Upstart

Upstart Credit Performance - FAQ
August 8, 2022

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We wanted to take an opportunity to provide the following responses to frequently asked questions regarding credit performance on Upstart's platform.

- Sanjay Datta, CFO

Q: Does Upstart's credit model continue to provide an advantage over traditional credit scores?

A: Yes. Upstart's model provides about 5X more risk separation than FICO for loans on our platform, allowing more accurate risk-based pricing. Our model continues to improve, as measured by "Area Under the Curve" (AUC).

Upstart separates risk significantly better than FICO

(annualized default rates)[1]

Upstart Risk Grades

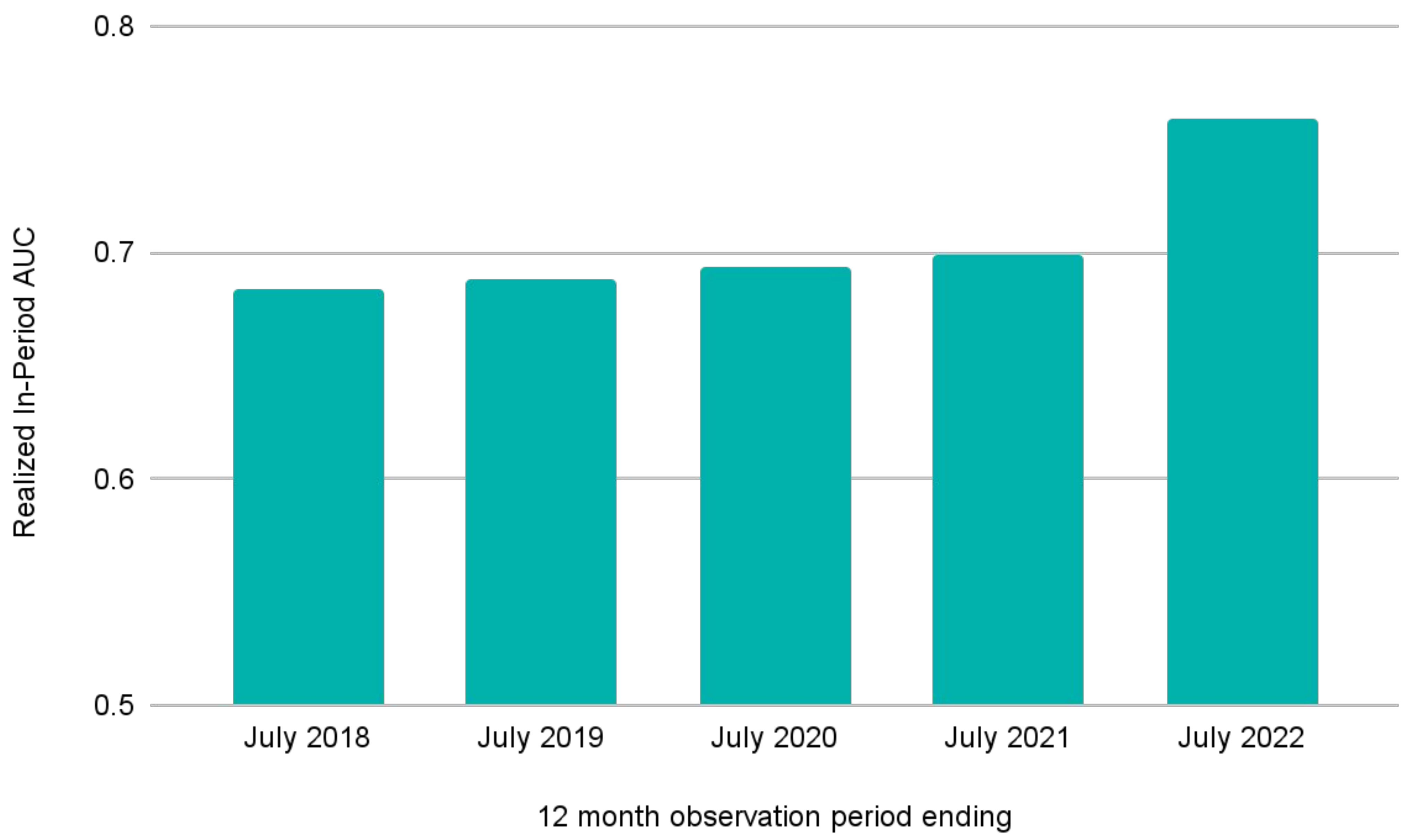
FICO Score	A+	B	C	D	E-	Average
700 or Above	0.7%	2.2%	4.3%	6.4%	10.2%	**3.6%**
680 to 699	0.7%	2.1%	3.9%	5.7%	9.3%	**4.5%**
660 to 679	0.9%	2.2%	3.9%	5.7%	9.5%	**5.5%**
640 to 659	1.0%	2.3%	3.8%	5.8%	10.4%	**6.6%**
639 or Below	1.3%	2.7%	4.4%	6.7%	14.3%	**10.7%**
Average	**0.7%**	**2.2%**	**4.0%**	**6.1%**	**11.5%**	

