Living Broke: The New American Dream for Millennials

Don Arkell, CU Lending Advice
$133,800 ZHVI
6.3% 1-yr forecast (Jul 31, 2019)
$169,900 Median listing price
No recent data Median sale price
Which generation has the most debt and the worst credit scores? Hint: It's not Millennials

Paul Davidson, USA TODAY  Published 9:00 a.m. ET Jan. 11, 2018 | Updated 9:03 p.m. ET Jan. 11, 2018
**Millennials (Age 21-34)**

**Average credit score:** 638

Many graduated from college during or shortly after the Great Recession, which ended in 2009. That forced many to take lower-paying jobs, setting back their careers. But they’re digging out. Their average credit score climbed four points from 2016 — the most of any generation — to 638 and they shaved their overall average debt by 8% to $222,000. They’ve also increased their average mortgage debt by 6% to $198,303, giving many who had put off home purchases an opportunity to build wealth.

“The economy has improved and they are positioned to improve their financial standing,” says Rod Griffin, director of public education for Experian.

---

**Generation X (Age 35-49)**

**Average credit score:** 658

They’re saddled with the highest average mortgage debt of all the age groups at $231,774. Many probably bought homes at the peak of the housing bubble, including expensive houses in higher-income neighborhoods that boasted good schools for their kids, Griffin says. Home values plummeted during the housing crisis before recouping much of those losses in recent years. This group also has a high rate of late debt payments at 0.54% and the most average non-mortgage debt at $30,334. Still, they too are making gains. Their average credit score rose 3 points from the prior year to 658.

State of Credit 2017 - Experian 1/11/2018
## Credit Snapshot of the Nation

### State of the States

<table>
<thead>
<tr>
<th>State</th>
<th>Average Vantage Score</th>
<th>Average # of Credit Cards</th>
<th>Average Balance on Credit Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idaho</td>
<td>681</td>
<td>2.88</td>
<td>$5,817</td>
</tr>
<tr>
<td>Illinois</td>
<td>683</td>
<td>3.14</td>
<td>$6,410</td>
</tr>
</tbody>
</table>

**Average Non-Mortgage Debt**: $24,706
The student loan story has been widely told, but it keeps getting worse.

• As of 2017, the **average student loan balance is $34,144**, a record.

• Total outstanding student loans owed by 44 million Americans is now $1.4 trillion, a figure that far exceeds total credit card debt.

• One in three borrowers says they’ve been late making at least one payment during the past 12 months, according to a report by the [Global Financial Literacy Excellence Center](https://www2.gwu.edu/~gflc) at the George Washington University School of Business.
THE HIERARCHY OF NEEDS

The must-haves for previous generations aren’t as important for Millennials. They’re putting off major purchases—or avoiding them entirely.

- **15%** Extremely Important
- **30%** I do not intend to purchase one in near future
- **25%** I might purchase one if I really need it, but indifferent otherwise
- **5%** I do not feel strongly about it
- **25%** Important, but not a big priority
THE HIERARCHY OF NEEDS

The must-haves for previous generations aren’t as important for Millennials. They’re putting off major purchases—or avoiding them entirely.

- **7%**: I might purchase one if I really need it, but indifferent otherwise
- **8%**: I do not feel strongly about it
- **15%**: Do not intend to purchase in near future
- **40%**: Extremely Important
- **40%**: Important, but not a big priority
- **30%**: Extremely Important
Sending Them to the Wolves
**Unsecured Loan Alternatives**

If you are unwilling to make small loans to your members to help them with unplanned expenses, many of your members will turn to alternative financing:

<table>
<thead>
<tr>
<th>Features</th>
<th>Payday Loans</th>
<th>Title Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical Loan Size</td>
<td>$350</td>
<td>$951</td>
</tr>
<tr>
<td>Fee/Interest</td>
<td>$16 per $100 borrowed</td>
<td>$25 per $100 borrowed</td>
</tr>
<tr>
<td>Typical Loan Term</td>
<td>Two Weeks</td>
<td>30 Days</td>
</tr>
<tr>
<td>Typical APR</td>
<td>416%</td>
<td>300%</td>
</tr>
<tr>
<td>Loan Term</td>
<td>Full payment due on next payday (usually in about two weeks)</td>
<td>Full payment due in one month</td>
</tr>
<tr>
<td>Collateral</td>
<td>Secured by personal check or access to bank account</td>
<td>Secured by car title</td>
</tr>
</tbody>
</table>

Source: Driven to Disaster Car-Title Lending and Its Impact on Consumers - Center for Responsible Lending 2/18/2013
Unsecured Loan Alternatives – Title Loans

• Approximately 7,730 car-title lenders operate in at least 21 states costing borrowers $3.6 billion each year in interest on $1.6 billion in loans.

• The average car-title borrower renews their loan eight times, paying $2,142 in interest for $951 in credit

• Car-title loans’ annualized percentage rates (APR) are especially excessive considering the value of the collateral and the relatively low amount of the loan. In our borrower-level data set, the median loan-to-value ratio was 26 percent, yet the APR was 300 percent.

