WHICH LENDERS ARE MORE LIKELY TO REACH OUT TO UNDERSERVED CONSUMERS:
BANKS VS. FINTECHS VS. OTHER NONBANKS?

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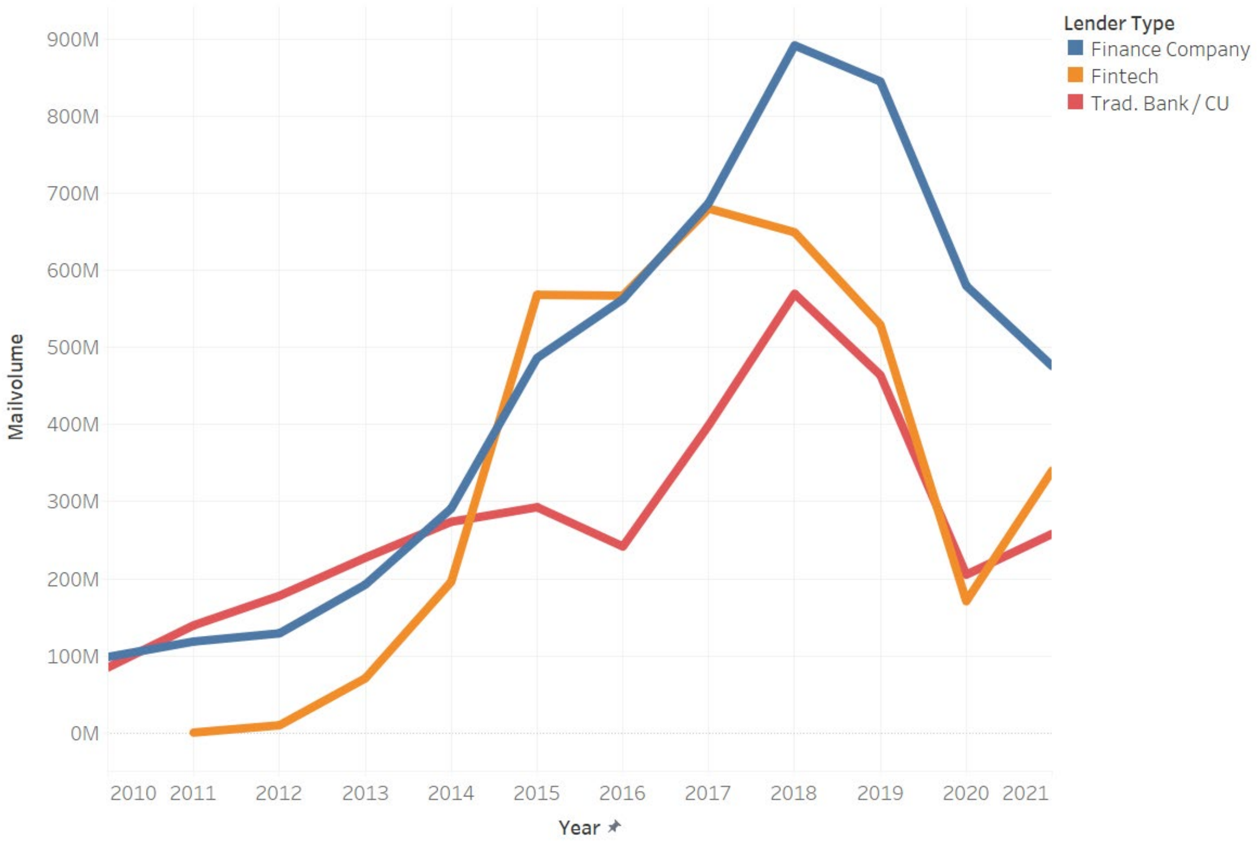
INTRODUCTION

- Fintech firms are a growing presence in many consumer credit markets.
  - TransUnion (2019) estimated that Fintechs held 38% of all personal loan balances in 2018 – the largest market share compared to banks, CUs, and other finance companies
  - Fintech credit offers to consumers increased dramatically in recent years (graph on right).



- What types of consumers are all of these credit offers going to?

RESEARCH QUESTIONS

- Do Fintech lenders target consumers who are likely to be "underserved" by traditional lenders?
  - Low-income consumers
  - Those in LMI areas?
  - Those in areas with less-banking services?

