# Alternative data drives universe expansion

# Introducing:

**Robert Rackleff**
Decision Funding

**Holly Deason**
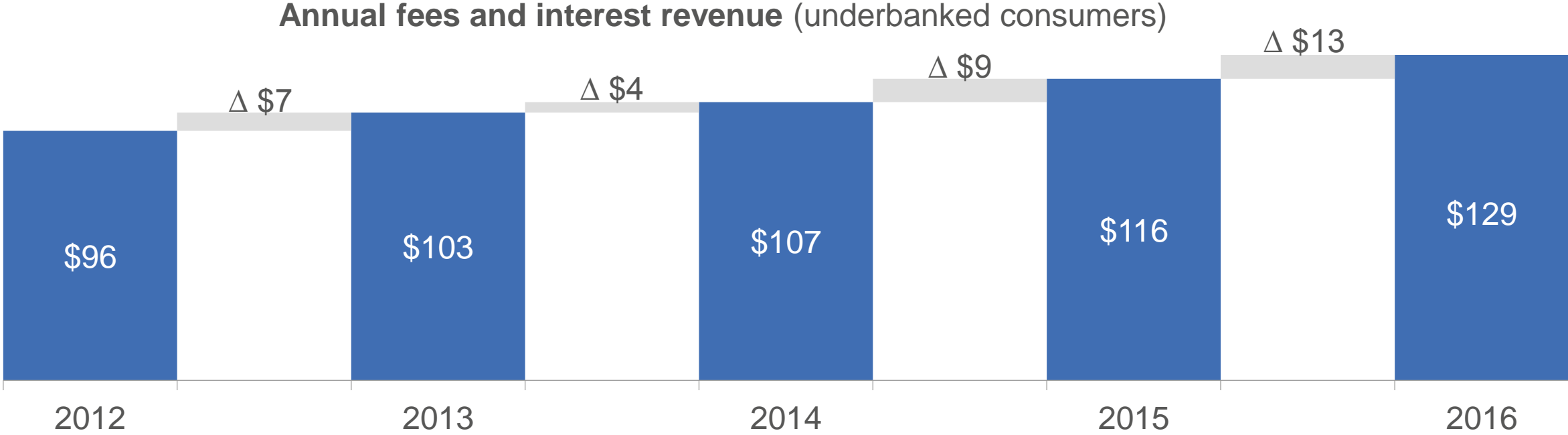Experian

**Shawn Rife**
Experian

# Today's topic

1. Overview of current market conditions and the potential universe of consumers available for expansion

2. An analytical assessment of the credit potential of these consumers

3. Using alternative data to grow and mitigate risk

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# Market conditions

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# Myth 1: "This is a small niche population, not worth my time"

## Reality: This group is worth BILLIONS of dollars in fee and interest revenue every year and is STILL growing…

**Annual fees and interest revenue** (underbanked consumers)

| 2012 | 2013 | 2014 | 2015 | 2016 |
|------|------|------|------|------|
| $96 | $103 | $107 | $116 | $129 |

