

■ SEPTEMBER 2021

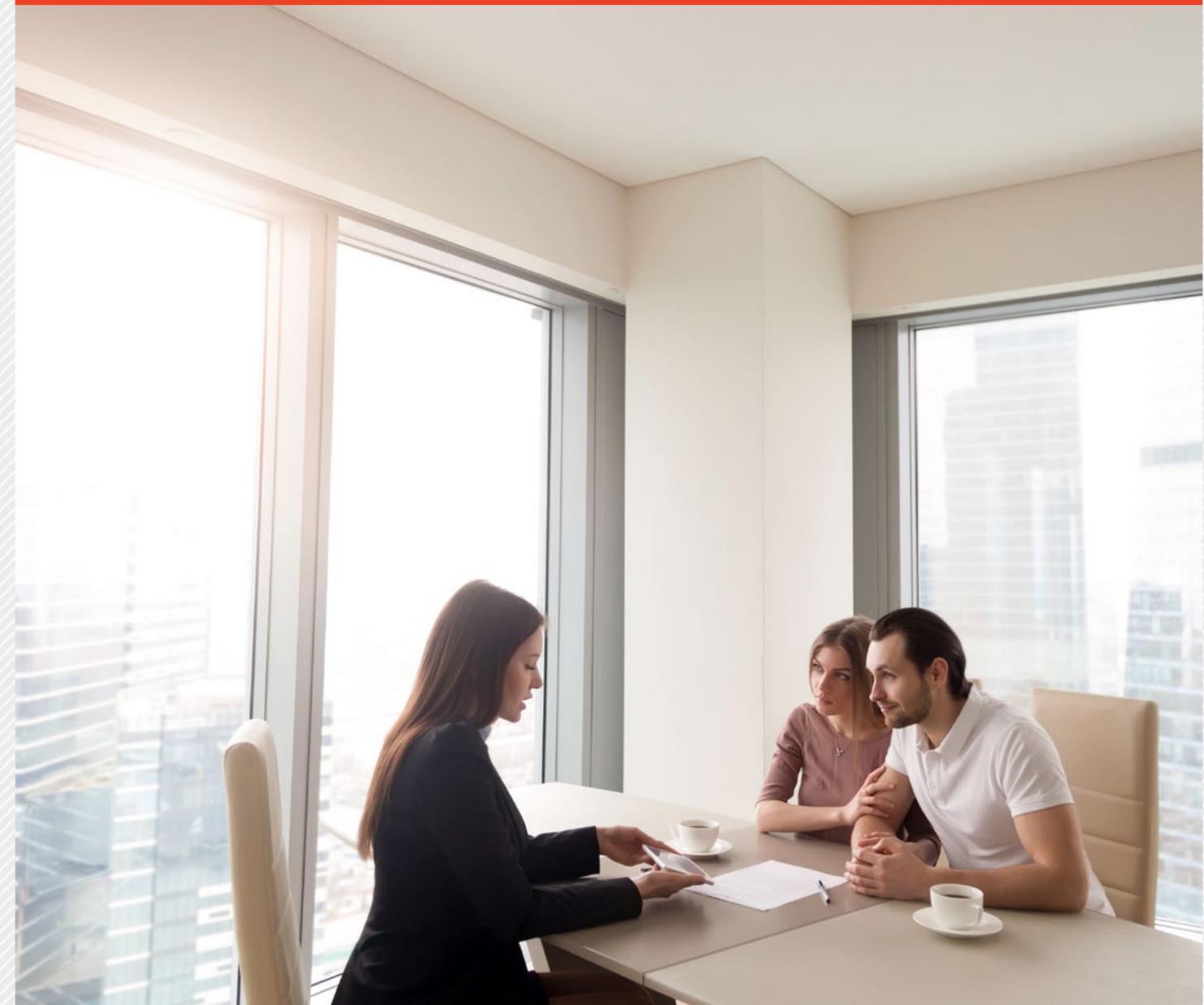
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REALITY CHECK:

THE PAYCHECK-TO-PAYCHECK REPORT

THE DIVERSE DEMOGRAPHICS OF PERSONAL LOAN USERS



Reality Check: The Paycheck-To-Paycheck Report, a PYMNTS and LendingClub collaboration, seeks to provide a full and accurate picture of consumer finances in the U.S. today. The report is part of a monthly series based on surveys of more than 30,000 U.S. consumers conducted between March 2020 and July 2021.

