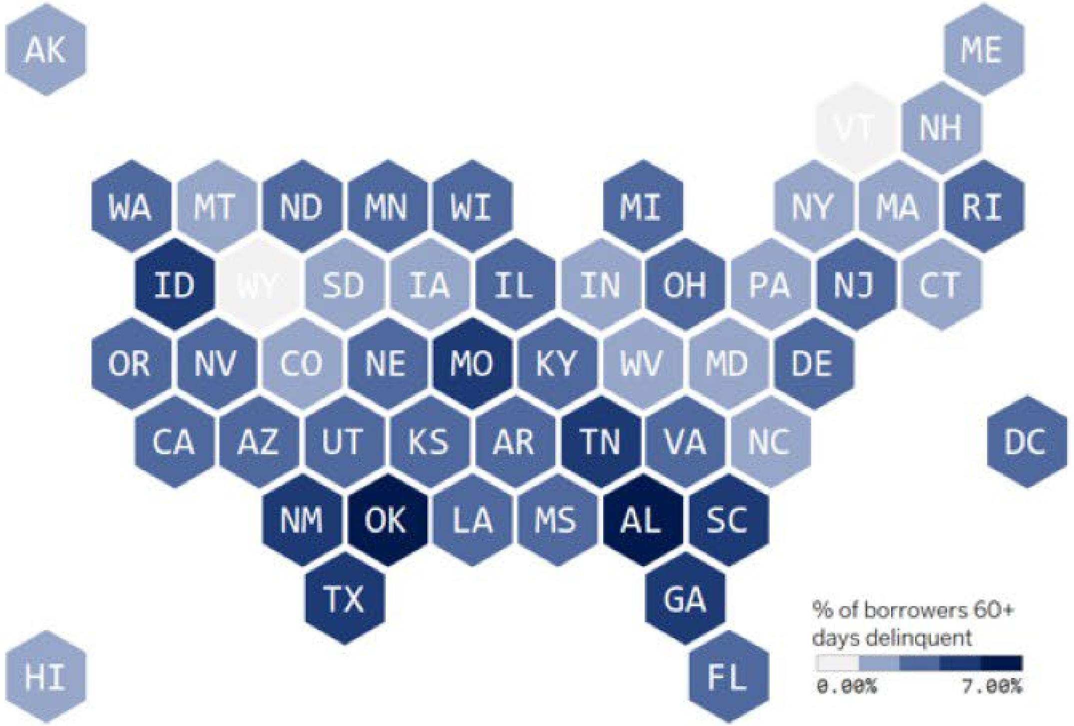
Data source: TransUnion

Delinquencies are approaching 7% in some states.

In August 2021,
among borrowers nationwide, 2.2% were 60 or more days delinquent.



In August 2022,
the percentage of borrowers who were 60 days or more delinquent was 3.6% nationwide.

