Perpay Current Marketplace Review and Revised Underwriting Strategy

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perpay

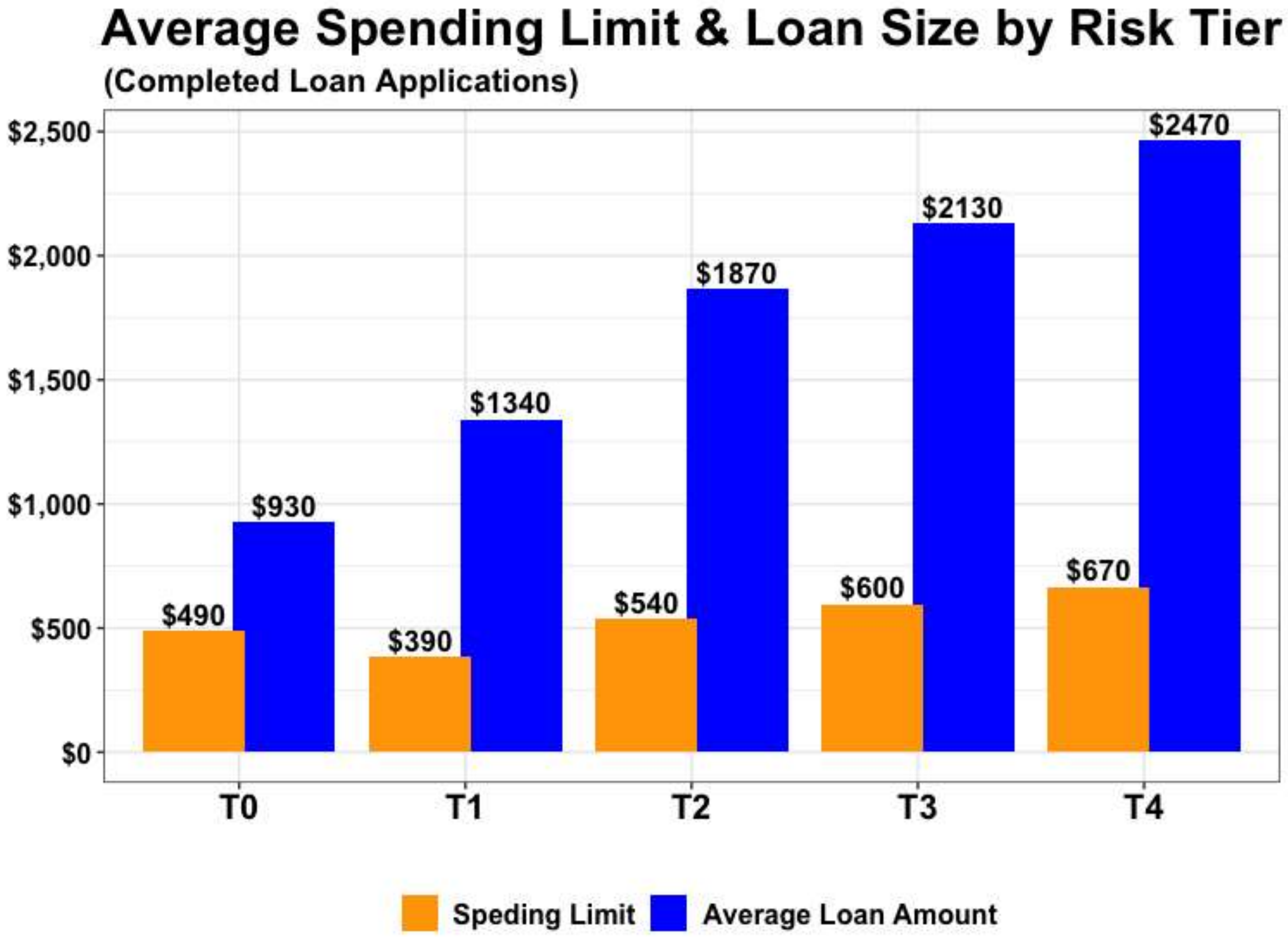
Executive Summary

- On Completed Applications, Average Loan Size Far Outpaces Average Spending Limit
- Key Separators For Accepted vs. Denied Loans Are Spending Limit, Loan History, and Verified Employer
- D60 Delinquency is a Much Better Predictor of M12 Charge-Off Rates than D30 Delinquency
- Large Loans vs. Spending Limit and No Employer are Drivers for Delinquency and Chargeoffs
- Lending Strategy Should Focus on Loan Size, Loan Size vs. Spending Limit, and Loans in Repayment
- Revised Strategy Cuts Chargeoff Losses By 39.5% while only Lowering Approval Rate by