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INTRODUCTION

Thirty-year old Turner Cowles earns over \$105,000 a year but says he is under financial pressure thanks to the high cost of living in New York City and his student loan payments. He wonders how others can get by on less and feels insecure about his situation. He is hardly alone.¹

Six-figure earners like Cowles might seem unlikely to be strapped for cash, but a surprising number lack financial security. PYMNTS' research has found that one-third of such earners live paycheck to paycheck, in fact, and 12 percent struggle to pay their bills. These individuals also account for 32 percent of personal loan demand in the United States, according to our latest findings.

The paycheck-to-paycheck lifestyle is a leading driver of personal loan demand. Consumers living this way are 42 percent more likely than others to have taken out personal loans. Individuals' savings amounts, age, housing expenses and household makeup are other notable

factors. Thirty-two percent of Cowles' millennial and bridge millennial peers who live paycheck to paycheck use personal loans — a higher rate than measured in other age brackets.

The September edition of Reality Check: The Paycheck-To-Paycheck Report examines new PYMNTS research into the demographics of personal loan demand, focusing on the financial and household characteristics of borrowers. We surveyed 2,371 U.S. consumers in July about their finances surrounding personal loan use and how their decision to take out or avoid loans intersects with living paycheck to paycheck.

This is what we learned.

¹ Presha, A; Schwartz-Lavares, A; Pearle, L; Yang, A. 2021. Some people making \$100K or more say the benchmark for financial success has shifted. ABC News. 2021. <https://abcnews.go.com/US/people-making-100k-benchmark-financial-success-shifted/story?id=79001726>. Accessed September 2021.

PART I:

PAYCHECK-TO-PAYCHECK CONSUMERS DRIVE MOST OF PERSONAL LOAN DEMAND

Nearly two-thirds of personal loan users — 36 million individuals — live paycheck to paycheck, but 57 percent say they are not struggling to pay their bills.²

Our research shows that 24 percent of consumers in the U.S. have used personal loans. This makes them the second-most popular type of — typically — unsecured credit product after credit cards (used or acquired by 73 percent), and the fourth-most common overall lending instrument after auto loans (50 percent) and mortgages (45 percent).



Paycheck-to-paycheck consumers are 42 percent more likely than others to use personal loans.

Consumers of all financial and demographic backgrounds use personal loans, but we identified the paycheck-to-paycheck lifestyle as a critical driver. Sixty-three percent of personal loan users — 36 million individuals — say they are living paycheck to paycheck, whereas 54 percent of the U.S. population are living this way.² Consumers living paycheck to paycheck are 42 percent more likely to have used personal loans than those who are more financially secure.

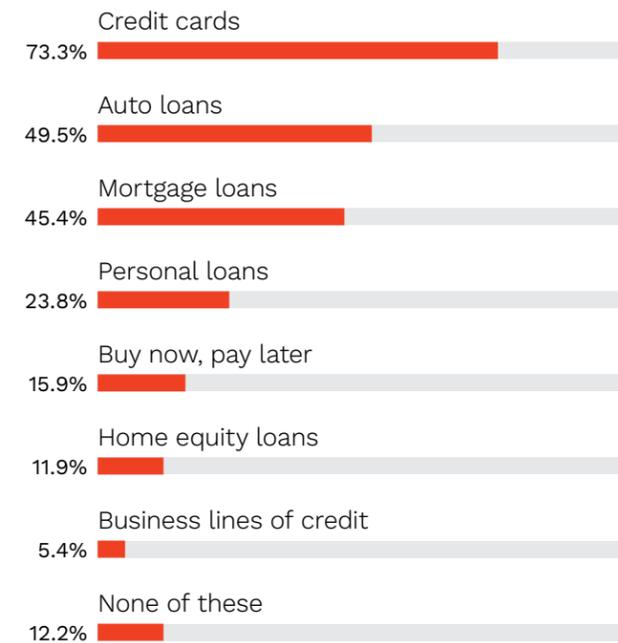
We also identify a significant split among paycheck-to-paycheck personal loan users. Fifty-seven percent say they do not find it difficult to meet their financial obligations, while 43 percent have difficulty paying their bills. The latter group are 12 percent more likely than the former to have used personal loans.

