35TH ANNIVERSARY

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Unraveling fact from fantasy in alternative data

Experian®

Introducing:

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Agenda

- The riddle of alternative data

- Testing the value of alternative data

- How does alternative data play into consumer financial health

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" In God we trust, all others must bring data.

— **W. Edwards Deming**

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The riddle of alternative data

Market demand

- Roughly 5-7% of inquiry volume are no scores

- Additional approximately 5-10% thin file

Opportunity for alternative data

- Significant consumer segment that is not served

- VantageScore® 3.0 brings 30-35 million traditionally un-scoreable consumers into the market

- Additional 20-30 million consumers with no credit files

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The fundamentals of lending

The 5 C's of credit

- Capacity
- Capital
- Collateral
- Conditions
- Character

- Stability
- Ability to repay
- Willingness to repay

Tradition credit profile data was developed to assess a consumers credit worthiness

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Experian's view
Traditional credit bureau data

Traditional Credit Profile

- Trade lines

- Inquires

- Public records

  - ▶ Bankruptcy

  - ▶ Liens

  - ▶ Judgments

Data that should be reported to the credit bureau

- Utility payment data

- Mobile phone data
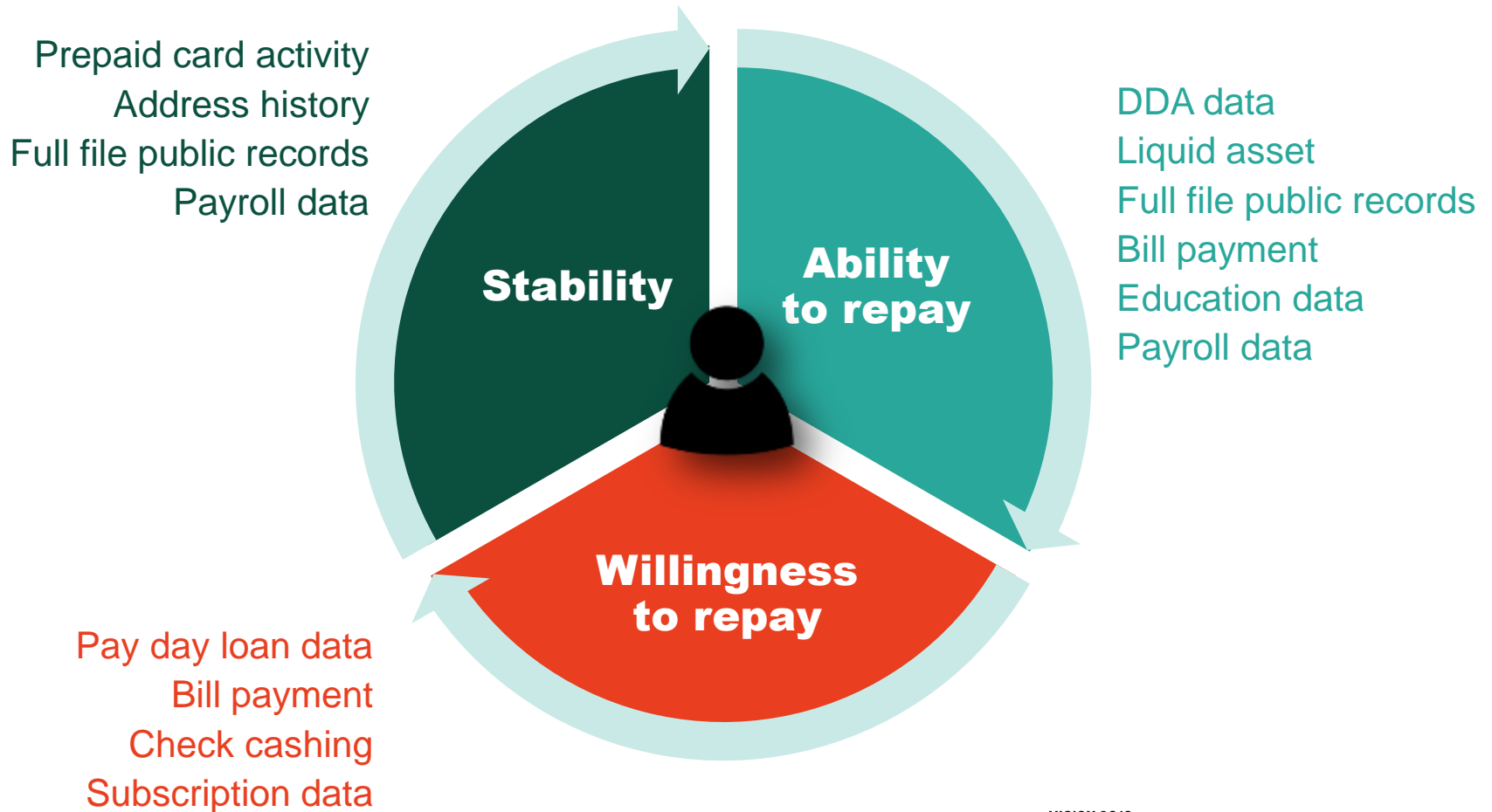
- Rental payments

- Cable payments

- Buy here, pay here

Alternative data sources

Alternative data sources

- Prepaid data
- Liquid assets
- Full file public records
- DDA data
- Bill payment
- Check cashing
- Education data
- Payroll data
- Subscription data

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How alternative data sources relate to consumer credit worthiness

Prepaid card activity
Address history
Full file public records
Payroll data

Stability

Ability to repay

DDA data
Liquid asset
Full file public records
Bill payment
Education data
Payroll data

Willingness to repay

Pay day loan data
Bill payment
Check cashing
Subscription data

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Regulatory environment of alternative data

- FCRA **603P** National Credit Reporting agency
    - Can house trade line and public records data
- The majority of alternative data providers are from specialty bureaus **603W**
    - Can house **just one** type of data
        - Public records
        - Repayment
    - 603W's unable to mix public record and trade line data
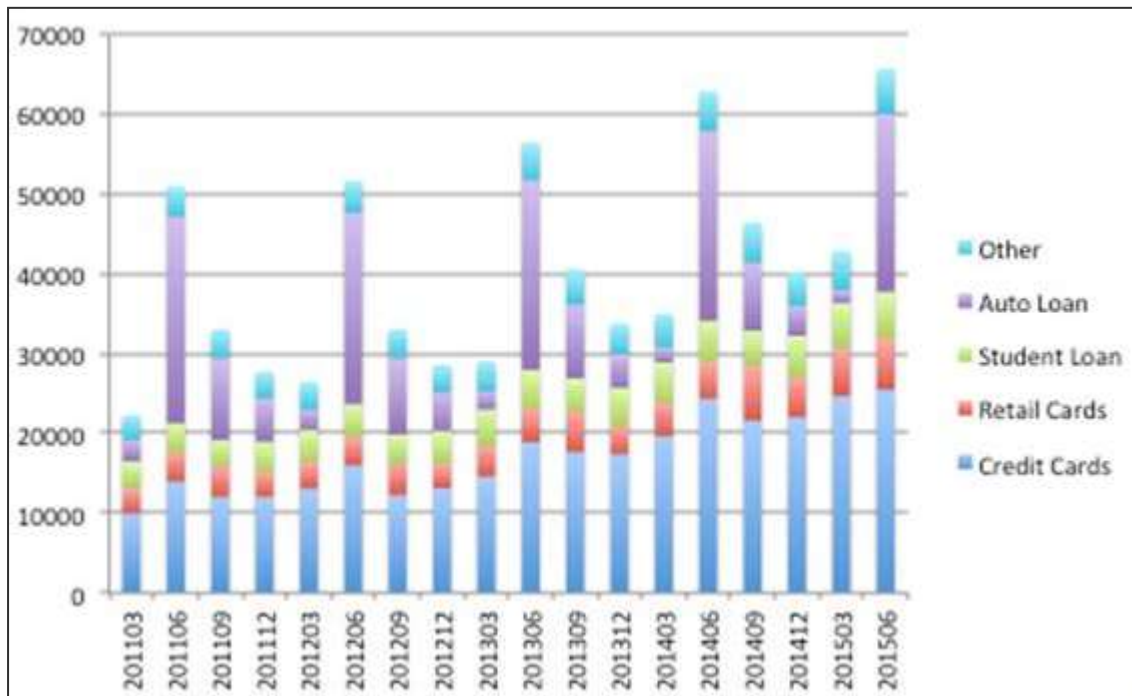
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How does alternative data predict consumer credit worthiness?

