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dv01

Insights

COVID-19 PERFORMANCE REPORT VOLUME 14

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Contents

Introduction

Since dv01 connects directly with the largest online lenders to cleanse, validate, and standardize loan data, we are able to release bi-weekly reports based on daily loan performance. The mid-month reports consist of high-level performance snapshots of the online lending sector, and our end-of-month reports provide a comprehensive analysis that includes mortgage trends. You can access all dv01 reports here.

Methodology

The data in this report represents loan performance activity reported from January 1, 2019 through October 6, 2020. As with prior reports, only issuers reporting loan information on a daily cadence are included. The report is based on the full population of loans without any filtering or sampling for the most accurate and complete picture. All issuer information is aggregated, and no issuer-specific commentary is provided.

Beyond looking solely at aggregate performance, dv01 filtered and stratified performance based on a number of attributes. Among the most commonly reviewed attributes is loan grade, which is an issuer-defined categorization of the issuer's own loan portfolio based on credit attributes and linked to underlying loan interest rates. Because of the varying grade classifications used by different issuers, dv01 utilized heuristic assumptions to group grades into the following three categories for an apples-to-apples comparison:

- Top Grade: Represents lower-risk, lower-interest-rate loans
- Middle Grade: Represents medium-risk, medium-interest-rate loans
- Bottom Grade: Represents higher-risk, higher-interest-rate loans

Size and Specs of Datasets

The online lending analysis looked at over 2.3 million active loans with a total outstanding balance of $23 billion from leading US online lenders. The loans have a weighted average ("WA") FICO score of 713, weighted average coupon ("WAC") of 15.3%, and an average balance of approximately $10,000. Approximately 78% of the loans are used for debt consolidation purposes. dv01 accessed and analyzed these loans via securitizations, pass-through certificates, and aggregated platform-level reporting.

Terminology

- Delinquency: A loan is delinquent when a borrower is past due on their loan payment and is not in an active modification.
- Impairment: An impairment refers to any loan that is delinquent or has an active modification status. This category is a combination of delinquencies and modifications.
- Modification: A modified loan means there has been a change made to the original agreed-upon terms of a loan or that a borrower has been offered a temporary pause on making loan repayments. Borrowers must contact the issuers directly and request a modification in order to qualify; they are not offered automatically.
- Negative outcome: A loan that had its initial modification extended, has been charged off, became delinquent.
- Positive outcome: A loan that was previously modified but has since been prepaid or has returned to current status.
- Prepayment: The early repayment of a loan, in whole or in part, by a borrower in excess of their scheduled or expected principal payment amount, according to their amortization schedule.

Important note about changes in performance

While analyzing performance, dv01 observed a reporting inconsistency wherein some modifications were stated as completed and borrowers returned to current. Due to discrepancies in raw data reporting, we uncovered that these loans were actually transitioning into a new form of modification with reduced payments, and we have correctly reclassified these loans as Modified.

This reporting inconsistency primarily affected impairments starting in August and has had minor impacts in our overall analysis; the maximum impact is estimated to be 17 bps (0.17%) at the end of September. dv01 has incorporated these reclassified loans into our reporting and all charts have been updated accordingly. While these data changes primarily affect all total impairment charts, it does not impact any commentary on new impairment rates.

We do not view the changes as materially altering our conclusions or market commentary. As we have noted previously, issuers and servicers are dealing with a substantial effort to aid millions of borrowers facing distress, and in some isolated cases, reporting practices need to be refined to ensure data is properly categorized.

Impairment Performance Overview

Total impairments have continued their long-term decline in early October and now stand at 8.6%, flat relative to our last report that looked at data through September 22, 2020, and have recovered over 70% of their COVID-19-related increase. The flattening of total impairments over the past two weeks is not an indication of weakening performance, but instead, it is due to the shift in performance reporting coupled with the typical increase in early-month delinquencies that dv01 has discussed several times throughout our reports.

A large percentage of loans face payments at the beginning of the month **(Figure A.0.1)**, which is when impairments usually increase. This view is further strengthened by reviewing new impairments this month so far **(Figures 3.1 and 3.2)**, which are trending below August and September levels. Furthermore, the rate of new impairments remains below pre-pandemic levels for the sixth consecutive month. Even with initial jobless claims holding steady around 850,000 over the past four weeks (4x the rate of pre-pandemic claims), performance continues to improve.[1]

