

Loan Stacking: The Ongoing Impact of Fraud and Credit Risk

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Empowering online experiences while mitigating mounting fraud risks is a major industry challenge

- In 2018 **mobile will surpass desktop** as the top digital channel for banks¹
- Online and mobile applications open the door to **significantly faster loan applications** – allowing a consumer to make several loan applications in moments
- Over half of surveyed financial institutions believe they have **insufficient technology in place**², leaving them exposed to losses and forced to choose between convenience and security

Loan stacking
in particular
has been a
major focus
for lenders,
solution
providers, and
media the last
two years



BUSINESS PERSONAL GOVERNMENT

Solutions and Products Industries Insights and Events

Chicago, March 07, 2017

TransUnion Bolsters Fraud Prevention Exchange as Online Fraudsters Continue to Impact Personal Loan Delinquency Rates

Newly released [TransUnion](#) (NYSE: TRU) data found that as personal loan delinquency rates rise, online fraud, which includes loan stacking, continues to impact personal loan delinquency rates. Serious delinquency rates for personal loans originated in 2015 were 1.5% for personal loans with year-end 2015 delinquency rate of 1.5% or higher.

AMERICAN BANKER

Online Lenders Band Together to Strike Back at Scammers, Stackers



REUTERS World Business Markets Politics TV

[Detained in Myanmar](#)

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[Breakingviews](#)

BUSINESS NEWS JUNE 10, 2016 / 1:52 AM / 2 YEARS AGO

Latest threat to online lenders: 'stacking' of multiple loans

Forbes

Billionaires Innovation Leadership Money Consumer Industry Lifestyle Features

1,154 views | Jul 6, 2018, 11:06am

Everything You Need To Know About Loan Stacking



Jared Hecht Contributor

I write about small business lending, finance, and entrepreneurship.

Stacking is a complex behavior spanning multiple consumer types, with a blend of fraud and credit risks

Malicious Credit Users



Using their **real identity**, acquire credit with no intention to repay

Synthetic Fraudsters



Using **fabricated identities**, acquire credit and other products

Credit Hungry Borrowers



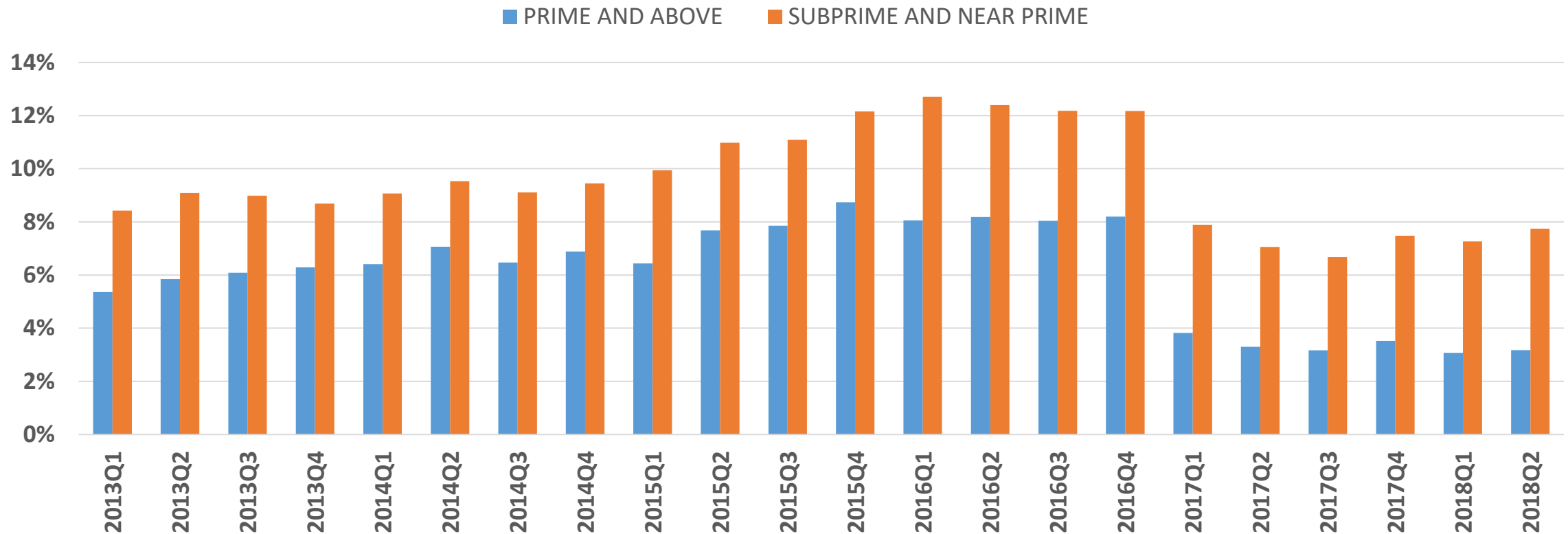
Using their **real identity**, have every intention to repay obligations