Thin file and no-hit need financial products

Despite of their lack of credit information, no-hits have a strong need for financial products

- More no-hits acquire financial products recently

- The first product tends to be student loan or credit card

Experian study on alternative data

Source	Alternative data	Sample attributes
1	Attributes based on public records	Total derogatory records, length of residence, economic trajectory
2	Payday loan data	Number of delinquencies, number of outstanding loans, total loan amount
3	Attributes based on mail order and subscription	Number of club, number of orders, number of payments
4	Check cashing data	Number of check cashing
5	Checking account opening, closing, derogatory	Number of bounced checks, number of openings, number of closings
6	Money transfer data	Number of money transfers, amount of money transfer, number of unique people to transfer money to

Alternative data coverage and performance

Experian attributes and public record attributes are most predictive for thin files and no-hits

Data source	Coverage	Performance (KS)
Source 1	65%	35
Source 2	10%	4
Source 3	8%	14
Source 4	7%	14
Source 5	5%	8
Source 6	13%	25
Best combination	70%	40

Source 1 has the best coverage and performance for no-hits

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Experian's push for alternative data

- RentBureau®
- Payday loan bureau
- Address-based attributes
- eCommerce data

Physical health

Financial health

Financial health

RX

PATIENT NAME:
ADDRESS:

DIRECTIONS:

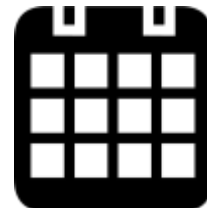Financial health comes about when your daily systems help you build resilience and pursue opportunities.

SIGNATURE:

DATE:

Are you prepared for the **unexpected?**

Are you able to **pursue opportunities?**

Do your daily financial activities **support both of these goals?**

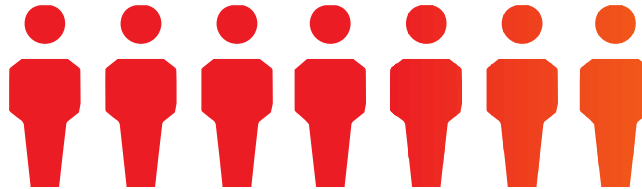# Americans' financial health

43%
Healthy

57%
Not healthy

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More than just un- and underbanked

138 million people are struggling financially

68 million are 'underbanked' or 'unbanked'

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Seven consumer segments

57%

Healthy			Coping		Vulnerable	
Thriving (12%)	Focused (15%)	Stable (16%)	Striving (16%)	Tenuous (12%)	Unengaged (16%)	At risk (12%)
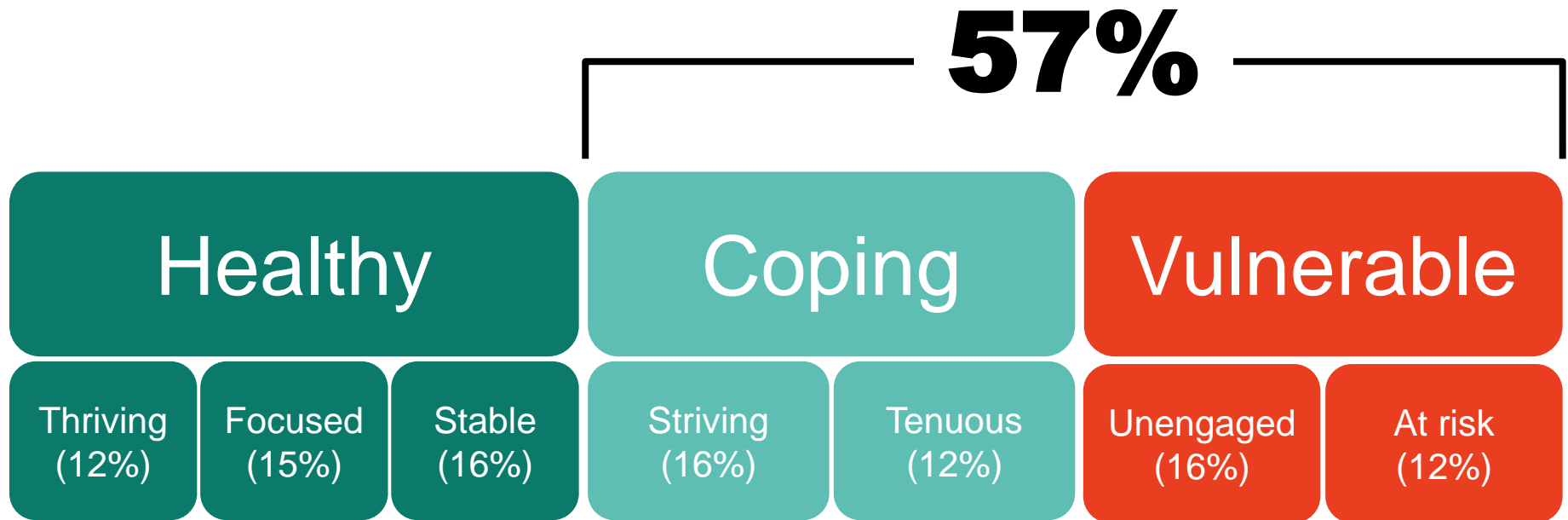
For more on the segmentation, see the paper – http://bit.ly/consumerfinhealth