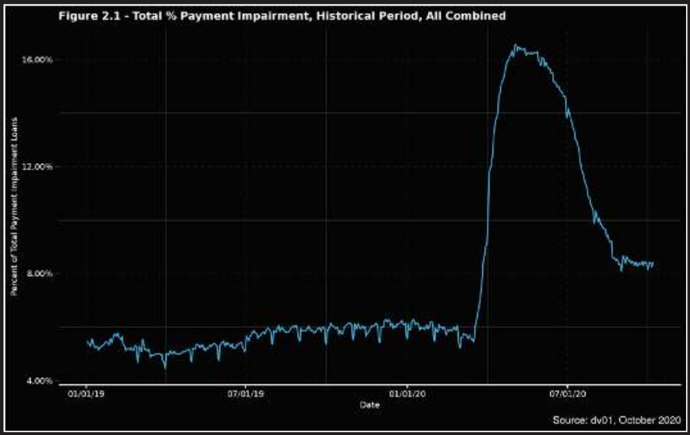


Figure 2.1 - Total % Payment Impairment, Historical Period, All Combined

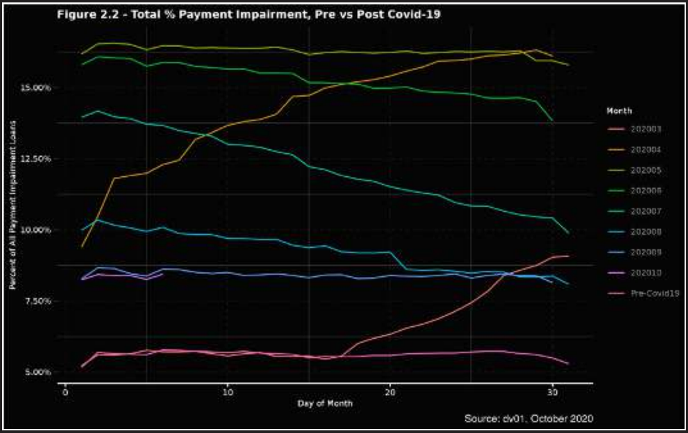


Figure 2.2 - Total % Payment Impairment, Pre vs Post Covid-19

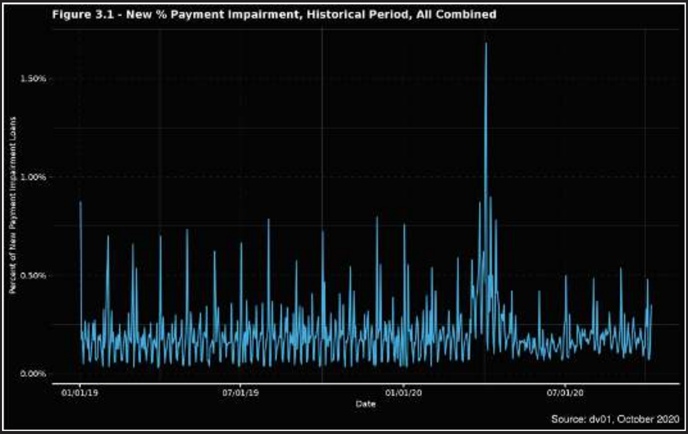


Figure 3.1 - New % Payment Impairment, Historical Period, All Combined

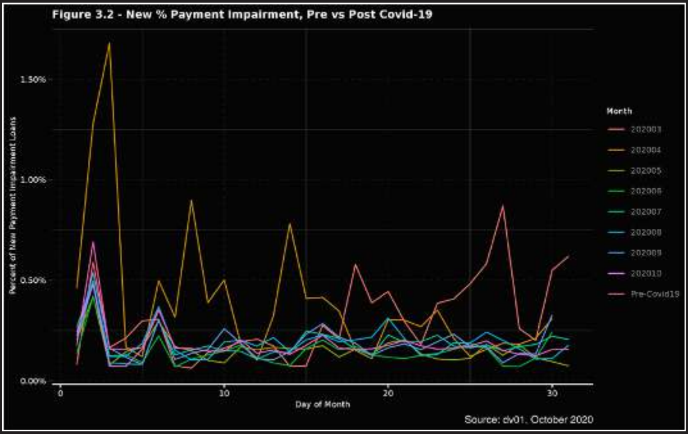
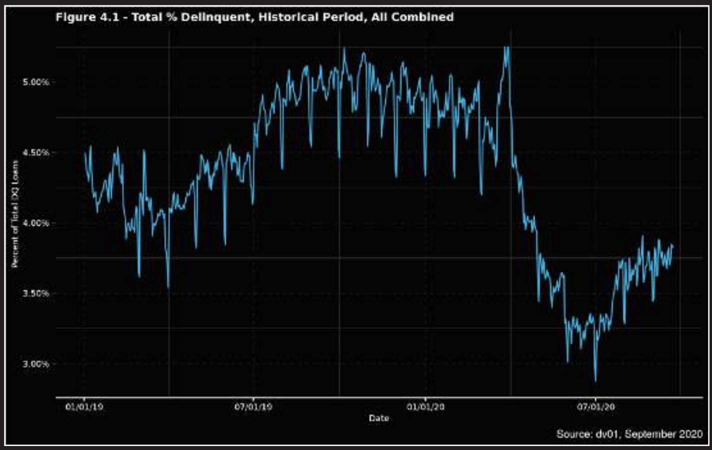


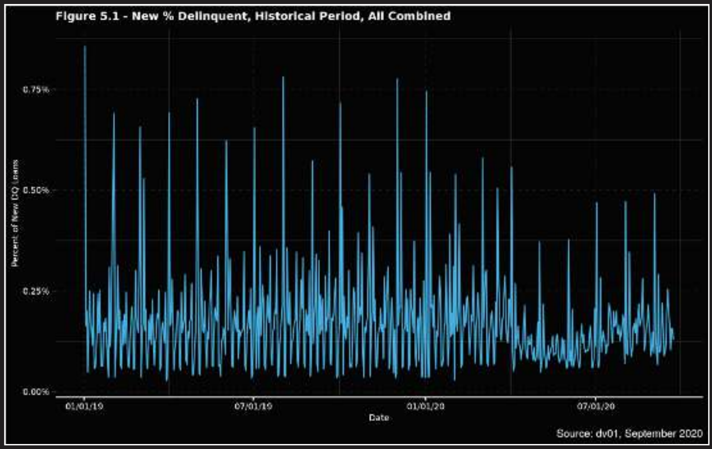
Figure 3.2 - New % Payment Impairment, Pre vs Post Covid-19

1 https://fred.stlouisfed.org/series/ICSA

Delinquency Analysis

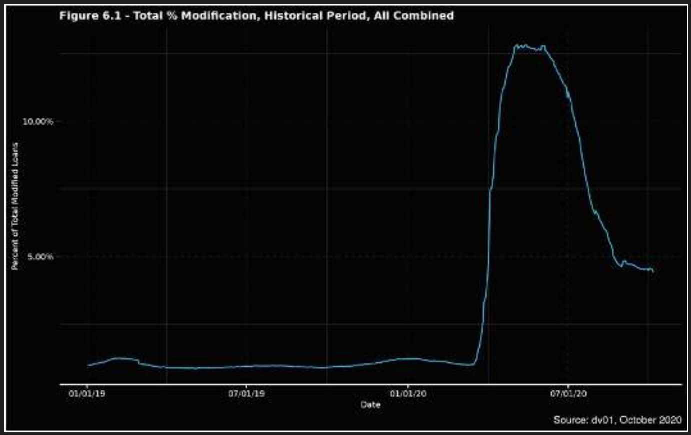
Total delinquencies stand at 4%, up 20 bps from the prior publication (data cutoff date of September 22, 2020). The increase is primarily due to typical early-month seasonality. Additionally, a portion of borrowers receiving modifications have been unable to resume normal repayment and have gone delinquent. This segment represents a fraction of completed modifications and is dwarfed by the volume of borrowers that have returned to full payments. Even with additional borrowers going delinquent after their modification period, overall delinquencies remain well below historical averages.

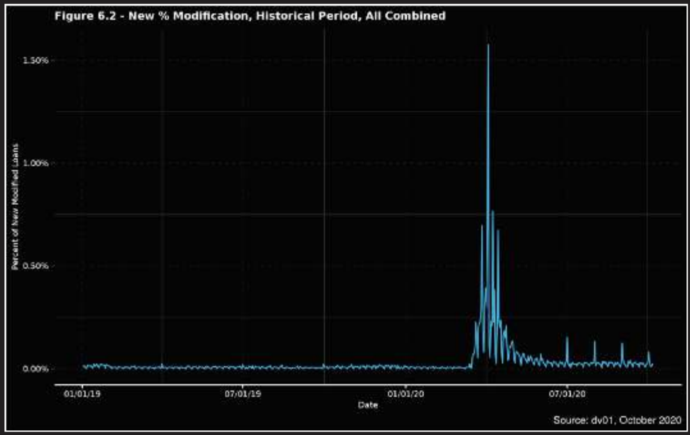


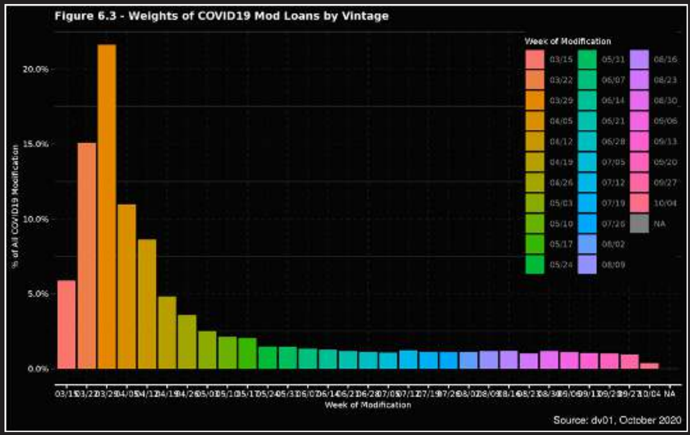


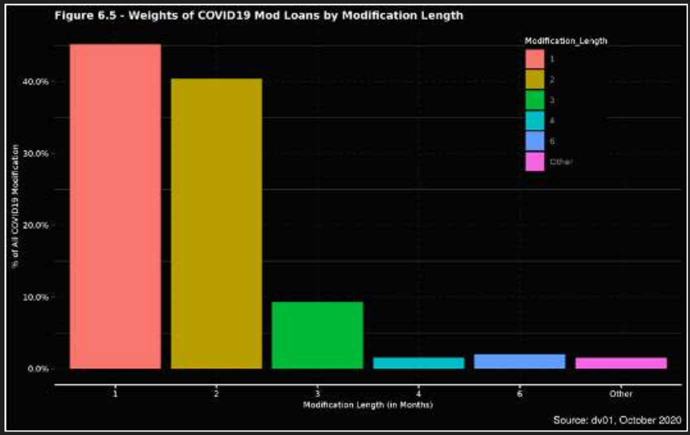
Modification Analysis

Even with the sizeable decline in total modifications, they remain the predominant driver of impairments and follow the same broad trend observed in the impairment charts. Our focus for modifications continues to shift from new modifications to how borrowers are resuming to repay their loans. New modification rates have been steady for the past two months, at weekly levels less than 5% of the rates observed in late March.