~3x default separation between highest and lowest credit score

~16x default separation between highest and lowest Upstart risk grade

By evaluating Upstart's loans segmented by FICO versus segmented by Upstart risk grade, one can see that the Upstart risk grade has created significantly more separation than FICO. The loss rates within each risk grade (represented by each column) are similar despite a wide range of FICO scores.

Upstart accuracy has continually improved[2]



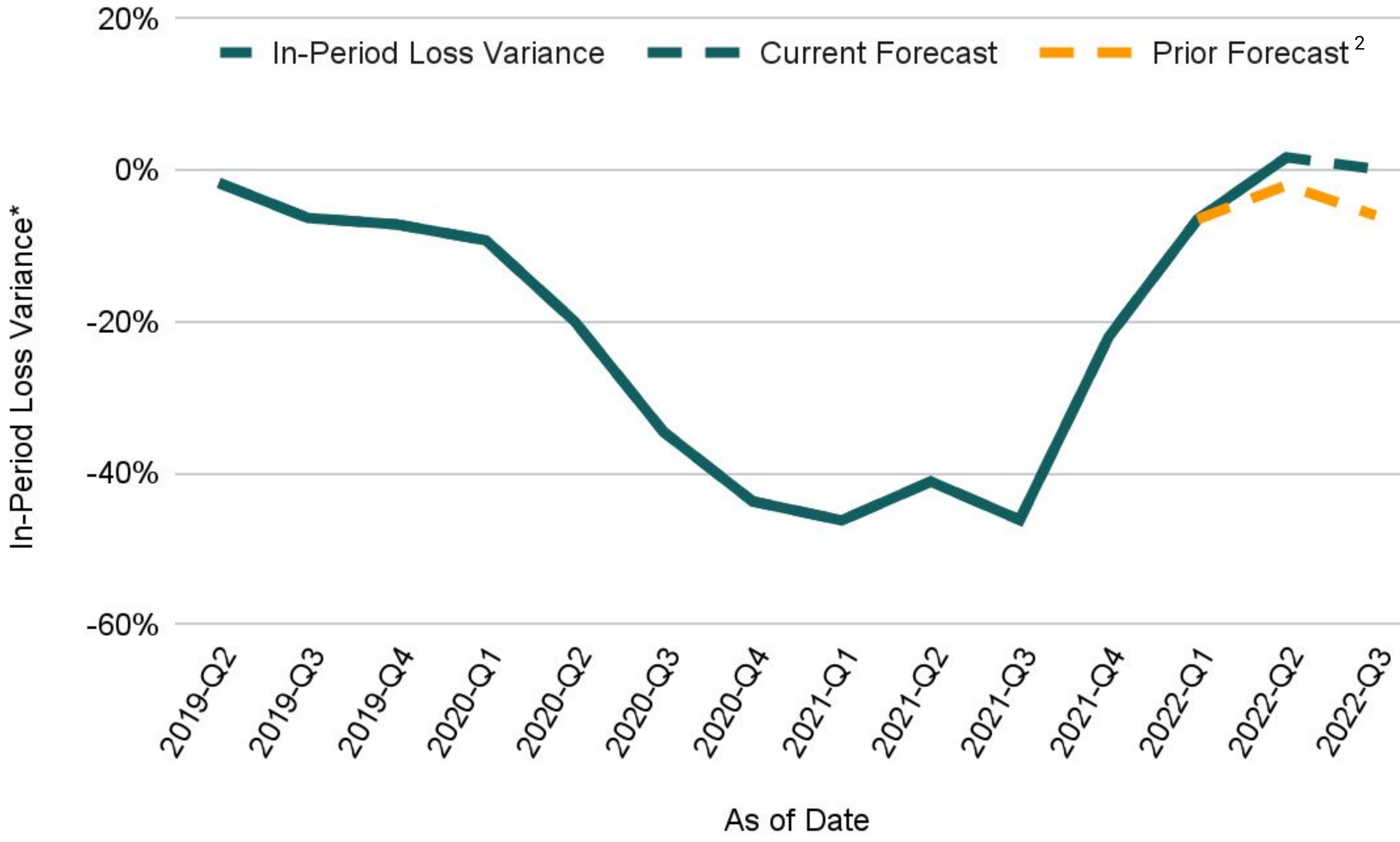
AUC measures the degree of the model's ability to separate high and low risk loans by quantifying the fraction of loans you could approve while staying under a certain level of loss, at every level of loss. AUC ranges in value from 0 to 1. A model whose predictions are 100% wrong has an AUC of 0.0; one whose predictions are 100% correct has an AUC of 1.0.