• One in six borrowers in our data set also faced repossession, with repossession fees averaging half of the borrower’s outstanding loan balance.

Source: Driven to Disaster Car-Title Lending and Its Impact on Consumers - Center for Responsible Lending 2/18/2013
Payday loans—high-cost small loans averaging $350 that usually must be repaid in a single payment after two weeks—are designed to create a long-term debt trap. Whether they receive the loans online, in storefronts, or through banks, the vast majority of borrowers cannot both repay the loan and cover all their basic living expenses until their next payday. As a result, they typically take out multiple loans within a short timeframe, paying repeated fees to do so.

“Payday loans create a debt treadmill that makes struggling families worse off than they were before they received a payday loan.”

Source: Center for Responsible Lending
Small Dollar Unsecured Loans

Here is a recommendation for Small Dollar Unsecured Loans

- $1,000 Loan Max –
- Regular Unsecured Minimum should start at $1500.00
- Max APR, Regardless of Credit Tier
- Term > 90 Days
- With or without origination fee
- Streamlined underwriting with proof of identity, address, and income, and a credit report to determine loan amount and repayment ability; loan decision within 24 hours

Pilot Program, $40.2 M, 34,400 loans

“Delinquency ratios for SDLs and NSDLs were at least three times higher than for similar types of unsecured loans, but default rates were in line with industry averages. The cumulative charge-off rate for the pilot was 6.2 percent for SDLs and 8.8 percent for NSDLs. These compare to charge-off ratios of 5.4 percent for unsecured "loans to individuals" and 9.1 percent for "credit cards" according to the fourth quarter 2009 Call Report

- Source: https://www.fdic.gov/smalldollarloans/
Your Baby (Debt Ratio) Has Issues
The four flaws with total debt ratio (TDR):

1. _____________________________________________________________

2. _____________________________________________________________

3. _____________________________________________________________

4. _____________________________________________________________

A study was done by the Filene Research Institute a few years ago that found that 65% of all bankrupts had debt ratios **less than 40%**.

**The Bottom Line:** Members need to be able to afford the new loan payment, but a total debt ratio calculation is not a full-proof method of determining this capability.
Intuit: Gig economy is 34% of US workforce

by Patrick Gillespie  @CNMNMoney

May 24, 2017: 2:51 PM ET
The “gig economy” isn’t just a buzzword. It’s an accurate description of the state of the modern market; though the Bureau of Labor Statistics has admitted difficulty in counting the exact number of independent contractors and contingent workers, Intuit estimates that “gig” workers represent 34 percent of the workforce, and will grow to be 43 percent by 2020.

-Why The Gig Economy Is The Best And Worst Development For Workers Under 30: Forbes.com 1/24/2018
GUIDELINE LENDERS

FOCUS ON THE FILE

RATIOS

CONFORMING

CREDIT LENDERS

FOCUS ON THE APPLICANT

RATIONALE

PORTFOLIO
Alternative Credit Scoring
**What is Alternative Credit Data?**

**TRADITIONAL CREDIT DATA**

Data assembled and managed in the core credit files of the nationwide consumer reporting agencies, which includes:

- tradeline information (including certain loan or credit limit information, debt repayment history, and account status)
- credit inquiries
- information from public records relating to bankruptcies.

It also refers to data customarily provided by consumers as part of applications for credit, such as income or length of time in residence and employment.

**ALTERNATIVE CREDIT DATA**

Data that are not “traditional.” We use “alternative” in a descriptive rather than normative sense and recognize there may not be an easily definable line between traditional and alternative data.

Examples include:

- Alternative Financial Service data (Short term/ Payday Loan, Title, Loan, Rent to Own)
- Rental payments
- Asset ownership
- Utility payments
- Full File Public Records
- Consumer permissioned data

**All information** that is FCRA compliant
Alternative Financial Services

100 million consumers

$140B market

7-10% annual growth rate

- Payday / cash advance
- Short-term installment
- Rent to Own
- Title loans

17% of AFS credit users have higher stability / higher scores
By evaluating non-traditional credit activities like wireless relationships, sub-prime lending, and online lending, lenders have the ability to develop a more complete credit assessment for nearly every U.S. consumer. This is extremely critical in today’s lending environment as competition for new customers is fierce and a growing number of consumers are “credit invisible” — meaning they don’t have an established credit file with the national consumer reporting agencies.
AUTOMATED DECISION ENGINE
THOUGHTS ON AUTOMATED DECISION ENGINES

• SHOULD BE USED FOR 10-15% OF THE EASY YES LOANS
• SHOULD NOT AUTO DECLINE
• MAXIMIZE DECISIONS ON INDEPENDENT 3RD PARTY RECORDS
• LIMITATIONS
  • WEIGHTING OF CRITERIA
  • UNLIMITED VARIABLES
  • ACCOUNT RELATIONSHIP
Qualities of a Great Underwriter

• Looking to Make Loans, not Deny Loans
• A Tolerance for Risk
• “Out-of-the-Box” Thinker
• Decision Maker
• Analytical Mind
• Math Skills
Thanks!

Any questions?

You can find me at:
donarkell@culendingadvice.com