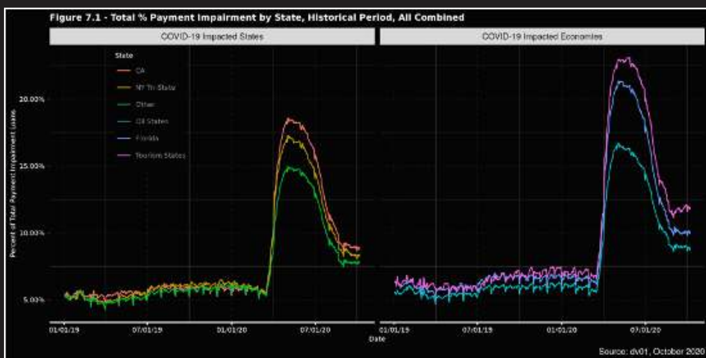




Impairment Performance by Collateral Characteristics

Geographic Regions

Since early September, dv01 has observed a continued increase in total impairments in the tourism states (Hawaii and Nevada), reflecting the continued struggles of the leisure and tourism industries. Total impairments are back to August levels, but still down over 70% from their pre-pandemic peaks.



Homeownership Status

Impairment rates are falling in both homeowner and renter loans. The total difference in impairments has shrunk substantially and is now near pre-pandemic levels.

Loan Grade

Total impairments continue to decline in Top Grade loans. The slight increase in impairments for the Bottom Grades, noted in our prior publication, continued through the end of September but have been improving. Much of the increase is linked to early-month seasonality and the performance change discussed earlier.

Loan Age

Impairments are declining across all loan ages. The strongest performance is among loans age 6 or less, since these categories are predominantly composed of post-pandemic originations, which have the strongest credit profiles and were written to much more stringent standards.

Income and PTI

Total impairments rose slightly for loans with income below $70,000 toward the end of September and early October. Similar to loan grade, much of the increase is linked to early-month seasonality and the performance change discussed earlier. Other income categories were largely unchanged and there was no material change in behavior across PTI categories.

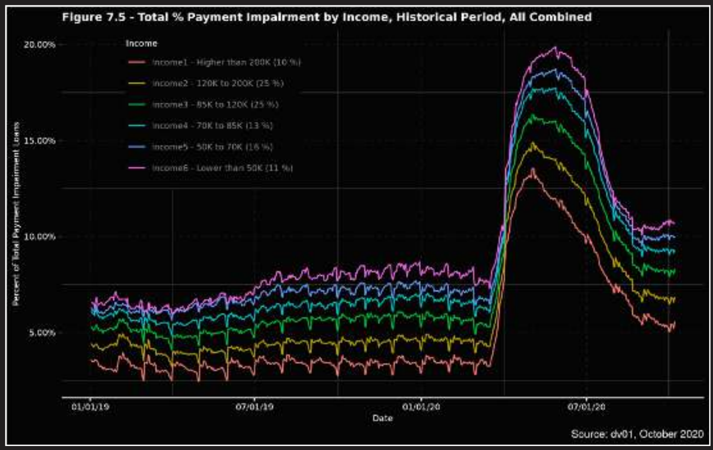


Figure 7.5 - Total % Payment Impairment by Income, Historical Period, All Combined

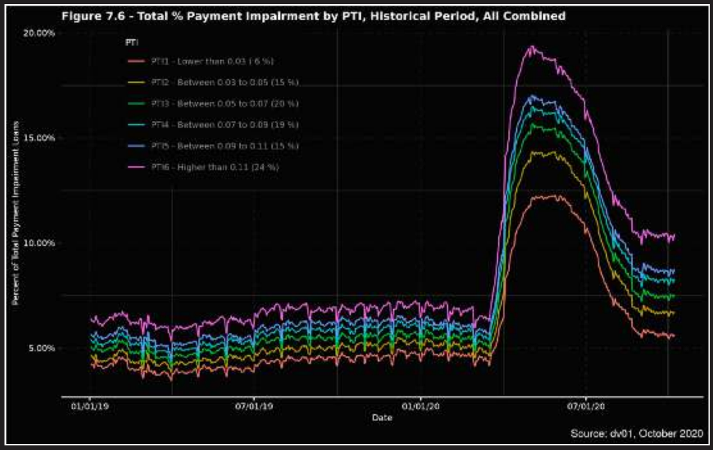


Figure 7.6 - Total % Payment Impairment by PTI, Historical Period, All Combined

COVID-19 Modification Repayment Overview

Repayment rates on modifications continue to increase, unabated by the removal of additional unemployment stimulus. Over 81% of all COVID-19 modified loans have resumed some form of repayments, up from 78% since the previous report (data cutoff date of September 22, 2020). Repayments are increasing at a faster rate each month since March and April, with June and particularly July repayments trending substantially faster **(Figure 8.3)**.

Figure 8.1 - Total % COVID19 Modified Loans Made Payment

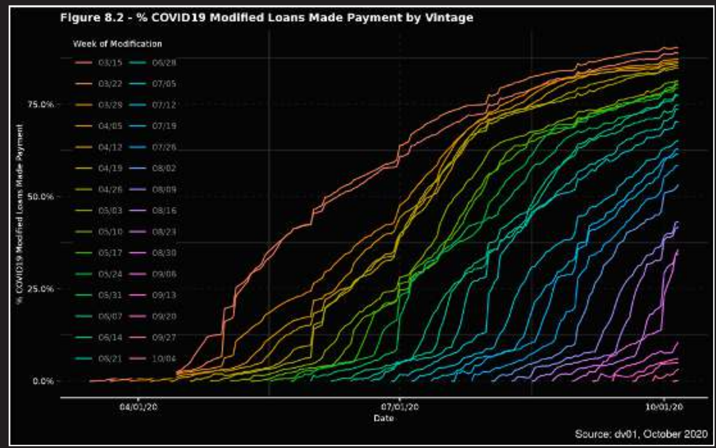


Figure 8.2 - % COVID19 Modified Loans Made Payment by Vintage

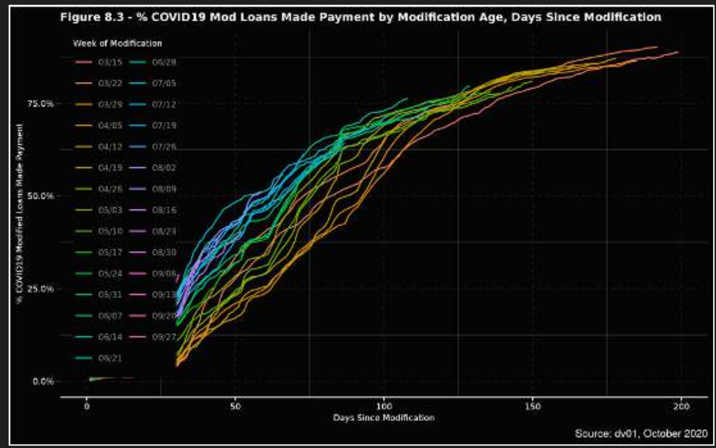
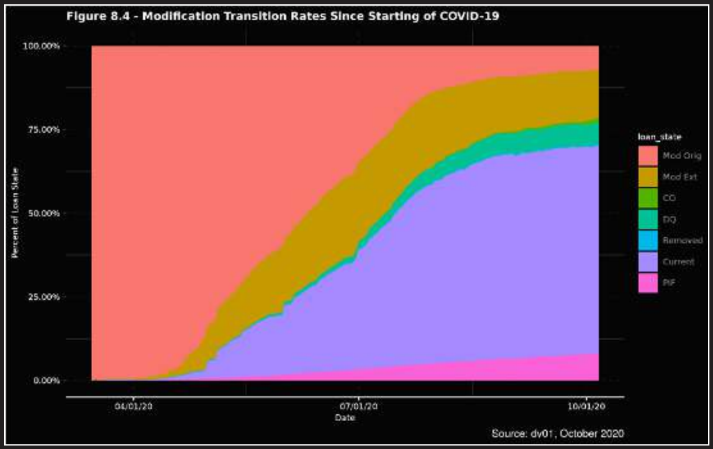