- How do the interest rates (APR) offered by Fintech firms compare to similar offers by traditional lenders?

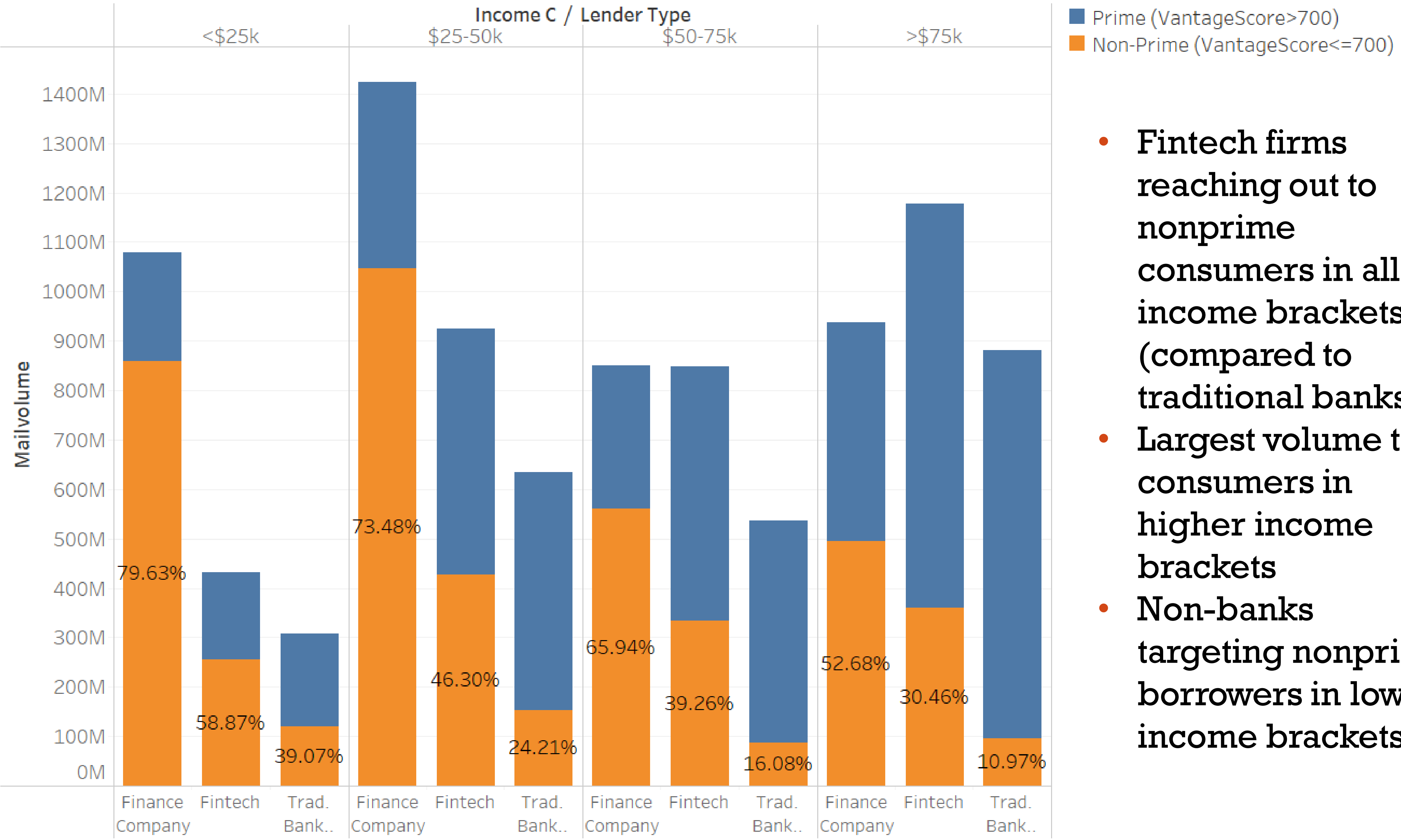
THE DATA

Mintel Comepremedia, Inc. Direct Mail Monitor Data and TransUnion LLC Match File (Mintel-TransUnion)

- Stratified random sample of 8,000 households/month that forward their offers on to Mintel
- Merged with TU data to obtain demographic & credit characteristics
- Sample includes data (credit offers) during the period 2015-2018