Agenda

- Qualities and Characteristics of Completed Applications
- Key Separators Between Accepted Vs. Denied Applications
- Delinquency and Chargeoff Trends and Cycles
- Drivers of Delinquency and Chargeoffs
- Proposed Subprime Lending Strategy and Effect on Perpay’s Financial Health
- Next Steps

On Completed Applications, Average Loan Size Far Outpaces Average Spending Limit



- The **gap between average spending limit and average loan size widens** as risk tier moves towards **less risk**

- **T1** completed applications have a **lower average credit limit** than **T0** completed applications, while **T1 average loan size is larger than T0**

Key Separators For Accepted vs. Denied Loans Are Spending Limit, Loan History, and Verified Employer

Approved Vs. Denied Loan Characteristics (All Figures are Averages)

Loan Status	Loan Amount	Spending Limit	Loan Size as a % of Spending Limit	Competed Loans	Amount Deposited	Employer Listed
Approved	$509	$1,635	57%	1.8	$1,002	99%
Denied	$526	$972	71%	0.2	$104	0%

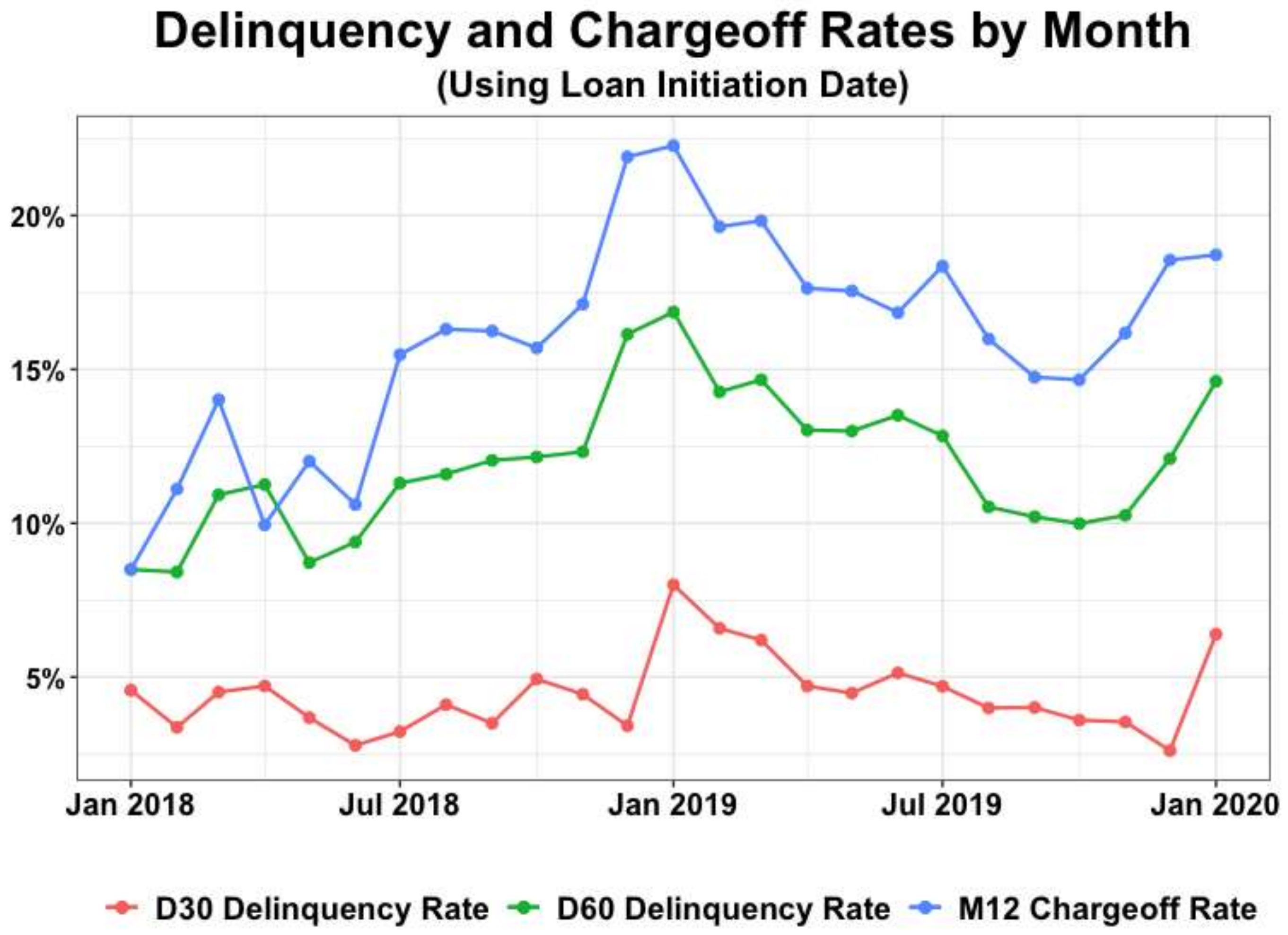
- **Approved loans**, on average, are **slightly smaller** and make up a **smaller percentage** of a Perpay user's **spending limit**
- **Completed loans** are another **key separator** in approved vs. denied applications, as approved loans have a **robust deposit history** and have shown the **ability to pay a loan back in full**
- **99% of accepted loans** have a **verified employer** attached to the application, while **0% of denied loans do**