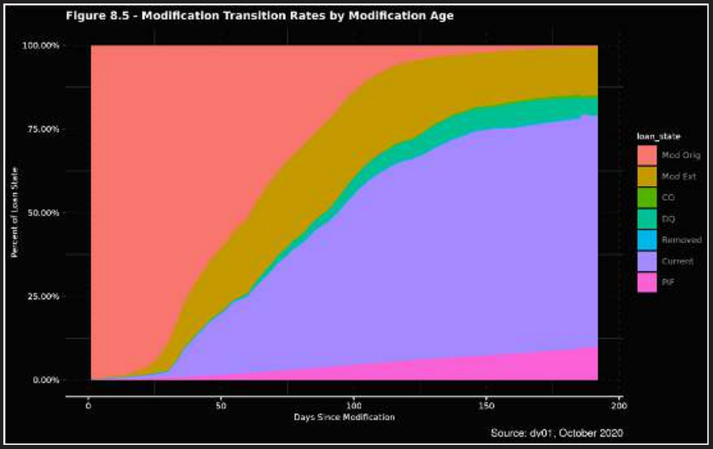
Figure 8.3 - % COVID19 Mod Loans Made Payment by Modification Age, Days Since Modification

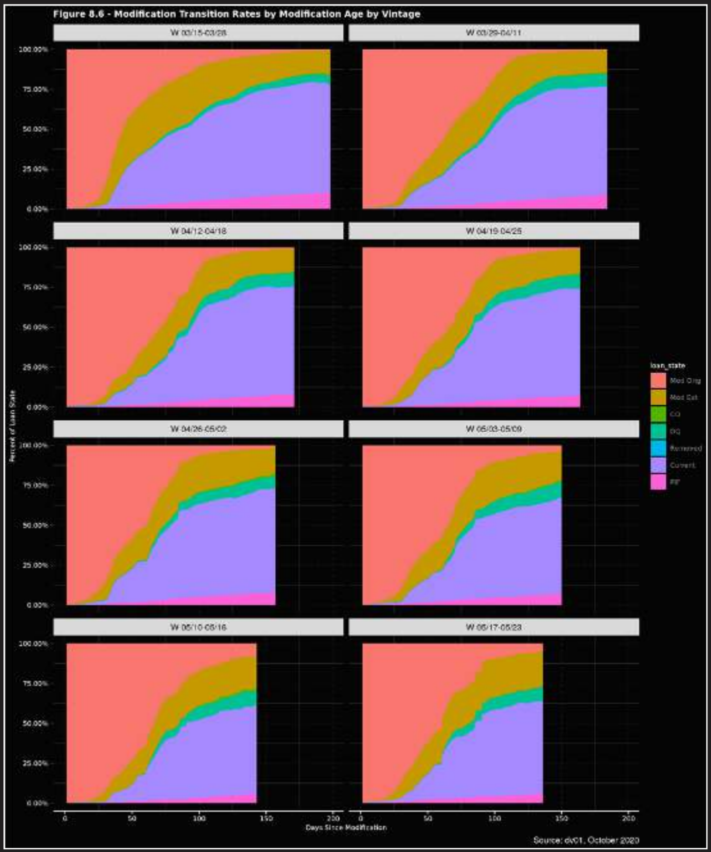
Full Modification Path

We plot the full potential path of potential outcomes for modifications in **Figure 8.4**. Over 69% of borrowers have either prepaid their loans or returned to current status and full repayment on their loans ("positive outcome"). This is 3x higher than the 22.8% of borrowers who seek additional extensions, go delinquent, or charge off ("negative outcome"). Furthermore, this ratio has continued to improve over the past month. Since the end of June, the portion of positive outcomes has increased from 37% to 68%, while the portion of negative outcomes has decreased from 27% to 23%.

We observe similar behavior when plotting outcomes by days since modification **(Figure 8.5)** and by the week the loan was modified **(Figure 8.6)**. Positive outcome rates have increased each week since mid-March, and modifications made in late April and early May approach a 60% positive outcome sooner (by over 30 days) than modifications made in March and early April.







Modification Repayment by Collateral Characteristics

Modification repayment behavior has largely remained consistent over the past few reports. The difference in repayment behavior between low and high FICOs, and Top and Middle/Bottom Grades continue to converge. There is virtually no difference in repayment rates across income categories and that has continued since August.

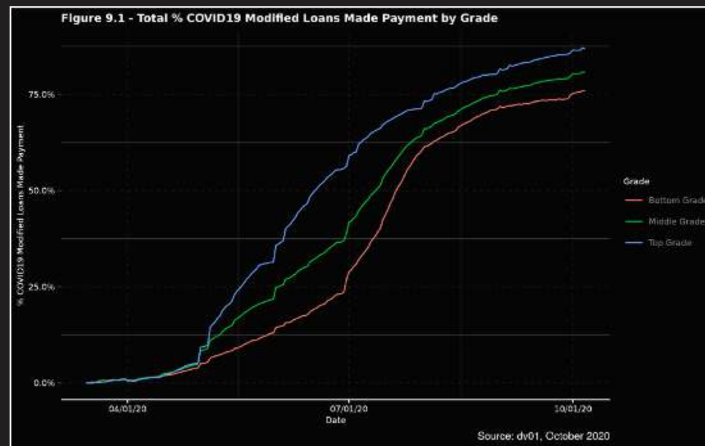


Figure 9.1 - Total % COVID19 Modified Loans Made Payment by Grade

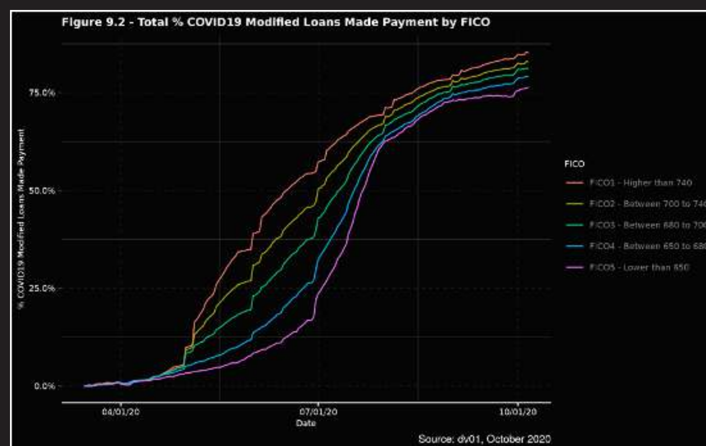


Figure 9.2 - Total % COVID19 Modified Loans Made Payment by FICO

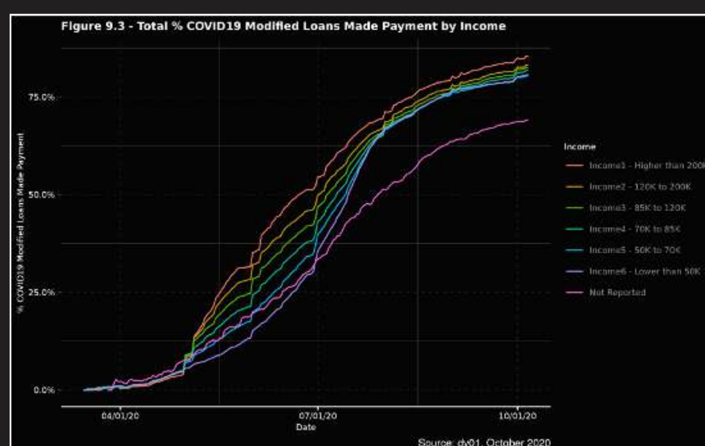


Figure 9.3 - Total % COVID19 Modified Loans Made Payment by Income

Prepayment Overview

Figures 10.1 and **10.2** show total daily prepayment behavior for all online consumer unsecured loans, with **10.2** being easier to read due to the aforementioned monthly reset of prepayments. With September data now complete, we observe that prepayments exceeded August levels and remain close to record highs. Initial prepayment rates for October look in line with recent months.