Managing risk for these groups can be improved with insights from purpose-built models, identity tools, and technology solutions

Applied focus on this issue has led to a reduction in incidence in the last 2 years

Loan Stacking Rate By Origination Quarter - By Risk Tier



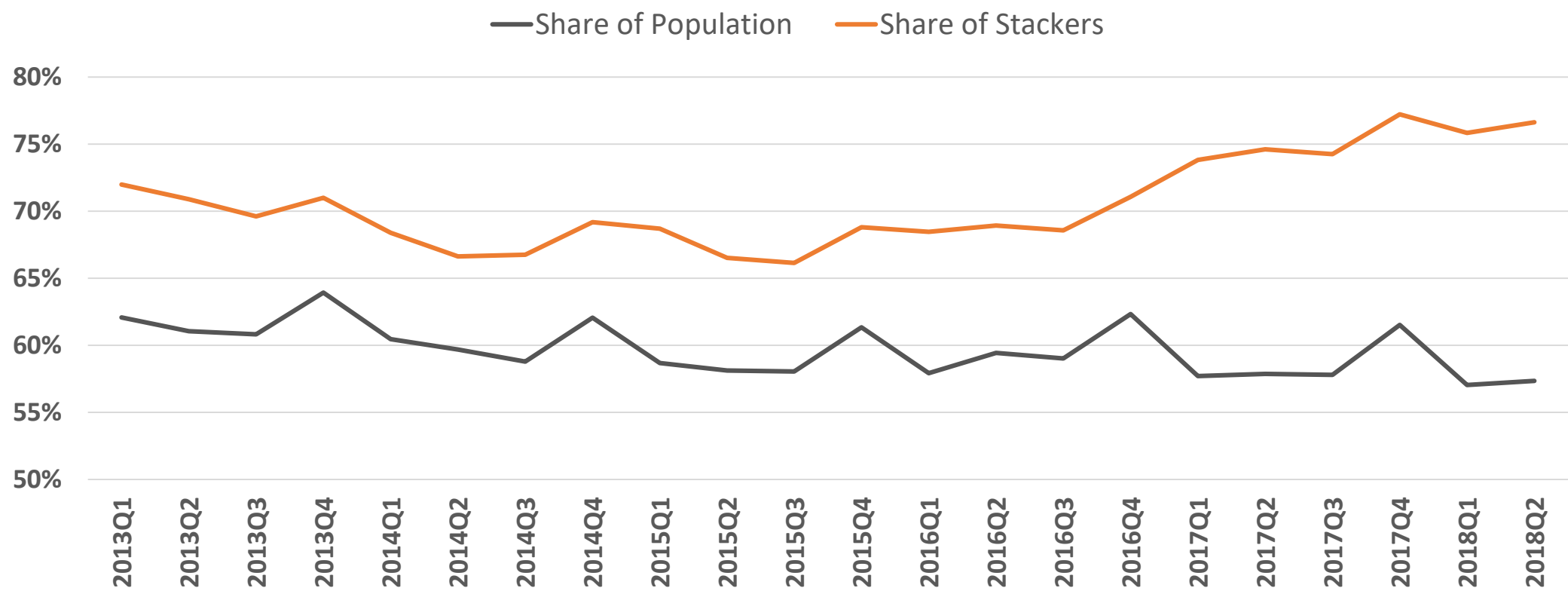
Source: TransUnion consumer credit database

VantageScore® 3.0 risk ranges: Subprime = 300–600; Near prime = 601–660; Prime = 661–720; Prime plus = 721–780; Super prime = 781–850