Δ $7    Δ $4    Δ $9    Δ $13

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# Myth 2: "These are just payday lender consumers"
## Reality:  These consumers span all credit generations and credit needs
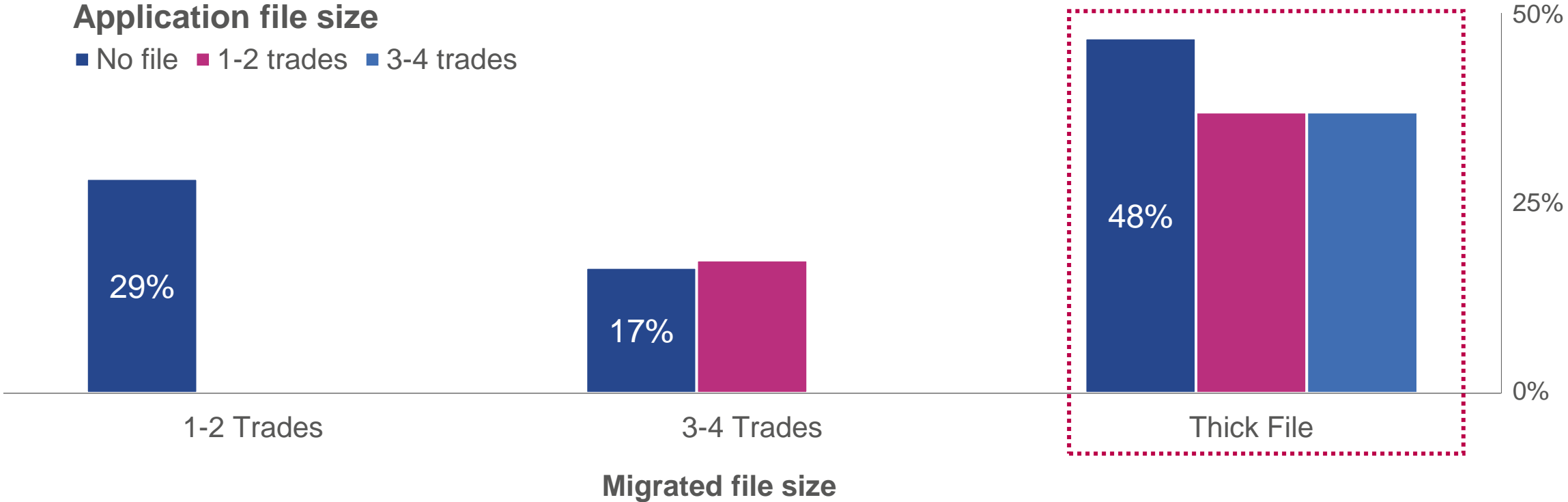
| Borrowers | Cash is king | Strivers | Savers |
|-----------|--------------|----------|--------|
|  |  |  |  |

# Myth 3: "These consumers are all HIGH risk"
## Reality: 48% of these consumers perform at Prime or better

**Application file size**
■ No file  ■ 1-2 trades  ■ 3-4 trades

29%

17%

48%

50%

25%

0%

1-2 Trades

3-4 Trades

Thick File

**Migrated file size**

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# Myth 4: "Manual underwriting is the only real solution"

## Reality: Automated decisioning is enabled through non-traditional credit scores – Extended View$^{SM}$

- **64+ million thin file consumers:** Gain access to quality credit options

- **Lenders:** Prospect and decision qualified emerging consumers before the competition

**Broader dataset**

**Strong performance**

**Ultimate connectivity**

**FCRA-regulated data**

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# Credit evaluation and analysis section

    4/12/2017    Experian Public    Vision 2017

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# Extended View$^{SM}$
## Model overview



- Predicts risk of borrower
  - Likelihood of future serious delinquencies (90 days later or greater)
  - Any type of account
- 12-14 month performance window
- Score range of 400–990
  - Higher scores represent a lower likelihood of risk
  - Lower scores are higher risk
- FCRA compliant

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# VantageScore® 3.0 – Model overview

- Predicts risk of borrower
  - Likelihood of future serious delinquencies (90 days later or greater)
  - Any type of account
- 24-month performance
- Score range of 300–850
  - Higher scores represent a lower likelihood of risk
  - Lower scores are higher risk
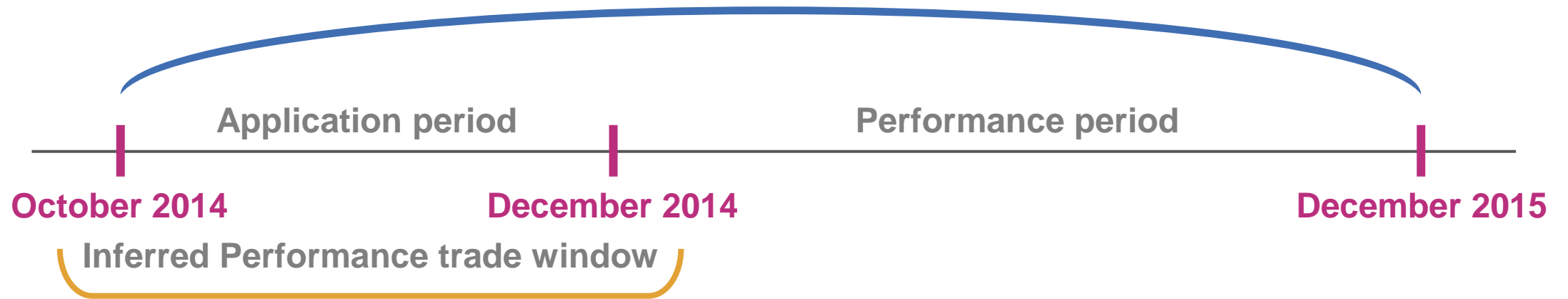
**A = Super-prime 781–850**