For more on the four financially struggling segments, see the segment briefs:
CFSI Website → Research → Financial Health → Top Resources

Income doesn't tell the whole story

One-third makes
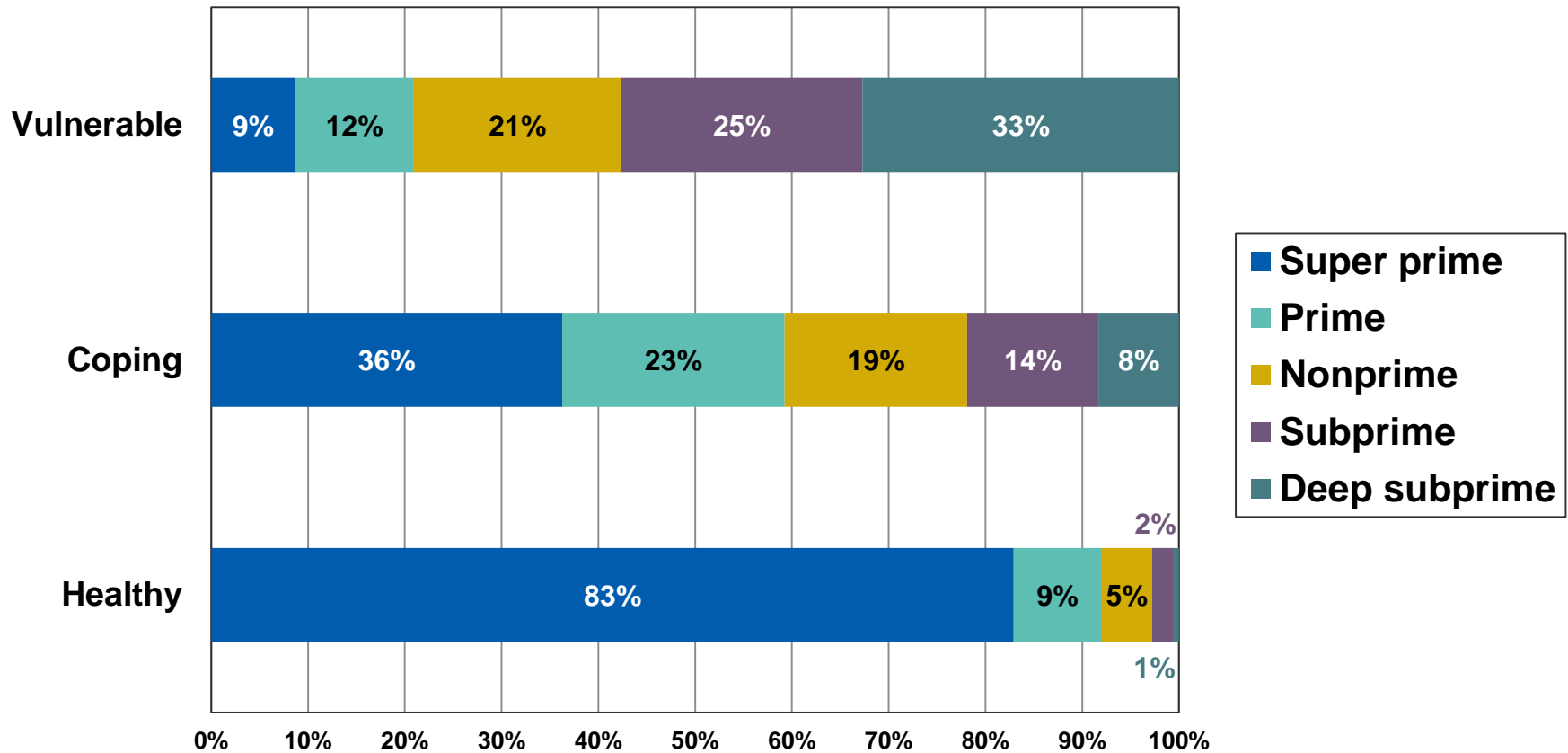less than $60,000 a year

One-third makes
more than $60,000 a year

Healthy

Not healthy

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Credit scores don't tell the whole story

VantageScore® Score distribution across financial health segments

Segment	Super prime	Prime	Nonprime	Subprime	Deep subprime
Vulnerable	9%	12%	21%	25%	33%
Coping	36%	23%	19%	14%	8%
Healthy	83%	9%	5%	2%	1%

High credit scores and low financial health

VantageScore® Score distribution across financial health segments

Vulnerable
- Super prime: 9%
- Prime: 12%
- Nonprime: 21%
- Subprime: 25%
- Deep subprime: 33%