Non-prime borrowers are making up a larger portion of the stacking population

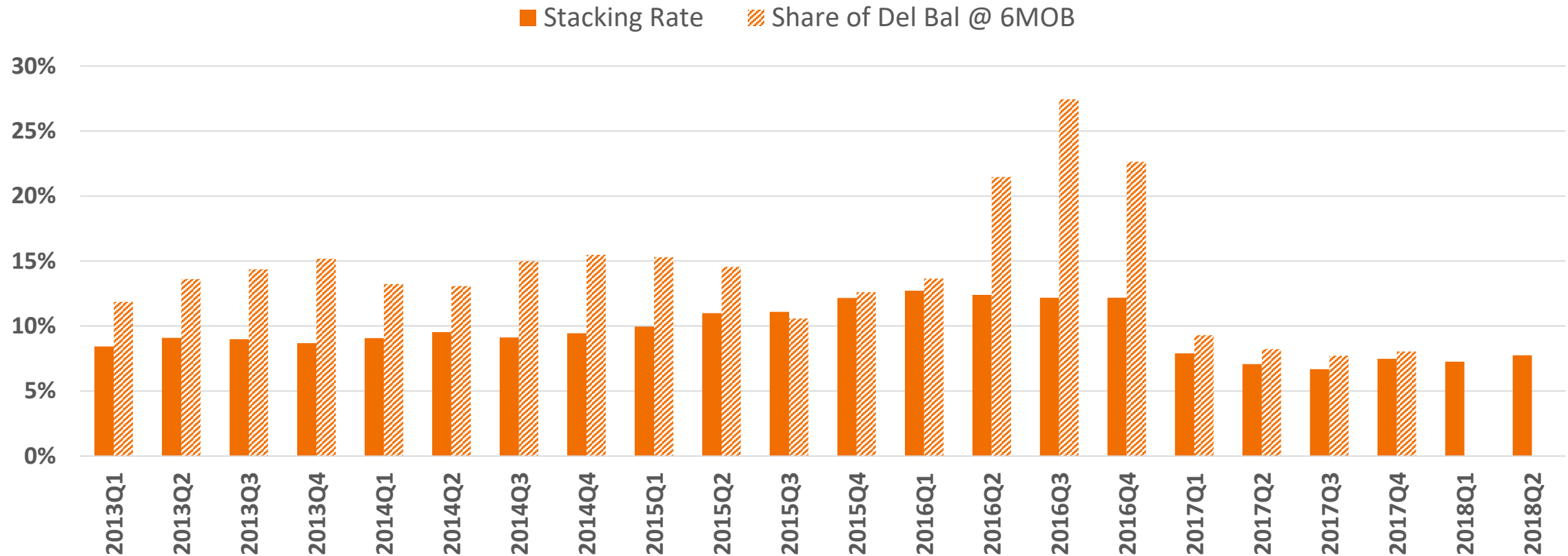
Subprime and Near Prime share of PL Market
vs Share of Stackers



Source: TransUnion consumer credit database
VantageScore® 3.0 risk ranges: Subprime = 300–600; Near prime = 601–660

In non-prime, the stacking rate overall has reduced, but lenders have managed the share of delinquent balances

Share of Delinquent Balance @ 6 MOB
By Origination Quarter - Subprime and Near Prime