- **Other data include**
  - U.S. Census Bureau Data – American Community Survey
  - FRBNY Consumer Credit Panel/Equifax Data (FRBNY/Equifax CCP)
  - FDIC Summary of Deposits Database

PERSONAL LOAN MAIL VOLUME BY INCOME AND CREDIT SCORE (2015-2021)



- Fintech firms reaching out to nonprime consumers in all income brackets (compared to traditional banks)
- Largest volume to consumers in higher income brackets
- Non-banks targeting nonprime borrowers in lower income brackets

OUR EMPIRICAL APPROACH

- Logistic Regressions – Dependent variable = Binary variable indicating whether or not a credit offer comes from a Fintech firm
- Two sets of regressions:
  - 1) Traditional (banks) as the base group;
  - 2) Other non-banks as the base group
- Independent variables of interest:
  - Consumer level – Income brackets, Creditworthiness (VantageScore brackets, bankruptcy indicator, number of accounts 60+dpd, number of credit inquiries), Number of credit card offers received, Credit denials
  - Zip code level –Rural area indicator, Ave Equifax Risk Score of zip code, Credit card offers per 100,000, % minority, Zip Code Median Income

PERSONAL LOANS – FINTECHS VS. BANKS

- Fintech firms target nonprime consumers
- Higher-income consumers more likely to receive offers from Fintech firms
- Consumers who have recently filed for bankruptcy are much more likely to receive Fintech offer – around 25 percentage points
- Consumers whose credit requests have been recently denied are more likely to get a Fintech offer
- Mixed conclusions on whether Fintechs are targeting underserved consumers – Fintechs might target consumers who recently had good credit but overextended themselves and saw deterioration in their scores

SELECTED REGRESSION RESULTS: FINTECHS VS. TRAD. BANKS

Income $25K-$50K	-0.0013
Income $50K-$75K	0.0173*
Income >$75K	0.0306***
Near prime_d	-0.0747***
Prime_d	-0.236***
Bankruptcy_d	0.271***
Rural area_d	-0.00998
Ln(Non-Revolving Bal)	0.0109***
Ln(Revolving Bal)	0.0133***
Utilization revolving a/c	0.0015***
Credit_denials_d	0.0382***
Observations	51,349
Month-Year Dummies	YES

- Fintech firms target nonprime consumers
- Higher-income consumers somewhat more likely to receive offers from Fintech firms
- Consumers who have recently filed for bankruptcy are much more likely to receive Fintech offer – around 25 percentage points
- Consumers whose credit requests have been recently denied are more likely to get a Fintech offer
- Mixed conclusions on whether Fintechs are targeting underserved consumers – Fintechs might target consumers who recently had good credit but overextended themselves and saw deterioration in their scores

PERSONAL LOANS: FINTECH VS. NON-BANKS

Variable		
Income $>75k	0.160***	0.0501***
Prime_d	0.214***	0.188***
Bankruptcy_d	0.0730***	0.116***
Banks per 100k	-0.0001	-0.0001
# card offers	0.0154***	0.0106***
Ln(Non-Revolving Bal)		0.0061***
Ln(Revolving Bal)		0.0501***
Utilization on revolving accts		-0.0007***
Credit_denials_d	-0.0511***	-0.0480***

*** p<0.01, ** p<0.05, * p<0.1

- Non-banks target lower-income, more subprime consumers relative to Fintechs.
- Consumers who have bankruptcy on their credit file are more likely to receive Fintech offers.
- Number of card offers, log balances, and credit denials variables all indicate that other nonbanks are more proactive than Fintechs in reaching out to the "underserved" consumers, (but they also charge much higher APR interest rate).

SUMMARY – PERSONAL LOANS

- Mixed evidence of whether firms are reaching out to underserved consumers
- Fintechs target nonprime consumers and those who have recently been denied credit or recently filed for a personal bankruptcy
- However, consumers with higher balances and more credit cards are also more likely to get Fintech offers.
- Fintechs expand credit access to those who have trouble accessing credit and provide lower rates to nonprime consumers
- Most creditworthy borrowers (in any VantageScore 2.0 band) may obtain lower interest rates from Fintechs than from banks.

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