**B = Prime 661–780**

**C = Near prime 601–660**

**D = Sub-prime 500–600**

**F = Deep sub-prime 300–499**

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# Analysis overview



Application period

Performance period

**October 2014**          **December 2014**                          **December 2015**

**Inferred Performance trade window**

**Objectives**

1.  Determine what percentage of the sample population can be scored with EVS and/or VS3.0

2.  Determine predictive power of each score against inferred performance in sample.

    –  Bad definition is  any trade opened October through December 2014, and subsequently has a worst ever status of 90 days past due or greater within first 12 months

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# Overall and sample population distributions

**File One^SM universe**



59.8%
10.1%
20.2%
9.8%

**Sample population**



15.3%
39.0%
45.7%
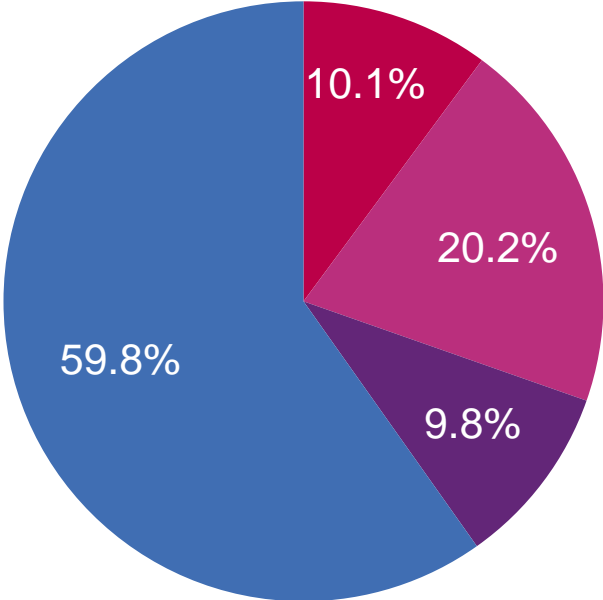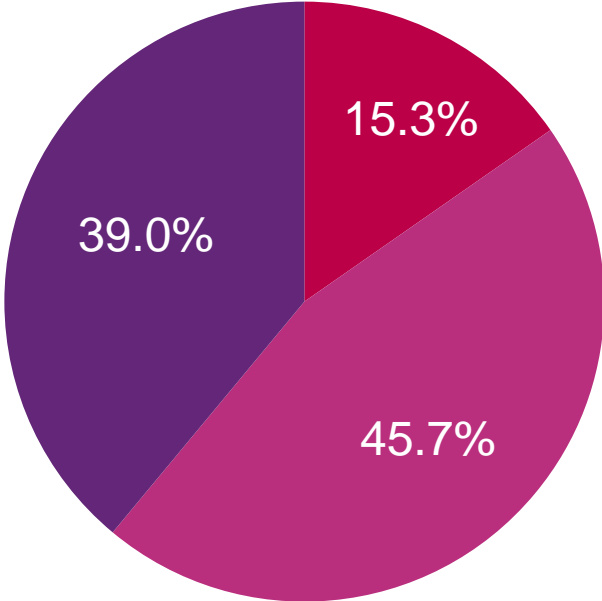
Thick file     Thin file: (1–2 trades)     Thin file: (3–4 trades)     No hit (invisibles)

# Generation segments and sample distribution



| Gen Z | Gen Y | Gen X | Boomer | Silent |
|---|---|---|---|---|
| Age 18–20 | Younger: Age 21–27 / Older: Age 28–34 | Age 35–49 | Age 50–70 | Age 70+ |
| 12.1% | 33.5% 15.9% | 21.2% | 15.0% | 2.3% |

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# Scorability

| Sample population 100% | | |
|---|---|---|

| Analysis population (100%) | No hit 15.3% | Thin (1/2) 39.0% | Thin (3/4) 45.7% |
|---|---|---|---|
| VantageScore® 3.0 (95.4%) | 70.7% | 99.7% | 99.9% |
| ExtendedView℠ (97.3%) | 94.5% | 96.7% | 99.0% |
| Calculated bad rate (10.9%) | 13.7% | 10.4% | 10.0% |

