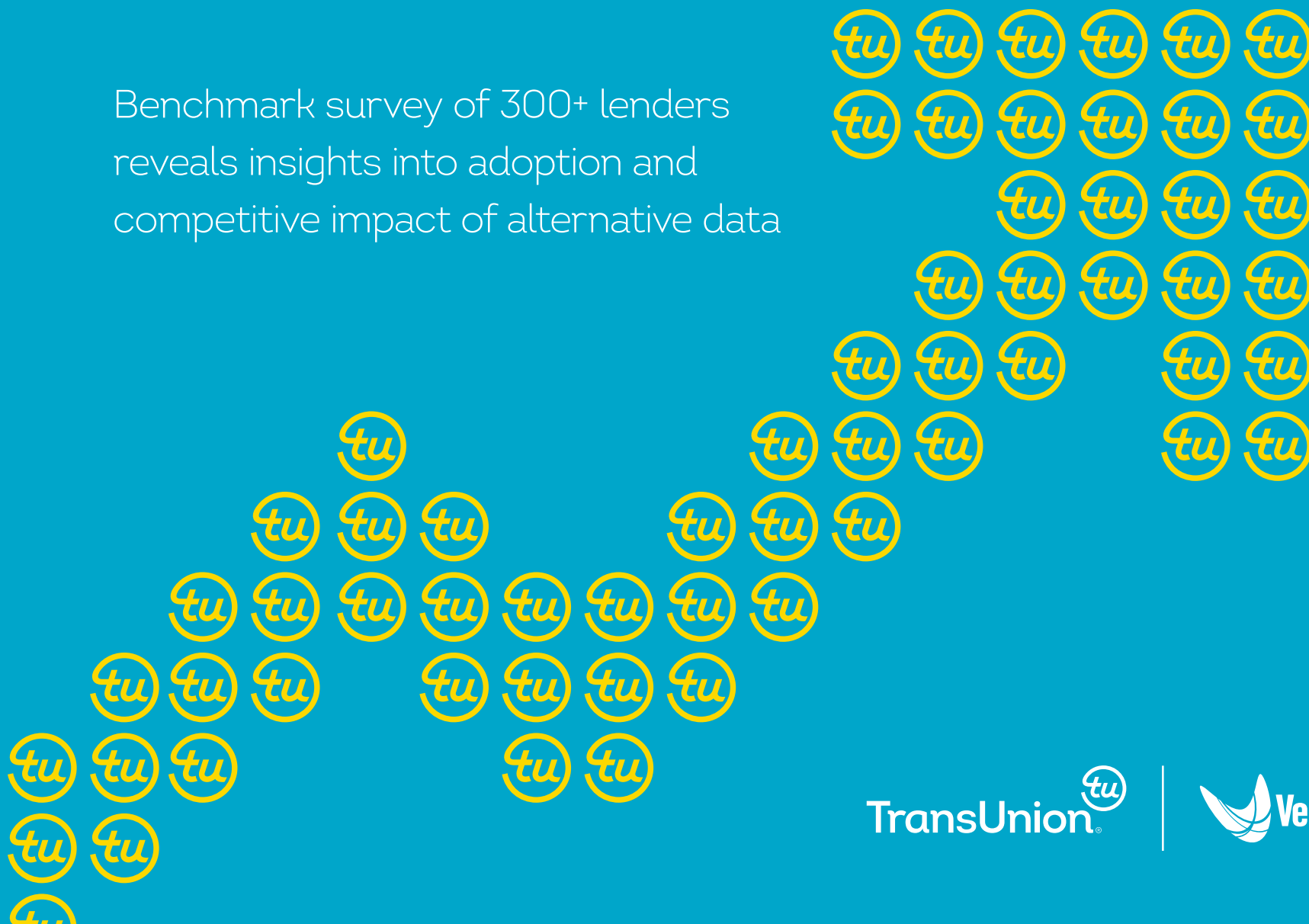


The State of Alternative Data

Benchmark survey of 300+ lenders
reveals insights into adoption and
competitive impact of alternative data



EXECUTIVE SUMMARY

Evolving consumer behaviors and the post-recession economy have created new markets and a necessity to reach consumers in new ways. Some borrowers are shut out of traditional credit offerings, and others are not scored using all available data. To stay competitive, lenders are increasingly exploring new ways to **fill the unmet needs of consumers** who do not meet traditional standards of creditworthiness.