² The term 'personal loan users' in this report refers to consumers who currently hold or have once held a personal loan.

FIGURE 1:

The most popular credit products

Share of respondents who have used or acquired select credit products

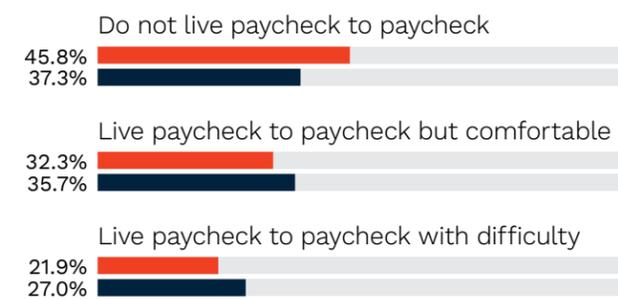


Source: PYMNTS | LendingClub
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FIGURE 2:

Paycheck-to-paycheck status of personal loan users

Share of personal loan users and average sample of consumers living select financial lifestyles



Source: PYMNTS | LendingClub
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The prevalence of living paycheck-to-paycheck among personal loan users suggests that personal loans have become a mainstream financial tool for Americans, with paycheck-to-paycheck consumers driving most of the demand. Americans' need for credit fluctuates depending on their evolving circumstances and ability to prepare for the unexpected.

We have tracked the paycheck-to-paycheck trend since March 2020, when the pandemic began to significantly impact the U.S. economy. The portion of respondents living this way declined from a high of 65 percent in December 2020 to a low of 52 percent in April 2021 before rebounding slightly to 54 percent and 55 percent from May to July. These fluctuations have likely been driven in large part by the economic rebound from the mid-2020 low points in employment and consumer confidence as well as government support programs, the most significant of which were launched in mid-2020 and scaled back in late 2020.

