35TH

ANNIVERSARY

— VISION 2016 —
TAKE CONTROL
A ROADMAP FOR **GROWTH**

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Get educated –
A study in the student lending marketplace

Experian

Introducing:

- **Gordon Cameron**
  PNC

- **Holly Deason**
  Experian

- **Kelley Motley**
  Experian

> "Tuition expenses have skyrocketed 1,225% over the last 36-year period, compared with a 634% rise in medical costs and a 279% increase in the consumer price index over the same period."

— **Bureau of Labor Statistics**

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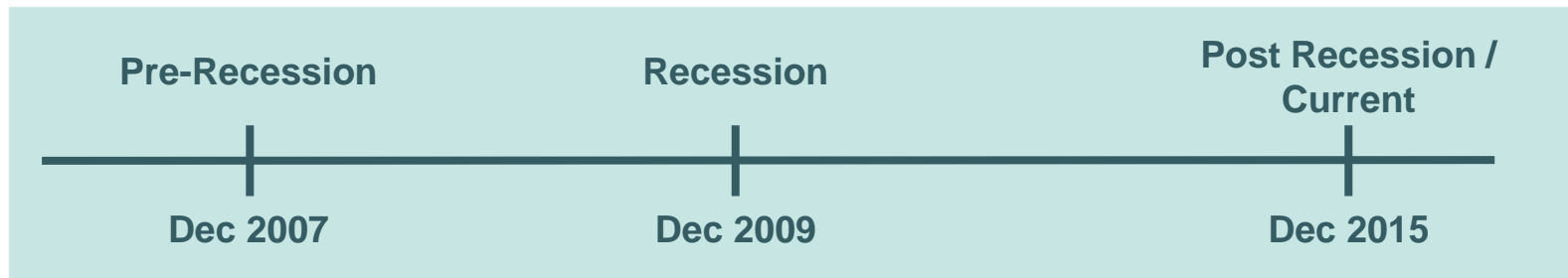#vision2016

Analysis design

Identified population of consumers with a student loan

Further segmented populations by:

- Status of student loan – deferred, repayment
- Age
- Gender

Trends

- Deep dive on consumers with a student loan from three time periods

Pre-Recession	Recession	Post Recession / Current
Dec 2007	Dec 2009	Dec 2015

Consolidation analysis

Student loan trends

Student loan growth relative to other credit types

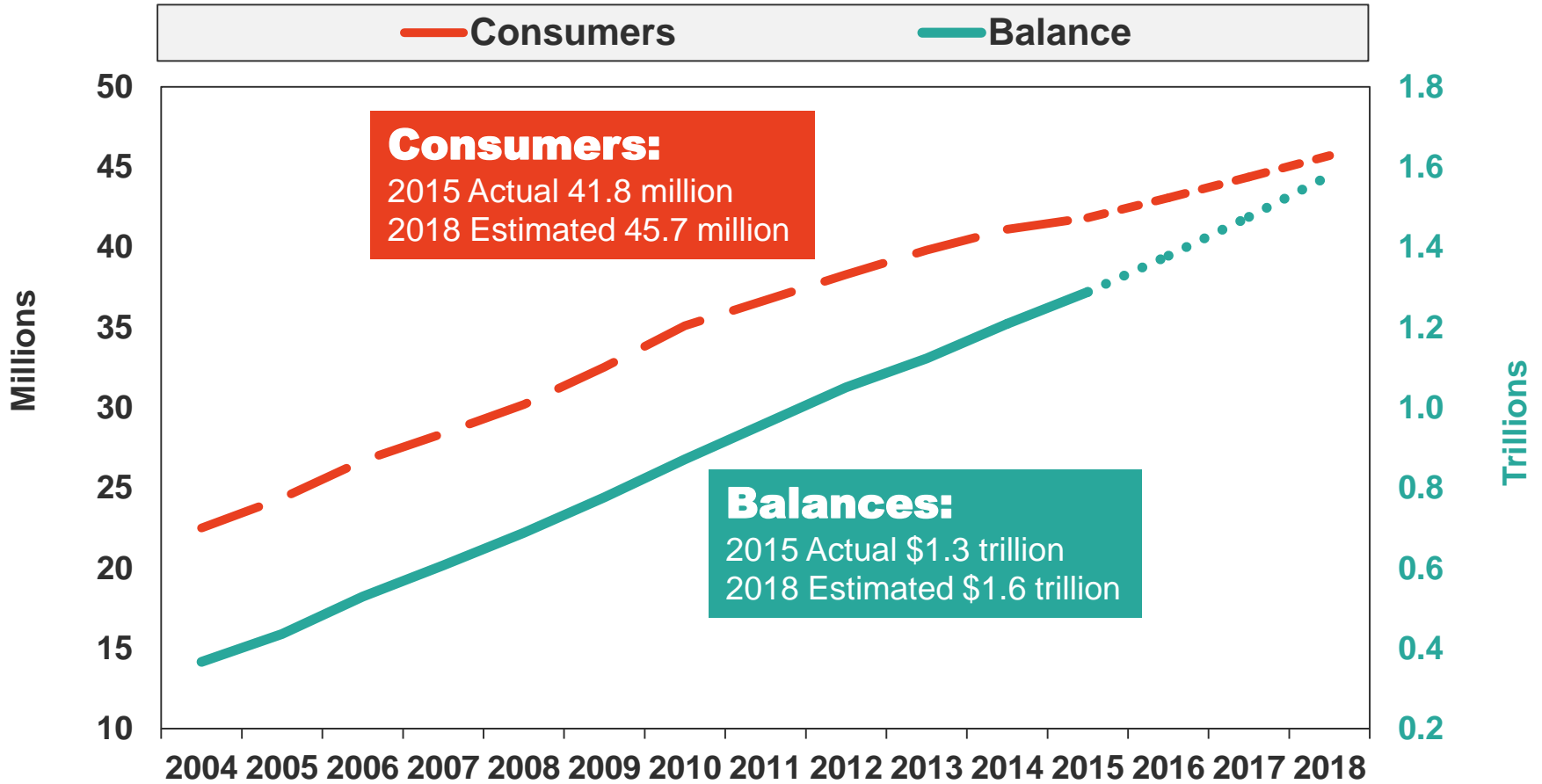## Non-real estate outstanding debt

Change since 4Q-09

Legend: Retail, Bank Card, Auto, Student

Y-axis: Trillions (0.0, 0.5, 1.0, 1.5)

Student values: 0.78 (4Q-09), 0.74 (4Q-11), 1.12 (4Q-13), 1.29 (4Q-15)

+ 66%

X-axis: 4Q-09, 4Q-11, 4Q-13, 4Q-15
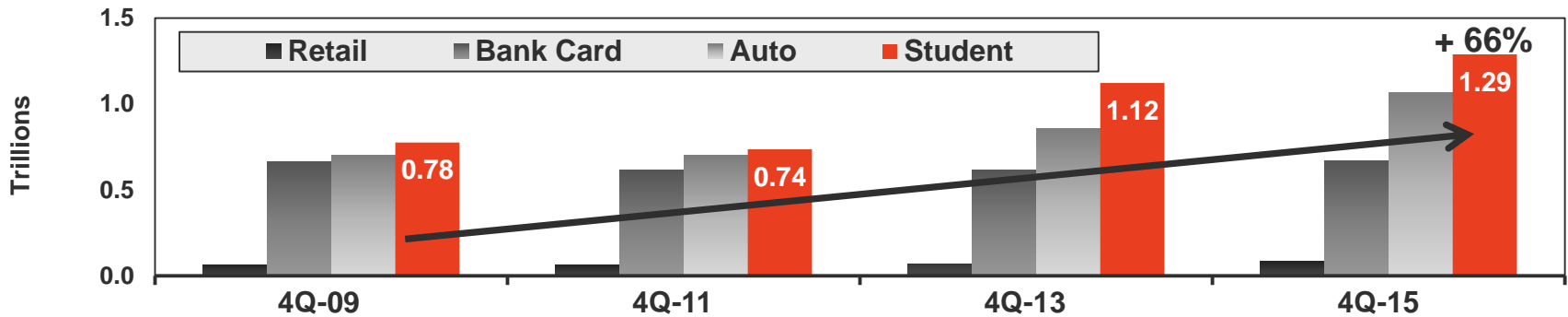
Home equity outstanding debt

Change since 4Q-09

Legend: HE Loan, HELOC, Mortgage

Left Y-axis: Trillions ($0.0 to $1.0)

Right Y-axis: Mortgage ($ trillions) ($7.4 to $8.4)

3%, **-29%**, **- 48%**

X-axis: 4Q-09, 4Q-11, 4Q-13, 4Q-15
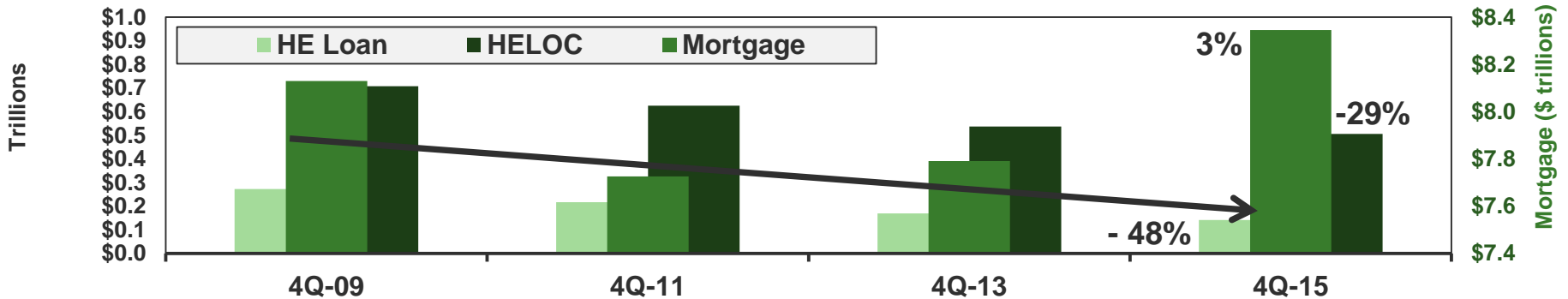
Student loan outstandings
Three-year forecast

Consumers:
2015 Actual 41.8 million
2018 Estimated 45.7 million

Balances:
2015 Actual $1.3 trillion
2018 Estimated $1.6 trillion

Student loan origination trend

4Q15: -10.2% YoY

Student delinquency rates
Percent balances

2015 Data:
60-89: 0.18%
90-180: 1.12%

Legend: 60DPD, 90DPD

X-axis: 1Q 2009, 3Q 2009, 1Q 2010, 3Q 2010, 1Q 2011, 3Q 2011, 1Q 2012, 3Q 2012, 1Q 2013, 3Q 2013, 1Q 2014, 3Q 2014, 1Q 2015, 3Q 2015