Figure 10.1 - % Prepayment, Historical Period

Figure 10.2 - % Prepayment, Pre vs. Post Covid-19

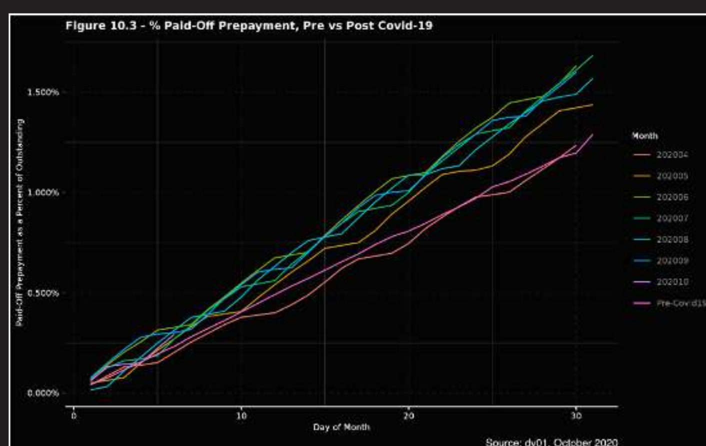


Figure 10.3 - % Paid-Off Prepayment, Pre vs Post Covid-19

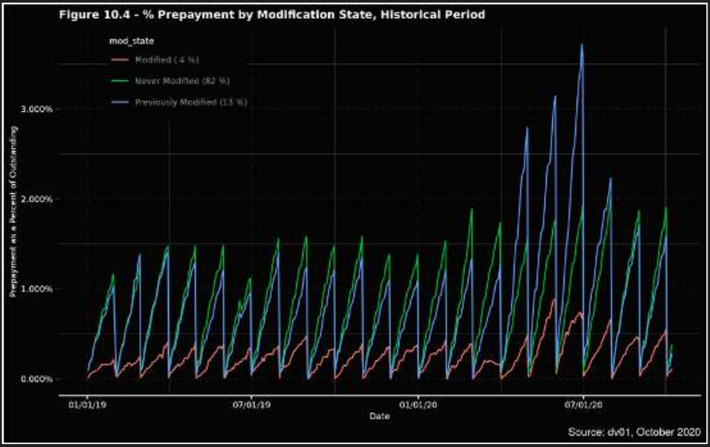
Prepayment by Modification Status

As we have dedicated so much time to modification analysis throughout the report, we present prepayment behavior by modification status. We categorize loans into three:

- Never Modified (82%): Borrowers who have never been modified and are current—this is the vast majority of the outstanding universe.
- Modified (5%): Borrowers currently modified.
- Previously Modified (13%): Borrowers who were enrolled and have completed a deferral program and have returned to normal payments.

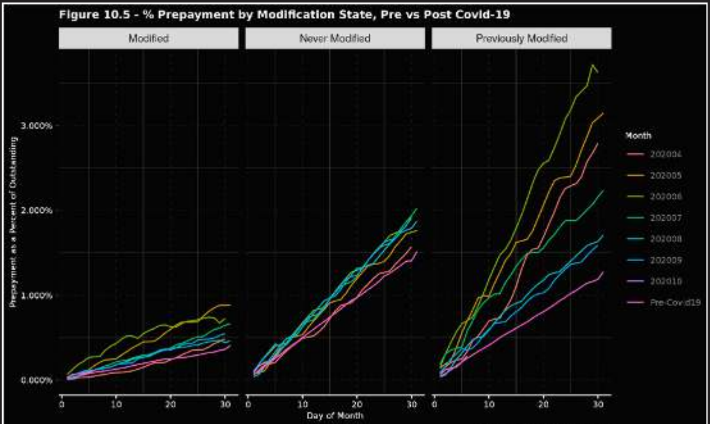
Figures 10.4 and **10.5** illustrate that prepayment rates on Previously Modified borrowers have continued to slow in September from August and especially relative to May and June. As modifications schedules are completed, the percentage of Previously Modified loans increases each month, which is the main driving factor behind the slowdown. As such, the prepayment rates observed for May and June represented a very small universe of loans at the time. The prepayment rate on Never Modified loans has exceeded the rate on Previously Modified, which is the logical behavior dv01 would anticipate going forward.

Figure 10.4 - % Prepayment by Modification State, Historical Period



Source: dv01, October 2020

Figure 10.5 - % Prepayment by Modification State, Pre vs Post Covid-19



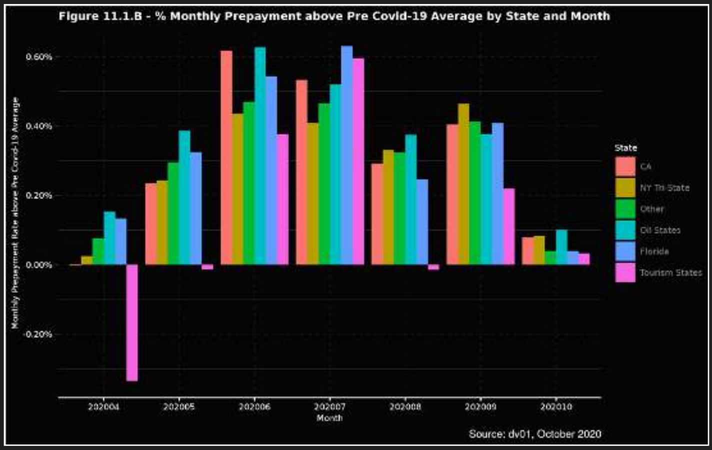
Source: dv01, October 2020

Prepayment by Collateral Attributes

In order to present prepayments by collateral attributes, we use the chart format seen in **Figure 10.1**. This is the only chart format that allows us to illustrate levels between multiple attributes without having too many lines on the charts. With that in mind, in order to best capture the magnitude of changes by attribute, we introduce an additional chart format, titled **Figure 11.X.B**, which illustrates the degree that prepayments in different attributes exceed—or are below—their pre-pandemic averages.

Geographic Region

Prepayment rates rose substantially in Florida and tourism states in September relative to August, largely reversing the sizable declines from July to August. Prepayments rose modestly in all other regions in September and set post-pandemic highs in the New York tri-state area.



Loan Grade and Homeownership Status

Prepayment rates reversed their August declines across all grades in September and increases were similar across all grades. The same behavior was observed across Homeownership status.

Figure 11.2 - Total % Prepayment by Grade, Historical Period, All Combined

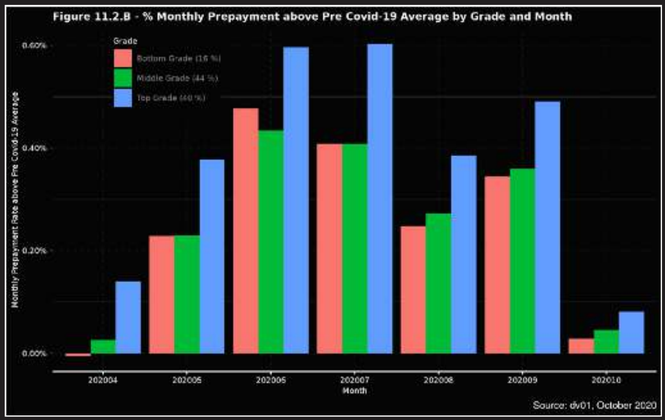


Figure 11.2.B - % Monthly Prepayment above Pre Covid-19 Average by Grade and Month

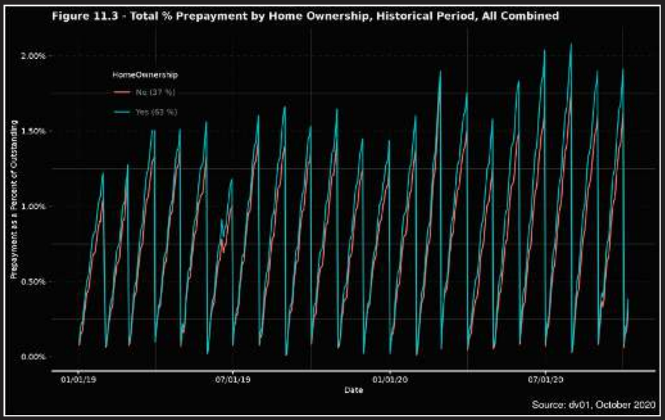


Figure 11.3 - Total % Prepayment by Home Ownership, Historical Period, All Combined