(21% bracket over Super prime + Prime)

Coping
- Super prime: 36%
- Prime: 23%
- Nonprime: 19%
- Subprime: 14%
- Deep subprime: 8%

Healthy
- Super prime: 83%
- Prime: 9%
- Nonprime: 5%
- Subprime: 2%
- Deep subprime: 1%

Legend:
- Super prime
- Prime
- Nonprime
- Subprime
- Deep subprime

Financial obligation ratio

Financial obligation ratio

	Vulnerable All	Vulnerable Super prime/prime
Don't know/Refuse	48%	61%
Under 15%	6%	5%
15%-39.99%	15%	12%
40% or more	30%	22%

■ **Vulnerable All**   ■ **Vulnerable Super prime/prime**

Make ends meet with drop in income

	Vulnerable All	Vulnerable Super prime/prime
Don't know/Refuse	34%	43%
More than 12 months	8%	6%
6-12 months	3%	2%
3-6 months	2%	4%
1-3 months	13%	12%
1 week-1 month	21%	19%
Less than a week	19%	15%

■ Vulnerable All   ■ Vulnerable Super prime/prime
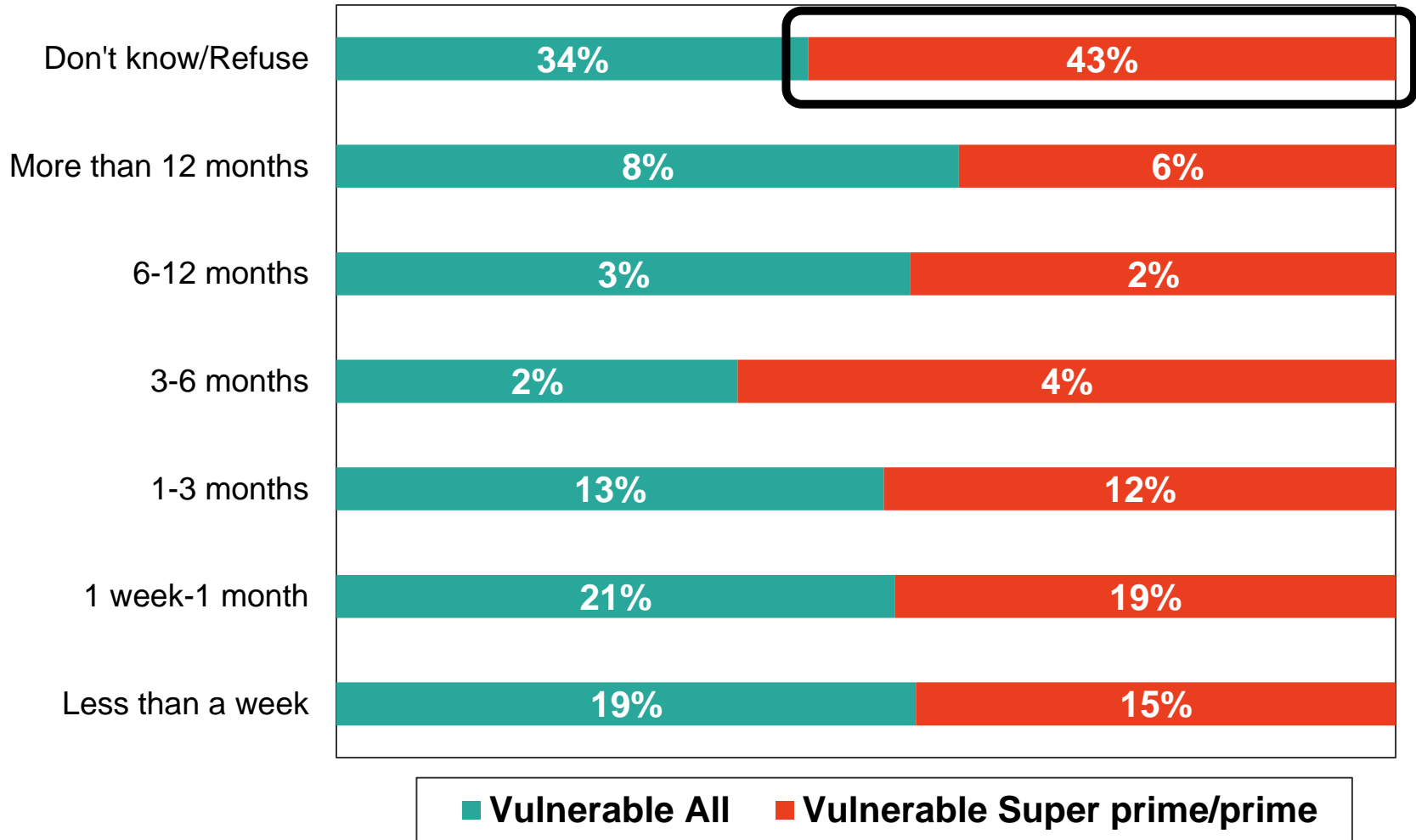
Low credit scores and high financial health