Y-axis: 0.0%, 0.2%, 0.4%, 0.6%, 0.8%, 1.0%, 1.2%, 1.4%, 1.6%
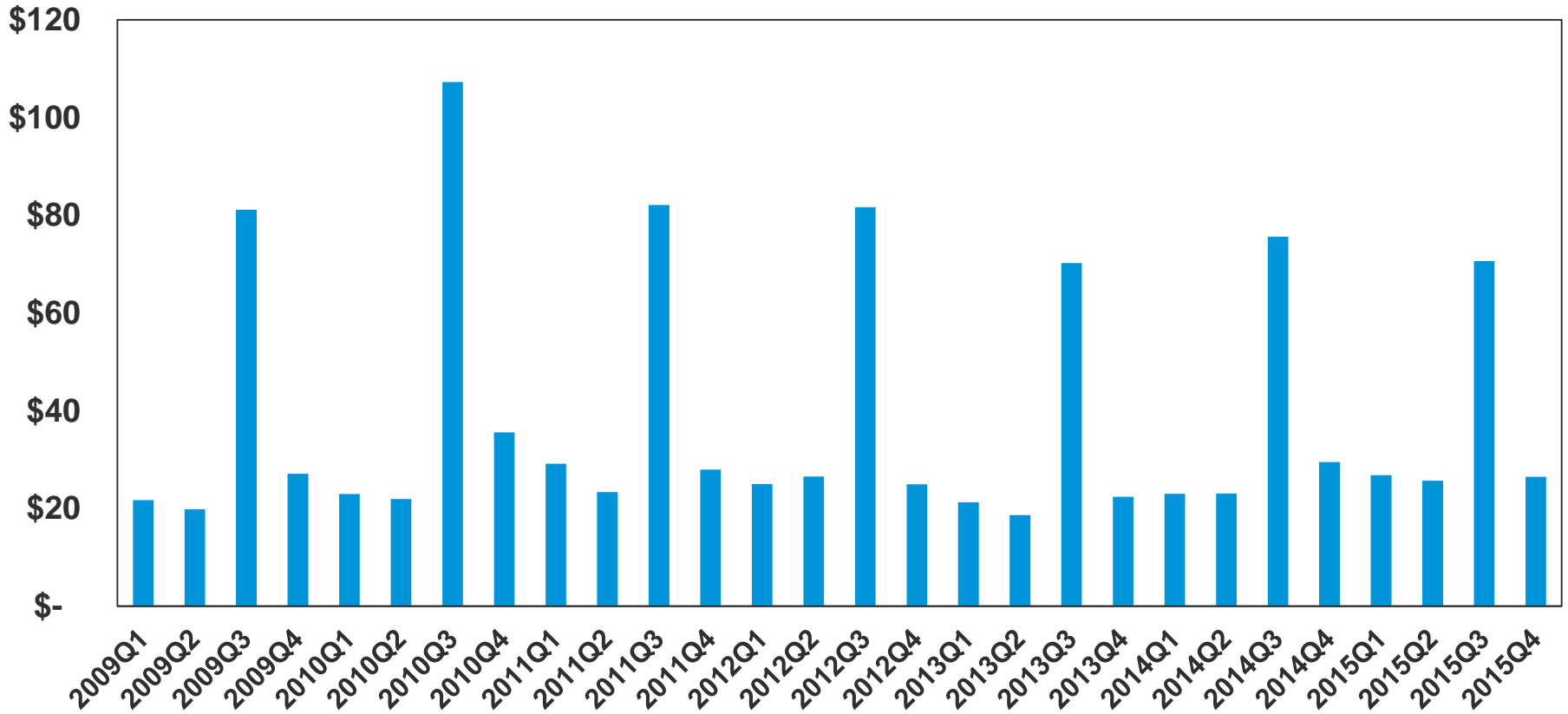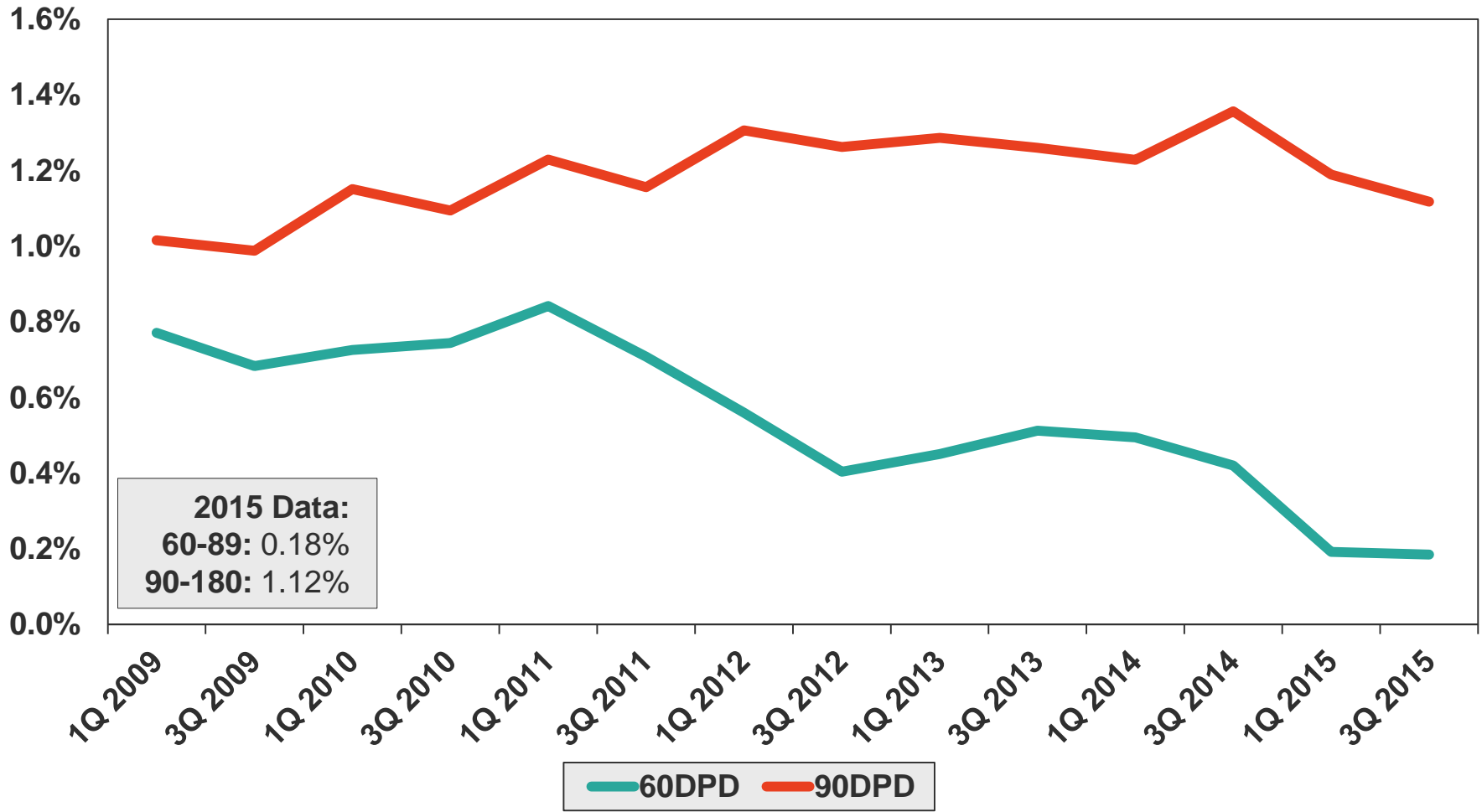
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Student loan delinquency rates
By state

Low · · · · · · · · · · High

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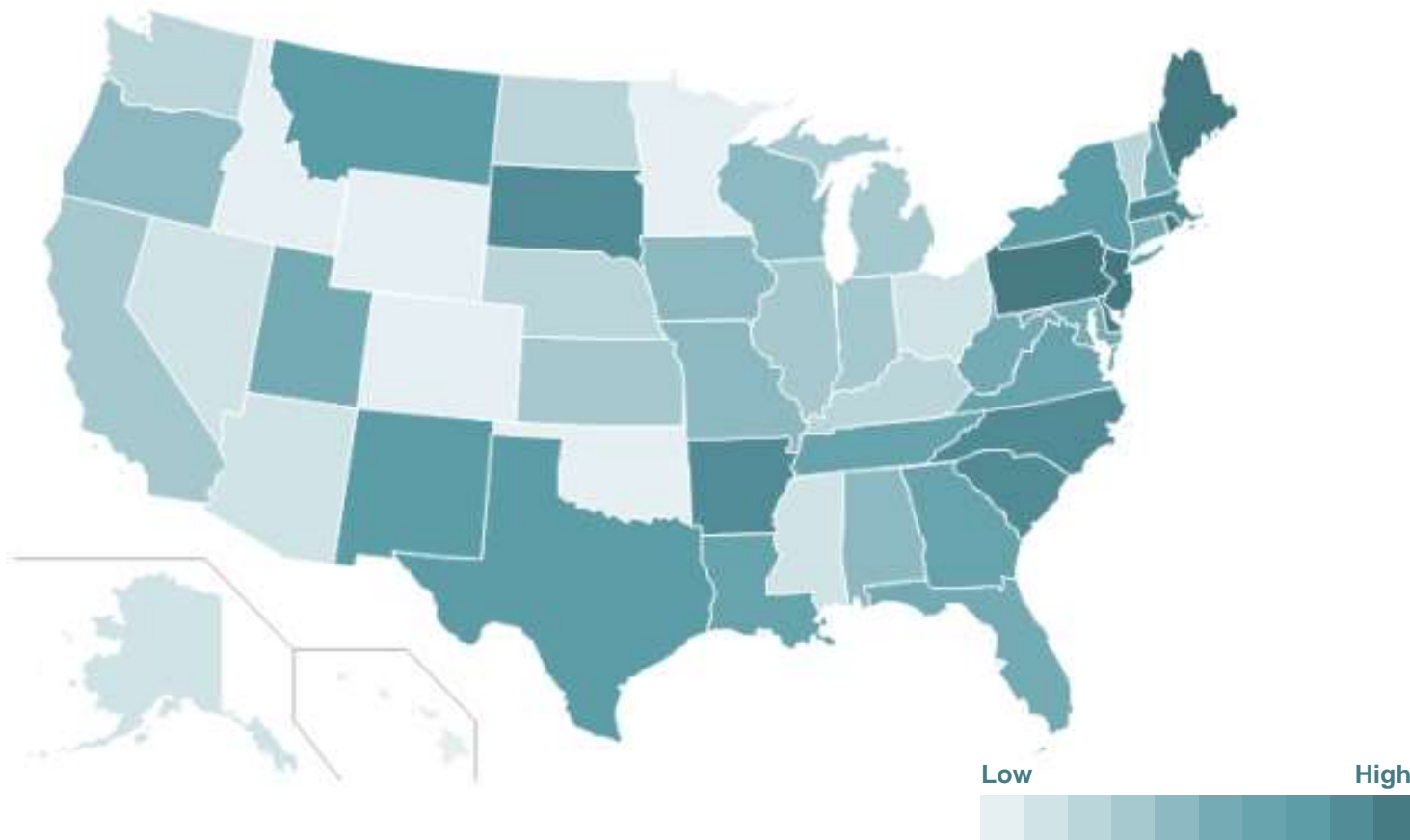
Analysis populations

Total market

Inclusive of all consumers on file with at least one non-closed trade with a balance

Consumers without a student loan

Inclusive of consumers with no open student loan trades

Consumers may have closed student loan trades

Consumers with a student loan

Inclusive of consumers with at least one open Student loan that is deferred or in repayment

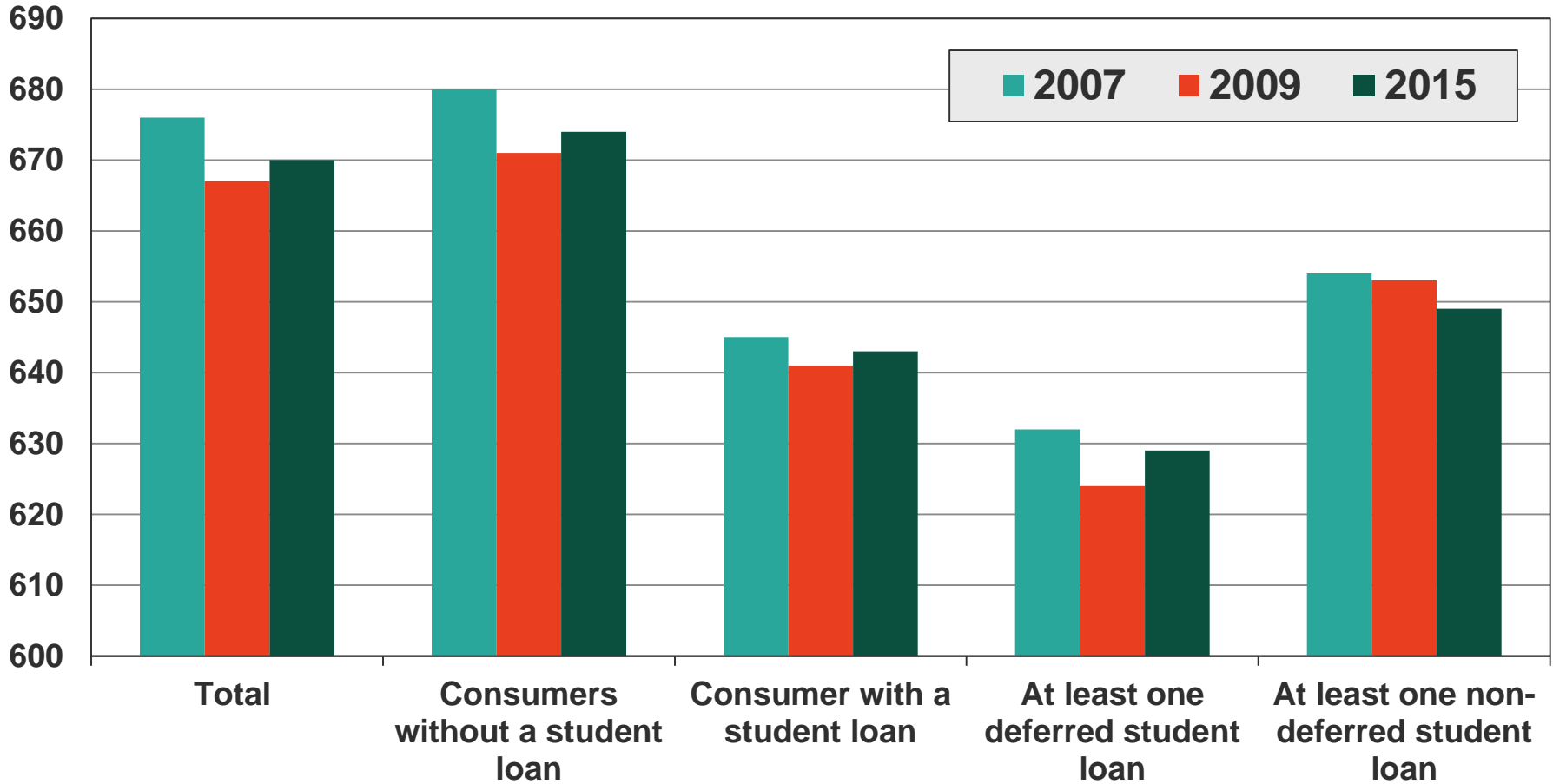**Consumers with 1+ student loan in deferment**

Inclusive of consumers with at least one deferred student loan

Consumers with 1+ student loan in repayment

Inclusive of consumers with at least one student loan in repayment

Average VantageScore®

Legend: 2007, 2009, 2015

Category	2007	2009	2015
Total	676	667	670
Consumers without a student loan	680	671	674
Consumer with a student loan	645	641	643
At least one deferred student loan	632	624	629
At least one non-deferred student loan	654	653	649