A new survey of 317 lenders shows how alternative data is being leveraged to **better assess risk** and price offerings appropriate for unbanked, unscored consumers and prime borrowers.

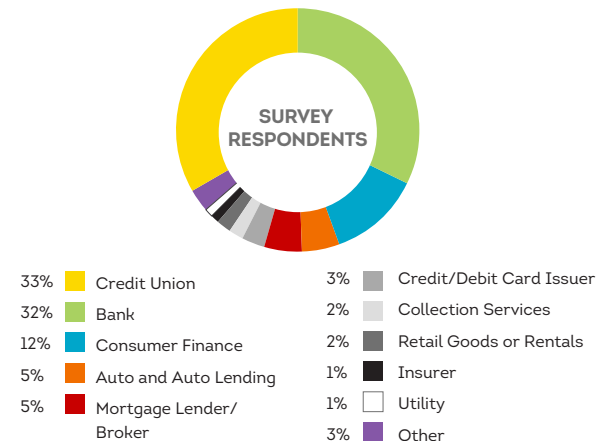
The survey, conducted by third-party research firm Versta Research, revealed that using alternative data:

- Opens opportunities in new markets
- Extends reach to more creditworthy borrowers
- Improves the competitive position of a variety of lenders

The advantages of using alternative data are being realized fairly quickly, according to the findings, with **nearly two in three lenders** (64%) saying they have seen tangible benefits **within the first year** of using alternative data.

ABOUT THE RESEARCH

Versta Research, a third-party research firm, designed and conducted a survey of 317 lenders and credit providers about alternative data. The respondents include lending institutions or companies that extend consumer credit. One-third (33%) represented credit unions, one-third (32%) represented banks, and the remaining third (35%) represented a variety of other consumer finance companies, credit card and debit card issuers, mortgage providers, and other users of credit data. The survey was conducted from September 1 through October 6, 2015.



EXECUTIVE SUMMARY

For this survey, alternative data is defined as any information that is not captured in a traditional credit score, or data points that are incremental to the credit bureau report, including property, tax and deed records, checking/debit account and payday lending information, among other sources.

The survey revealed there is **still a significant unrealized opportunity for more lenders to utilize alternative data** to reach more creditworthy consumers.

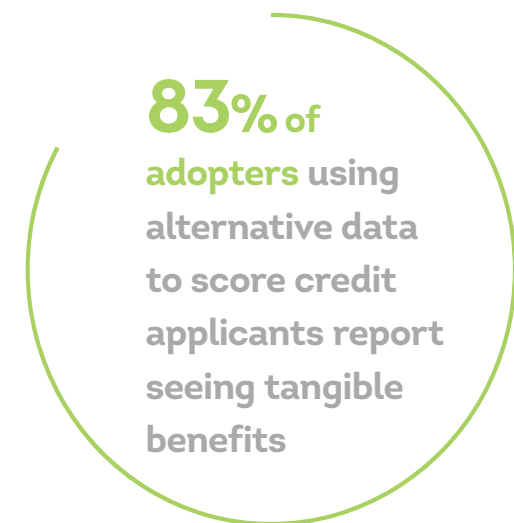
According to the survey results, a majority of institutions turn away potential borrowers who do not meet risk guidelines when assessed with only traditional credit bureau information.

