



TransUnion^{tu}

DATA FUSION

The Rise of Trended Credit & Alternative Data

As economic markets and lending regulations change, many lenders and finance companies are realizing emerging segments of the population, like Millennials, minorities, immigrants and rural dwellers, require a more holistic approach to risk assessment. In fact, these emerging consumer segments are heavily underserved, yet could greatly benefit from access to quality financial services. Secondly, there may be a significant increase in potential customer universe when these consumers can be scored.

Incorporating more payment information when assessing risk may help new-to-credit and underserved customers reach their financial goals. In fact, [The State of Alternative Data](#) survey revealed lenders are increasingly exploring new ways to extend credit to underserved 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.¹

A more holistic approach provides the accuracy and precision necessary to gain a complete picture of consumer risk, significantly improve business decisions and build healthier portfolios. With additional and different types of data, you can explore opportunities with more potential customers across all credit risk tiers, offer

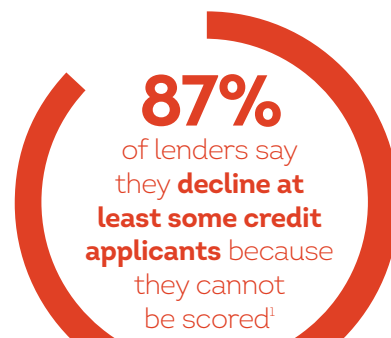
SERVING COMMUNITIES

In a 2015 article, the [CFPB](#) noted that 45 million U.S. consumers were unscorable or “credit invisible”.² Further, according to recent [CFSI](#) research, nearly 6 in 10 Americans are struggling financially.³ Many current customers and applicants of financial institutions may be assessed as lower credit risks, receive more beneficial pricing or possibly switch from a decline to an approval when additional data assets are leveraged in risk assessment.⁴

When a lender is able to offer consumers with limited credit history a line of credit, there is an opportunity to build lifetime loyalty. Your institution can offer the first credit account in a consumer’s wallet and begin to build a long-term relationship, but doing this requires reinforcement data to show management of various past financial commitments. With customer

FOCUS ON STRATEGIC INITIATIVES

- ✓ Improve acquisitions without increasing risk
- ✓ Score more people with greater precision
- ✓ Identify leading risk indicators



the right pricing, minimize institutional risk and capture greater wallet share. Consider your own strategy – do you have efforts in place to gain a more complete view of customers? Are you using additional data points to drive better business decisions and sustain growth?

A lack of critical information can have a negative impact on the bottom line for any business. Likewise, the right information can open the door to credit offerings for many consumers. To provide these offerings, it’s imperative to fully understand how applicants have managed financial commitments outside of traditional trade line data. Greater depth and breadth of data across multiple sources provides the ability to serve more customers at the right price.

acquisition growing via the online channel, the competitive difference can be a more comprehensive picture of consumer risk. For example, use a risk model that incorporates whether a consumer is building or decreasing balances, increasing payment amounts over time, or has a solid payment history with alternative lending arrangements.

THE POWERFUL COMBINATION OF A HYBRID APPROACH

Whether you’re basing growth on expanding current customer relationships, better scoring your prime audience, or lending to the subprime segment, thin and no-hit populations, you need to have the most accurate information.

¹ The State of Alternative Data Report, TransUnion and Versta Research, 2015

² Consumer Financial Protection Bureau, CFPB Report Finds 26 Million Consumers Are Credit Invisible May 5, 2015

³ Center for Financial Services Innovation, CFSI Report Reveals More than Half of Americans Are Not Financially Healthy March 24, 2015

⁴ Based on multiple customer validation results using CreditVision® LinkSM

Assessing creditworthiness with additional data assets provides the missing pieces of the puzzle. Until now, lenders have relied on credit bureau data to reveal the liabilities within a consumer's financial record. But what about the assets a consumer has or the ability to manage financial arrangements over time? Combining alternative and trended credit data sources creates a more comprehensive picture of consumer risk and provides more powerful predictive insights.

The combination of this information, used in tandem with credit bureau trade line data, allows lenders to score with far more precision—competitively important in a time of rapidly evolving consumer behaviors.

Through validation and testing, alternative data is shown to score more than 90% of applicants who would otherwise be returned as no-hits or thin-files by traditional models.⁴ Alternative data assets help add depth to a consumer's credit file and can have tremendous impact on business growth, as well as financial inclusion. Individuals who are unable to reach their financial goals due to lack of traditional credit can now be scored using alternative data—which provides more information to help determine true creditworthiness of those consumers.