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Average age and average income
2015

Income

	Total	Consumers without a student loan	Consumers with a student loan	At least one deferred student loan	At least one non-deferred student loan
	44	44	46	33	52

Average age

	Total	Consumers without a student loan	Consumers with student loan	At least one deferred student loan	At least one non-deferred student loan
	51	54	37	33	38
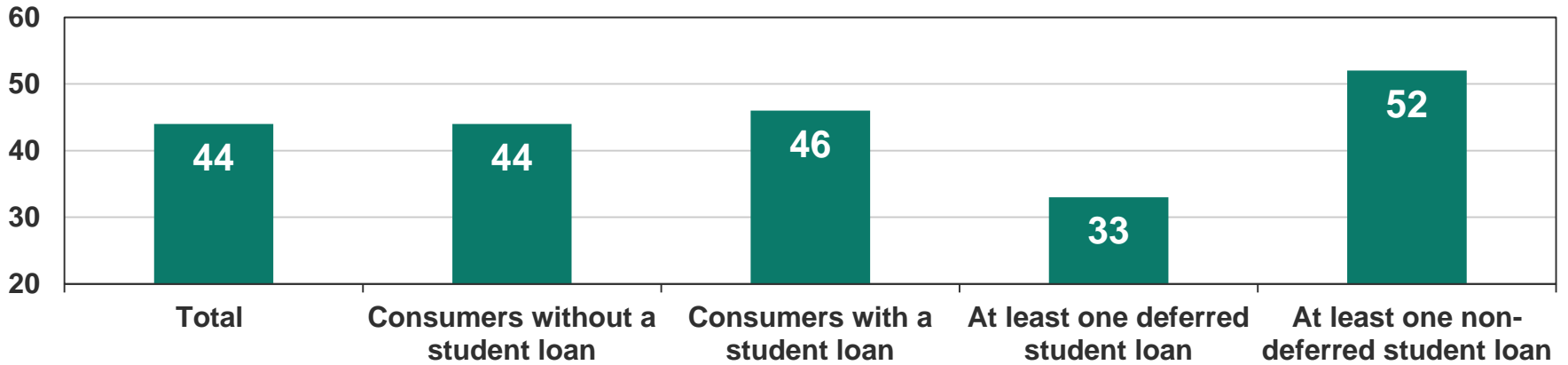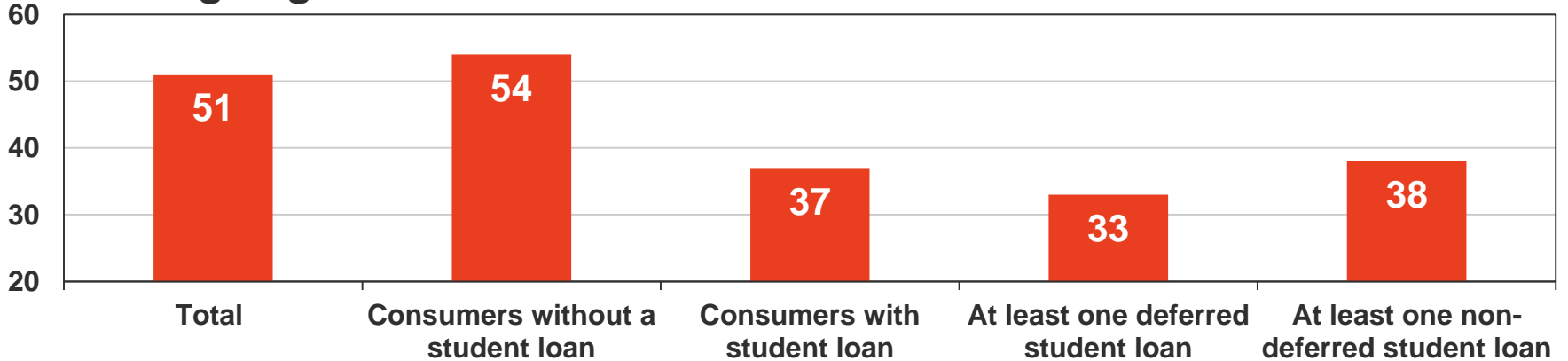
Student loan market share by trade type

14
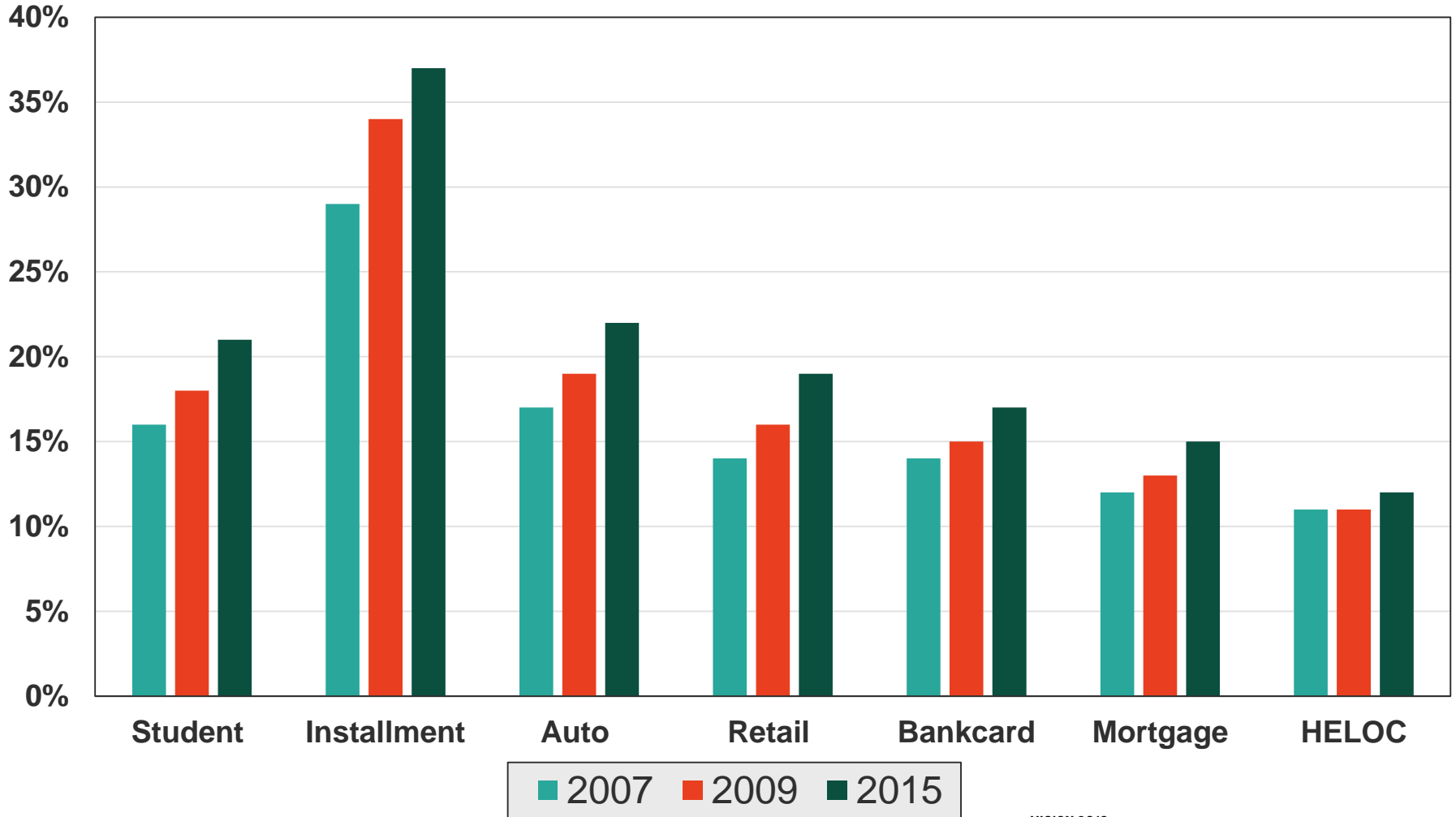
Student loan deferment status by trade type

2015

Trade Type	Percentage
Mortgage	20%
HELOC	21%
Auto	25%
Bankcard	27%
Retail	28%
Installment	32%
Student	32%

(Horizontal bar chart with x-axis from 0% to 35% in 5% increments)
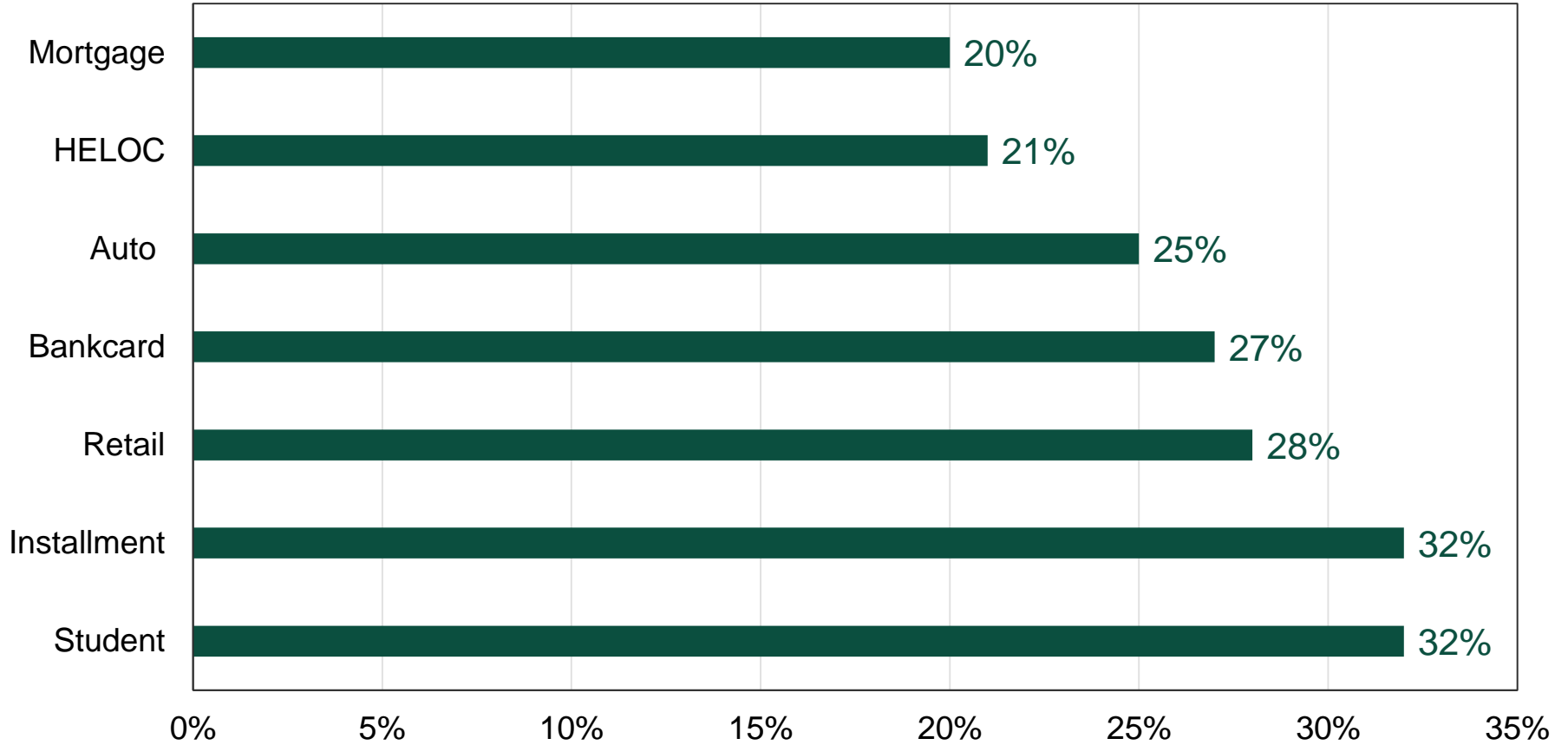
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Delinquency