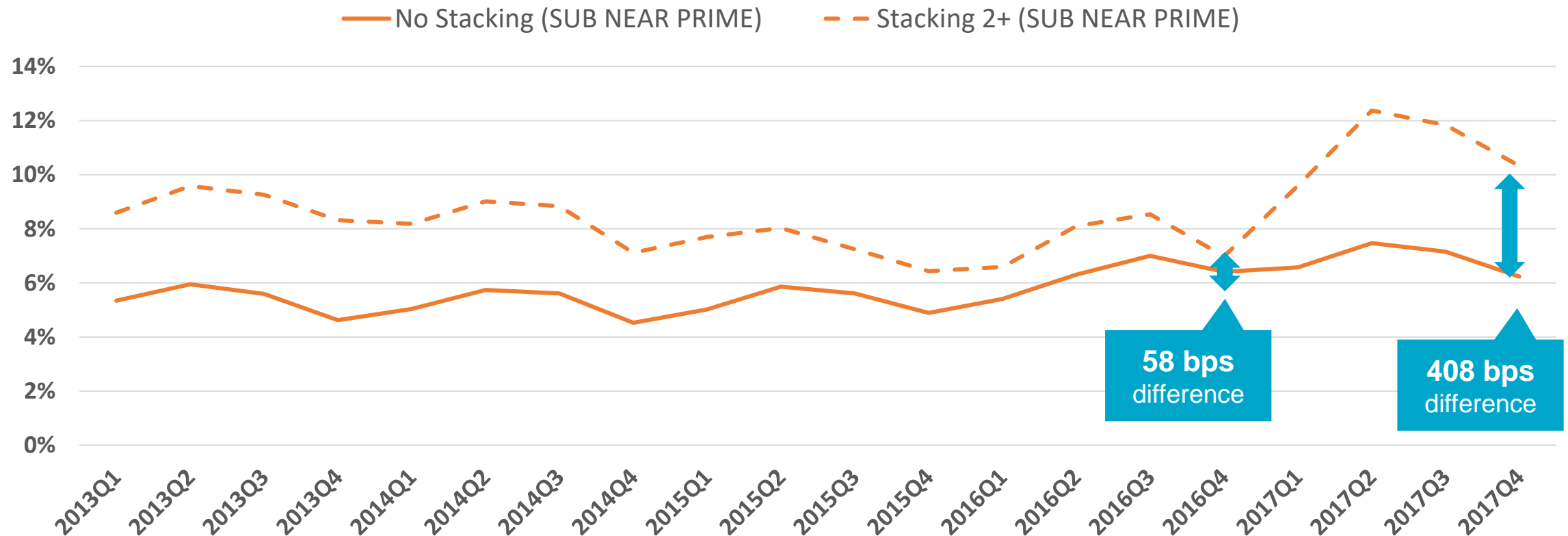
Source: TransUnion consumer credit database

VantageScore® 3.0 risk ranges: Subprime = 300–600; Near prime = 601–660



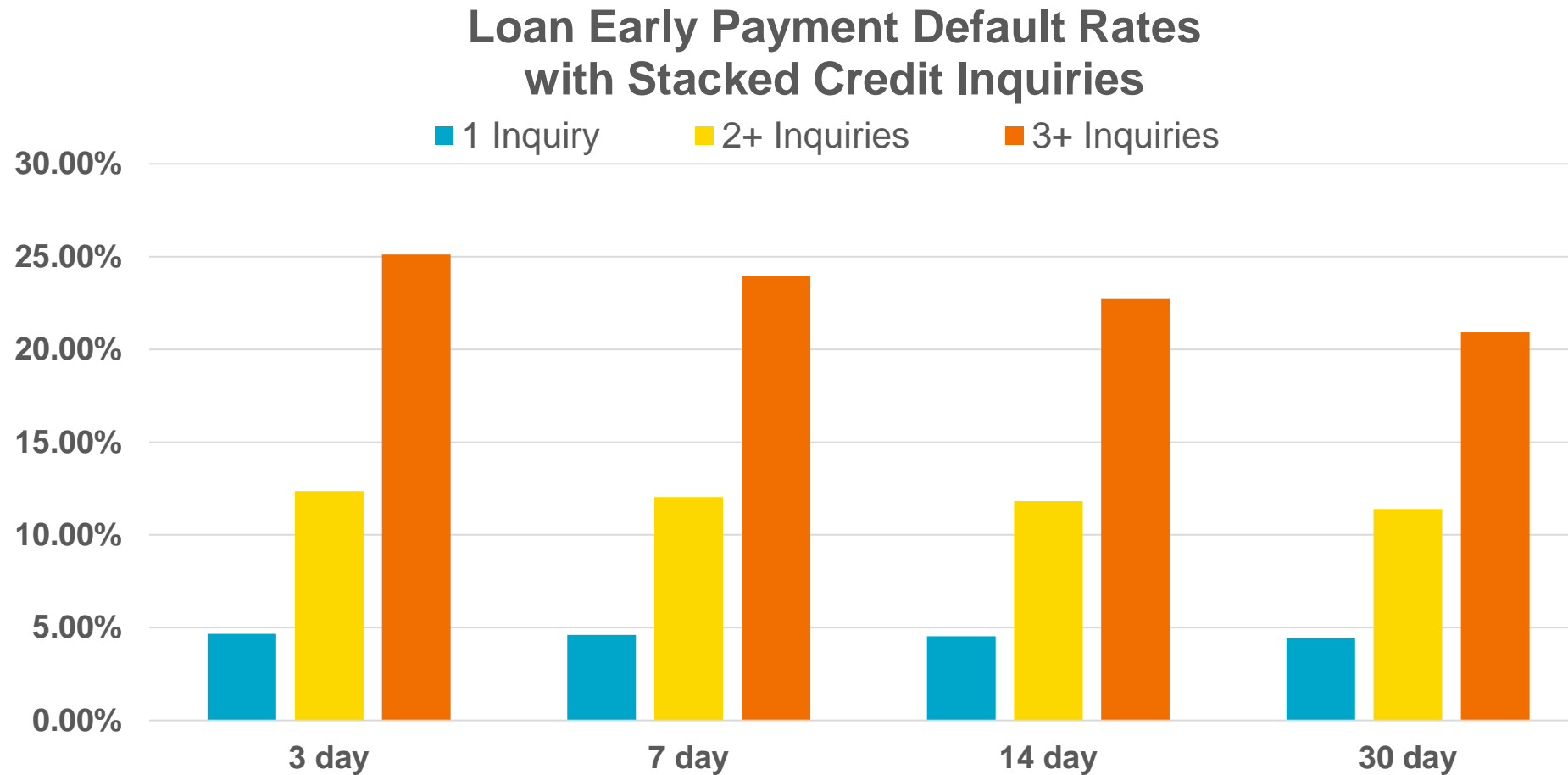
Despite downward trend in delinquent stacked balances, the delinquency rate for stacked loans is growing