1. Upstart internal performance data as of July 29, 2022. Consists of all originations made 2018-Q1 to 2021-Q4 "vintages."
2. Upstart internal model performance data as of July 29, 2022.

Q: Have Upstart defaults increased significantly?

A: Yes. However, this increase in defaults was expected, as it followed a stimulus-driven period during 2020 where defaults were approximately 50% below expectations. A reversion to pre-stimulus default rates and a shift in credit risk profiles accounted for a large majority of the increase in late 2021 and beyond.

In-Period Defaults vs. Modeled (Prior 4 Year Vintages)[1]



*__Loss variance__ represents [Actual In-Period Loss / Expected In-Period Loss - 1]

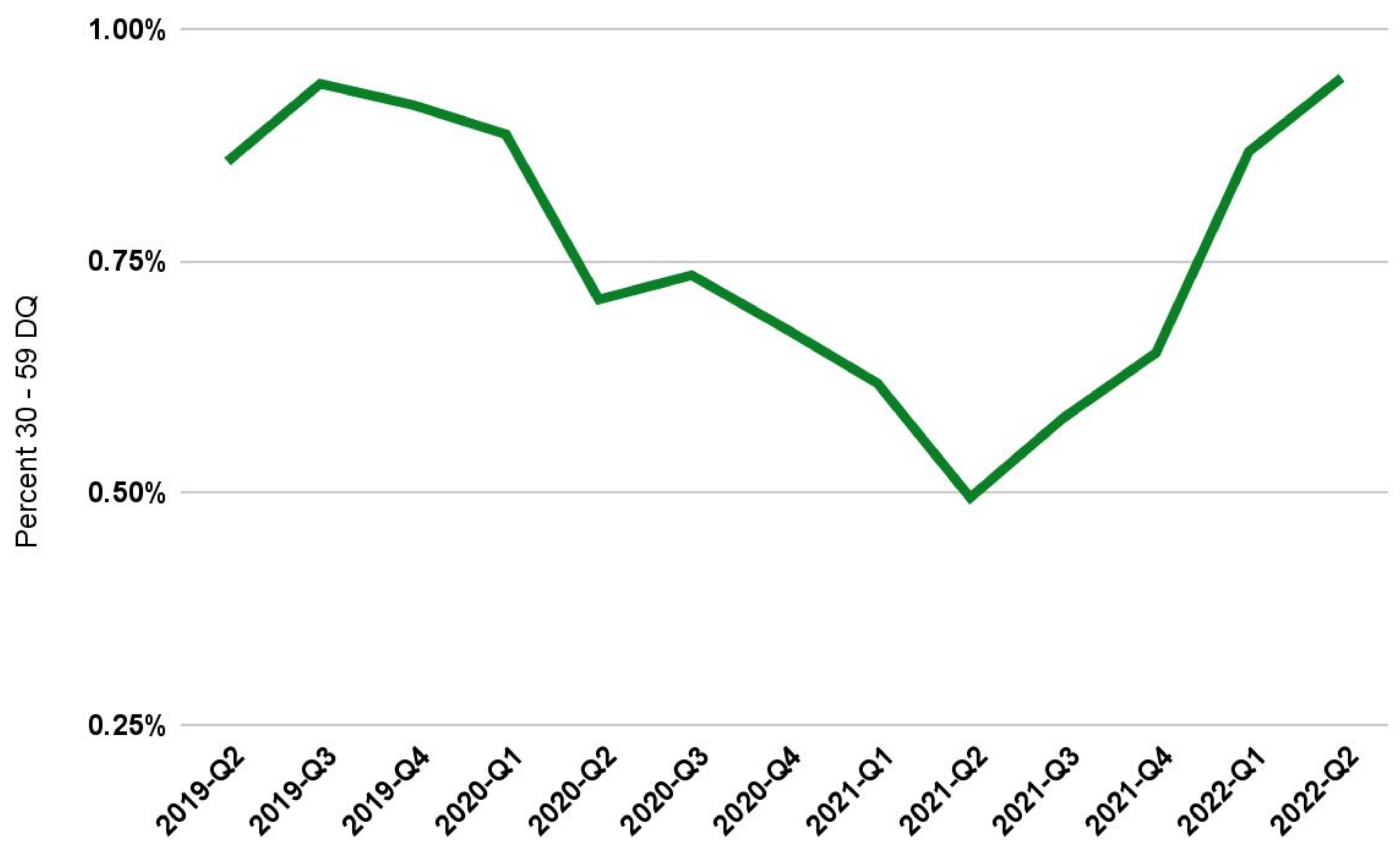
1. Data is for total originations made via the Upstart platform as of July 29, 2022.
2. Prior Forecast as shown during pre announcement on July 5, 2022.