Total trades presently 60 DPD

31%

Total trades presently 90-180 DPD

60%

Consumers with a student loan

Consumers without a student loan
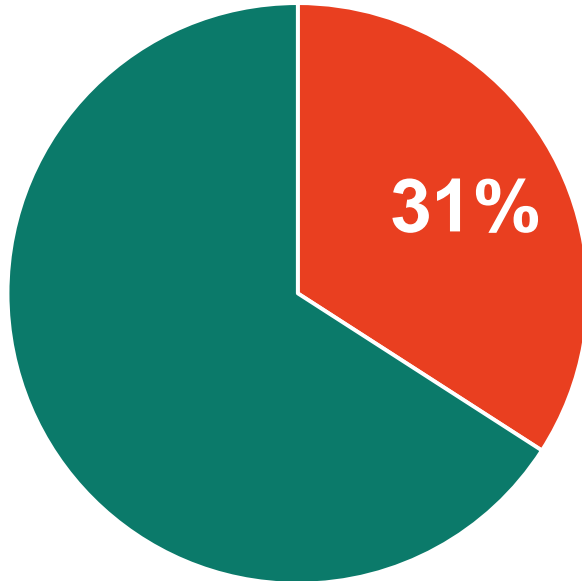
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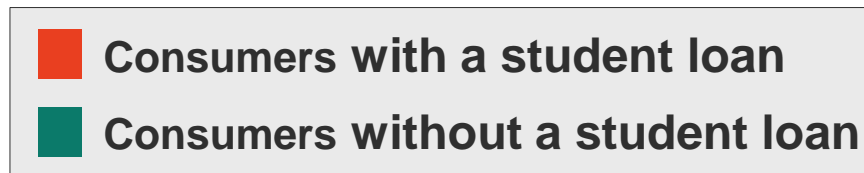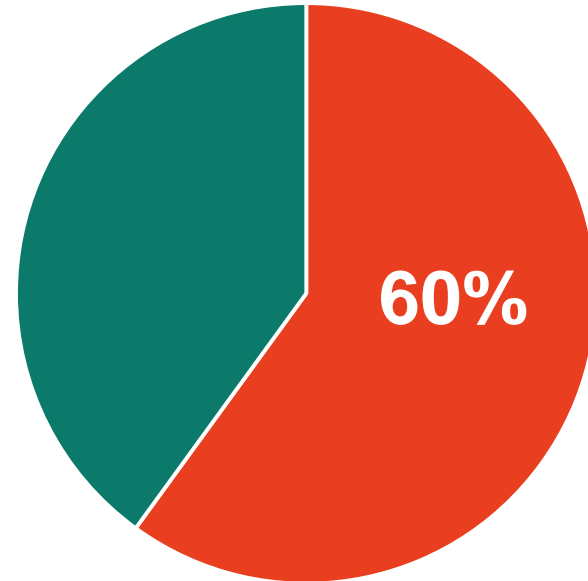
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Estimated interest rate by credit tier
By age group and student loan relationship

Average: 5.1%

Legend: Super-prime, Prime, NearPrime, Sub-prime, Deep Sub-prime
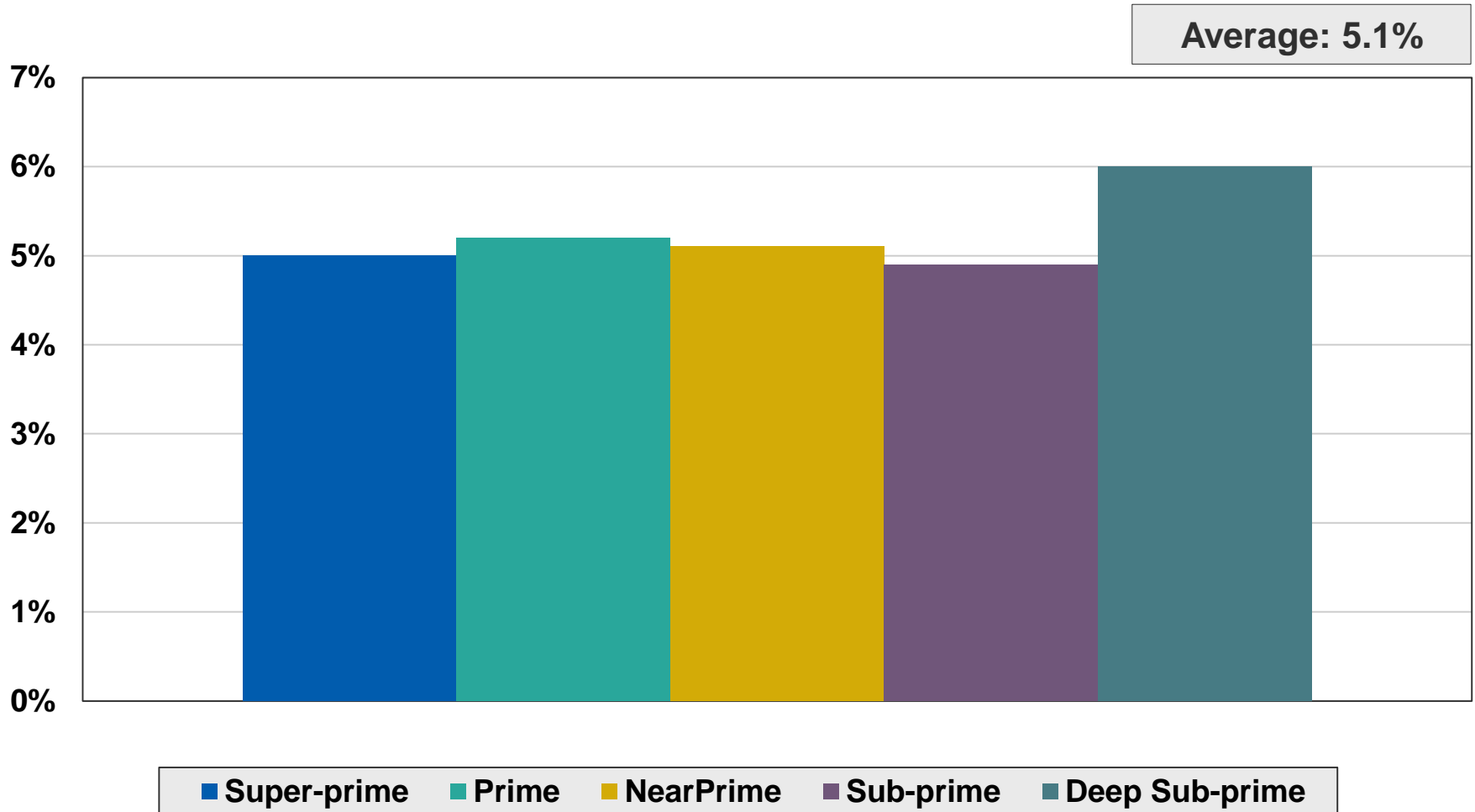
Segmentation by age / generation
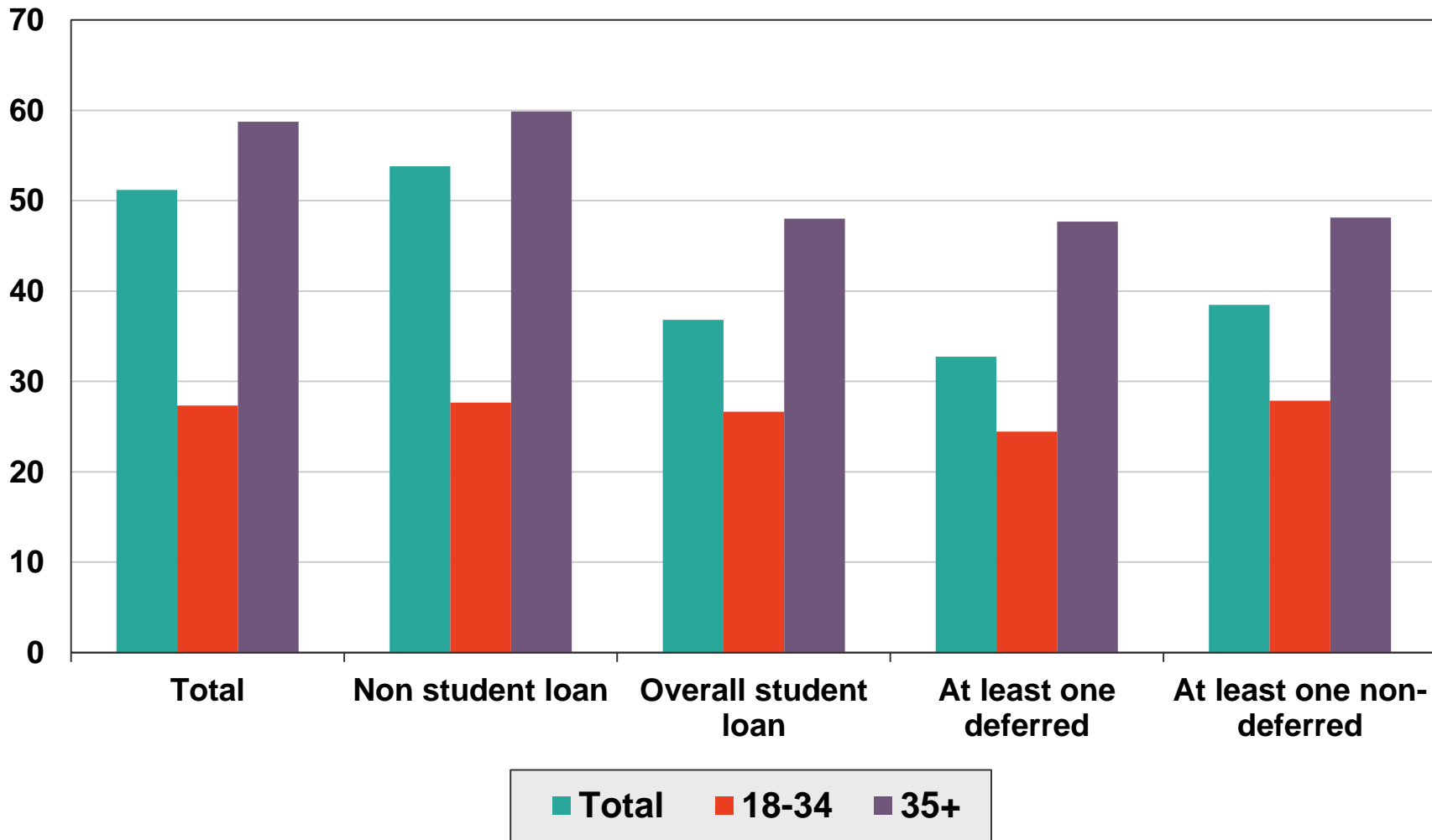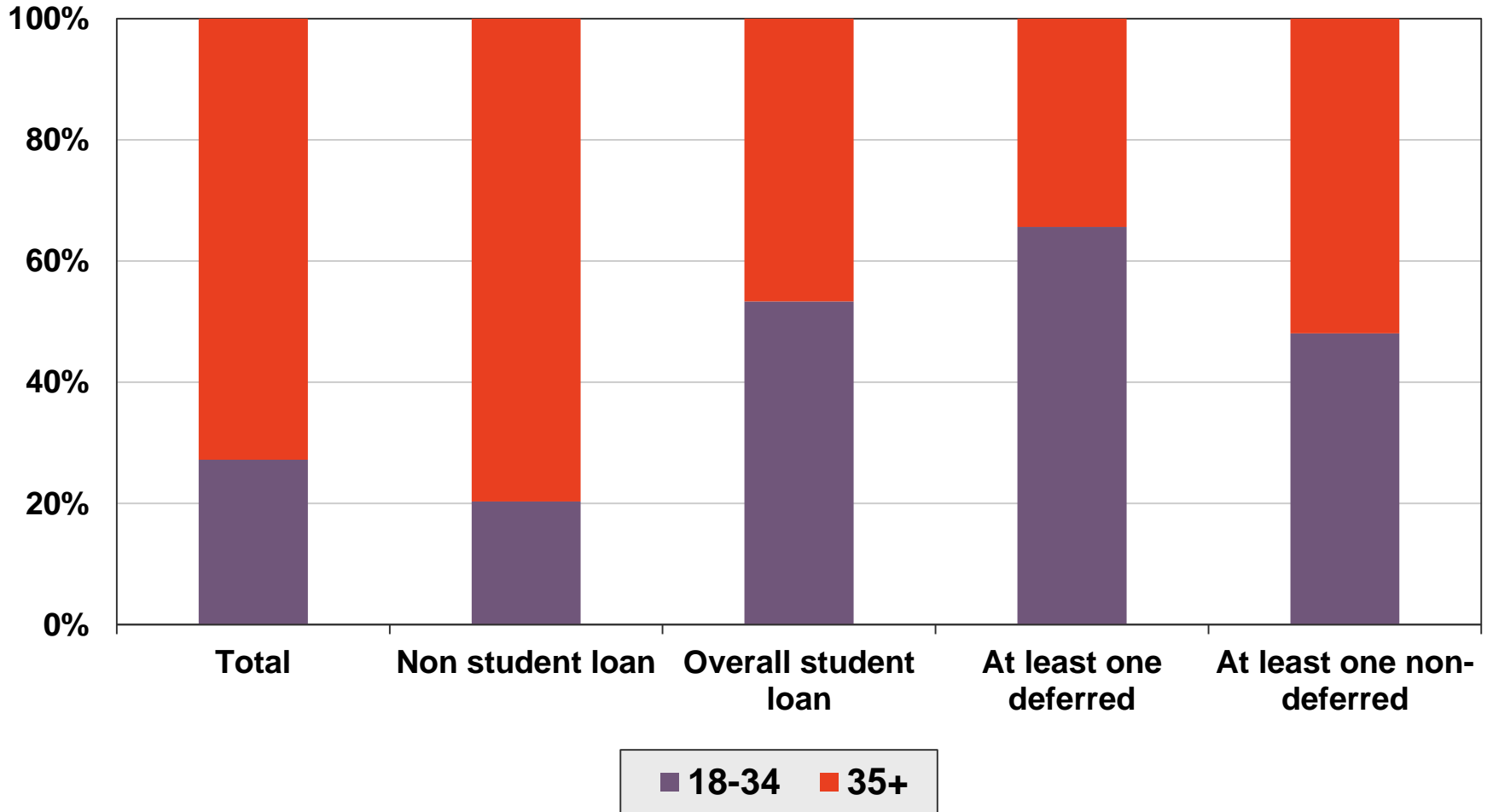
Experian