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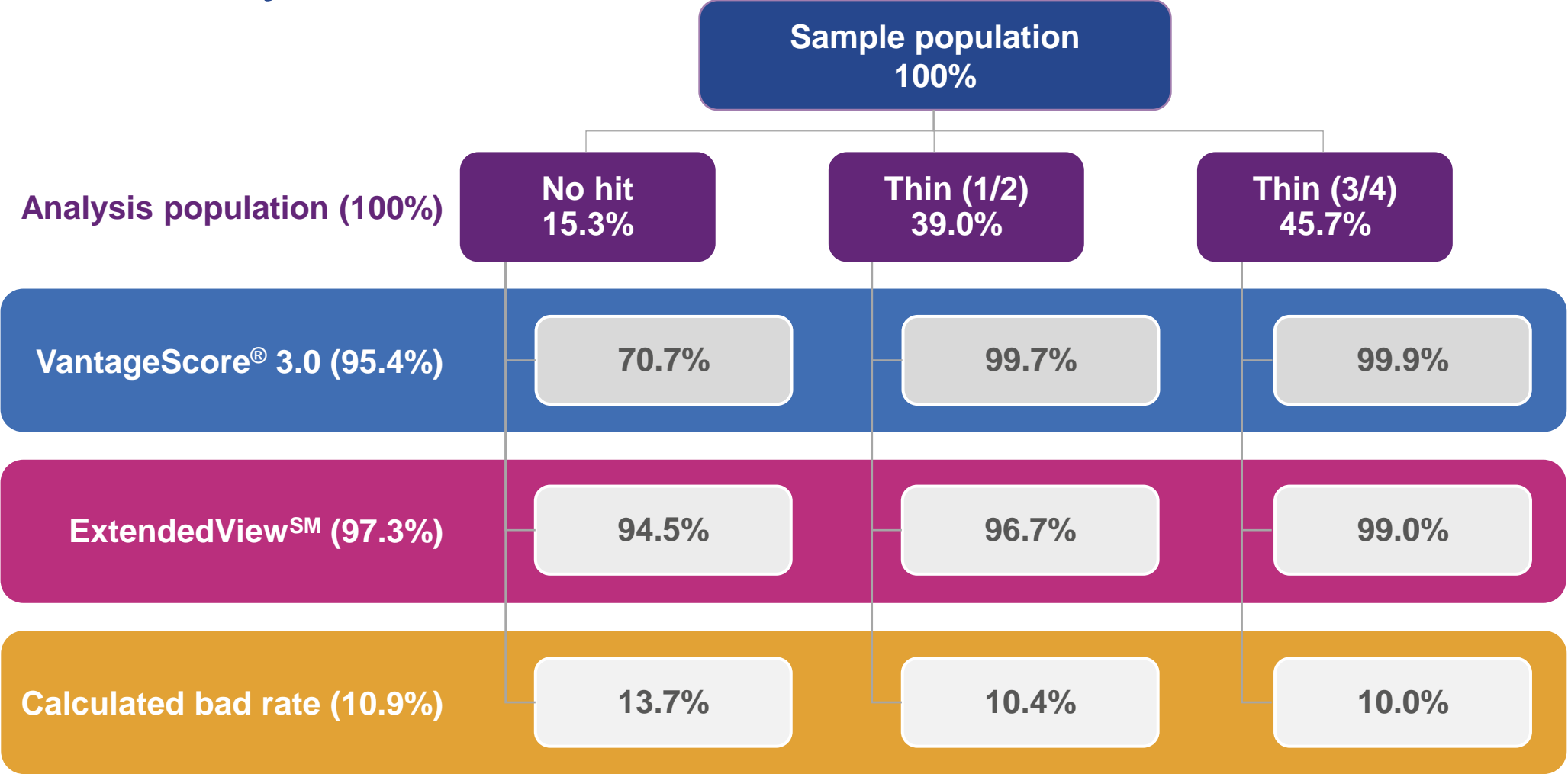
# Performance chart: ExtendedView<sup>SM</sup>