IMPROVE CUSTOMER ACQUISITION

- ✓ Score a wider marketable universe
- ✓ Make more precise lending and pricing decisions
- ✓ Expand consumer access to help build lifetime loyalty

ALTERNATIVE DATA

Alternative data provides an orthogonal view of the consumer which sheds light on the consumer's ability to pay, provides affirmation or contradiction with regard to the consumer's willingness to pay and highlights assets a consumer may have to leverage as collateral. Non-traditional lending channels like pay day loans and club or magazine subscriptions provide additional data points on payment histories for micro transactions outside of traditional credit bureau data.

Likewise, alternative data such as checking and debit account management, property, tax and deed records reveal account management history, assets and equity in a home. This can be powerful information in determining whether consumers have collateral they could leverage if needed. Further, length and time of residency can help infer address stability.

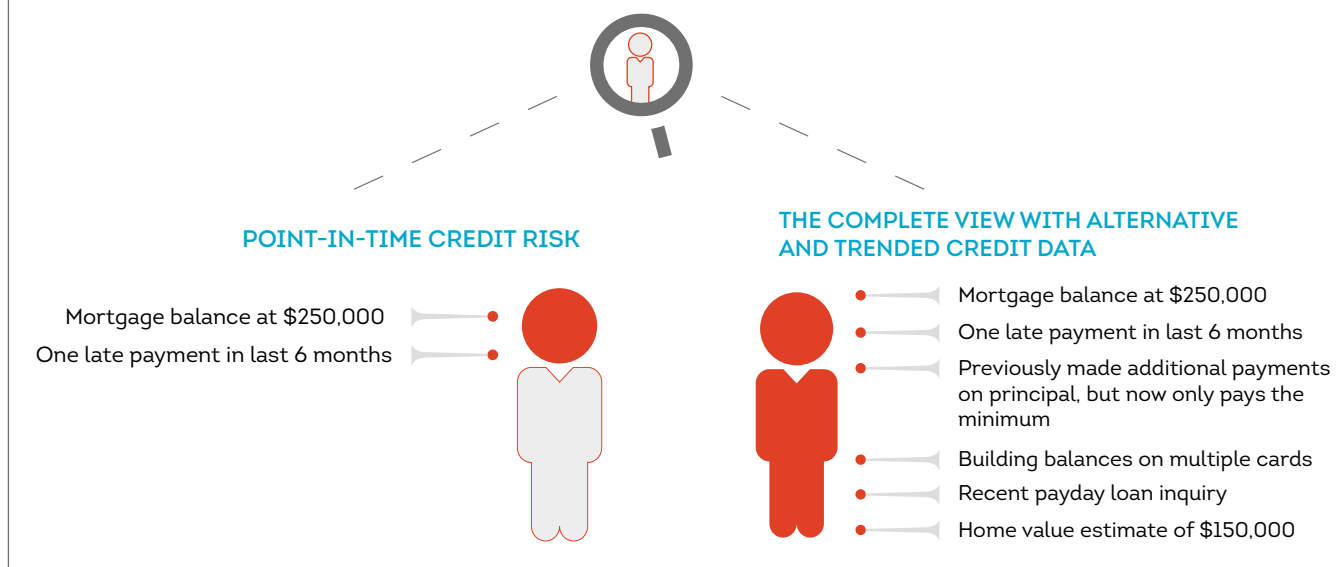
TRENDED CREDIT DATA

The other half of the hybrid approach is trended credit data, which leverages an expanded view of credit behavior data with historical information on each loan account. This includes up to 30 months of payment history, amount paid versus minimum due, and spending behaviors over time. Incorporating payment history information provides the trajectory of a consumer's debt balances and spending patterns.

Historical consumer credit behavior can give a clearer indication of how a prospective borrower might pay off their financial debts in the future. Adding trended credit data to your risk assessment provides insight into a consumer's ability to pay over time and helps differentiate seemingly similar risk situations.