Average age distributions
2015 population

Age group split
Within each 2015 analysis population

Credit tier distribution
By age group and student loan relationship

With student loan

Legend: ■ Super-prime ■ Prime ■ NearPrime ■ Sub-prime ■ Deep Sub-prime

No student loan

Legend: ■ Super-prime ■ Prime ■ NearPrime ■ Sub-prime ■ Deep Sub-prime
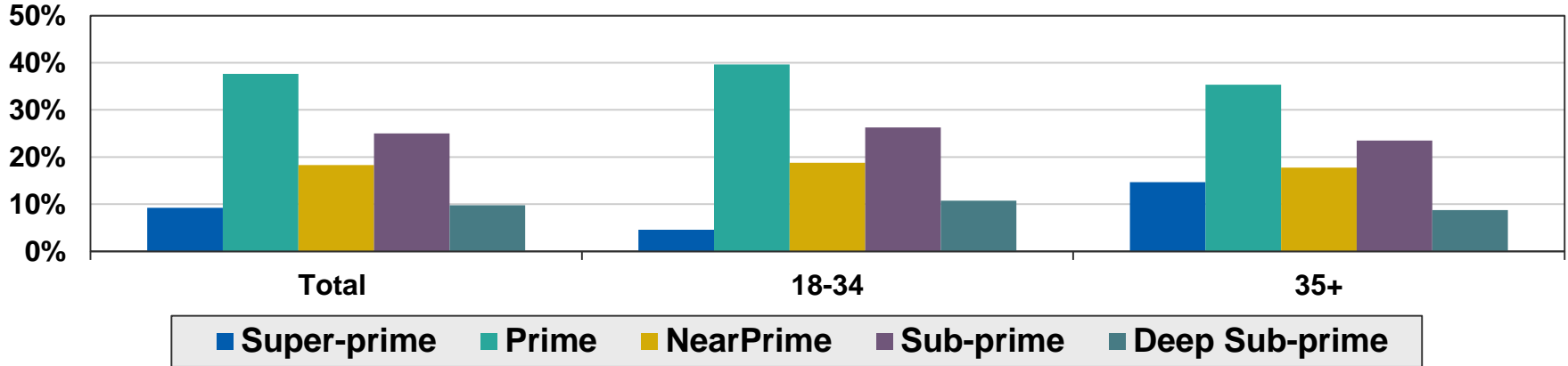
Average trade count
Wallet comparison for 2015 age group populations

Age 18-34 (5.6 Trades)

0.0
0.8
1.0
0.2
0.4
1.6
1.6

Age 35+ (6.9 Trades)

0.3
0.6
1.7
0.5
0.1
1.0
2.8

Student loan · **Mortgage** · **Auto** · **Card** · **Installment** · **HELOC** · **Retail**
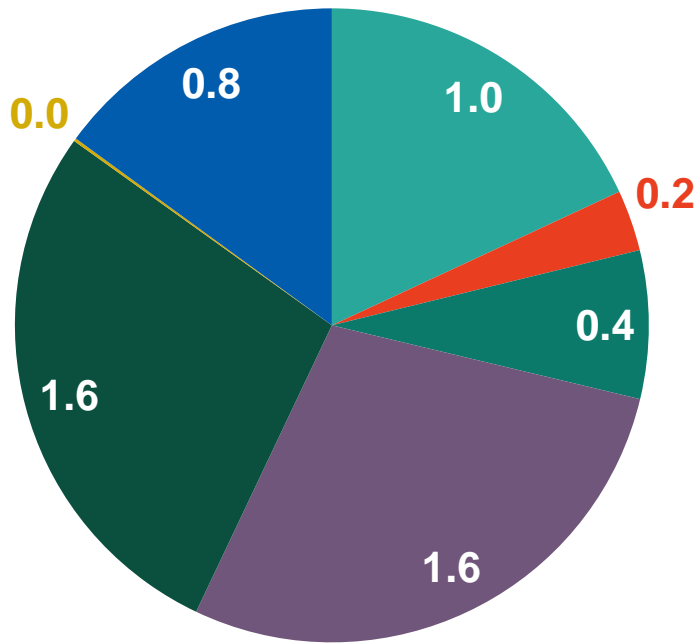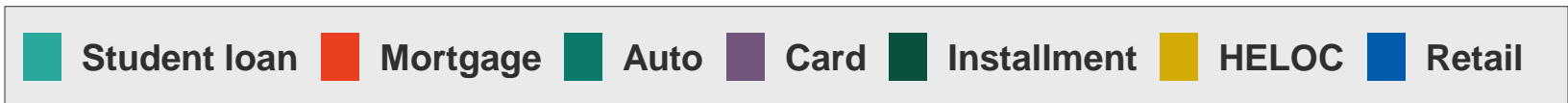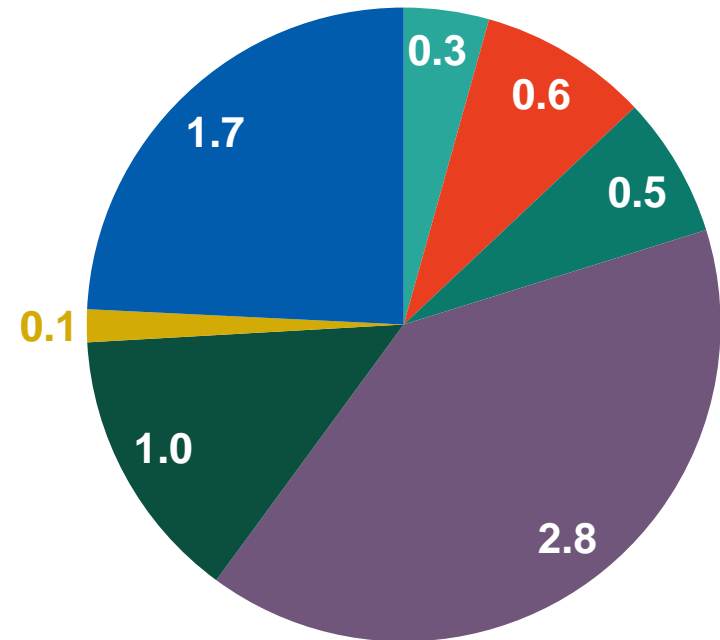
Income Insight W2^{SM}(000s) and Debt-to-Income Insight W2^{SM} trends (%)
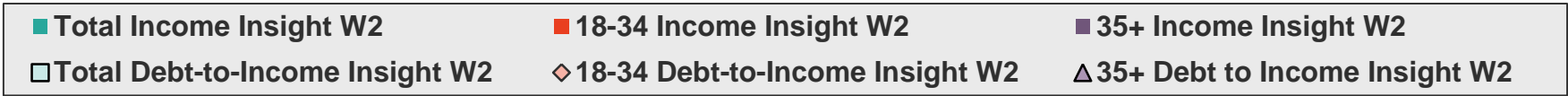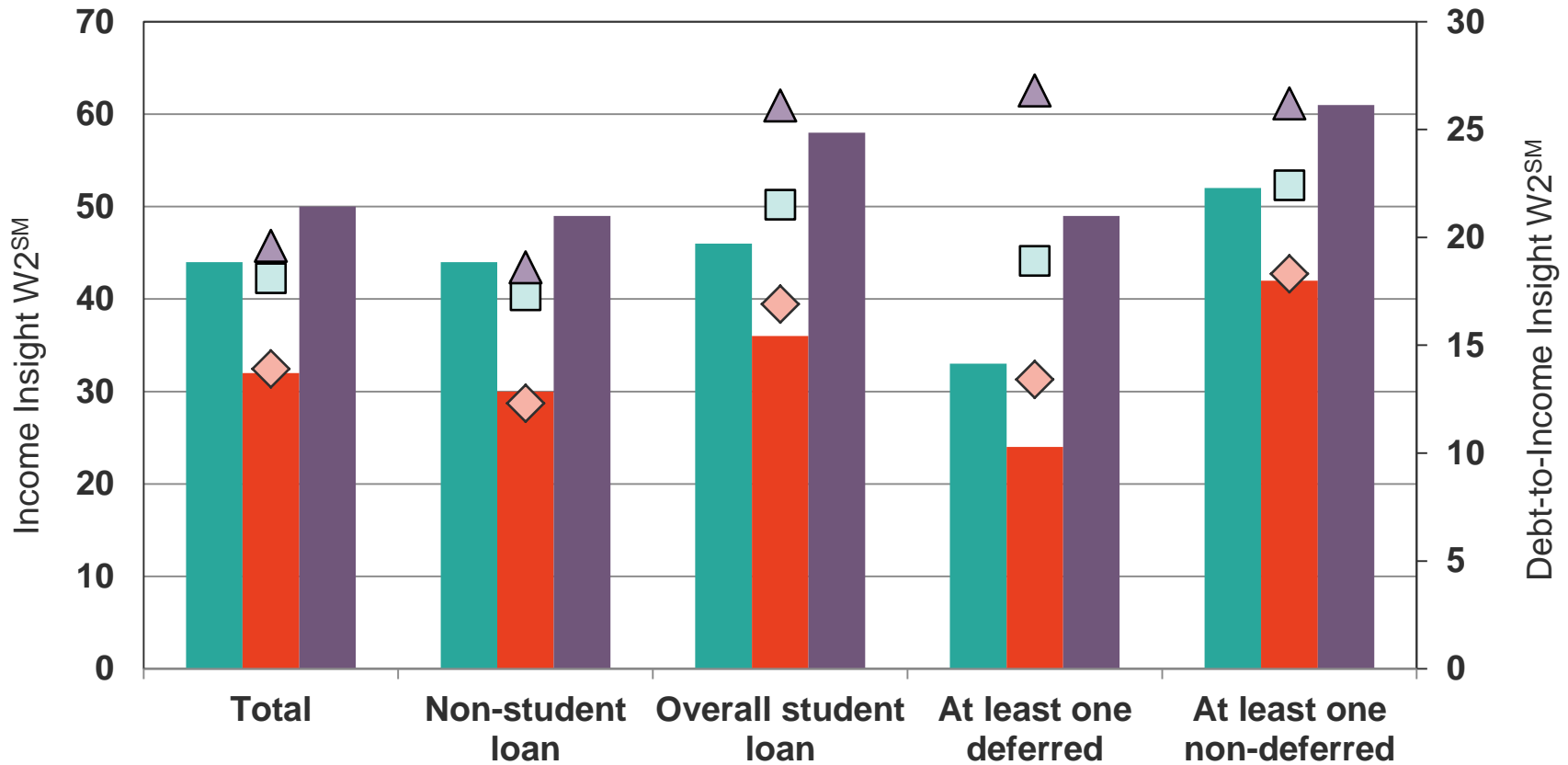
Debt-to-Income Insight W2^{SM} trends

Within each 2015 analysis population
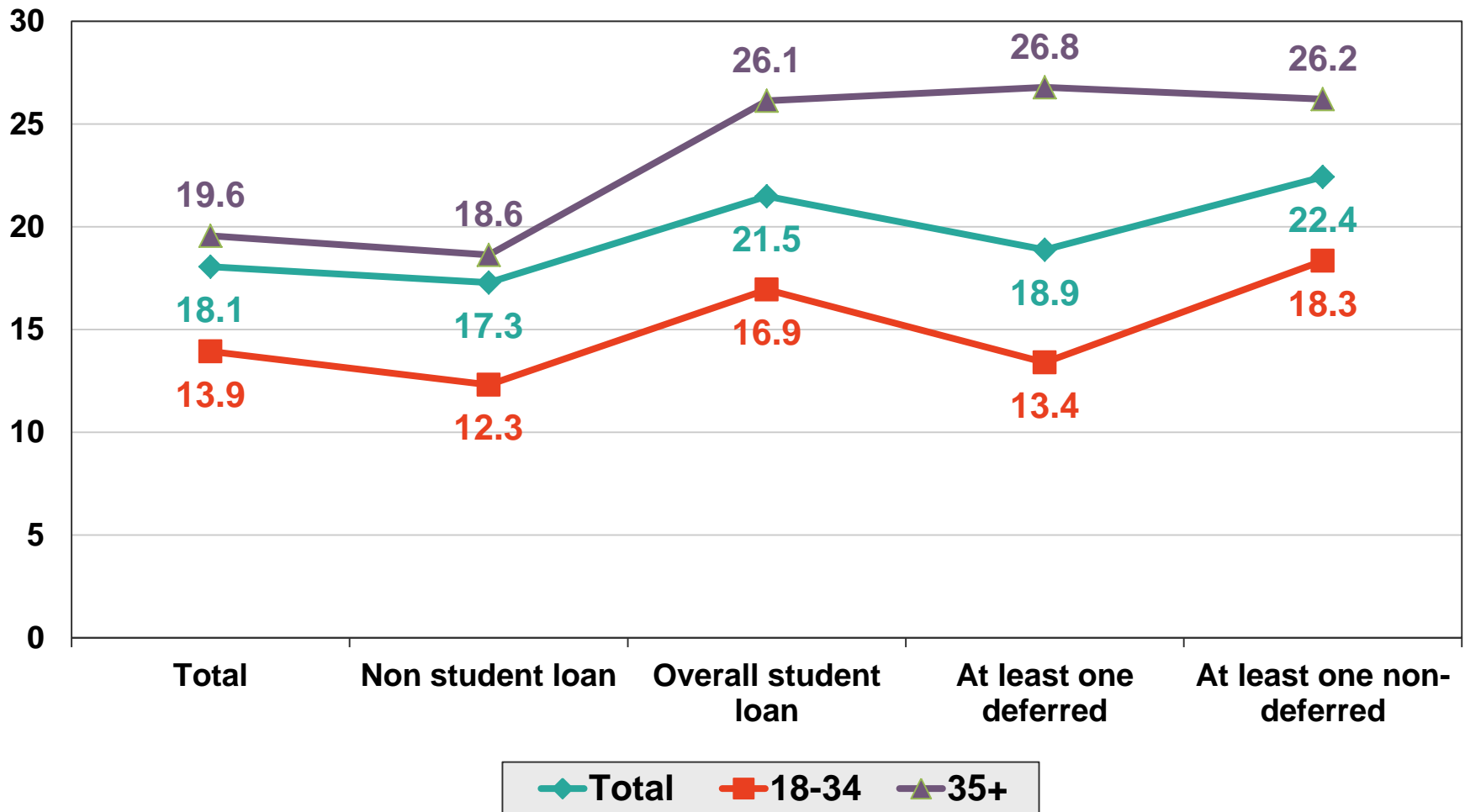
Consumer delinquency trends