Early Pay Default rate by Loan Stacking Group
By Origination Quarter - Subprime and Near Prime



Source: TransUnion consumer credit database
VantageScore® 3.0 risk ranges: Subprime = 300–600; Near prime = 601–660

Loans to non-prime borrowers with three or more inquiries default early much more frequently

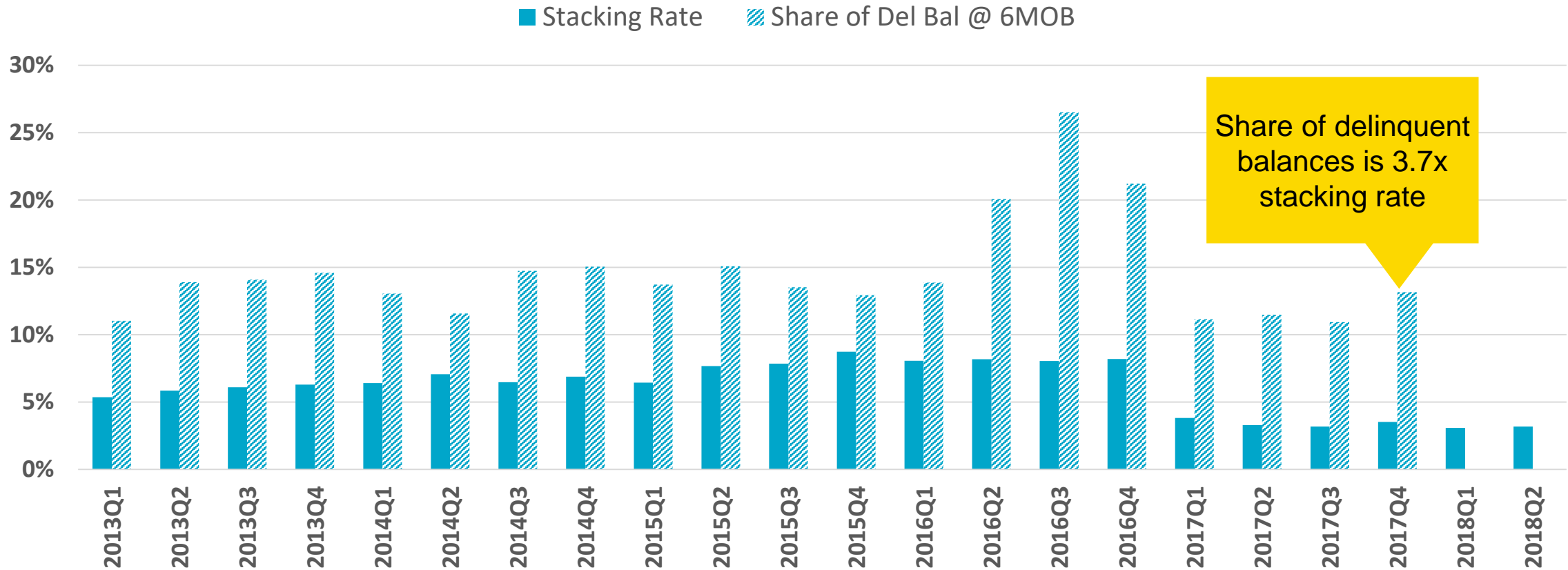


Source: TransUnion consumer credit database