| | Score Interval | Bad Rate | |
|---|---|---|---|
| | | Interval | Cumulative |
| 1 | 830 - 850 | 0.6% | 0.6% |
| 2 | 796 - 829 | 1.0% | 0.8% |
| 3 | 771 - 795 | 1.4% | 1.0% |
| 4 | 750 - 770 | 1.8% | 1.2% |
| 5 | 732 - 749 | 2.6% | 1.5% |
| 6 | 716 - 731 | 3.0% | 1.7% |
| 7 | 701 - 715 | 4.0% | 2.1% |
| 8 | 687 - 700 | 5.1% | 2.4% |
| 9 | 674 - 686 | 5.8% | 5.5% |
| 10 | 660 - 673 | 7.3% | 6.5% |
| 11 | 644 - 659 | 9.2% | 8.2% |
| 12 | 628 - 643 | 10.9% | 10.0% |
| 13 | 611 - 627 | 12.7% | 11.9% |
| 14 | 595 - 610 | 14.4% | 13.5% |
| 15 | 579 - 594 | 16.0% | 15.2% |
| 16 | 563 - 578 | 18.6% | 17.3% |
| 17 | 547 - 562 | 20.8% | 19.7% |
| 18 | 528 - 546 | 23.5% | 8.8% |
| 19 | 503 - 527 | 26.2% | 9.7% |
| 20 | 400 - 502 | 32.1% | 10.9% |
| | Total | | 10.9% |

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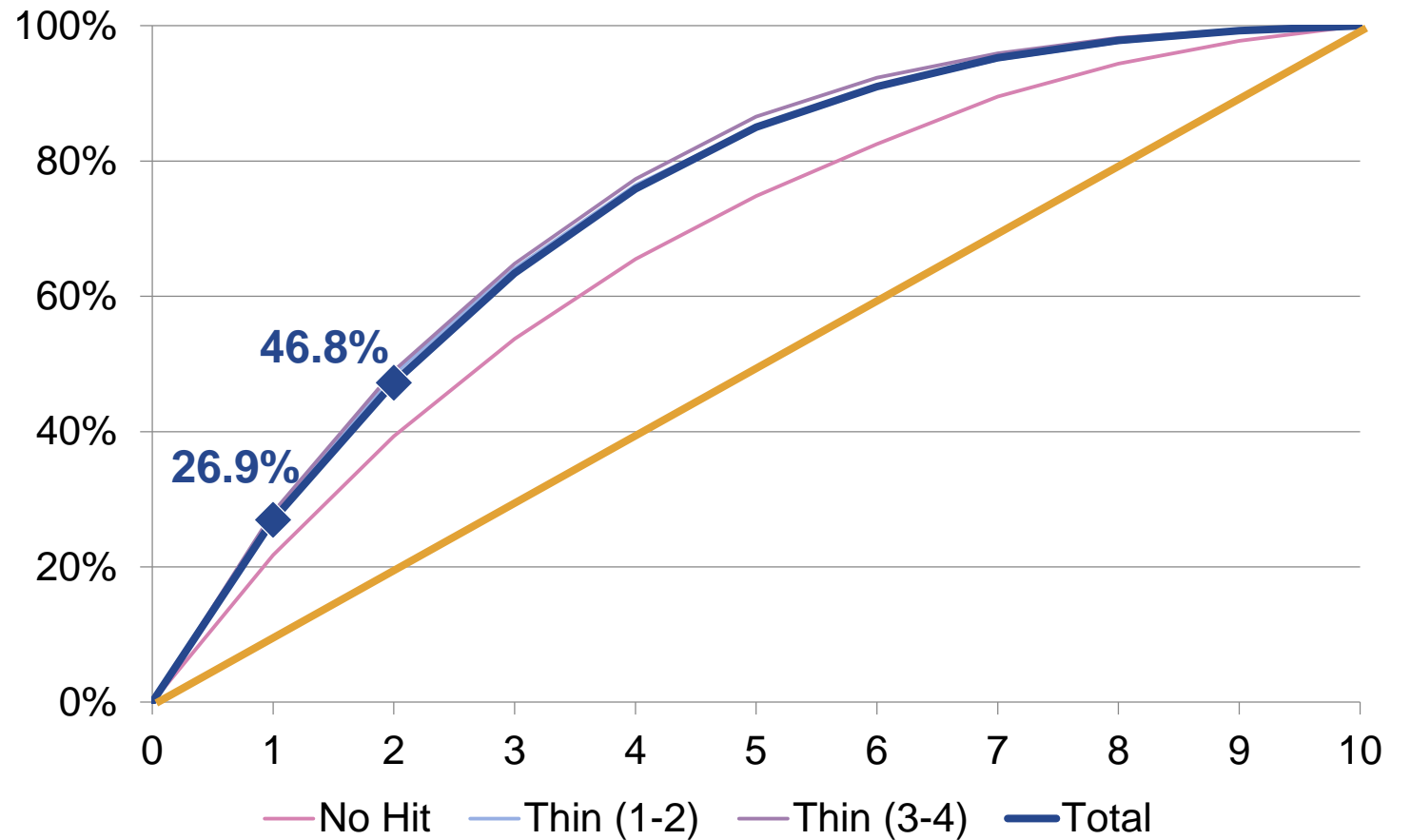
# Performance chart:  VantageScore® 3.0