All consumers

30 DPD   60 DPD   90+ DPD

Consumers with student loan

No student loan
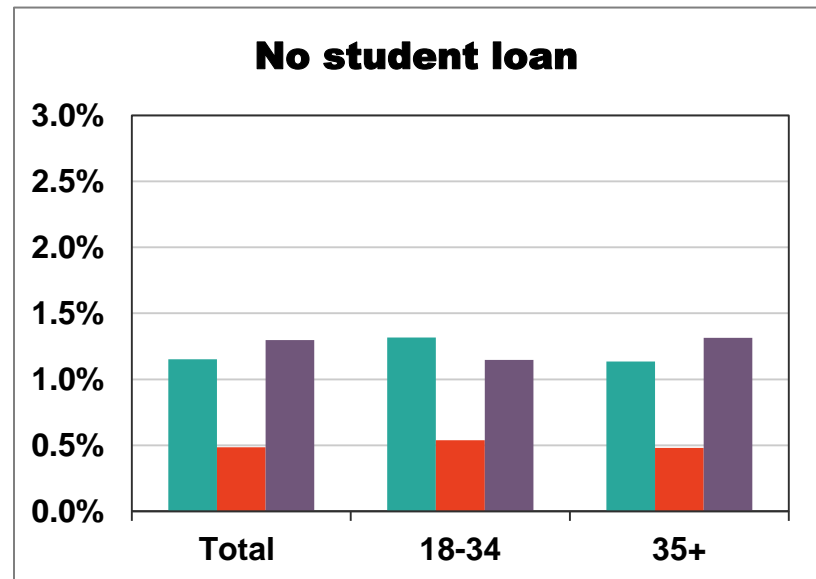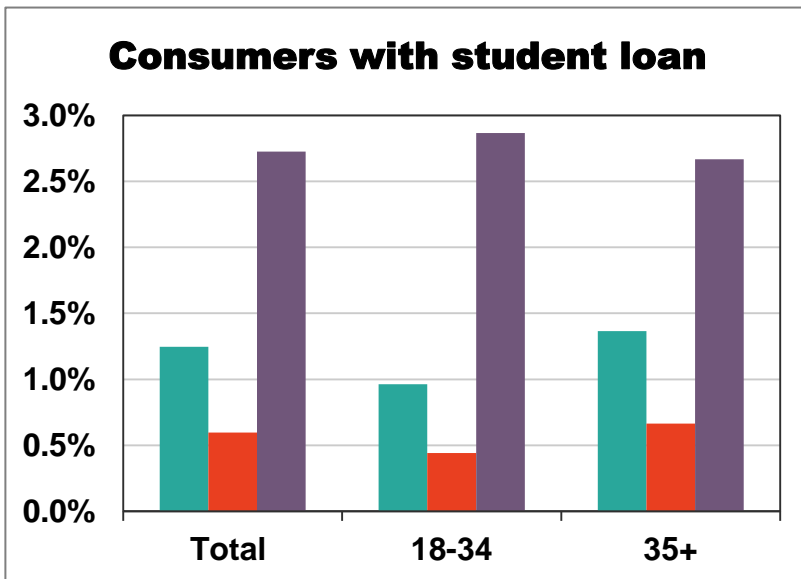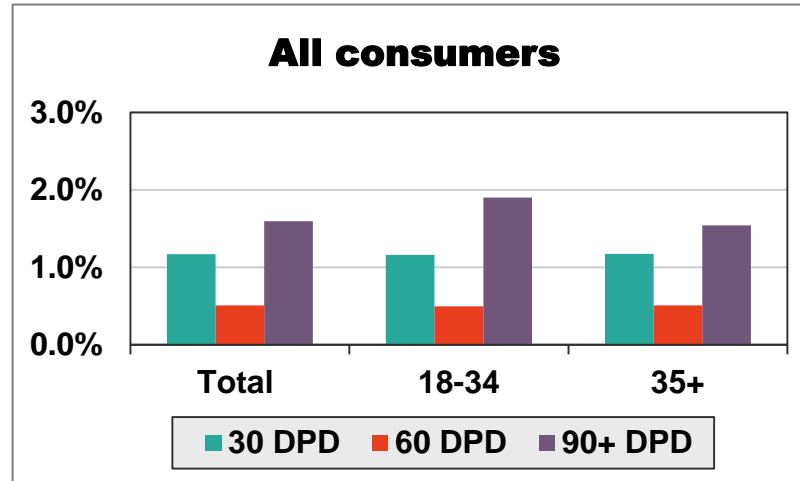
Gender group split
Within each 2015 VantageScore® 3.0 tier and overall

- U.S. Census females represent 50.8% of the population (black line)
- On the Experian file:
  - Females make up about 50.8% of consumers with at least one open loan
  - Females represent 56.8% of the consumers with student loan debt
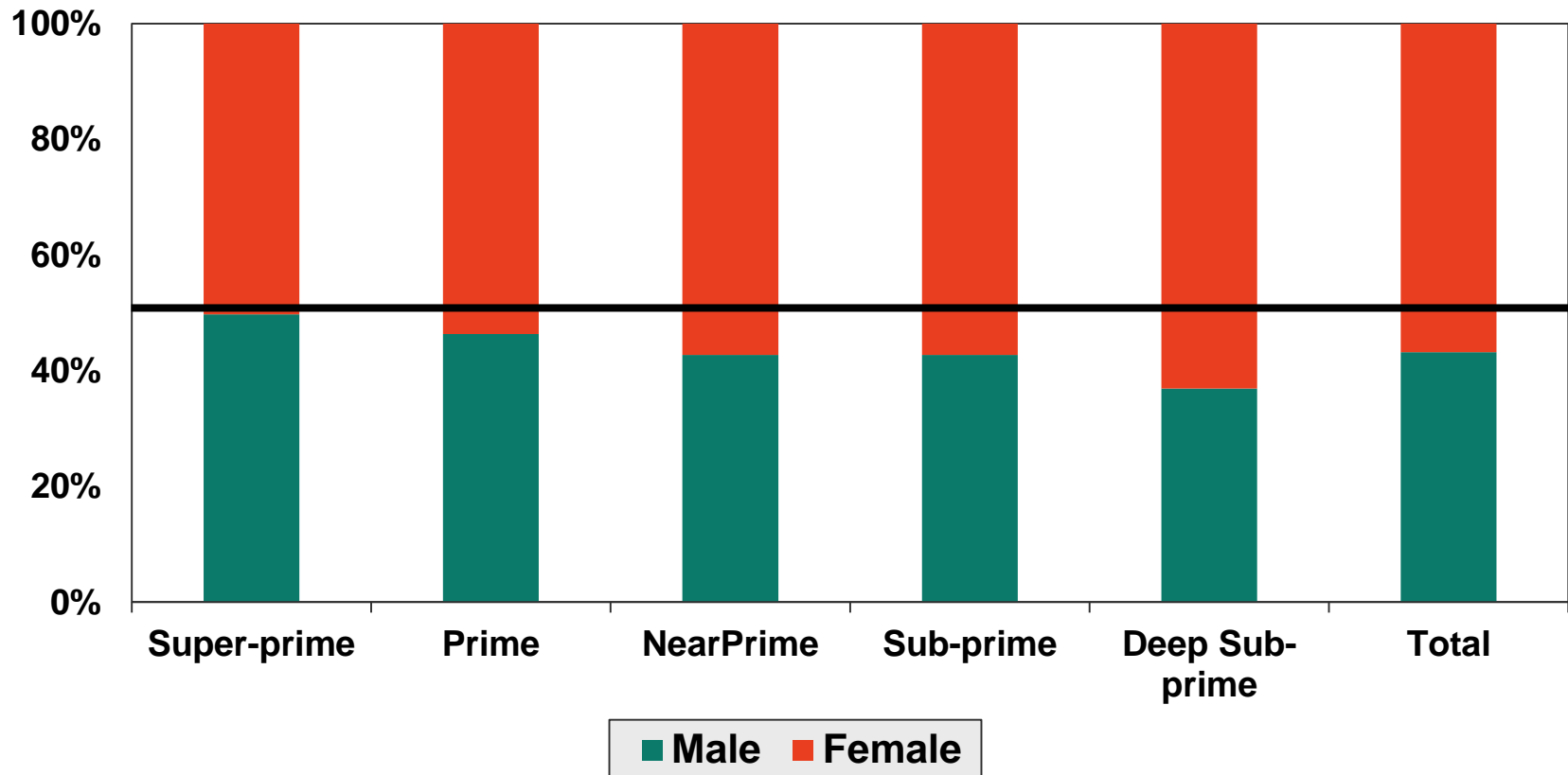
Legend: ■ Male ■ Female

Credit tier distribution
By gender group and overall for 2015 population

- U.S. Census females represent 50.8% of the population (black line)

- Females are a larger share in the lower income groups and males are more predominant in the higher ranges

Chart: Credit tier distribution by gender (Male / Female), with income groups [0, 35k], [35k, 70k], [70k, 100k], [100k, 150k], >150k, and Total. Y-axis from 0% to 100%.

Male   Female
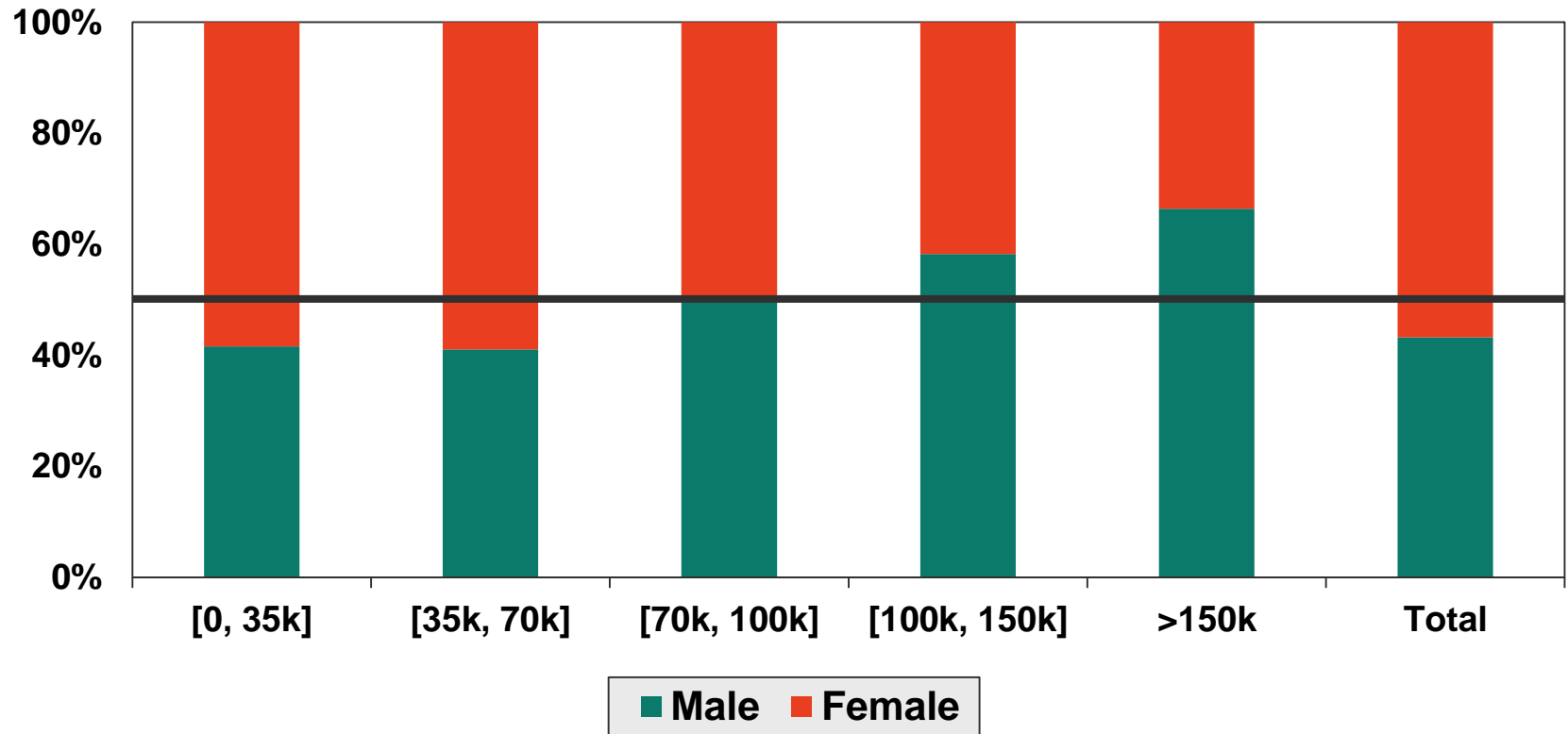
Student loan consolidation