Upstart

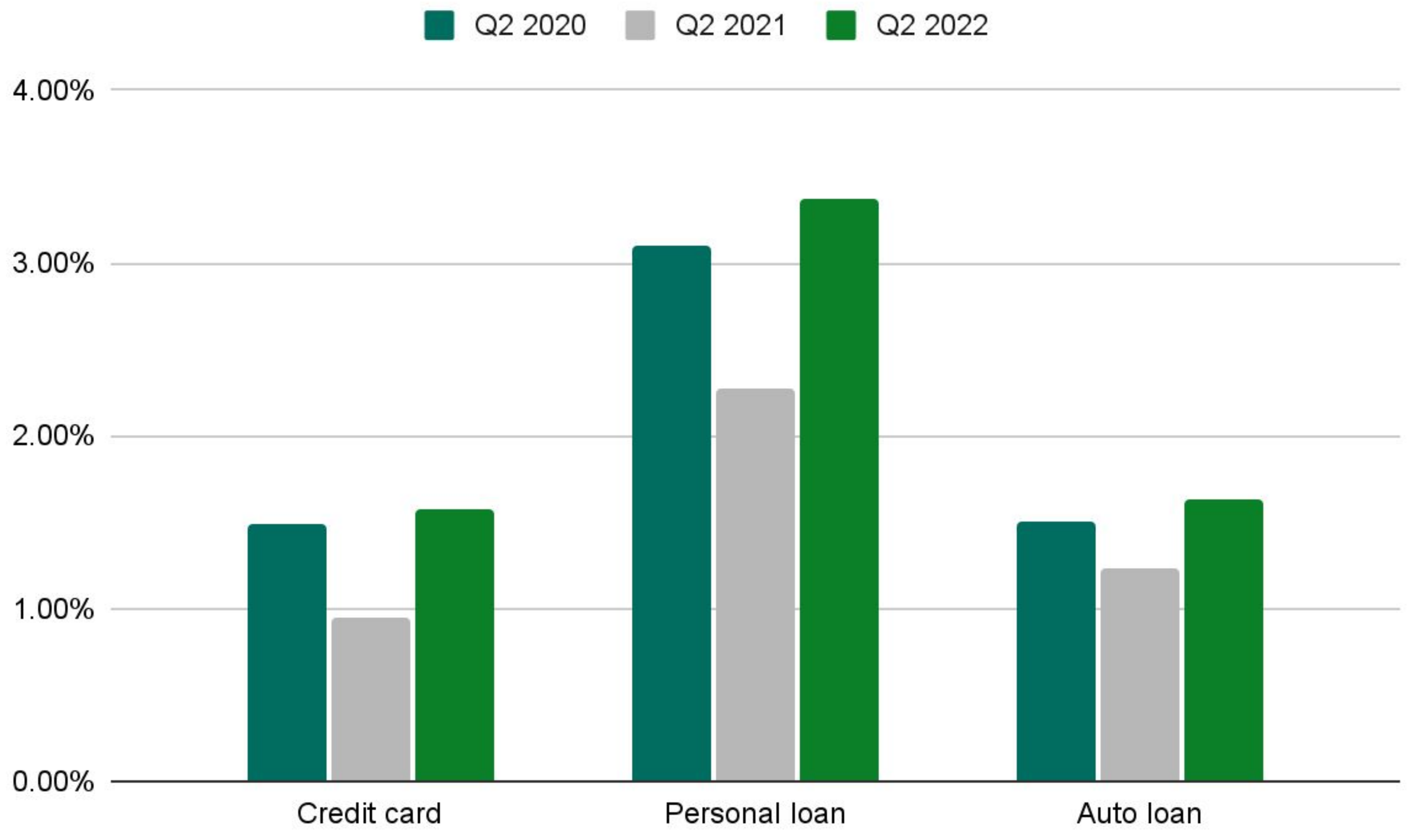
Q: Have these higher delinquency rates in 2021 vintages been Upstart-specific or industry wide?

