Shift Your Perspective

How Short-Term Lenders Can Use Alt Data

TransUnion

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, short-term 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 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.[1]

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.

Underwriting: In today's environment, companies are under pressure to keep approval rates high and losses low. The powerful combination of trended and alternative credit data allows short-term 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.

Making smart, efficient decisions on rates and offers is achievable when lenders include trended and alternative credit data in their strategies. For example, in the auto lending market, three different lenders – each focused on a different

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?[2]

→ 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 tiers[3]

→ 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.[4]

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

[1] TransUnion customer analysis
[2] TransUnion Underbanked Index
[3] VantageScore® 3.0 risk ranges: Subprime = 300–600; Near prime = 601–660; Prime = 661–720; Prime plus = 721–780; Super prime = 781–850
[4] TransUnion analysis

portfolio of credit risk – could approve between 20% and 25% of the accounts they would have otherwise declined without increasing loss rates.[5]

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

Fraud: As fraud is a growing problem in lending, short-term lenders 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.

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 accountholders 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.[6]

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 delinquency rates, lower direct mail response rates and heightened consumer expectations. To prepare for a more Consumer First future, it's critical for lenders

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

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. Short-term 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 short-term lenders make smarter decisions.

[5] TransUnion customer analysis
[6] TransUnion customer validations

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