Consolidation

Consolidation analysis:

- 13,000 consolidators

  - ▶ Multiple loans ending +/- 30 days of the open date of a new loan

  - ▶ Where the new origination amount is between 66 -150% of the sum of the previous loans

- 50,000 Non-consolidation / contrast population

  - ▶ At least two open student loans as of December 14 and December 15

  - ▶ Did not meet consolidation criteria

Performance window

Dec 2014   Dec 2015

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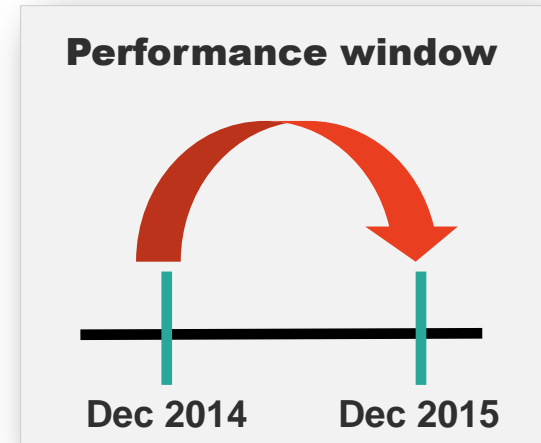
Consolidation segmentation

- Overall consolidation rate of 21.6%

- Consolidation range using segmentation:

  - **One level** – Risk: 8.7% Low – 38.9% High

    - VantageScore®: Predicts the likelihood that a going delinquent (90+ DPD) in the next 24 months (Score range 300-850 – low score is more likely to go delinquent)

  - **Two levels:** 3.6% Low – 49.7% High

    - STU2580 – Total number of student loan trades ever 90 days past due or worse

    - STU5031 – Total balance on student loan trades with a balance greater than 0 reported in the last 6 months

  - **Three levels:** 1.2% Low – 69.3% High

    - ALL2380 – Total number of trades ever 90 days past due or worse

    - ALL0000 – Total number of trades

    - STU0416 – Total number of student loan trades reported in the last 6 months

    - Average open date – of all student loans
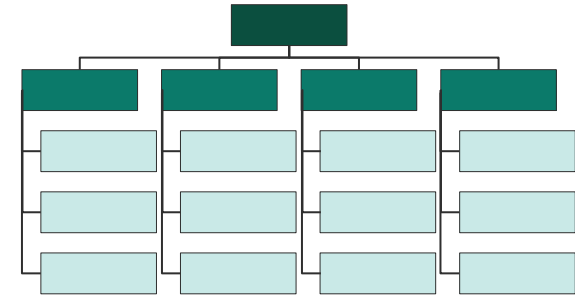
```
                          60,257
                          21.6%
                        Consolidator
```

VS 300-499 38.1% Consolidator	VS 500-600 29.9% Consolidator	VS 601-660 22.7% Consolidator	VS 661-780 17.0% Consolidator	VS 781-850 7.3% Consolidator
STU2580 = Low to 1 16.7% Consolidator	STU5031 < $9,859 12.6% Consolidator	STU5031 < $11,538 4.8% Consolidator	STU5031 < $15,084 2.5% Consolidator	STU5031 < $33,891 1.9% Consolidator
STU2580 = 2 27.7% Consolidator	STU5031 $9,859 – $20,501 20.7% Consolidator	STU5031 $11,538 - $22,594 12.4% Consolidator	STU5031 $15,085 - $26,475 10.8% Consolidator	STU5031 $33,892 - $6,472 12.2% Consolidator
STU2580 = 3-8 40.5% Consolidator	STU5031 $20,502 – $34,985 30.0% Consolidator	STU5031 $22,595 – $54,596 27.3% Consolidator	STU5031 $26,476 - $49,496 20.7% Consolidator	STU5031 $66,473 - $154.815 25.7% Consolidator
STU2580 = 9+ 60.4% Consolidator	STU5031 $34,986+ 45.1% Consolidator	STU5031 $54,597+ 41.1% Consolidator	STU5031 $49,497+ 33.8% Consolidator	STU5031 $154,816+ 37.4% Consolidator

Student loan market
Lender perspective

Gordon Cameron

PNC

Size and competition

- There is over a trillion dollars of outstanding balances

  - ▸ The price of post-secondary education continues to rise

  - ▸ More students are forced to take out student loans

  - ▸ Enrollment is flattening

- Identifying even a small portion of enticing borrowers can be a sizable opportunity

- Competition is ramping up

  - ▸ Many financial tech companies are entering the student lending space, especially for consolidation loans

  - ▸ Some banks are ramping up their student lending operations

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A college degree is typically a good investment

The rewarding and the ruinous
Total cost of a degree*, 2013, $'000
Selected colleges, average

Annual return over 20 years†, %

College	0 50 100 150	Return
University of Virginia		17.6
Georgia Tech		17.1
Harvard		15.1
William and Mary		14.8
University of Washington		14.8
Stanford		14.2
MIT		13.9
U.C. Berkeley		13.5
Caltech		13.3
Dartmouth		13.3
Yale		13.3
Princeton		13.2
Purdue		13.2
UCLA		12.8

College		
South Dakota School of Mines		12.7
Harvey Mudd College		12.6
Columbia		12.6
Brigham Young		12.6
University of Pennsylvania		12.5
Brown		12.1
Babson		11.8
Amherst		11.6
Manhattan		11.0
North Dakota State University		11.0
New York University - Poly		10.9
Stevens Institute of Tech.		10.6
Carnegie Mellon		10.2
Georgetown		9.9

20-YEAR TREASURY BILL 3.4

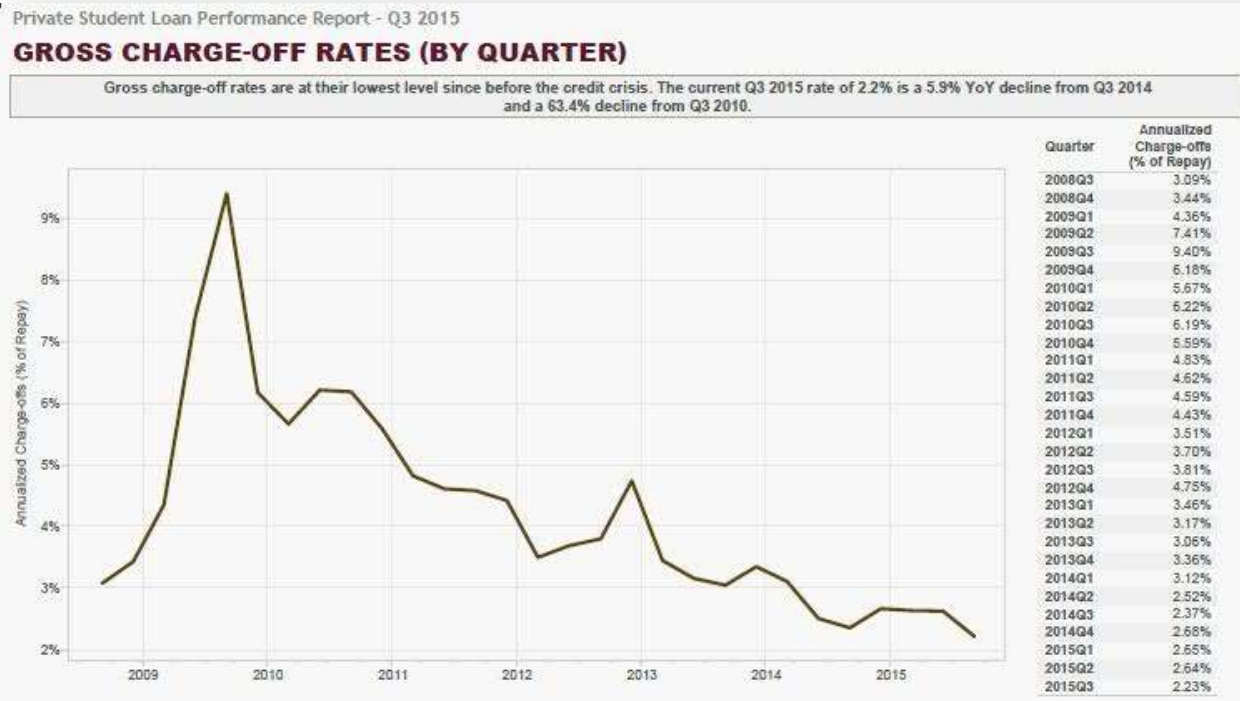| College		
College of New Rochelle		1.0
Morehead State University		0.6
Adams State College		0.5
Ashland University		-0.3
University of North Carolina at Asheville		-0.5
Faulkner University		-0.5
Ringling College of Art and Design		-0.5
Meredith College		-1.0
Maryland Institute College of Art		-1.1
Goshen College		-1.2
University of Montevallo		-3.2
College of the Ozarks		-3.3
Bluefield College		-4.6
Savannah State University		-6.9
Fayetteville State University		-10.6
Shaw University		-10.6

*After financial aid †Earnings minus cost of college and earnings of a typical high-school graduate

Source: PayScale

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Private Student Loan Performance Report - Q3 2015

GROSS CHARGE-OFF RATES (BY QUARTER)

Gross charge-off rates are at their lowest level since before the credit crisis. The current Q3 2015 rate of 2.2% is a 5.9% YoY decline from Q3 2014 and a 63.4% decline from Q3 2010.

Quarter	Annualized Charge-offs (% of Repay)
2008Q3	3.09%
2008Q4	3.44%
2009Q1	4.36%
2009Q2	7.41%
2009Q3	9.40%
2009Q4	6.18%
2010Q1	5.67%
2010Q2	6.22%
2010Q3	6.19%
2010Q4	5.59%
2011Q1	4.83%
2011Q2	4.62%
2011Q3	4.59%
2011Q4	4.43%
2012Q1	3.51%
2012Q2	3.70%
2012Q3	3.81%
2012Q4	4.75%
2013Q1	3.46%
2013Q2	3.17%
2013Q3	3.06%
2013Q4	3.36%
2014Q1	3.12%
2014Q2	2.52%
2014Q3	2.37%
2014Q4	2.68%
2015Q1	2.65%
2015Q2	2.64%
2015Q3	2.23%

Private student loan performance has been improving thanks to improvements in credit-based underwriting, a documented ability to repay, and a high percentage of co-signers
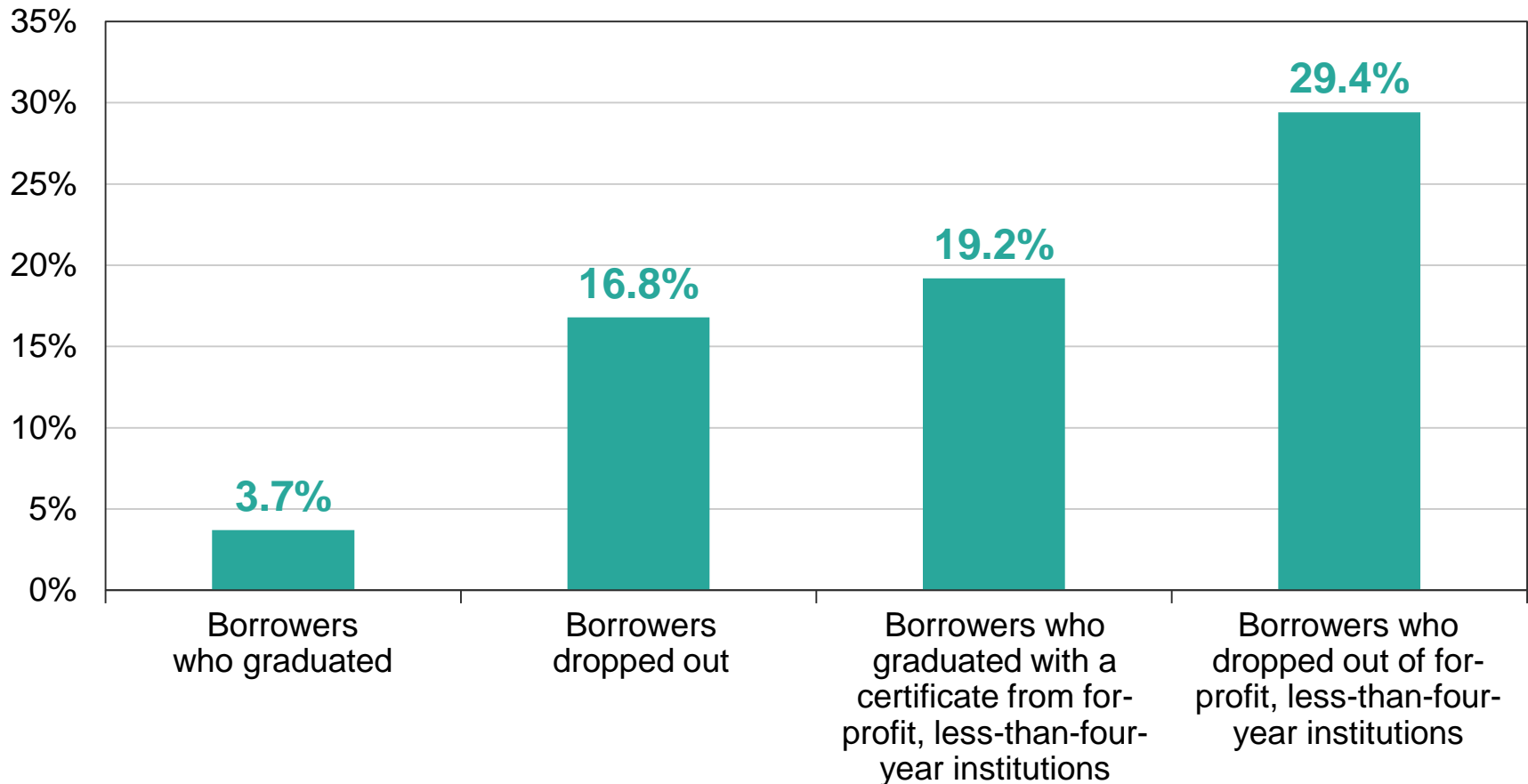
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Source: MeasureOne