VantageScore® 3.0 risk ranges: Subprime = 300–600; Near prime = 601–660

In Prime and above, despite lower incidence rates, stacked loans carry significant serious loss exposure

Share of Delinquent Balance @ 6 MOB By Origination Quarter - Prime and above

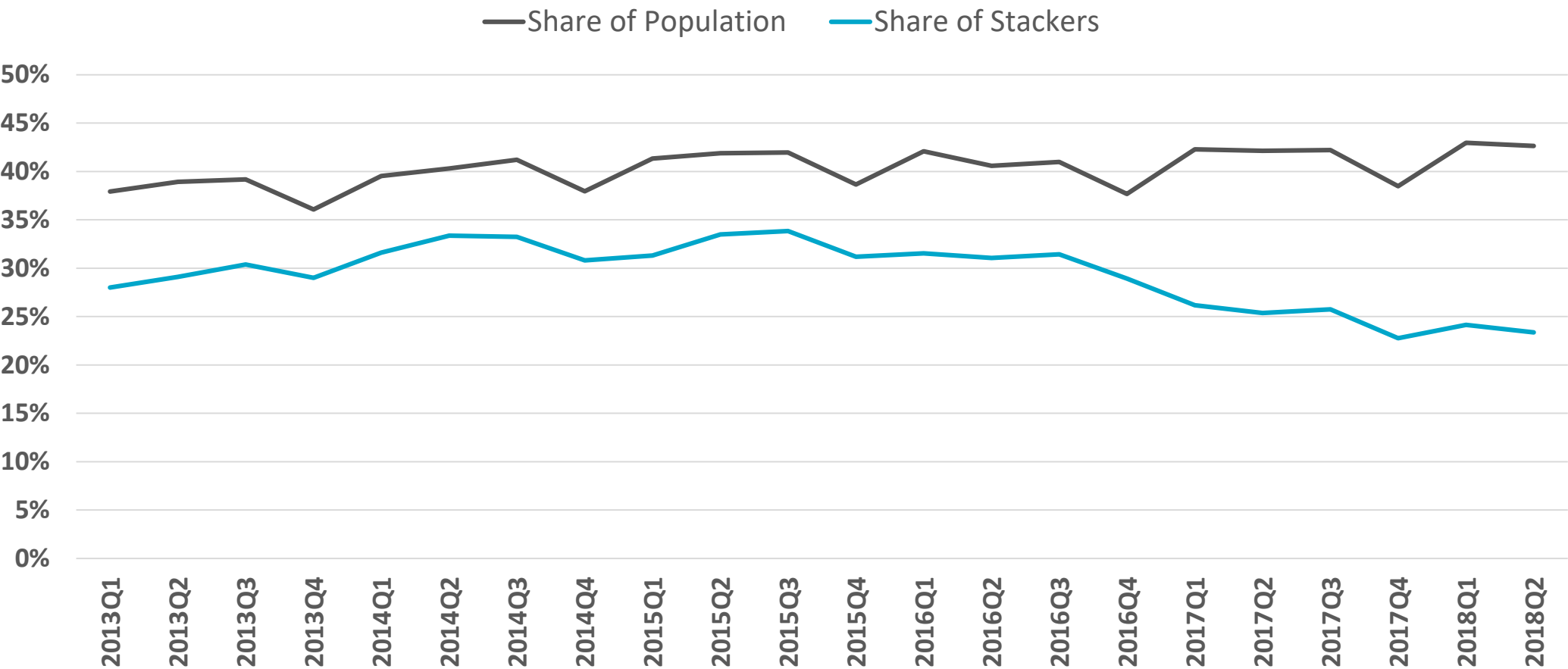


Source: TransUnion consumer credit database

VantageScore® 3.0 risk ranges: Prime = 661–720; Prime plus = 721–780; Super prime = 781–850