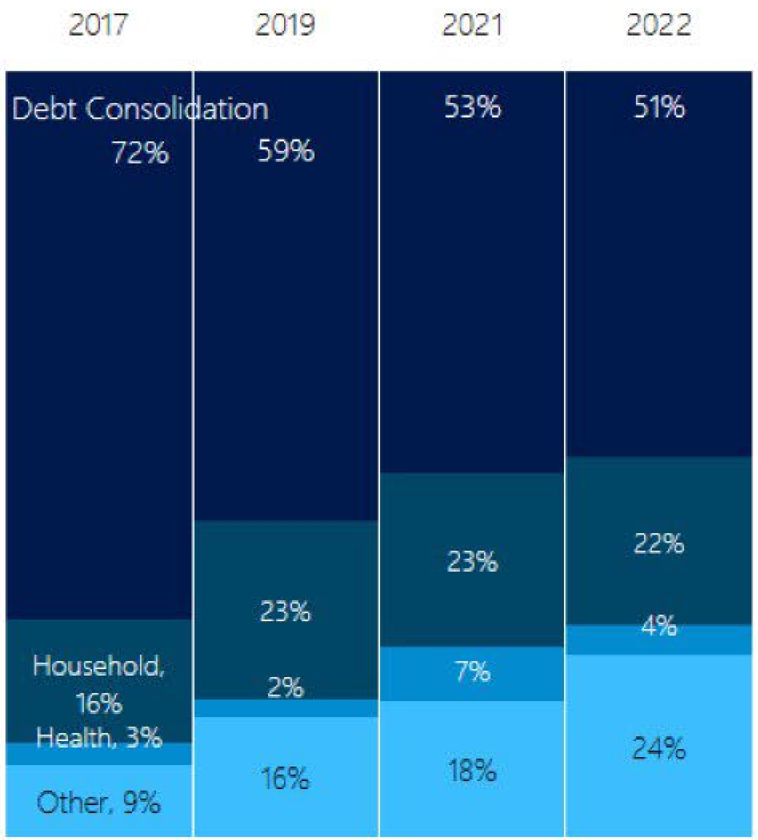


Data source: TransUnion

For the most part, borrowers use unsecured personal loans from fintech lenders to consolidate debts with higher interest rates.

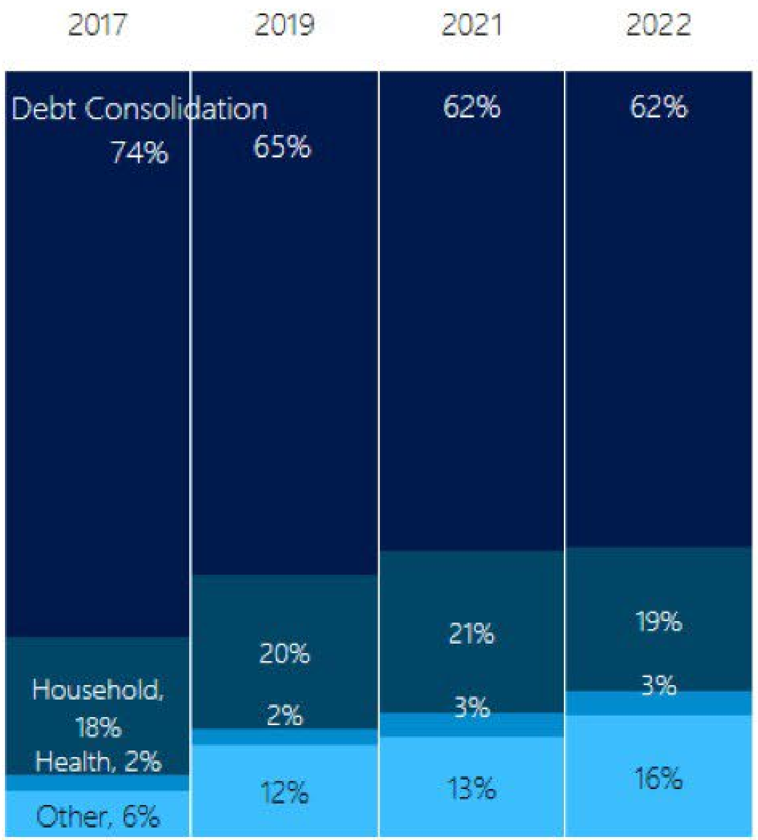
In 2021, a higher share of borrowers with incomes below $25,000 reported using the loan for medical purposes

Borrower-reported loan purpose (% of all loans)



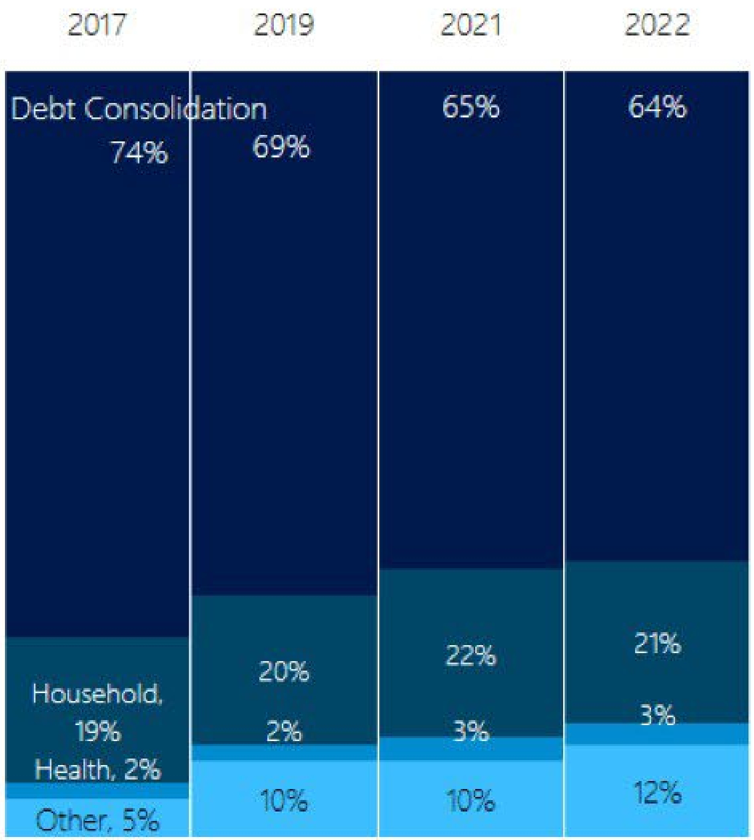
Borrowers with incomes from $25,000 to $50,000