THE MAJORITY OF U.S. CONSUMERS LIVE PAYCHECK TO PAYCHECK, INCLUDING **36 MILLION PERSONAL LOAN USERS.**

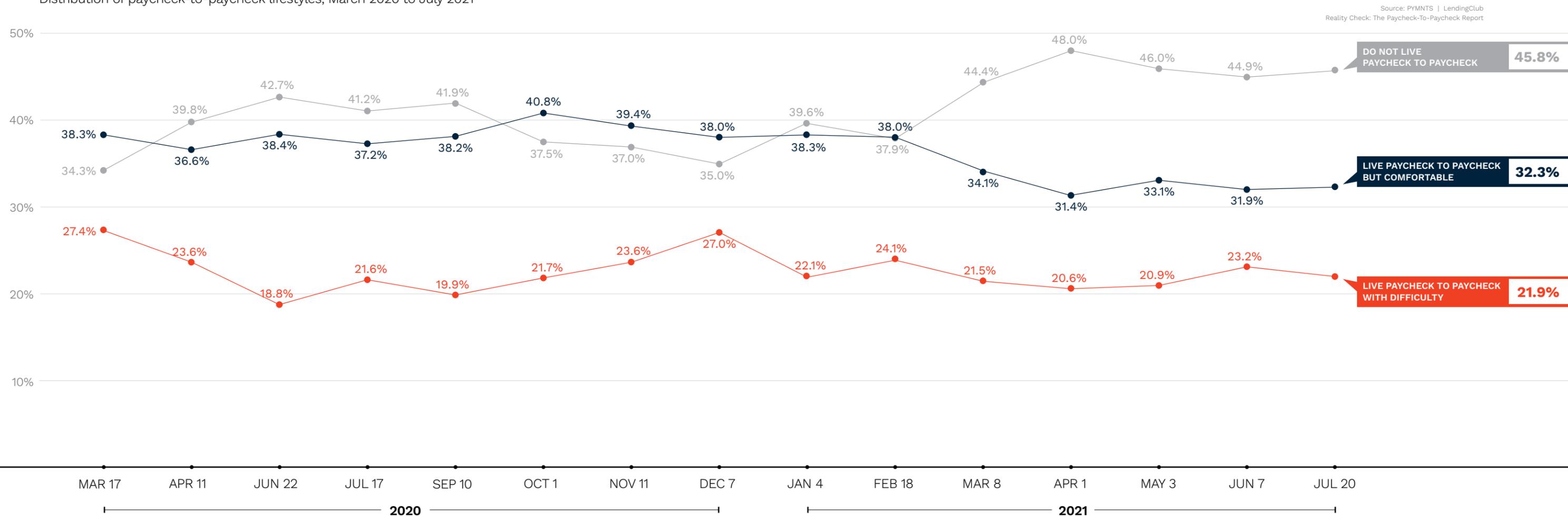


Seventy-eight percent of consumers do not have trouble paying their bills, even if they live paycheck to paycheck.



Twenty-two percent of consumers live paycheck-to-paycheck and struggle to make ends meet.

FIGURE 3:
Paycheck-to-paycheck status over time
Distribution of paycheck-to-paycheck lifestyles, March 2020 to July 2021



PART II:
BRIDGING THE GAP WHEN SAVINGS ARE LIMITED

More than half of those who have ever taken out personal loans have less than \$2,500 in savings. Over two-thirds earn \$50,000 per year or more, and nearly one-third take home over \$100,000.

Not surprisingly, savings level heavily influences consumers' demand for personal loans. Fifty-three percent of personal loan users surveyed say they have less than \$2,500 in savings, suggesting they are financially vulnerable to emergencies or loss of employment. Only 46 percent of the average sample report they are in this precarious position. Another 25 percent of personal loan users saved between \$2,500 and \$15,000 — still less than some emergencies might require. It comes as no surprise that two-thirds of personal loan users are employed, since so many are living paycheck-to-paycheck.

FIGURE 4:
Savings levels of personal loan users
Level of personal loan users' savings versus average sample



Source: PYMNTS | LendingClub
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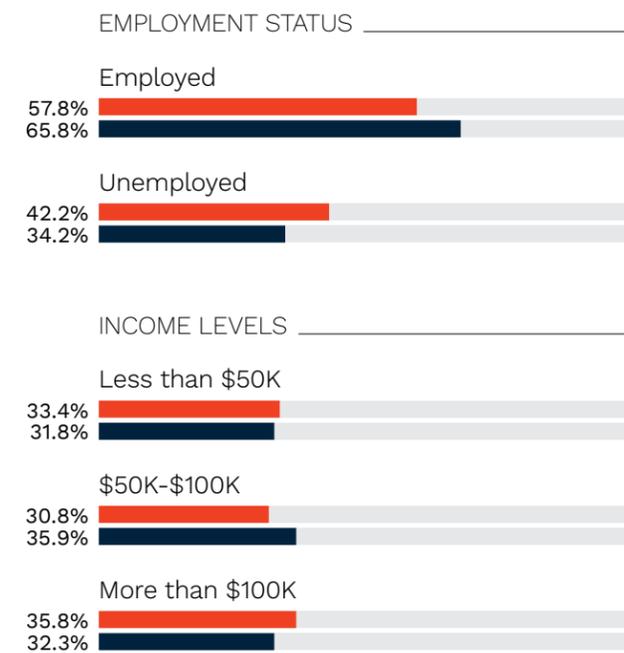


Fifty-three percent of personal loan users have less than \$2,500 in savings.



Sixty-eight percent of personal loan users earn over \$50,000 per year.

FIGURE 5:
Employment status and income levels of personal loan users
Annual income and employment of personal loan users versus the average sample



Source: PYMNTS | LendingClub
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Income levels highlight further complexity in the relationship between financial situation and personal loan uptake. Both personal loan users and the U.S. population overall are split relatively evenly between three income brackets: less than \$50,000, \$50,000 to \$100,000 and more than \$100,000. Thirty-six percent of personal loan users fall into the middle-income bracket, and 32 percent belong to the highest income group, showing that demand for personal loans exists even among those with high incomes. High-earning consumers tend to exhibit less demand for personal loans on average, though, as 36 percent of all respondents qualify for this group, yet only 32 percent of personal loan users earn this much. The opposite is true for the middle bracket, which holds a smaller share of the general U.S. population (31 percent) than of personal loan users (36 percent). It is also noteworthy that consumers in the lowest income bracket do not account for an outsized portion of personal loan demand despite having more limited resources.