⁴ Based on multiple customer validation results using CreditVision® LinkSM

ENHANCE YOUR SCORING STRATEGY WITH A MORE HOLISTIC VIEW OF PAYMENT BEHAVIOR



In pioneering the effort to include trended credit data for more accurate risk assessment, TransUnion conducted the [CreditVision® study](#) which found that approximately 26.5 million [previously unscorable](#) U.S. consumers can be scored in the prime and near prime risk tiers using a risk score built on trended credit data. In addition, the super prime customer base could expand by more than 23 million U.S. consumers—that's 21% of consumers scored as [super prime](#) versus 12% scored in the same tier with traditional risk scores.⁵

RESULTS: RISK AND RETURN OPTIMIZATION

As a result of leveraging trended credit data and alternative data assets, more than 60 million traditional “no-hits” and unscorable records can be scored.⁶

The hybrid approach of alternative and trended credit data—incremental to credit bureau trade line data—helps to limit losses while meeting revenue growth objectives. Using this hybrid approach, you can mitigate risk with a more complete picture of financial management. Integrating a model with alternative and trended credit data assets can enable scoring of more consumers and increased precision compared to traditional risk models.

Profitability per good account and cost savings per avoided bad account have been realized by lenders across the product spectrum. Case in point, through recent testing of alternative and trended credit data assets by a major auto lender, TransUnion identified up to 24% more approvals for the auto lender. Based on supplied booking rates, the lender could potentially gain up to 11.5% increase to its portfolio size. Considering an average acceptance range of 10-20%, this equals a return of up to seven times the initial investment and an increase in portfolio size of 5.7-11.5%.

Increased booking rates **ACHIEVE 7X ROI**

Portfolio size of one million loans
With alternative & trended credit data assets:
24% more approvals gained = **5.7%-11.5% portfolio increase**

⁵ TransUnion's CreditVision Study, 2014

⁶ When using TransUnion's solution, CreditVision® LinkSM

Next, consider a top five auto lender with overall portfolio size of approximately three million loans. Integrating alternative and trended credit data into the model resulted in approval of 13.5% more customers.

Depending on the acceptance rate utilized, again 10-20%, as illustrated below, this equals 5-10X ROI during first year.⁶

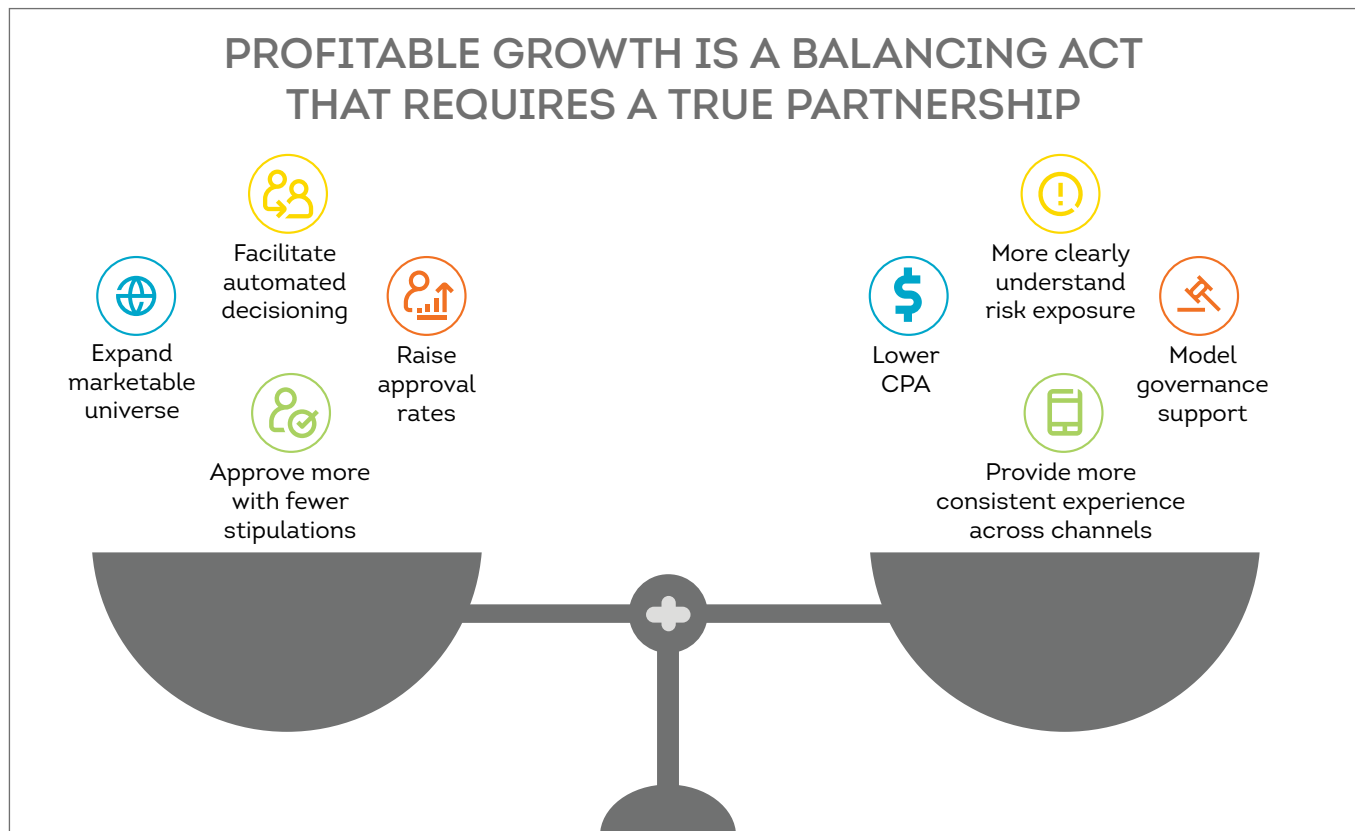
notice is issued, a consumer can easily request all the information used to support the decision from one source. The entire support structure of the credit bureau is already in place to manage consumer relations and does not require multiple contact points on the notice. Further, the guidance of a data powerhouse, leader in regulatory compliance, expert in risk model development and predictive analytics, together under one roof can improve data-driven activities.