In this report, we will present the survey findings, including specific analysis of the benefits for lenders, financial inclusion, as well as insight into:

- The competitive impact of alternative data
- Future growth potential of alternative data
- Applications of alternative data for lenders
- Breaking down the barriers to widespread alternative data adoption



87% of lenders say they **decline at least some credit applicants because they cannot be scored**



83% of **adopters** using **alternative data to score credit applicants report seeing tangible benefits**



Financial Inclusion

Executive Summary

Financial Inclusion

Lender Benefits

Competitive Impact

Future Growth

Adoption by Lenders

Breaking Down
Barriers

TransUnion's
Perspective

FINANCIAL INCLUSION

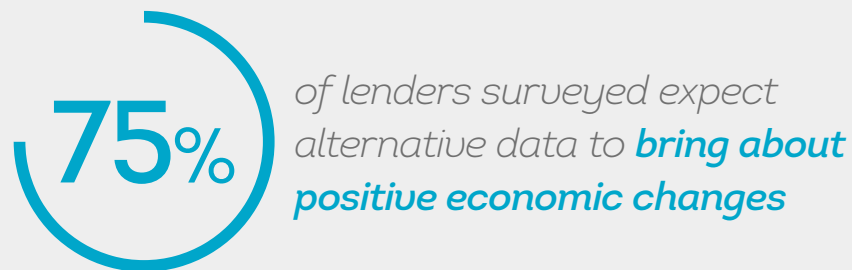
Traditional credit scores sometimes do not provide the full picture of consumers' credit history. According to the Consumer Financial Protection Bureau, at least 45 million U.S. consumers are not able to access credit because they either have no credit report or have insufficient credit histories.

This issue has been particularly important for younger consumers, minorities and immigrants who often need to build up credit histories.

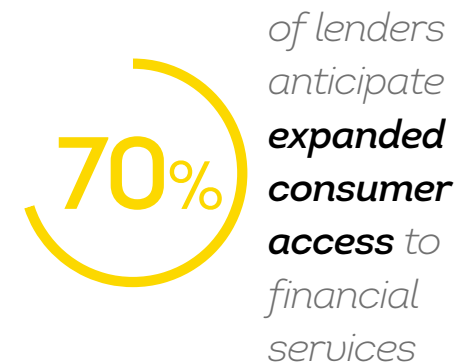
The survey also revealed that lenders see a larger social need for credit solutions, agreeing that:

- There are many creditworthy consumers without access to credit (73%)
- Too many people lack access to financial services (59%)

Some lenders expect alternative data to bring greater upward mobility for consumers (40%) and more economic growth and stability (29%).



81% of lenders agree **lower-income borrowers need more help gaining access to financial services**



58% of lenders agree **many consumers lacking credit scores are low risk**

A woman with short dark hair, wearing a light blue long-sleeved sweater and large hoop earrings, is seated at a desk in an office. She is looking at a computer monitor and typing on a keyboard. The background is a blurred office environment with other people and desks. A yellow banner with the text "Lender Benefits" is overlaid on the image.

Lender Benefits

Executive Summary

Financial Inclusion

Lender Benefits

Competitive Impact

Future Growth

Adoption by Lenders

Breaking Down
Barriers

TransUnion's
Perspective

LENDER BENEFITS

The findings from the survey not only provided proof points of the payoffs realized by lenders that have adopted alternative data, it also helped to frame the business challenges lenders are facing and the potential to add intelligence beyond traditional credit reports.

A few of the significant business challenges cited by lenders in the survey include:

- The increasing difficulty of finding and acquiring new customers (74%)
- Competition with lower lending rates of other companies (74%)
- Consumers with acceptable credit scores becoming saturated with offers (74%)
- Consumers with acceptable credit scores getting over-extended (69%)

After years of debate about the potential payoffs of utilizing alternative data, this survey revealed tangible results that support addressing the challenges of growing portfolios while managing risk. The majority (83%) of those using alternative data report seeing benefits.

66% of lenders using alternative data say it is helping them **reach more creditworthy consumers in their current markets**



56% of lenders using alternative data say the data has **opened up new markets**

LENDER BENEFITS

Businesses using alternative data cite the following benefits in terms of extending their reach and improving their position in the marketplace:

- 66% reach more creditworthy consumers in their current markets
- 48% say they are more competitive in the marketplace
- 38% say they are better pricing their credit to match risk

Adopters of alternative data also point to specific payoffs in managing risk, including:

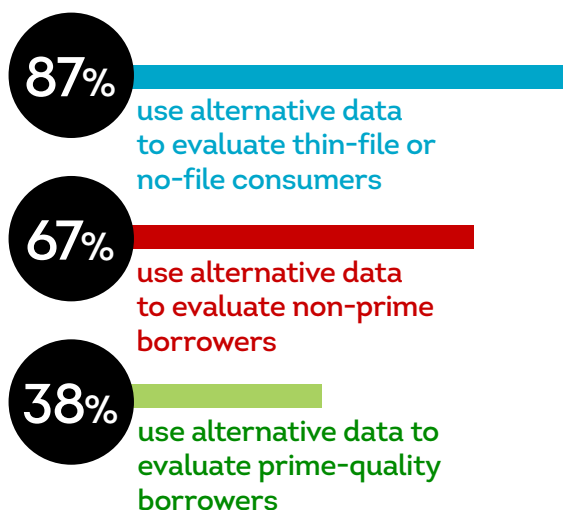
- 64% cite better risk assessment among unbanked consumers
- 39% cite better risk assessment among all consumers

Nearly **2 in 3**

lenders say they *have seen tangible benefits within the first year of using alternative data*



Lenders currently use alternative data to better evaluate both prime and non-prime borrowers





Competitive Impact

Executive Summary

Financial Inclusion

Lender Benefits

Competitive Impact

Future Growth

Adoption by Lenders

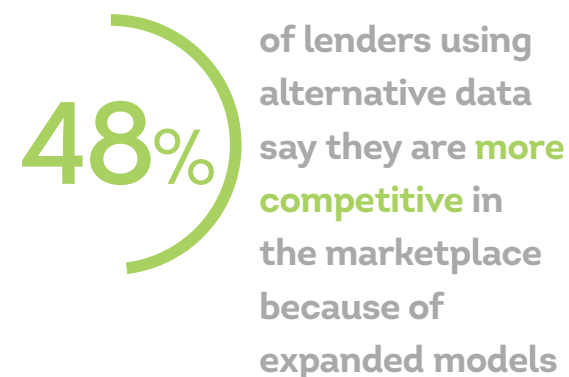
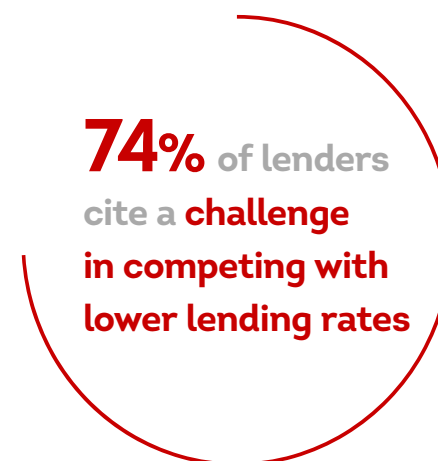
Breaking Down
Barriers

TransUnion's
Perspective

COMPETITIVE IMPACT

The survey validated the competitive pressure lenders are feeling in today's marketplace, with nearly three in four lenders surveyed citing a challenge in competing with lower lending rates.

The findings indicated that most lenders are struggling to balance the challenges and risks associated with extending credit to "thin-file" consumers.



A man and a woman are embracing in a grassy yard. The man is wearing a plaid shirt and the woman is wearing a green jacket. They are standing next to a real estate sign that says 'SOLD' and 'GOODIS REAL ESTATE'. The sign also features a logo with a house and the letter 'G'. The background shows a house and trees with autumn foliage.

Future Growth

FUTURE GROWTH

There are a number of factors pointing to increased adoption of alternative data, including:

- The rapid expansion of alternative lending models
- Increased competition for prime loans
- The benefits cited by adopters of alternative data
- The relatively low rate of adoption among lenders to date