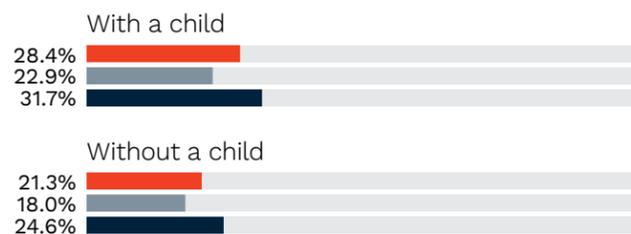
PART III:
ALL IN THE FAMILY

Thirty-two percent of consumers living paycheck to paycheck with a child in their households use personal loans. They are 33 percent more likely to have taken out personal loans than those who do not live with a child.

Personal loan use varies significantly across consumers with different family and generational characteristics. Twenty-eight percent of respondents who live in households with a child have taken out personal loans, one-third more than those who do not live with a child (21 percent). Paycheck-to-paycheck consumers living with a child are again approximately one-third more likely to be personal loan users (32 percent) than their counterparts in households without a child (25 percent). These trends hold across other credit products as well. Consumers living with a child are 31 percent more likely to have taken out another type of loan, such as a home equity product, on average.

FIGURE 6:
The impact of living with a child on personal loan usage

Share of personal loan users, by paycheck-to-paycheck status



Source: PYMNTS | LendingClub
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- Average sample
- Do not live paycheck to paycheck
- Live paycheck to paycheck



Twenty-eight percent of consumers in households with a child have taken out personal loans.

32%

OF MILLENNIALS AND BRIDGE MILLENNIALS
LIVING PAYCHECK-TO-PAYCHECK HAVE TAKEN OUT PERSONAL LOANS.

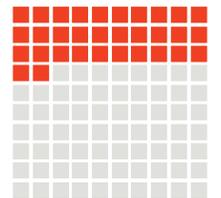
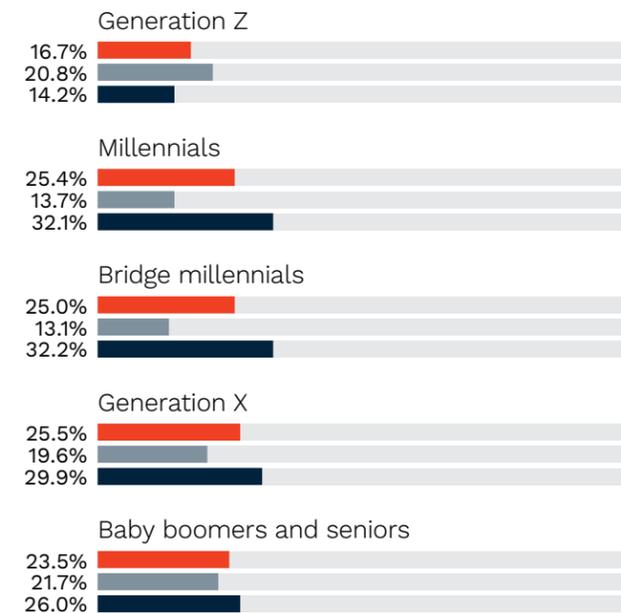


FIGURE 7:
Personal loan usage among different generations

Share of respondents who have acquired personal loans, by generation and financial lifestyle



Source: PYMNTS | LendingClub
Reality Check: The Paycheck-To-Paycheck Report

- Average sample
- Do not live paycheck to paycheck
- Live paycheck to paycheck

We observe that consumers living paycheck to paycheck across all age groups are much more likely to use personal loans than those with greater financial security — with Generation Z as one exception. The difference is most pronounced for millennials and bridge millennials: 32 percent of paycheck-to-paycheck consumers in these age groups use personal loans, versus 14 percent and 13 percent, respectively, of those with more secure lifestyles. This is unsurprising, as consumers in these age groups have been bookended by two recessions and tend to have significant financial commitments, such as getting married, starting families, paying for education, buying homes and caring for children or their elderly parents. The gap is also wide for those belonging to Generation X (10 percentage points) and still significant for baby boomers and seniors (4.3 percentage points).