Borrower-reported loan purpose (% of all loans)



Shares for all income groups

Borrower-reported loan purpose (% of all loans)



Household category includes expenses for repairs, home improvements, family, etc. *Health* includes medical and dental expenses. *Other* covers vacation, taxes, and more.

Data source: Prosper; individual loan data; 2022 loans through May 2022.

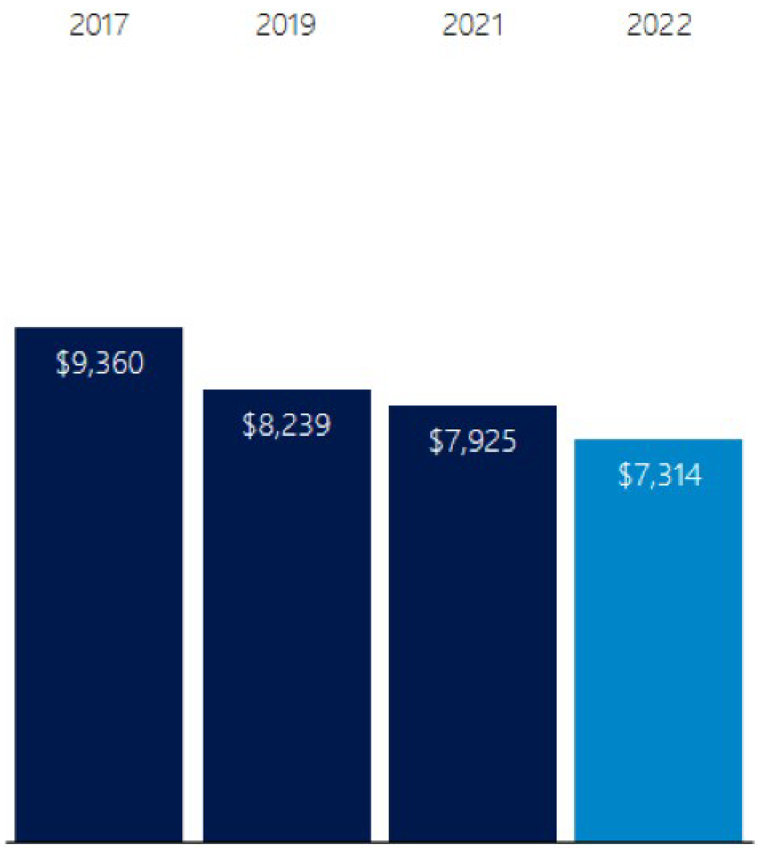
The lowest-income borrowers took on larger personal loans in 2021 and 2022.

Loan size increased for borrowers with incomes below $25,000 ...

