

Alt Data

How to Compete
in the New Era
of Lending

The lending industry is in transition. Fraud has added considerable risk to lenders' portfolios as outstanding balances of suspected synthetic identities reached more than \$885 million at the end of 2017.¹ After years of strong performance, auto originations have slowed, but credit card usage is at all-time highs.² Card delinquency is rising, but the mortgage delinquency rate has steadily dropped since the third quarter of 2013.³ Personal loans remain popular, leading to increased competition among online and traditional lenders.

All of this is happening as direct mail – a primary channel for customer acquisition – response rates drop, and consumers expect consistent and seamless experiences across online and offline channels. As a result, financial institutions are no longer only competing with each other, but also with their customers' experiences with all companies. In this new era of financial services, consumers expect lenders to understand their behaviors and preferences and anticipate their needs.

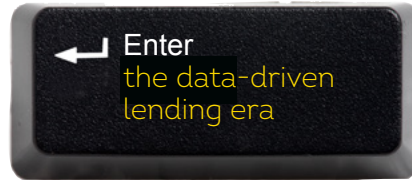
This means data is the key to competing effectively, maintaining risk levels and making smarter decisions. While many lenders have enhanced their view of the consumer with trended credit data, the industry has considered alternative data as an **optional** piece of its strategy.

However, this view is changing as lenders realize that more robust data offers expanded insights into their customers' history and patterns of behavior, allowing them to market and underwrite more

effectively and manage the consumer over the account lifecycle. Both lenders and consumers benefit when consumers receive the right product.

In this new era, a data-driven strategy is no longer optional. More data is the key to serving consumers now and in the future.

As lenders strive to compete effectively, improve profitability



and approve more consumers without additional risk, they recognize the need for more data. But it can be confusing and challenging to determine which data to use and when it can help.

Informative data in financial services can be segmented into four categories: trended credit data, alternative credit data, consumer identity data and other data. While each category has its own benefits, the powerful combination of data types can help accelerate lenders' strategies.

Trended credit data includes 30 months of account history for each tradeline. While traditional credit reports show historical instances of late payments or all-time high balances, they lack additional perspective. Trended credit data shows whether a consumer's balances are going up or down over time, utilization changes on revolving accounts, transactor or revolver behavior, and

whether a consumer is typically paying more than the minimum and by how much. Trended credit data demonstrates how behavior and capacity change over time.


Alternative credit data includes checking and deposit account information, short-term loans, virtual rent-to-own, shorter installment loans and more. Governed by the FCRA, this data is helpful for lenders during marketing and underwriting, especially when coupled with trended credit data. Together, trended and alternative credit data unlock a more complete view of the consumer, allowing lenders to score 60 million additional consumers⁴ and price more effectively. This data also enables lenders to give more customers access to traditional credit products, offering a better financial future for many consumers.

Consumer identity data includes phone numbers, emails, most recent addresses and places of employment. Accurate and up-to-date information is essential for verifying a consumer's identity through manual reviews, contacting a consumer for account management, and preparing for collection efforts. Device identification data, which matches device fingerprints and pairs known good device IDs with a consumer's account, also helps lenders verify identities with confidence.

Other data includes consumer property data, such as estimated home value, sale and deed records, location, year built and size, which helps lenders market to consumers for home equity

2 | ¹ TransUnion analysis
² TransUnion Industry Insights Report, Q1 2018
³ TransUnion Industry Insights Report, Q1 2018
⁴ TransUnion analysis

loans. It can also include driver violation data, which can be predictive of a consumer's credit behavior.⁵ With insights into device profile and usage, online and offline shopping habits, life events or household demographics, this data can help lenders target more consumers and understand their behavior.



Insert
data into
the lending
lifecycle

Once lenders understand the types of available data, they need to determine how to incorporate it at each phase of the lending lifecycle to execute a more data-driven strategy.