D60 Delinquency is a Much Better Predictor of M12 Charge-Off Rates than D30 Delinquency

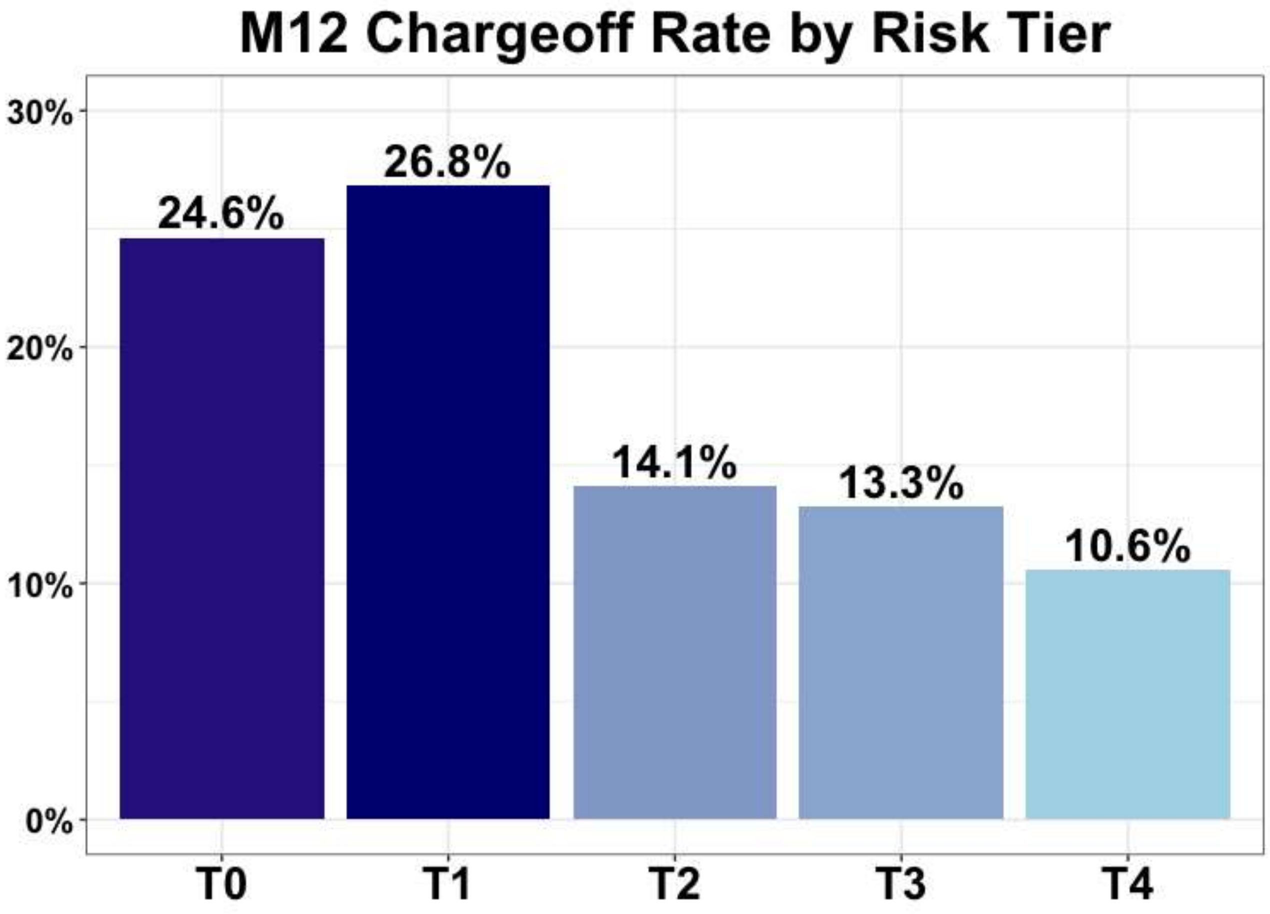
- Changes in **D60 Delinquency rates mirror M12 Chargeoff rates closely**