Prime and above borrowers now make up a smaller portion of loan stackers

Prime and above share of PL Market vs Share of Stackers

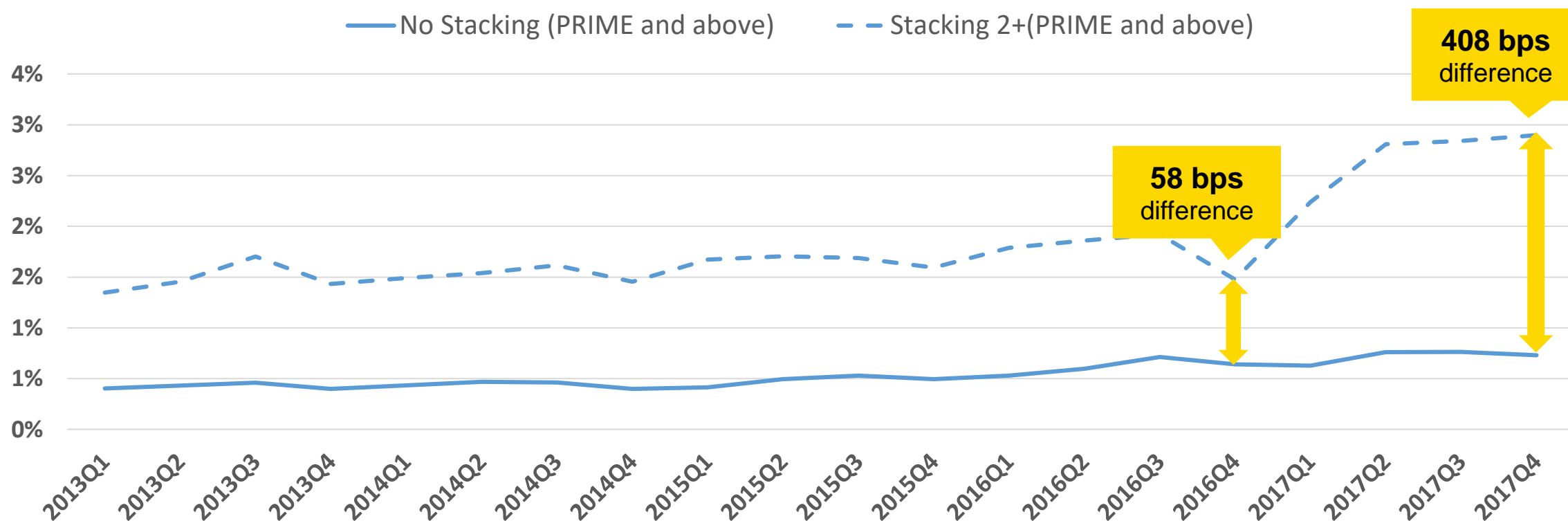


Source: TransUnion consumer credit database
 VantageScore®3.0 risk ranges: Prime = 661–720; Prime plus = 721–780; Super prime = 781–850



However, Prime and above consumers who do stack two or more loans have significantly higher default rates

Early Pay Default rate by Loan Stacking Group By Origination Quarter - Prime and above



Source: TransUnion consumer credit database

VantageScore®3.0 risk ranges: Prime = 661–720; Prime plus = 721–780; Super prime = 781–850

In summary

Increased industry focus on loan stacking drove a dramatic decrease in incidence beginning in 2017

While incidence has decreased, early pay default rate on stacked loans has increased significantly across risk tiers

While non-prime borrowers now make up a larger proportion of loan stackers, lenders have been able to keep stacked loans as a share of delinquent balances low

When prime+ borrowers do successfully stack loans, however, they make up an outsized portion of delinquent balances

Risks can no longer be mitigated with a credit score



Targeted Risk Models

Use trended credit data and focused models to predict early delinquency with precision and refine segmentation



Alternative Data

Go beyond traditional risk scores to get insights where gaps in credit histories existed before



Data Exchanges

Join collaborative networks of peer lenders to share data in real time to mitigate fraud and loan stacking threats

But when it comes to the threat of loan stacking, nothing has proven more effective than real-time peer data exchanges



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