Marketing: To increase response rates while optimizing spend, financial institutions need to identify consumers with a high likelihood of responding to their offers. These may be consumers in the market for a specific product or those who fall outside of traditional score cut-offs. With trended and alternative credit data, lenders can evaluate balances, payment behaviors and account activity to target the right consumers and improve response rates.

Tailoring an offer to a consumer's need is an essential, but challenging, element of marketing. Data outside of the traditional credit report can help lenders uncover customer insights – such as a new auto loan that could qualify for a refi or revolving credit card debt that could shift to a personal loan – and make more relevant offers. For instance, a regional lender used trended credit

data to focus on prospects likely to respond. As a result, they cut their marketing expense in half while capturing nearly 90% of their prior bookings.⁶

Additional data is particularly important in the home lending industry, which can benefit from more insights on consumers and the properties they own. By combining consumer credit and property data, lenders can market to homeowners who have untapped equity or whose homes meet specific criteria. This additional data helps lenders apply their marketing dollars with greater precision.



of lenders report that consumers who meet credit risk cut-offs are becoming saturated with offers

In addition to creating more specific offers, lenders can include additional consumers in their marketing efforts. Using alternative credit data, more than 60 million consumers who were traditionally unscorable can be scored. These consumers were likely excluded from prior campaigns and may not be pursued by the competition, creating an opportunity to boost response rates and capture consumers' loyalty.



Keys to a lending strategy: Character, collateral and capacity

Throughout history, lenders have used a three-pronged approach to determine whether to lend to a consumer: character, collateral and capacity. Traditional credit data offers a view into character – whether a consumer has paid or not on their mortgages, auto loans, credit cards or personal loans – but trended and alternative credit data allows lenders to understand collateral and capacity.

Character is whether a consumer is likely to pay you back. Have they paid off their prior loans? Do they pass identity verification – is the consumer who they say they are? Have they changed addresses frequently? Do they consistently pay their non-credit obligations, such as gym memberships?

Collateral is what assets a consumer holds. Does the consumer have a house or a car? Do they have multiple deposit accounts? If circumstances change, can they turn anything into cash to pay their lenders back?

Capacity is whether a consumer can take on a new loan or increase their loan amount. Has the consumer been paying more than the minimum due? Has their credit utilization changed over time – are they using more or less of their limit? Do they have short-term loans?

Underwriting: In today's environment, risk managers are under pressure to keep approval rates high and losses low. The powerful combination of trended and alternative credit data allows lenders to not only score more consumers, but also underwrite with greater precision. And, by synchronizing the rules used to market and underwrite, companies reduce the chances that marketing leads don't ultimately get approved – improving the customer experience and boosting approval and activation rates.

Thin-file consumers have often been a challenge for underwriters and risk managers. These individuals are typically denied credit or offered more expensive terms because traditional indicators signal higher risk. By adding alternative data to their strategies, lenders have clearer insights into consumers' risk profiles – whether they have thin or established thick credit files. This enables the ability to identify high-risk as well as high-opportunity consumers, expanding a lender's universe of customers without adjusting its underwriting criteria.

This also offers lenders a competitive advantage as consumers increasingly look for and reward companies that anticipate their needs, and offer products at compelling rates.

Making smart, efficient decisions on rates and offers is achievable when lenders include trended and alternative credit data in their strategies. For



of lenders agree that alternative data provides a more complete view of consumer credit risk

example, in the auto lending market, three different lenders – each focused on a different portfolio of credit risk – could approve between 20% and 25% of the accounts they would have otherwise declined without increasing loss rates.⁷

Fraud: As fraud is a growing problem in lending, financial institutions need to determine which customers should pass through identity verification and which should be put into manual review. At a time when consumers expect a seamless experience, a lengthy manual review could cost financial institutions their potential customers.