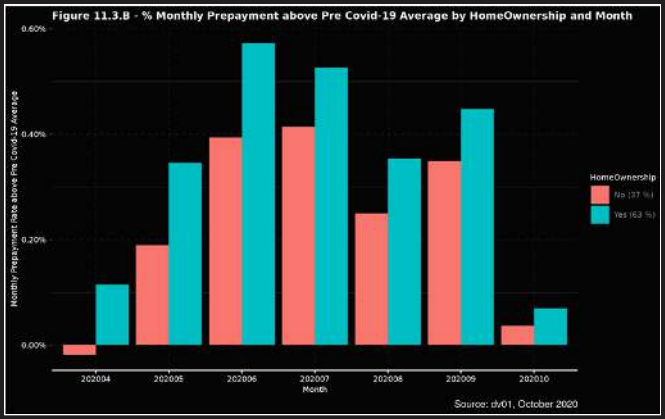
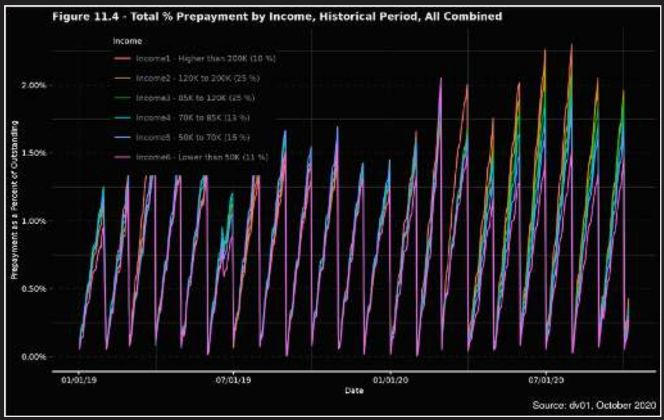
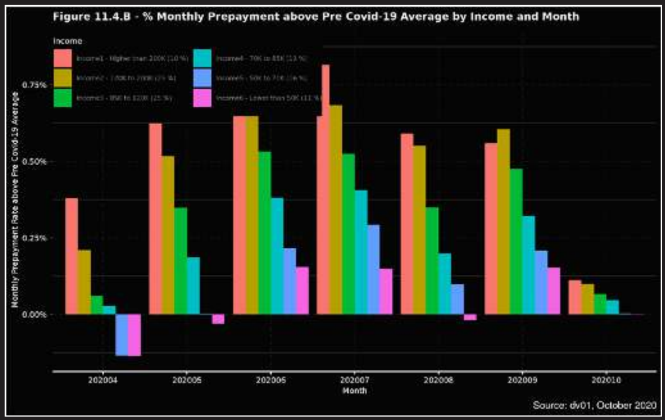


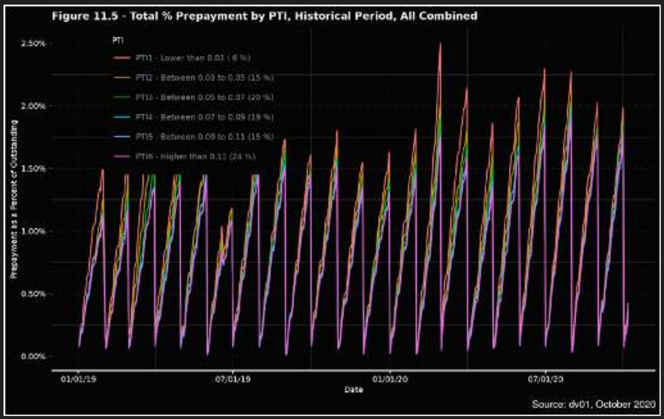
Figure 11.3.B - % Monthly Prepayment above Pre Covid-19 Average by HomeOwnership and Month

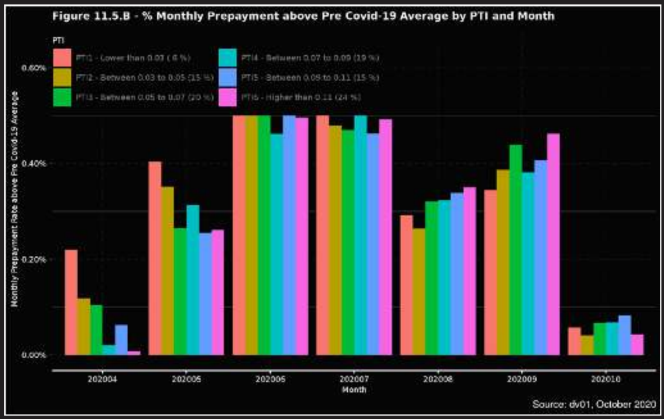
Income and PTI

Prepayment rates rebounded substantially across lower income (<$85K) categories in September and reached record highs for the <$50K category. Prepayment Across higher income loans rose modesty and actually declined for the >$200K category. Prepayments rose evenly across all PTI buckets, and unlike impairments, PTI has not shown to be a substantial differentiator of activity between categories since the start of the pandemic.









Issuance Volume Analysis

While performance trends have been the focal point of our reports, we shift our attention to September issuance trends. We present changes in attributes on both an MoM (month over month) and YoY (year over year) basis to better illustrate that newly issued loans are still materially higher credit quality to reflect post-pandemic uncertainty, despite the easing of significant tight lending standards implemented at the start of the pandemic.

As in prior reports, due to the difference in new issuance reporting cadence and the lack of new securitizations in online lending, the following caveats still apply:

- Only platform-level information is covered in this section on issuance.
- The constituents and composition of the issuance discussion are not consistent with the remainder of the report.
- Due to the confidential nature of underwriting standards and credit quality of our partnering issuers, dv01 cannot disclose the exact collateral characteristics of new issuance. Users can subscribe to our Market Surveillance offering for a complete understanding of new and existing collateral trends, along with all relevant performance information.

September issuance volume marked another month of strong recovery in new volumes. September volume increased 9.5% MoM, similar to the increase in August, but slower than the 20% MoM growth observed for June and July. Similar to August, the slowdown is primarily due to fall being a traditionally slower issuance cycle (originations slowed 8% from August to September 2019). Given this factor, origination volumes are now only 38% lower YoY versus 48% lower In August and 56% July YoY.

Weighted Average ("WA") FICO scores were flat MoM, but still up 7 points YoY and 9 points YTD. WA DTI was up 10 bps MoM and decreased 200+ bps YoY and YTD. Top Grade loans represented 61% of all September issuance, down from 63% in August and 73% at the peak in June, but up from 51% in September 2019 and 54% at the start of 2020. Finally, pricing on all loan grades remains elevated. GWACs for Top Grade loans fell down 20 bps MoM but still up 65 bps YoY and 25 bps YTD.

Perhaps as importantly as increasing volume, dv01 has observed a slight loosening in underwriting characteristics from historically tight levels. Both issuers and investors have increased lending to a wider array of applicants, due in part to the robust performance observed across all borrower segments since the start of the pandemic. That acknowledgement of performance has brought both new and previously dormant investors back to new loan purchasing—a further indicator of the sector returning to normal operation.

Furthermore, even with slight moderation of standards, issuers are still maintaining tighter underwriting than previous periods. This voluntarily decreases issuers revenue to better safeguard investors and ensure new originations are aligned with an economy facing substantial uncertainty. There is a strong emphasis on stringent income verification and electronic payment requirements, along with evaluating any prior COVID-19-related deferrals on any form of credit.

About dv01

Because performance data is only available on a monthly basis (the typical payment frequency) and is usually reported with a lag, there has been little loan performance information available to see how consumers and businesses are responding to the slowdown. Since dv01 connects directly with the largest online lenders in the consumer world to cleanse, validate, and normalize loan data, we are able to make weekly observations based on daily loan performance.

As the world's first end-to-end data management, reporting, and analytics platform for loan-level consumer lending data, dv01 is bringing unparalleled transparency and intelligence to every securitization for every investor.

With over 590 securitizations on the platform, dv01 has partnered with over 25 issuers and provided securitization reporting and analytics on over $110 billion transactions across consumer unsecured, mortgages, small business, and student loans. Additionally, in 2019, dv01 onboarded the CRT dataset, resulting in a total notional balance of $3 trillion.