PART IV:
THE WEIGHT OF HOUSING EXPENSES

Consumers living paycheck to paycheck with personal loans spend 34 percent of their income on housing on average. They are also much more likely to rent their home than take out a mortgage.

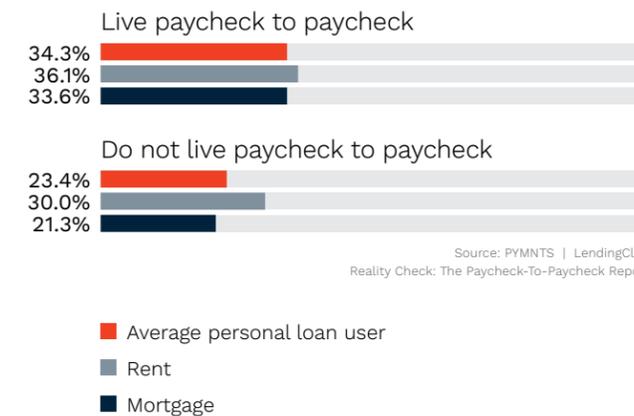
FIGURE 8:
Housing payments
Share of consumers who rent or have a mortgage, by financial lifestyle and personal loan usage



Source: PYMNTS | LendingClub
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Housing costs factor heavily into consumers' wider financial situations, including whether they rent or take out a mortgage and how much of their income this consumes. Forty-six percent of personal loan users who live paycheck to paycheck rent their homes, as do only 23 percent of those who do not live paycheck to paycheck. The trend goes the other way for those that have mortgages: 38 percent of paycheck-to-paycheck consumers who have personal loans also have mortgages, compared to 48 percent for their more income-secure counterparts.

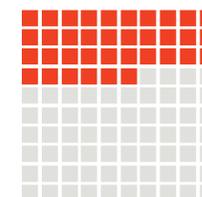
FIGURE 9:
Personal loan users' spending on housing
Average portion of monthly income spent on rent or mortgages among personal loan users, by financial lifestyle



Source: PYMNTS | LendingClub
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Consumers who take out personal loans and live paycheck to paycheck spend more than one-third of their incomes on housing, with renters paying 36 percent of their income and mortgage holders paying 34 percent. Their counterparts who do not live paycheck to paycheck spend just 23 percent of their income on housing on average. Renters in this group devote 30 percent of their income to housing, though, while mortgage holders spend only 21 percent. These wide gaps in housing spending appear to be important factors limiting paycheck-to-paycheck consumers' abilities to save and trapping them in financially precarious situations.

36%



OF PAYCHECK-TO-PAYCHECK PERSONAL LOAN USERS WHO RENT SPEND THIS PORTION OF THEIR INCOME **ON HOUSING.**

CONCLUSION

Consumers across financial and demographic backgrounds take out personal loans, and consumers living paycheck to paycheck account for nearly two-thirds of personal loan users in our study, making this market segment a key driver for personal loan demand. No single determinant or predictor exists for taking out a personal loan, though this report has identified several key variables. An important factor is a consumer's level of savings, as shown by the high uptake of personal loans among those with less than \$2,500 put aside. Living with a child coincides with higher rates of personal loan acquisition as well, and demand is highest among Gen X and millennial consumers, but it varies relatively little across age groups — with the exception of Generation Z. Consumers with personal loans are more likely to rent and less likely to take out a mortgage than the U.S. population on average, and they spend a larger portion of their income on housing. Our research shows that the financial needs of the 24 percent of U.S. consumers who use personal loans varies widely and indicates that strong overall demand for personal loans is here to stay, especially among paycheck-to-paycheck consumers.

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METHODOLOGY

Reality Check: The Paycheck-To-Paycheck Report is based on census-balanced surveys of 2,371 U.S. consumers that were conducted between July 15 and July 20 as well as an analysis of other economic data.

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