BUSINESS IMPACT GIVEN VALUATIONS OF A GOOD AND BAD BOOKED LOAN			
Approximate acceptance rates and associated values			
Good Account Value = \$1,000	Total ROI at the assumed conversion rate of 10% = \$26M	Total ROI at the assumed conversion rate of 15% = \$39M	Total ROI at the assumed conversion rate of 20% = \$52M
Bad Account Loss Avoided = (\$6,000)			

ONE DATA SOURCE CAN MEAN BETTER CUSTOMER EXPERIENCE

One of the most important aspects of combining data sets is consistent and strong consumer relations. Having a single provider of alternative and trended credit data sets can be more efficient internally and less confusing for customers. If an adverse action

Next generation algorithms that utilize trended credit data and alternative data sets together are revolutionary. Look for a single source that utilizes both trended credit and alternative data in order to accurately evaluate the risk associated with more consumers.



⁶ When using TransUnion's solution, CreditVision® LinkSM

THE FUTURE OF LENDING

When multi-sourced information is utilized for credit assessment, many current and potential customers may be assessed as lower credit risks and thereby afforded preferred lending terms, such as lower interest rates or higher credit lines.

TransUnion is the first information services company to combine multi-faceted alternative data into core operations. Over the years, we've seen first-hand the insights and techniques needed to engage, acquire, and affect financial inclusion of a broader range of consumers. The hybrid approach to risk assessment can be the key to improving profitability

in a competitive environment by scoring more consumers and making risk-appropriate lending decisions. To adapt to the future of lending, it's time to complement or enhance existing scoring strategies with the historical insights of trended credit data and alternative data sets together.

Starting now, you can more precisely score emerging credit populations and potential customers across all credit risk tiers with greater insight. The innovation of a credit score that combines both trended credit bureau data and alternative data sources ultimately leads to better outcomes for you and customers alike.

AUTHORS



Mike Mondelli is senior vice president of TransUnion's alternative data services.



Tony Terrazas is senior vice president of TransUnion's innovative solutions group.

LEARN MORE

For more information,

Visit: transunion.com/creditvisionlink

Email: DataFusion@transunion.com

Call: **866-922-2100**

ABOUT TRANSUNION (NYSE: TRU)

Information is a powerful thing. At TransUnion, we realize that. We are dedicated to finding innovative ways information can be used to help individuals make better and smarter decisions. We help uncover unique stories, trends and insights behind each data point, using historical information as well as alternative data sources. This allows a variety of markets and businesses to better manage risk and consumers to better manage their credit, personal information and identity.

Today, TransUnion has a global presence in more than 30 countries and a leading presence in several international markets across North America, Africa, Latin America and Asia. Through the power of information, TransUnion is working to build stronger economies and families and safer communities worldwide.

We call this Information for Good.

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