VantageScore® Score distribution across financial health segments

Legend:
- Super prime
- Prime
- Nonprime
- Subprime
- Deep subprime

Vulnerable: Super prime 9%, Prime 12%, Nonprime 21%, Subprime 25%, Deep subprime 33%

Coping: Super prime 36%, Prime 23%, Nonprime 19%, Subprime 14%, Deep subprime 8%

Healthy: Super prime 83%, Prime 9%, Nonprime 5%, Subprime 2%, Deep subprime 1% (3%)

Lost job in last five years

Bar chart comparing "Lost job in last five years":
- Healthy All: 7%
- Healthy Subprime/deep subprime: 25%

Four components of financial health
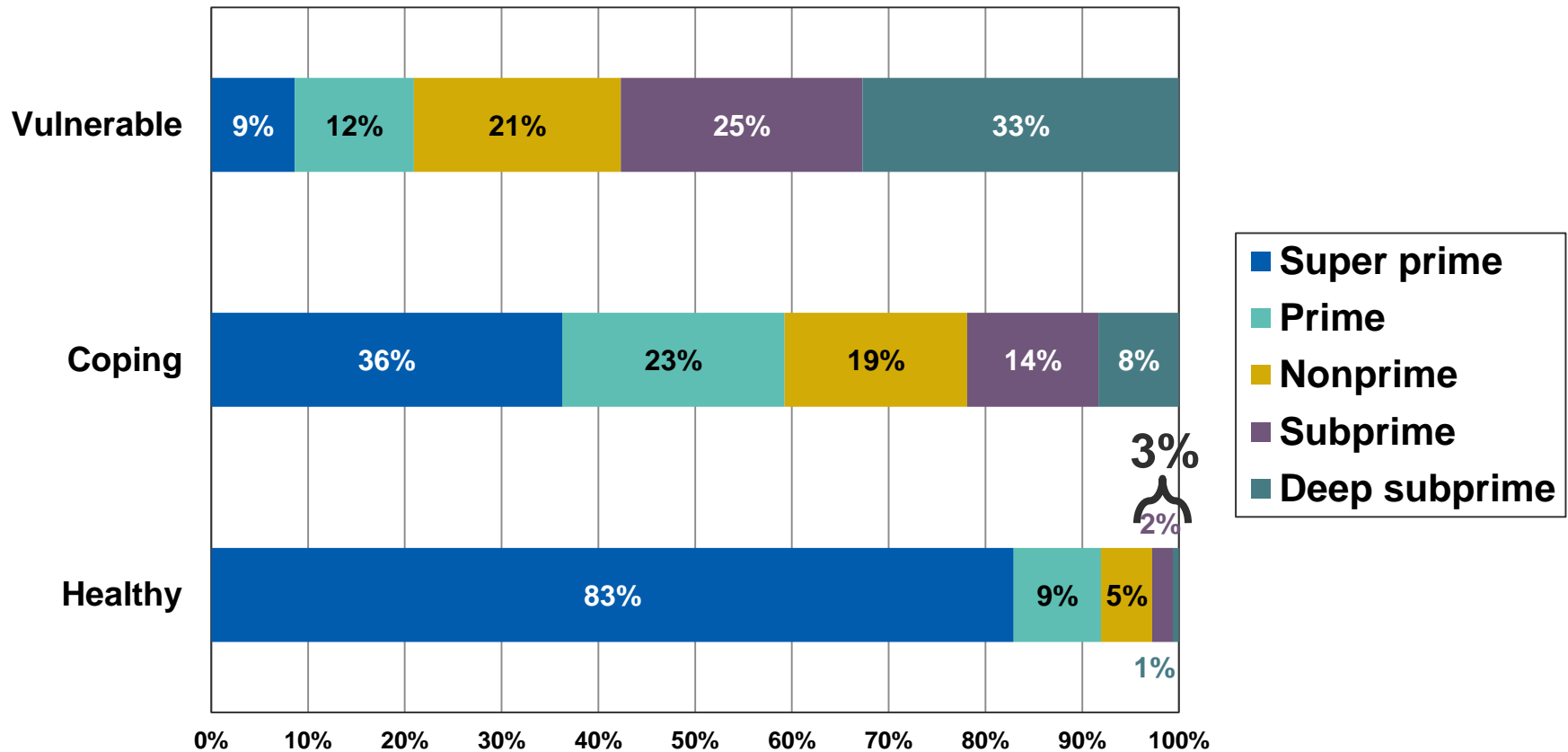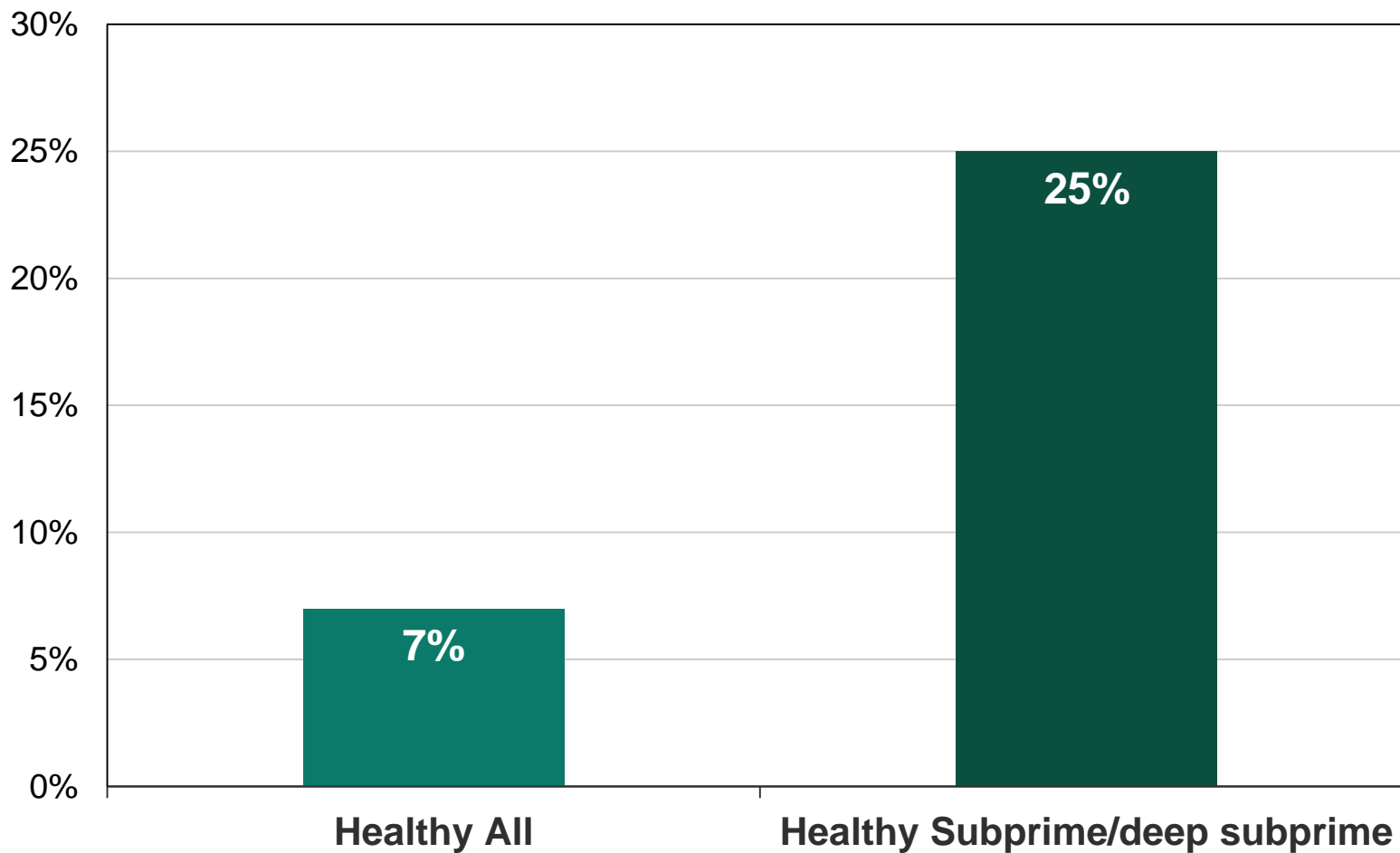
Components of financial health