| | Score Interval | Bad Rate | |
|---|---|---|---|
| | | Interval | Cumulative |
| 1 | 764 - 850 | 0.8% | 0.8% |
| 2 | 743 - 763 | 1.2% | 1.0% |
| 3 | 725 - 742 | 1.5% | 1.2% |
| 4 | 709 - 724 | 2.2% | 1.4% |
| 5 | 692 - 708 | 3.0% | 1.7% |
| 6 | 675 - 691 | 4.1% | 2.1% |
| 7 | 662 - 674 | 4.6% | 2.5% |
| 8 | 651 - 661 | 5.6% | 2.9% |
| 9 | 640 - 650 | 6.5% | 6.0% |
| 10 | 628 - 639 | 7.7% | 7.1% |
| 11 | 613 - 627 | 9.7% | 8.7% |
| 12 | 596 - 612 | 11.4% | 10.6% |
| 13 | 583 - 595 | 12.4% | 11.9% |
| 14 | 569 - 582 | 14.8% | 13.6% |
| 15 | 553 - 568 | 16.4% | 15.6% |
| 16 | 541 - 552 | 18.1% | 17.2% |
| 17 | 525 - 540 | 19.7% | 18.8% |
| 18 | 513 - 524 | 22.3% | 9.0% |
| 19 | 490 - 512 | 26.3% | 9.9% |
| 20 | 300 - 489 | 28.5% | 10.9% |
| | Total | | 10.9% |



44.7%

25.7%

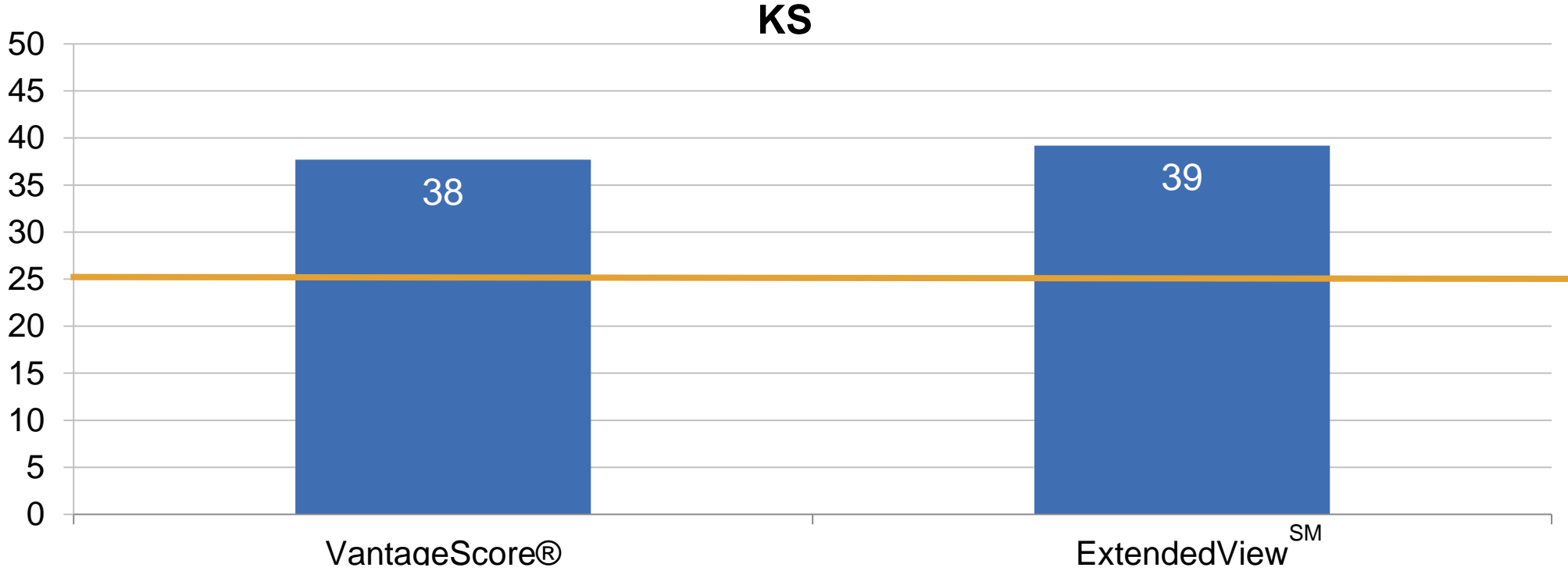No Hit    Thin(1-2)    Thin(3-4)    Total