By building the most comprehensive available library of MBS and ABS data, dv01 is empowering the capital markets with world-class tools to make safer data-driven decisions. Learn more at dv01.co or contact sales@dv01.co for more information.

Appendix

Additional Charts

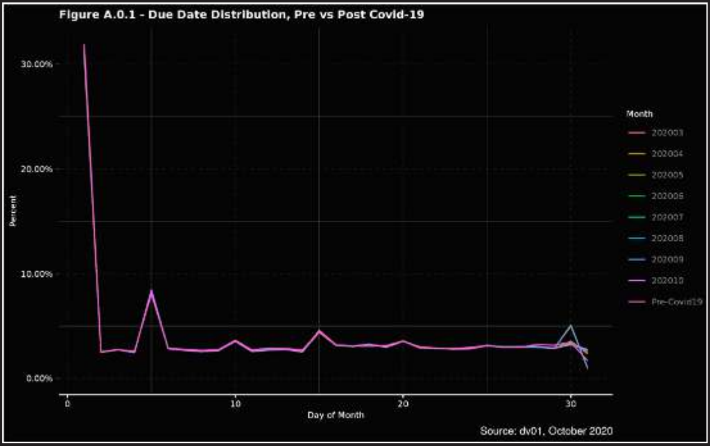


Figure A.0.1 - Due Date Distribution, Pre vs Post Covid-19

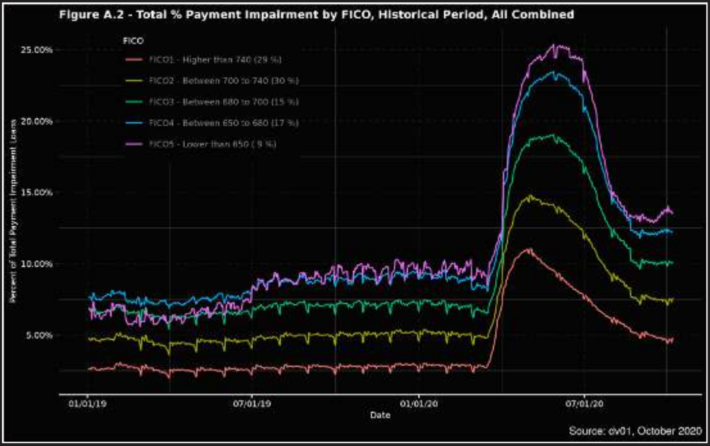


Figure A.2 - Total % Payment Impairment by FICO, Historical Period, All Combined

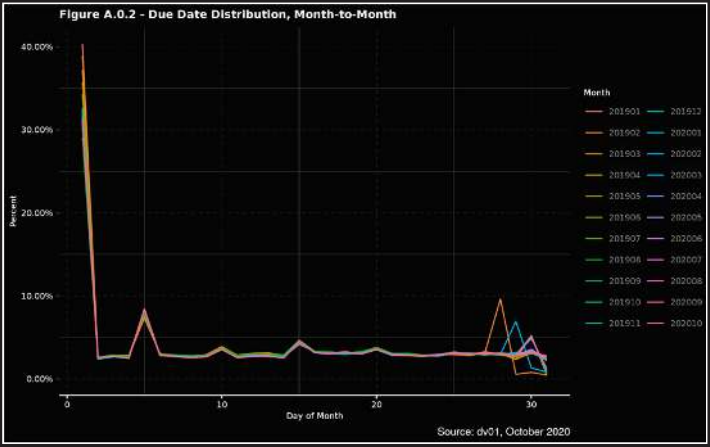


Figure A.0.2 - Due Date Distribution, Month-to-Month

Figure A.3 - Total % Payment Impairment by Term, Historical Period, All Combined

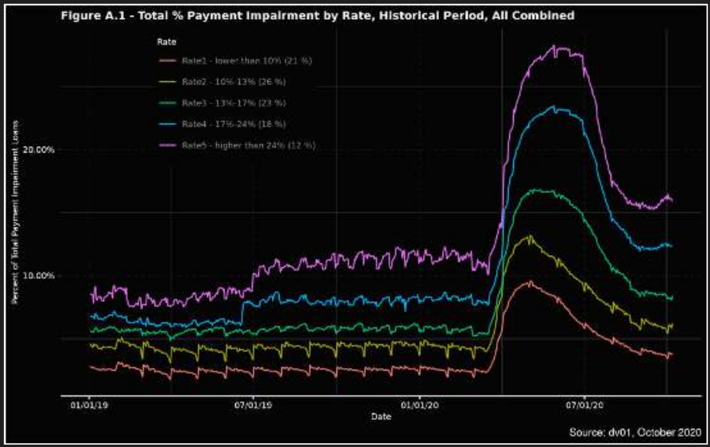


Figure A.1 - Total % Payment Impairment by Rate, Historical Period, All Combined

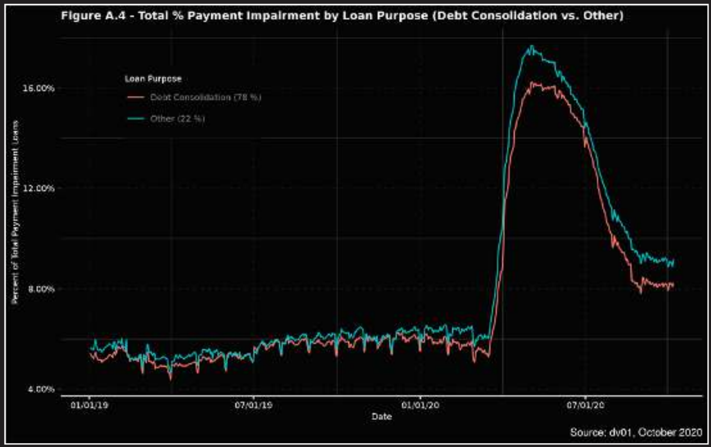


Figure A.4 - Total % Payment Impairment by Loan Purpose (Debt Consolidation vs. Other)