A: Industry data across personal loans, credit cards and auto loan illustrate a common pattern of rapid reduction in delinquencies in early 2021, followed by a rapid return to prior delinquency levels or higher in 2022.

Personal loan 30-60 Day Delinquencies(dV01)[1]



Credit Card, Personal Loan, and Auto Loan Delinquencies (Transunion)[2]



1. Source: dv01 Consumer Unsecured Benchmark.

2. Source: TransUnion

https://www.yahoo.com/lifestyle/serious-delinquencies-normalizing-pre-pandemic-120000688.html

Q: How have Upstart loans performed?

A: Against a target of approximately 8% gross return since Q1 2018, the Upstart platform has seen 12 vintages overperform, with 5 expected to underperform.

Upstart Platform Gross Annualized Returns by Cohort[1]

Vintage	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1'22
Target Gross Return	**7.8%**	**8.4%**	**8.7%**	**8.9%**	**9.0%**	**8.1%**	**7.6%**	**7.4%**	**7.3%**	**9.3%**	**9.7%**	**9.1%**	**8.4%**	**7.7%**	**7.7%**	**7.5%**	**7.4%**
Current Expected Return																	
Optimistic	8.4%	9.0%	10.2%	11.4%	12.4%	12.5%	11.8%	11.5%	11.7%	13.7%	13.3%	11.4%	8.7%	5.7%	4.4%	4.3%	6.3%
Baseline	**8.4%**	**9.0%**	**10.2%**	**11.3%**	**12.3%**	**12.4%**	**11.7%**	**11.3%**	**11.5%**	**13.5%**	**13.0%**	**11.1%**	**8.2%**	**5.0%**	**3.5%**	**3.3%**	**5.2%**
Stress	8.4%	9.0%	10.1%	11.3%	12.2%	12.3%	11.6%	11.2%	11.3%	13.3%	12.7%	10.7%	7.7%	4.4%	2.6%	2.3%	4.2%

If an investor invested equally in all Upstart cohorts, they would now expect a **9.8%** gross annualized return.[2]

Investing in the US High Yield Bond Index over this same time would have produced an annualized total return of **2.9%**[3].

1. Upstart internal performance data as of July 29, 2022. "Optimistic", "baseline" and "stress" percentages are based on Upstart's own internal estimates of the returns observed on each vintage to date.
2. Gross annualized return per Upstart internal calculation including assumption of future cash flows based on most recent performance data.
3. https://www.spglobal.com/spdji/en/indices/fixed-income/sp-us-high-yield-corporate-bond-index/#overview