The average size of a personal loan

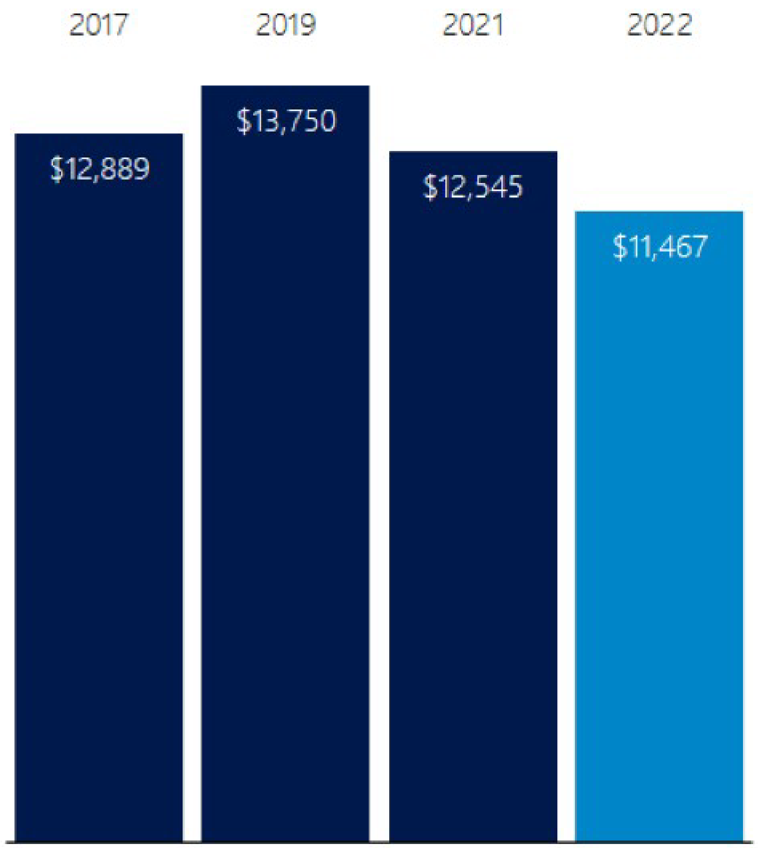
in contrast to borrowers with incomes between $25,000 and $50,000 ...

The average size of a personal loan



... and all income groups, on average.

The average size of a personal loan

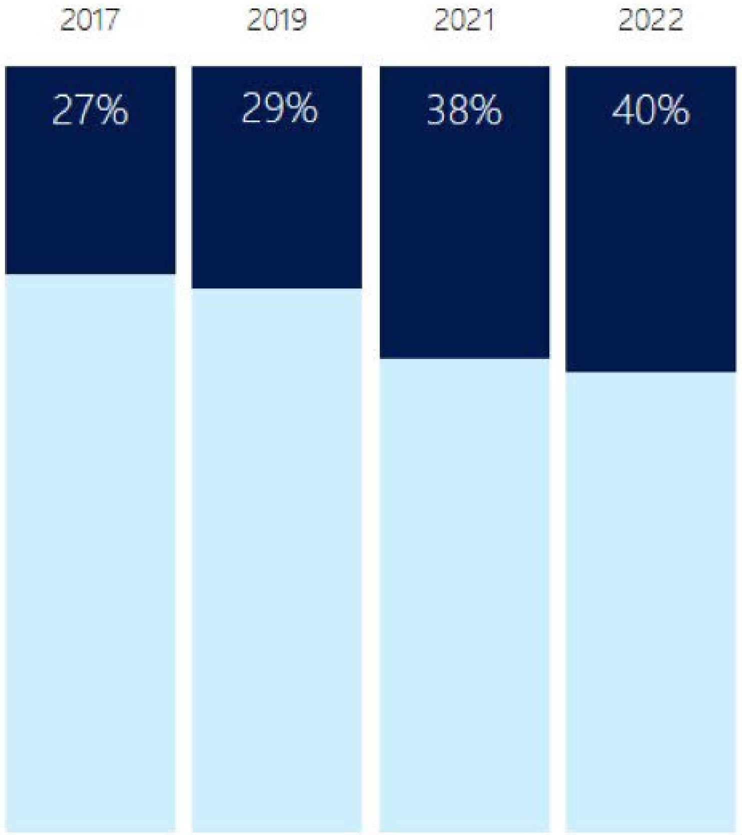


Data source: Prosper; individual loan data; 2022 loans through May 2022.

Low-income borrowers borrow relatively large amounts when compared to their annual income.