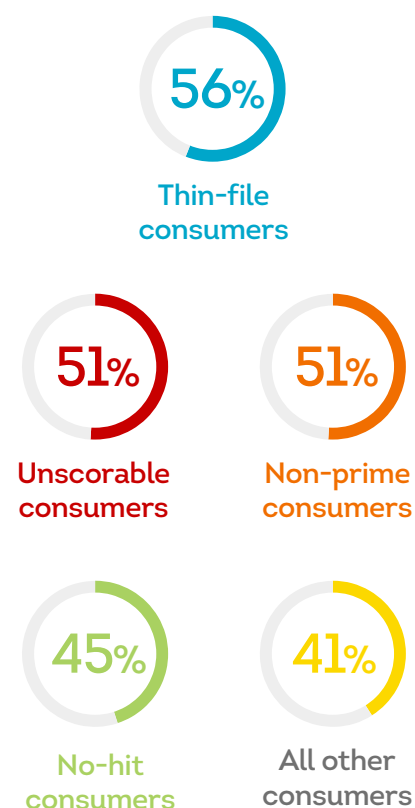
Despite the relatively slow adoption curve, with only 34% of lenders surveyed currently using alternative data, more than half of survey respondents believe alternative data will become widely used within the next three years.

Uncovering the factors that would encourage non-users of alternative data to more seriously consider using alternative data, the survey found most non-users want data on outcomes, including:

- Evidence that alternative data improves risk assessments (66%)
- Evidence that alternative data builds profitable new markets (62%)
- Peer group case studies of costs vs. benefits of using alternative data (51%)

In addition, nearly half of non-users surveyed (47%) indicate they would value seeing best practices and guidelines for companies in their industry that are using alternative data.

Respondents anticipate wide use of alternative data within the next three years across all consumer segments



A middle-aged man with grey hair, wearing a grey sweater over a white shirt and a purple and blue striped tie, is seated in a black office chair. He is looking down at a stack of papers he is holding with both hands. The background is a blurred office environment with a window showing greenery outside. A yellow rectangular box is superimposed over the text "Adoption by Lenders".

Adoption by Lenders

Executive Summary

Financial Inclusion

Lender Benefits

Competitive Impact

Future Growth

Adoption by Lenders

Breaking Down
Barriers

TransUnion's
Perspective

ADOPTION BY LENDERS

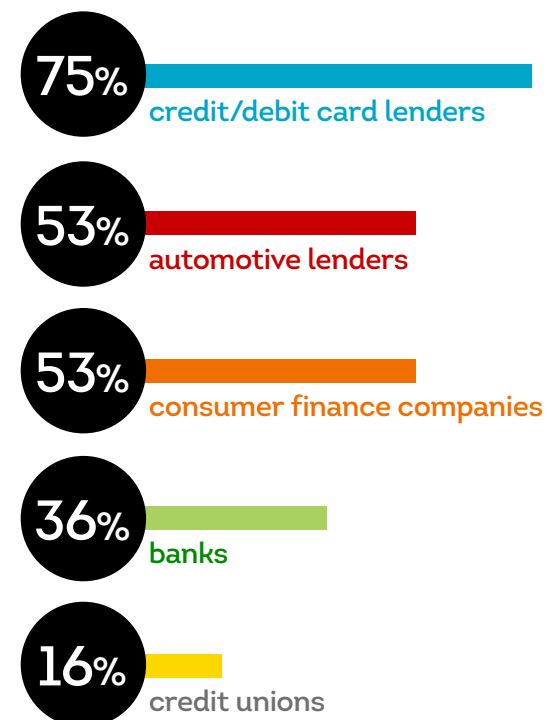
The survey results also provide a look into how specific lending segments are applying alternative data tools and practices.

In the credit/debit card sector, where adoption rates were the highest, the traditionally high cost of customer acquisition is likely a driver for aggressive use of alternative data, as most card applications are taking place via direct marketing or digital channels.

With regard to the automotive and consumer finance sectors, the competition for loans is so strong and growth is so rapid that major lenders in those industries have been some of the first companies to go on record in either using or evaluating the use of alternative data.

While respondents from the credit union sector are far more likely than others to extend credit to thin-file or no-file consumers (97% versus 84% overall), fewer than one in five (16%) currently uses alternative data, compared to one-third (34%) of all lenders.