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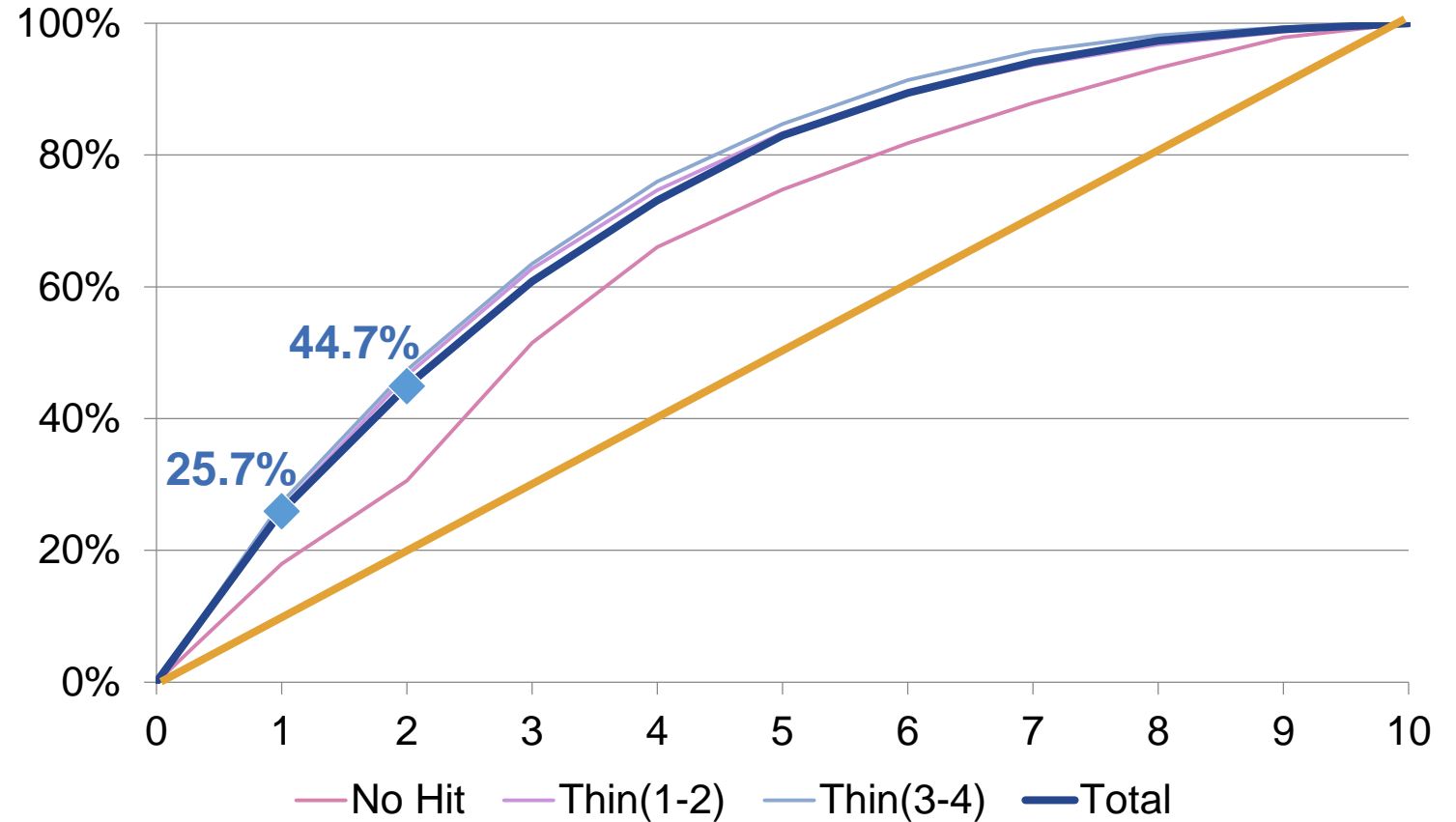
# Bad capture rate
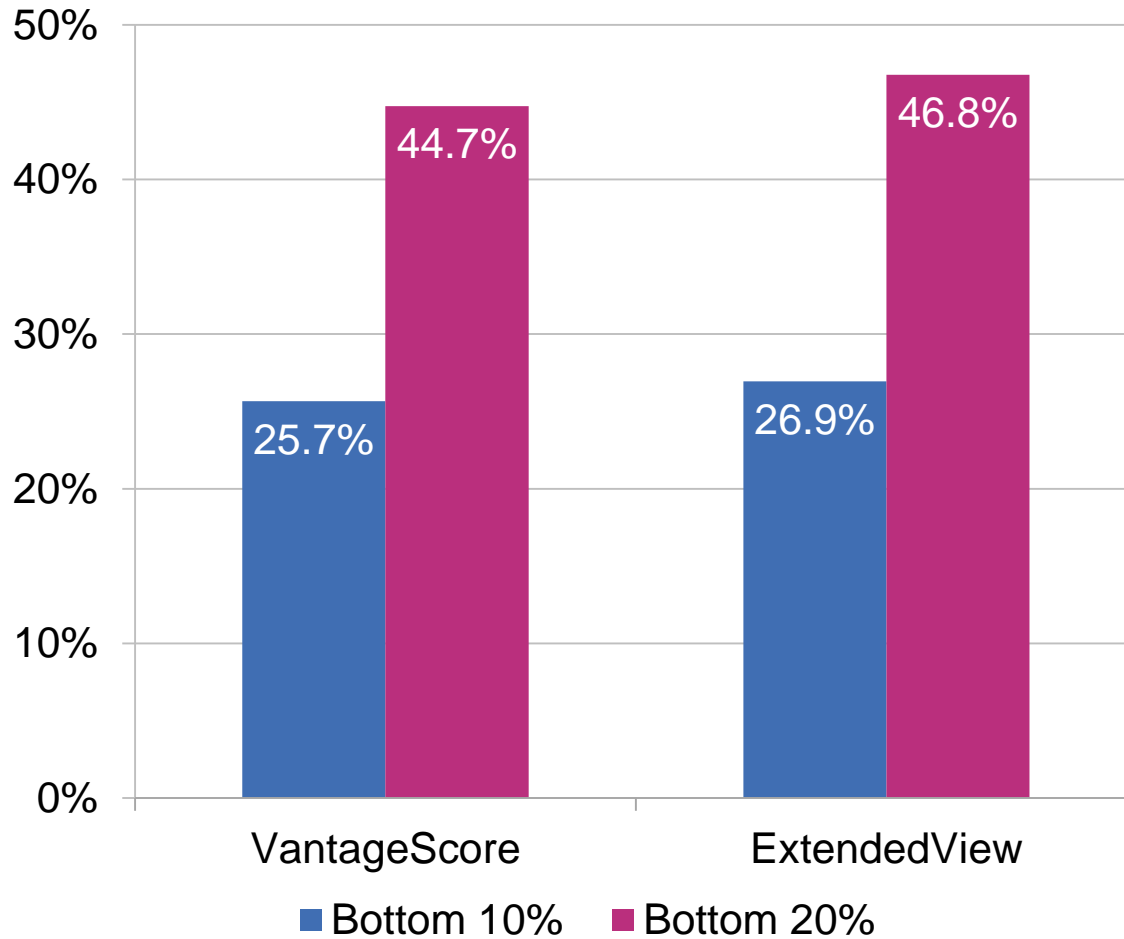


- **Scores will effectively help you distinguish between good/bad**

- **Eliminate only 10% of potential new accounts/applicants while eliminating >25% of the 'bad bets'**

- **Eliminate only 20% of potential new accounts/applicants while eliminating ~45% of the 'bad bets'**

# Score performance



**KS**

Traditional score performances for risk models looks for a KS statistic of 25 or better

# Your business opportunity...

**"Expanding your reach, enabling their tomorrow"**

# Key points to remember

There are large swaths of the population that are 'unscorable', but are, in reality, **low risk opportunities** for lenders

Experian is uniquely qualified and has multiple score options to help you **find these diamonds in the rough**

Whether targeting the younger generations or any new to credit consumer, Experian will help you **navigate these unchartered waters successfully**

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# "Nothing is more expensive than a missed opportunity"

— H. Jackson Brown, Jr.

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# Questions and answers

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