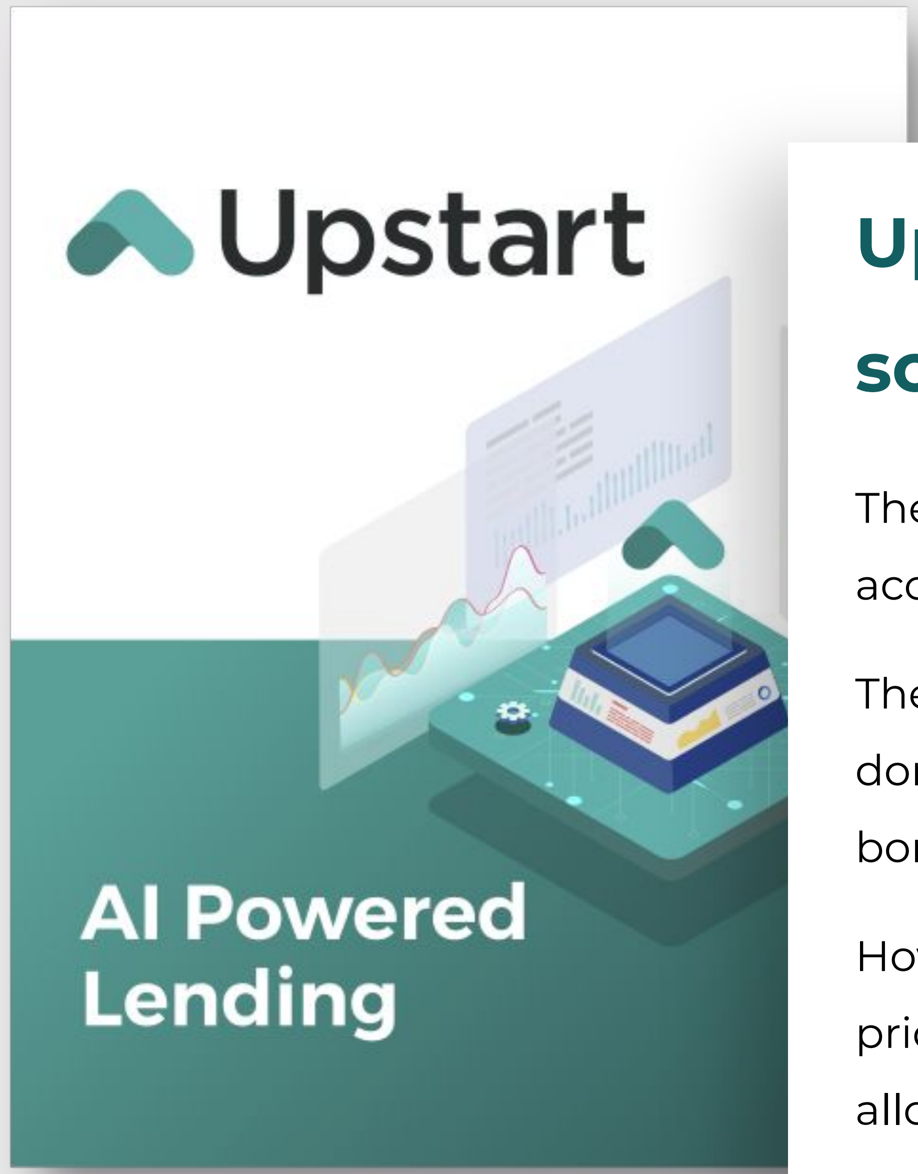
Our model today includes a healthy accommodation for economic degradation in the coming months, consistent with high inflation, fear of recession, and an increase in unemployment.

Specifically, our model has been calibrated for an economy in the next two years that will be significantly worse than the 2014 - 2019 period.

- Sanjay Datta, CFO

Q: Did Upstart veer into riskier lending in 2021 in order to grow?

A: We have not altered our goals or mission. There are tens of millions of Americans who deserve to receive properly priced credit from our nation's banking system, yet fail to do so through no fault of their own. We aim to fix this and are unique in this important endeavor.



Upstart's mission is and has been to leverage modern technology and data science to improve access to affordable credit.

There are tens of millions of Americans who deserve access to reasonably priced credit from our nation's banking system, yet are denied access through no fault of their own. We're unique among our FinTech peers in that we aim to tackle this problem directly.

The terms non-prime, near-prime, and sub-prime - these are words the industry invented to describe people that our current systems don't understand. The truth is that the vast majority of these Americans are entirely creditworthy. Upstart's mission is to identify those borrowers, and provide them with access to affordable credit - and we haven't wavered from that challenge.

How does growth fit in? We approach our business as a waterfall of priorities, in a way analogous to structured credit. Upstart's highest priority - our A bond, if you will - is credit quality. Our goal is to reliably deliver the return the lender or investor expects for a specific allocation of risk. Our B-bond, or next highest priority, is unit economics or gross profits. We don't strive for loan transactions that lose money for Upstart and generally seek to avoid them. And finally, whatever is left over goes to platform transaction growth - our residual, so to speak. In truth, growth isn't a specific target for us - it's a plug based on our waterfall of priorities. The reasons for this ordering are clear: without strong credit performance and solid unit economics, growth over the long term would be unsustainable.

-Dave Girouard, Second Quarter 2022 Earnings Conference Call

Thank you