Adoption of alternative data by lender type



A photograph of three men in a meeting. A man in a purple sweater is in the center, looking down at a whiteboard. To his right, a man in a blue and white checkered shirt is also looking at the whiteboard. On the left, the back of a man's head and shoulder are visible. They are all holding markers, suggesting they are actively engaged in a discussion or presentation. The whiteboard has a diagram with several circles and lines. The background is a blurred office setting with large windows.

Breaking Down Barriers

Executive Summary

Financial Inclusion

Lender Benefits

Competitive Impact

Future Growth

Adoption by Lenders

**Breaking Down
Barriers**

TransUnion's
Perspective

BREAKING DOWN BARRIERS

Despite the impressive results from adopters of alternative data, the survey found the application of these models is still largely underutilized among lenders.

Barriers among non-users and adopters of alternative data

% rating "somewhat" or "very" difficult	Not Currently Using Alternative Data	Currently Using Alternative Data
Developing and testing new risk models	64%	40%
Complying with credit laws and regulations	58%	47%
Developing the right team and internal knowledge	55%	49%
Developing internal policies and protocols	52%	41%
% rating any of the above as "somewhat" or "very" difficult"	75%	62%



34% of lenders surveyed are currently using alternative data

21% of respondents have plans to start using alternative data within the next five years

BREAKING DOWN BARRIERS

Highlighting these barriers to adoption, the survey also showed that of those not using alternative data:


- 46% cite a lack of internal expertise and knowledge
- 46% cite a need for new risk models
- 45% cite a lack of evidence that it is working for other firms

Beyond a gap in internal knowledge and expertise on models and the potential benefits of alternative data, the survey also revealed there is a need for education about the basics of alternative data, including what it is, where it comes from, how it affects risk, and misconceptions of potential barriers.

More than half of survey respondents (56%) say they do not know how alternative data is sourced, and 54% believe there are too many types of alternative data.

Understanding alternative data:

- 49% say they do not really understand the value of alternative data and how it helps lenders and/or consumers
- 40% say they do not understand how it is different from traditional credit data



78% of lenders say *evaluating and providing credit to non-prime consumers is a “significant challenge”* for their companies



55% of lenders surveyed cite the **biggest barriers to utilizing alternative data as legal and regulatory concerns**



TransUnion's Perspective

Executive Summary

Financial Inclusion

Lender Benefits

Competitive Impact

Future Growth

Adoption by Lenders

Breaking Down
Barriers

TransUnion's
Perspective

TRANSUNION'S PERSPECTIVE

Alternative Data's Role in Emerging Channels and Consumer Segments



By **MIKE MONDELLI**, senior vice president of TransUnion's alternative data services

This research presents a compelling argument for lenders who have been on the fence about the benefits alternative data can bring to their organization.

However, we have found many lenders are already viewing alternative data as a competitive necessity in today's lending climate to keep pace with industry growth.

ALTERNATIVE LENDING AND ALTERNATIVE DATA

In recent years, one of the fastest-growing segments has been the online lending market.

Unlike traditional lenders, these business models do not have physical locations where consumers go in to apply for a loan or credit.

Each engagement point for these alternative lenders is transacted online, relying more on unique data than a traditional lender, and therefore depends on a much deeper view of a consumer than what a traditional credit bureau report alone provides. Alternative data is essential to their business, enabling them to make quicker decisions and manage their risk more accurately and efficiently.

Meanwhile, traditional lenders are using alternative data to identify creditworthy borrowers for growth in new channels and to lower customer acquisition costs.

CONNECTING WITH EMERGING CONSUMER SEGMENTS

In addition to keeping up with alternative lending models, many banks and finance companies are realizing that emerging segments of the population—including Millennials, minorities, immigrants and rural consumers—require a different approach and insight.

Many of these groups are more comfortable and accessible online than they are at an on-site branch. For instance, most younger consumers expect to complete a loan or credit application process online, which means lenders must engage through that channel effectively.

As lenders look to target a broader geographic population, they are finding it is more efficient and cost-effective to connect with these groups online than in person. This shift makes alternative data even more critical as lenders seek to gather the same type of intelligence on online consumers that they traditionally gathered in person.

For more information visit transunion.com/creditvisionlink, email datafusion@transunion.com, or call **866-922-2100**.



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