- Spend
- Save
- Borrow
- Plan
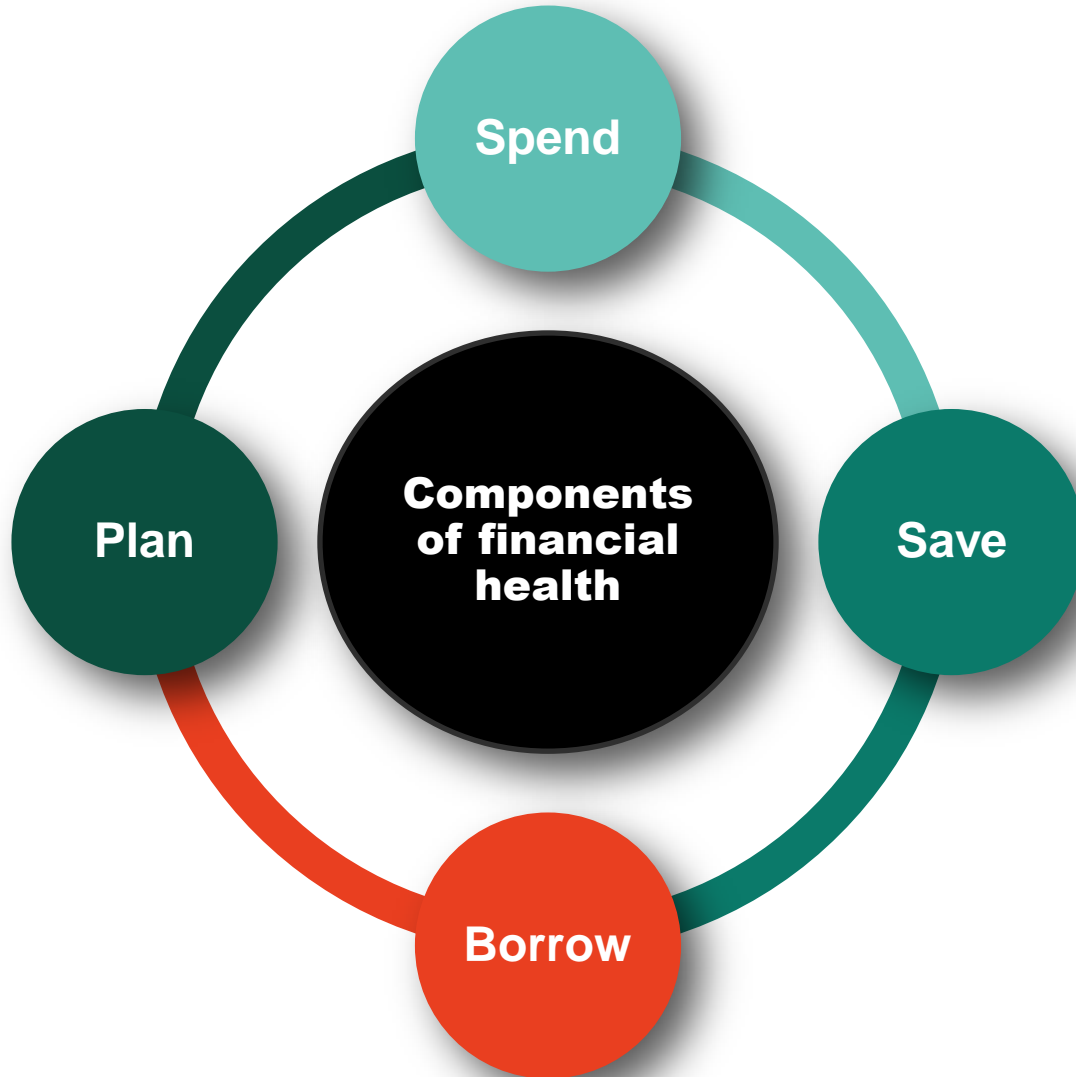
You are financially healthy when you...

Spend
1. Spend less than income
2. Pay bills on time and in full

Save
3. Have sufficient liquid savings
4. Have sufficient long-term savings or assets

Borrow
5. Have a sustainable debt load
6. Have a prime credit score

Plan
7. Have appropriate insurance
8. Plan ahead for expenses

Data used to measure

Spend	1. Spend less than income	1. Difference between income and expenses
	2. Pay bills on time and in full	2. Percent of bills that are paid on time and in full
Save	3. Have sufficient liquid savings	3. Number of months of living expenses in liquid account balances
	4. Have sufficient long-term savings or assets	4. Amount of one's long-term savings, assets and investments
Borrow	5. Have a sustainable debt load	5. Debt-to-income ratio
	6. Have a prime credit score	6. Credit score or credit quality tier
Plan	7. Have appropriate insurance	7. Type and extent of insurance coverage
	8. Plan ahead for expenses	8. Behaviors that demonstrate future financial orientation

Conclusion

- The market has many types of alternative data

- Alternative data can add to an understanding of a consumers credit worthiness

  ► The use of alternative data in credit decisioning is regulated by the FCRA

- Alternative data is related to a consumers financial health

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Questions

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