- **D60** Delinquency and **M12** Chargeoff Rates have **trended upwards since 2018**

- **The uptick at the end of each calendar year** is likely due to people **spending outside their means for holiday shopping**



Large Loans vs. Spending Limit and No Employer are Drivers for Delinquency and Chargeoffs



- **33% of M12 chargeoffs** come from loans that are **greater than the person’s spending limit**
- M12 chargeoff rate for **approved loans with no employer listed** was **26% for T0, 36% for T1, and 18% for T2**
- These rates are an **increase from overall chargeoff rates** by Risk Tier

Lending Strategy Should Focus on Loan Size, Loan Size vs. Spending Limit, and Loans in Repayment

Lending Criteria (Loan and User Must Meet ALL Criteria to be Approved)

Risk Tier	Max Loan Size	Max Loan Size As % of Spending Limit	Max Loans in Repayment	Employer Listed
T0	$1500	150%	N/A	Yes
T1	$2500	200%	2	Yes
T2	$3500	No Limit	4	Yes
T3	$3500	No Limit	6	Yes
T4	$4000	No Limit	No Limit	Yes

- **Limiting loans in repayment** helps to **mitigate risk** while **maintaining high approval rates**

- **T1** M12 chargeoff rates were **41%** for loans approved with **more than 2 loans in repayment**

Revised Strategy Cuts Chargeoff Losses By 39.5% while only Lowering Approval Rate by 3.8%

Current Vs. Proposed Strategy KPIs

	Chargeoff Rate	Losses From Chargeoffs	Approval Rate
Current Strategy	17.3%	-$1,549,114	96.5%
Proposed Strategy	8.6%	-$937,239	92.7%
Change	-8.7%	+$611,875 (+39.5%)	-3.8%

- **58%** of the loans that were **approved but would be denied with the revised criteria** resulted in **M12 chargeoff**
- The revised lending strategy was **highly successful in increasing revenue** through loss prevention, while maintaining relatively **high approval rates**

Next Steps

- Consider **adjusting lending strategy** during the **holiday season** to mitigate risk
- Obtain **more complete spending limit data** to enhance strategy
- Monitor the **effects of the COVID-19 pandemic** on delinquency trends and user habits