Percentage of borrowers who defaulted on their loans up to six years after initial post-secondary enrollment

	Borrowers who graduated	Borrowers dropped out	Borrowers who graduated with a certificate from for-profit, less-than-four-year institutions	Borrowers who dropped out of for-profit, less-than-four-year institutions
Default rate	3.7%	16.8%	19.2%	29.4%

Source: Beginning Postsecondary Students, BPS: 2004 / 2009; CEA calculations

Comparison to other asset classes

Retail assets landscape

- Mortgage

- Home equity

- Credit card

- Auto

- Unsecured lending

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A student loan offers an opportunity to establish a relationship with a new generation of customers

U.S. Estimated Population, By Age
Millennials make up the largest share of the U.S. population, at 28.7 percent.

Millennials 28.7%
Boomers 23.7%

Notes
Here, we define millennials as being born between 1980 and 2000, and baby boomers, between 1946 and 1964.

Source: U.S. Census Bureau Monthly Population Estimates (June 2014)
Credit: Alyson Hurt/NPR

Homeownership Rate Among Age Under 35 Years

Source: Census Bureau   08/22/14

Gestation period

Several years may pass from the time the loan is underwritten and booked, to the time the first payment is made

- The elongated outcome period makes predicting performance difficult

- Policy and acceptance criteria modifications take time to manifest different credit performance

- Undesirable underwriting criteria takes years to become apparent and years to change in event of undesirable outcomes

Years before repayment begins

In school	In grade	In repayment
2-4 years	6 months	1-30 years

Payment options

Once a loan enters repayment, there are several options to defer payments

- Adds complexity to predicting performance

- Adds complexity to monitoring and reporting

- Regulators have expressed an interest in expanded repayment options, which would add even more complexity
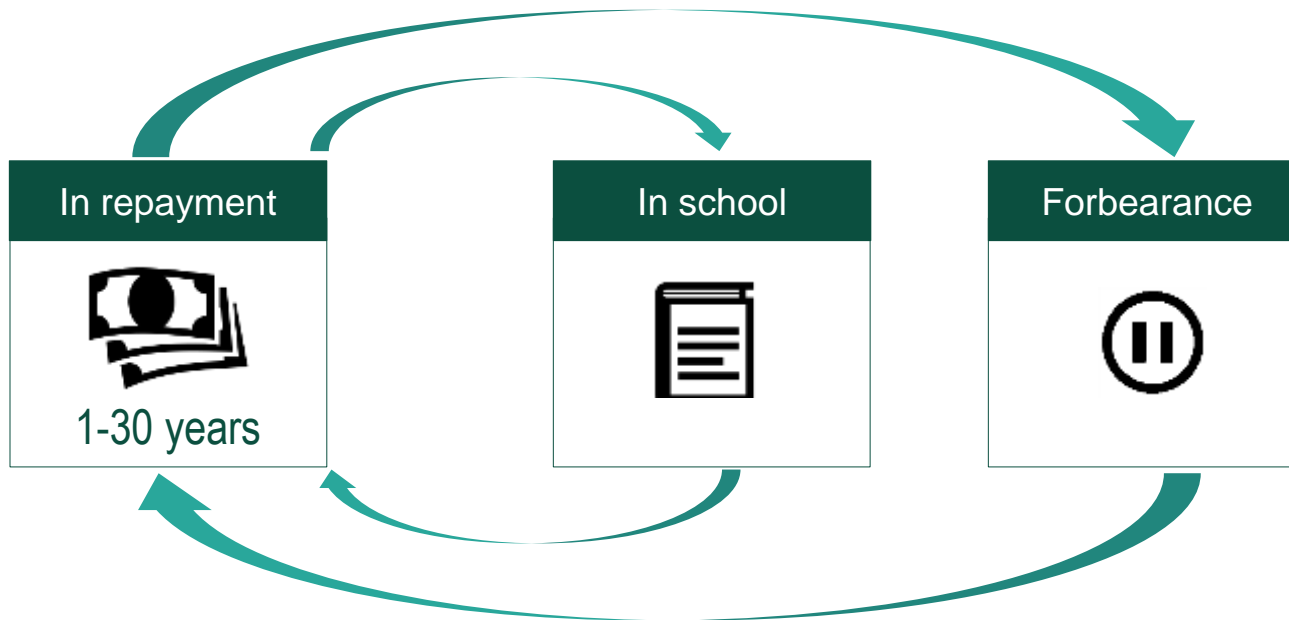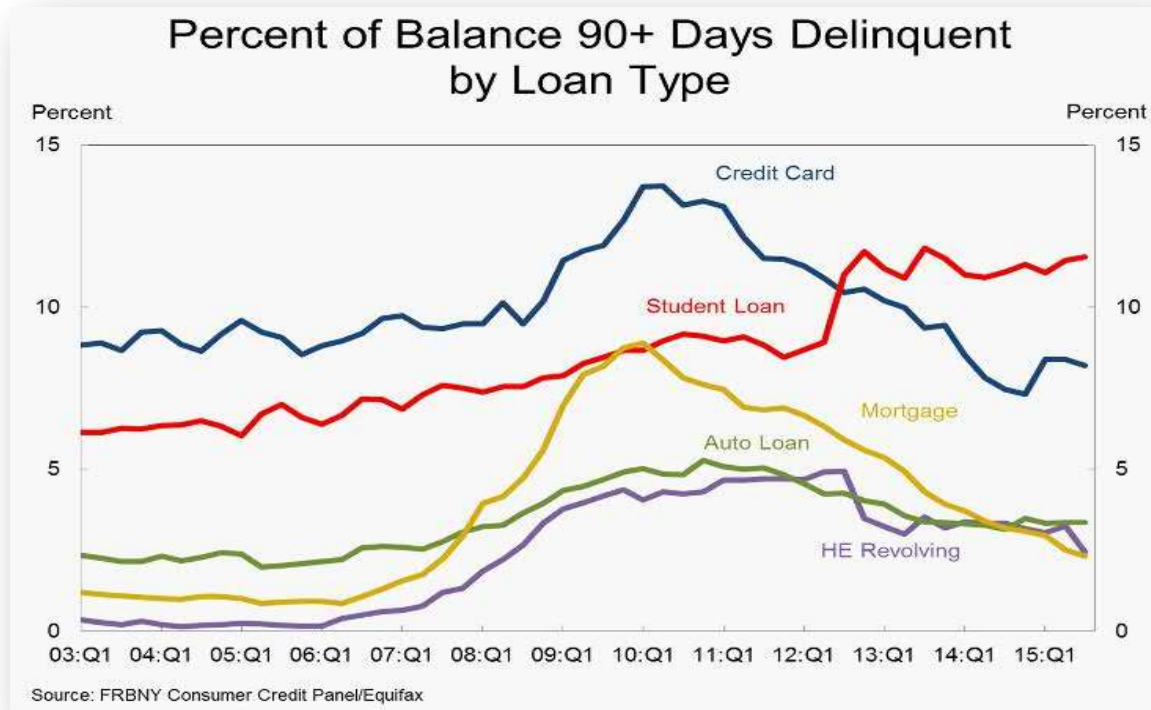
In repayment	In school	Forbearance
1-30 years		

Federal loans offer several income based repayment options

- Nearly 40% of direct loans are currently in an income based repayment program and many more are eligible

- These options can cloud performance metrics

- They increase operational complexity

- They disrupt cash flows

FIGURE 11B Distribution of Outstanding Federal Direct Loan Dollars and Recipients by Repayment Plan, Third Quarter 2013, 2014, and 2015

Legend: 2013, 2014, 2015

Income Driven — Dollars: 23%, 29%, 37% — Recipients: 11%, 14%, 20%
Level Payments, 10 Years or Less — Dollars: 44%, 42%, 36% — Recipients: 67%, 64%, 58%
Level Payments, More Than 10 Years — Dollars: 19%, 16%, 13% — Recipients: 11%, 9%, 8%
Graduated Payments — Dollars: 14%, 13%, 14% — Recipients: 12%, 12%, 14%

Repayment Plan
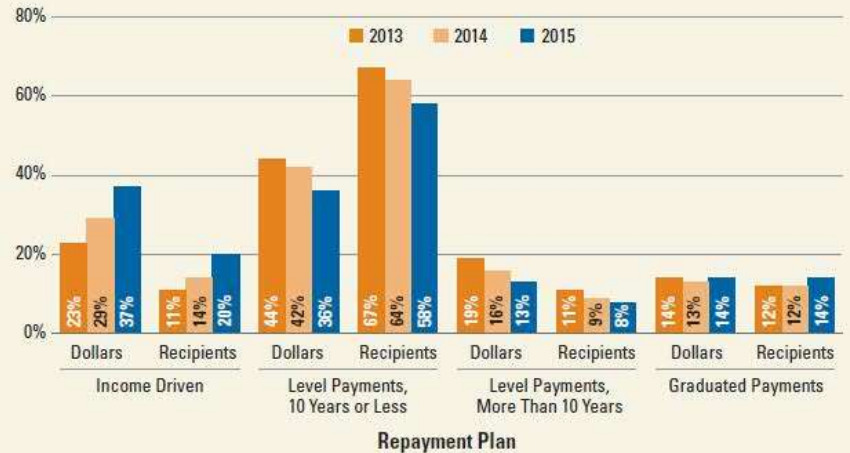
SOURCE: U.S. Department of Education, Federal Student Aid Data Center, Federal Student Loan Portfolio.

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Percent of Balance 90+ Days Delinquent by Loan Type

Source: FRBNY Consumer Credit Panel/Equifax

- Delinquency rates for student loans have been rising rapidly since 2012

- Delinquency rates for other products have been steadily declining over that same period

Regulatory environment

- Legislative and political risks continue at a high level as industry attracts significant attention

  - From the CFPB "Policy priorities over the next two years" release in February:

    - The CFPB envisions a student lending market where servicers facilitate repayment of student debt in a manner that is consistent with consumer interests, transparent, and fair, and incentives encourage these outcomes

  - Several large banks, lenders and servicers have been fined by regulators

- Ultimately one law change or regulatory action could significantly alter the profitability of this asset class

43
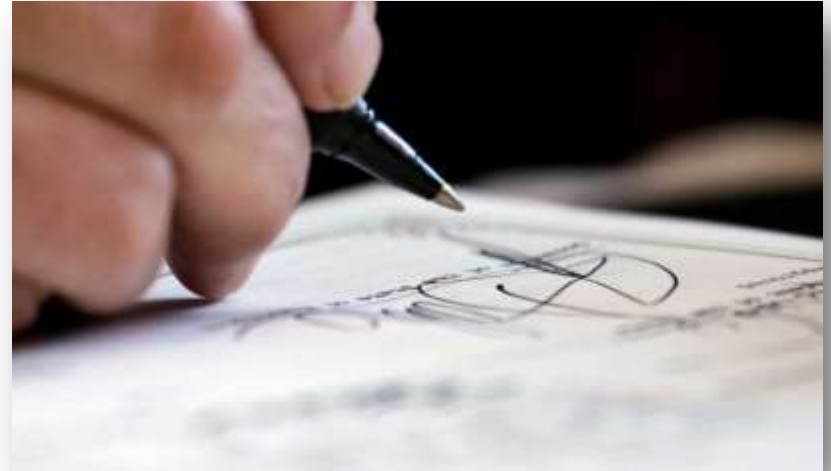
Bankruptcy eligibility

Private and federal loans are very difficult to discharge via bankruptcy, but that could change

- A federal judge in Brooklyn recently ruled that bar study loans are not subject to the same bankruptcy protections as traditional student loans

- Although changes to bankruptcy laws seem unlikely in the near future, they have to potential to change some key performance metrics

Income-based repayment

Private loans do not offer income based repayment programs and debt forgiveness like federal loans

- This could make private loans and consolidation loans less attractive to borrowers

- It could also cause some confusion over what benefits borrowers are giving up when consolidating loans

- A mandated change could have serious impacts on a business plan

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