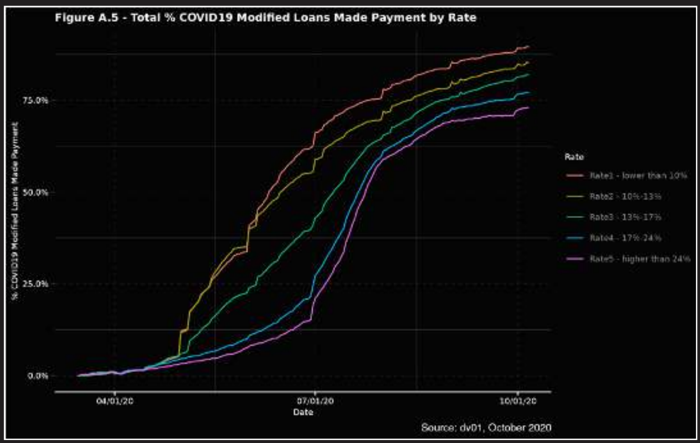


Figure A.5 - Total % COVID19 Modified Loans Made Payment by Rate

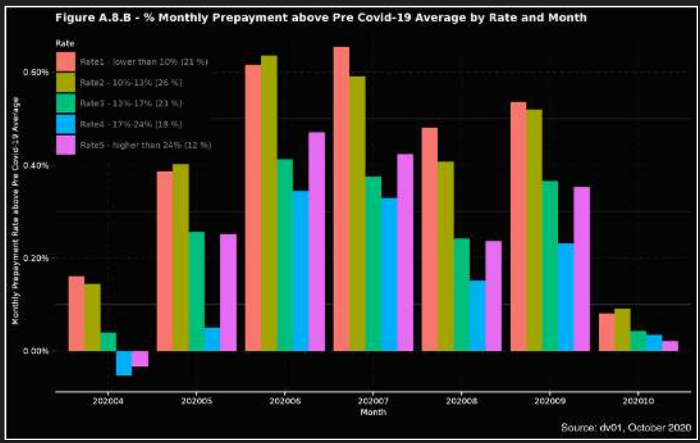


Figure A.8.B - % Monthly Prepayment above Pre Covid-19 Average by Rate and Month

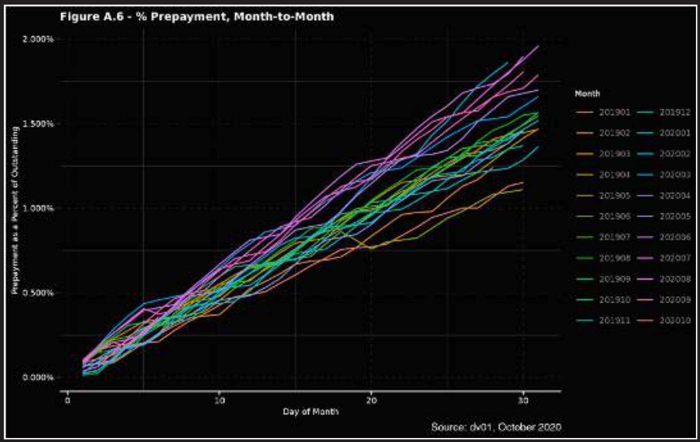


Figure A.6 - % Prepayment, Month-to-Month

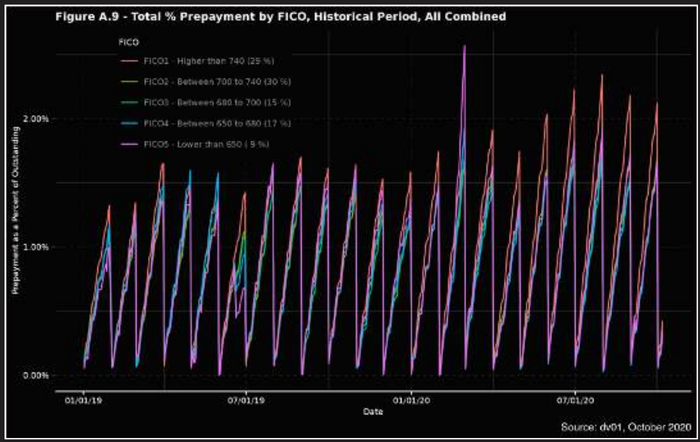


Figure A.9 - Total % Prepayment by FICO, Historical Period, All Combined

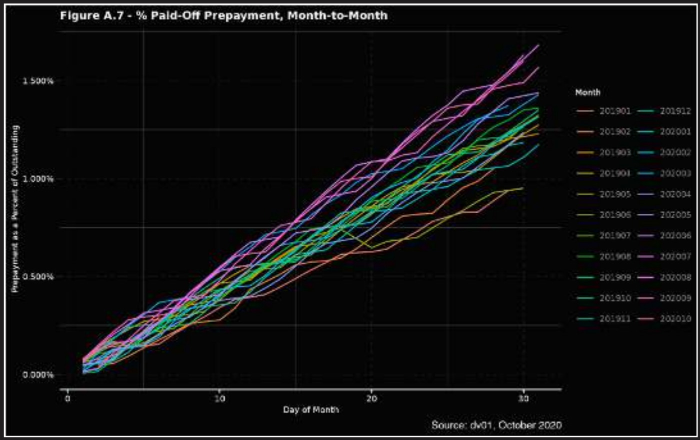


Figure A.7 - % Paid-Off Prepayment, Month-to-Month

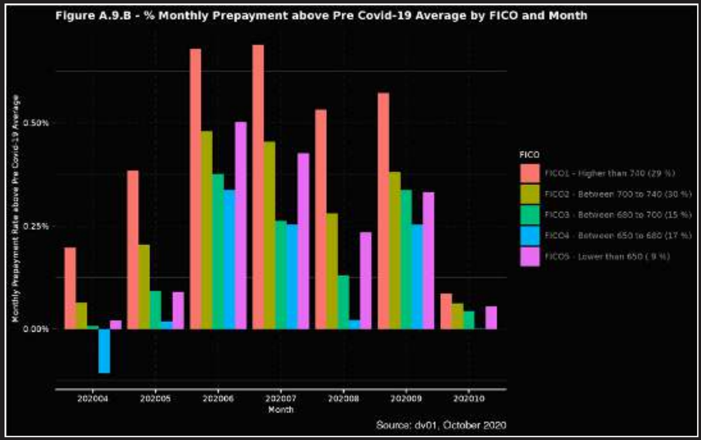


Figure A.9.B - % Monthly Prepayment above Pre Covid-19 Average by FICO and Month

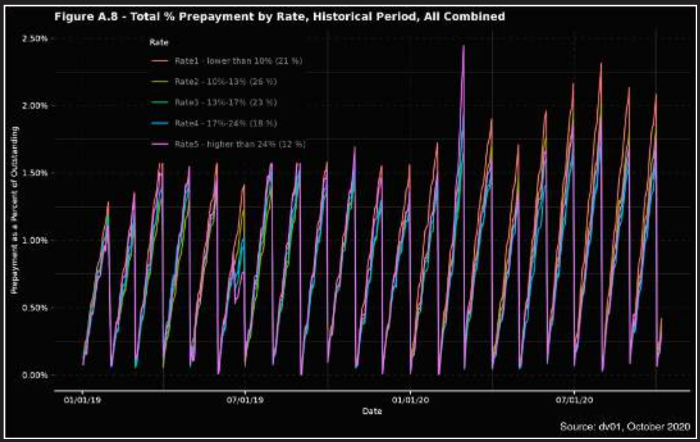


Figure A.8 - Total % Prepayment by Rate, Historical Period, All Combined

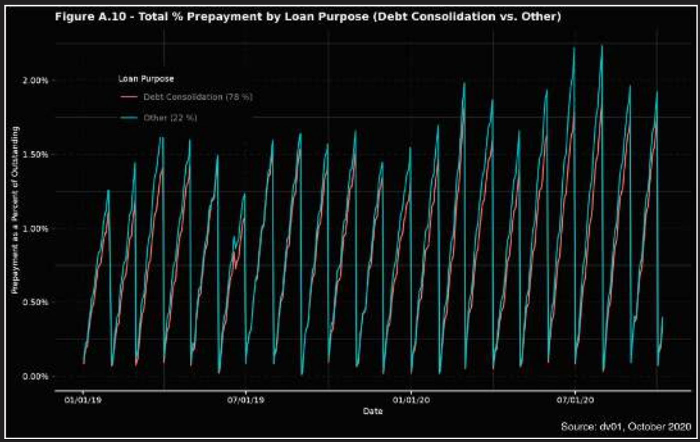


Figure A.10 - Total % Prepayment by Loan Purpose (Debt Consolidation vs. Other)

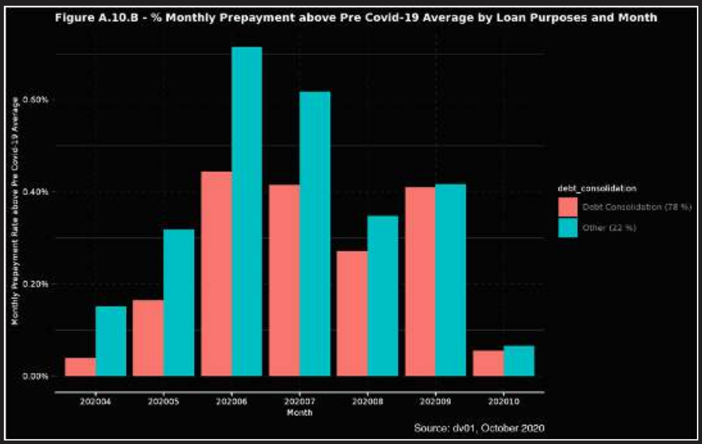


Figure A.10.B - % Monthly Prepayment above Pre Covid-19 Average by Loan Purposes and Month
Monthly Prepayment Rate above Pre Covid-19 Average
0.60%
0.40%
0.20%
0.00%
202004
202005
202006
202007
202008
202009
202010
Month
debt_consolidation
Debt Consolidation (78 %)
Other (22 %)
Source: dv01, October 2020

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