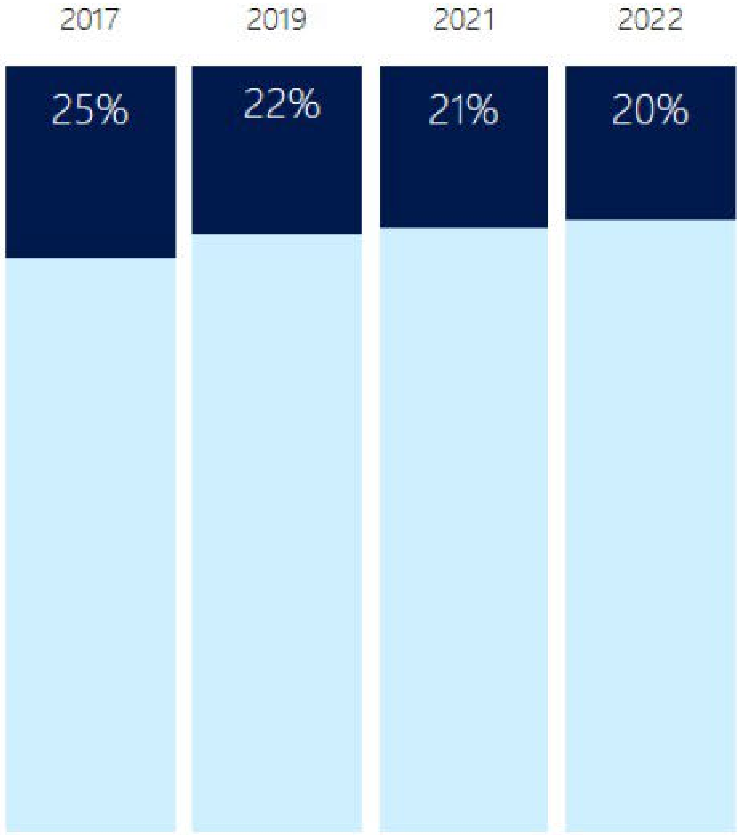
For borrowers with incomes below $25,000, a personal loan can exceed 40% of their annual income in 2022.

An average loan size / annual income



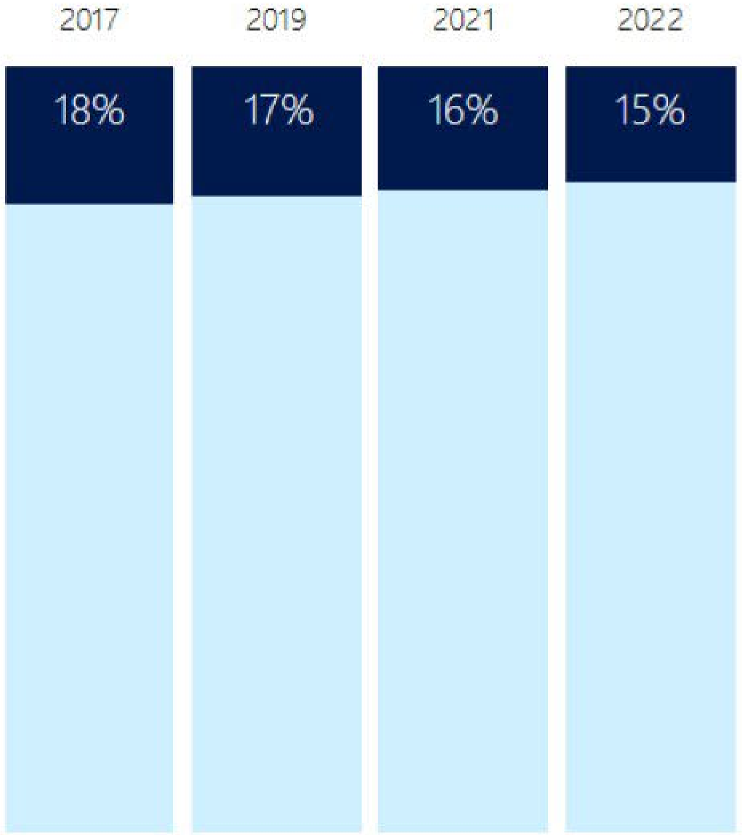
For borrowers with income between $25,000 and $50,000, the loan share amounted to a fifth of annual income.

An average loan size / annual income



Borrowers with income above $75,000 and below $100,000 have maintained a steady ratio of loan to income.

An average loan size / annual income



Data source: Prosper; individual loan data; 2022 loans through May 2022.

NONCONFIDENTIAL // EXTERNAL

FEDERAL RESERVE BANK *of* NEW YORK

The Role of Fintech in Unsecured Consumer Lending to Low- and Moderate-Income Individuals

How Has Fintech Changed Access to Unsecured Consumer Loans

Eldar Beiseitov, Economist, Federal Reserve Bank of Saint Louis

I am grateful to Ambika Nair of the Federal Reserve Bank of New York for her excellent analytical support.