To conduct thorough yet quick manual reviews, lenders need accurate and updated information about consumers' names, phone numbers, date of birth, aliases, businesses, bankruptcies, professional licenses and more to bolster their manual reviews. With the right data, lenders can reduce the impact and intrusiveness of manual reviews, verify customer identities quickly and decrease case review time.

Account Management: Companies invest millions of dollars in managing accounts. Some account management strategies are relatively simple – for example, routinely screening a portfolio for bankruptcy events – but proactive strategies to retain good customers or minimize risks after signs of financial stress require the right data.

With delinquency rates on the rise in card and auto⁸, lenders should be on alert for changes in a consumer's behavior, such as a shift from a transactor to a revolver, or a new short-term loan. Often, short-term loans are an early sign of potential delinquency on traditional credit products. For instance, if a super prime consumer takes out a short-term installment loan, there's a high likelihood of a shift in their financial situation. Alternative credit data can help lenders know when to proactively adjust credit lines, or contact consumers to help manage their accounts.

In a higher delinquency environment, it's also important for lenders to maintain good data hygiene with up-to-date customer information, such as phone numbers, addresses, emails, places of employment or vehicle registration data, to contact a consumer who has missed a payment or gone delinquent on their loan. Contact information can change frequently, and is often the difference between recovering a loan versus writing it off as a loss.

Collections: After a consumer goes delinquent on an account, lenders need to prioritize the right party to contact and understand how to contact them. Collections performance is measured in efficiency, and insights into consumers' willingness and ability to pay help collectors prioritize.

With insights into actual payment amounts or whether a consumer is paying more than their minimum due, lenders can quickly identify account holders more likely to pay, helping maximize their recoveries. By refreshing their data and using these strategies, collectors have been able to recover up to 13% more dollars in the top 10% of accounts and see substantial improvements in the number of payers.⁹

Once lenders determine who is likely to pay, they need to reach the right party quickly. Without fresh, actionable contact data from the start, lenders will struggle to maximize skip tracing efforts and increase recoveries. By obtaining consumer identity data, along with having sophisticated analytics to rank phone numbers or addresses, lenders can contact the right party with speed and ease.



Lenders face numerous challenges: Increased fraud, high growth goals, higher in delinquency rates, lower direct mail response rates and

heightened consumer expectations. To prepare for a more consumer-focused future, it's critical for lenders to incorporate different types of data into their strategies at each stage of the lending lifecycle. Whether lenders want to market more effectively, underwrite more accounts in a risk neutral way, manage accounts, reduce manual reviews or collect efficiently, more robust data assets are key. Lenders should look for a data partner who can package and deliver data that is easy to use and meaningful to their specific business need. In today's competitive market, every decision counts – and every data point helps lenders make smarter decisions.

Zoom in on short-term loans

Short-term loans are the largest category of loans not shown on the traditional credit report. Alternative credit data helps lenders understand whether consumers have used short-term loans, and how they've performed on those accounts.

Some lenders have strategies tailored to consumers who have used short-term loans in the past, while other lenders look to avoid consumers with recent histories of liquidity challenges.

What is the profile of average short-term loan users?¹⁰

- Average monthly **income** of **\$2,396**
- **59%** are **renters**, while **41%** are **homeowners**
- Most are subprime but **over 30% are** in the **near prime** and better credit risk tiers¹¹
- Have an average of **more than 8 credit inquiries** per year

Looking specifically at near prime consumers active in short-term loan market, those who have experience successfully managing short-term loans perform better on traditional trades.¹²

These insights are a valuable piece of lenders' strategies as they become more data-driven to understand and better serve their customers.

5 | ⁹ TransUnion customer validations

¹⁰ TransUnion Underbanked Index

¹¹ VantageScore® 3.0 risk ranges: Subprime = 300-600; Near prime = 601-660; Prime = 661-720; Prime plus = 721-780; Super prime = 781-850

¹² TransUnion analysis

Option

If you'd like more information on TransUnion's alternative data solutions, contact your representative or call **844-245-4071**.



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