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 banks[1]

- 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

Sources: [1] *Identity Theft Resource Center 2017 Annual Data Breach Year End Review; 2* Fraud Detection and ID Verification in Financial Services, © 2018 Forrester Consulting Group

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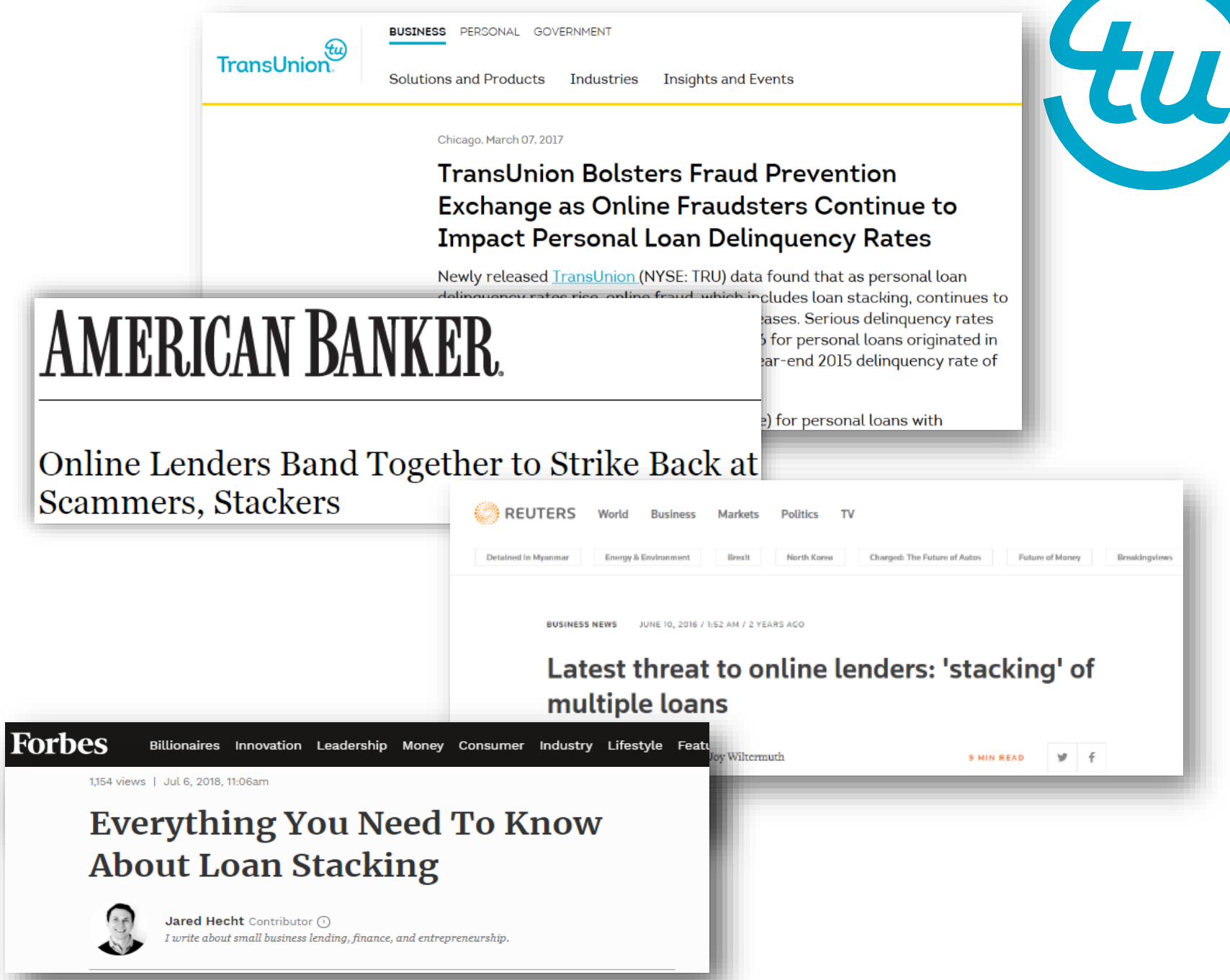
Loan stacking in particular has been a major focus for lenders, solution providers, and media the last two years



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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

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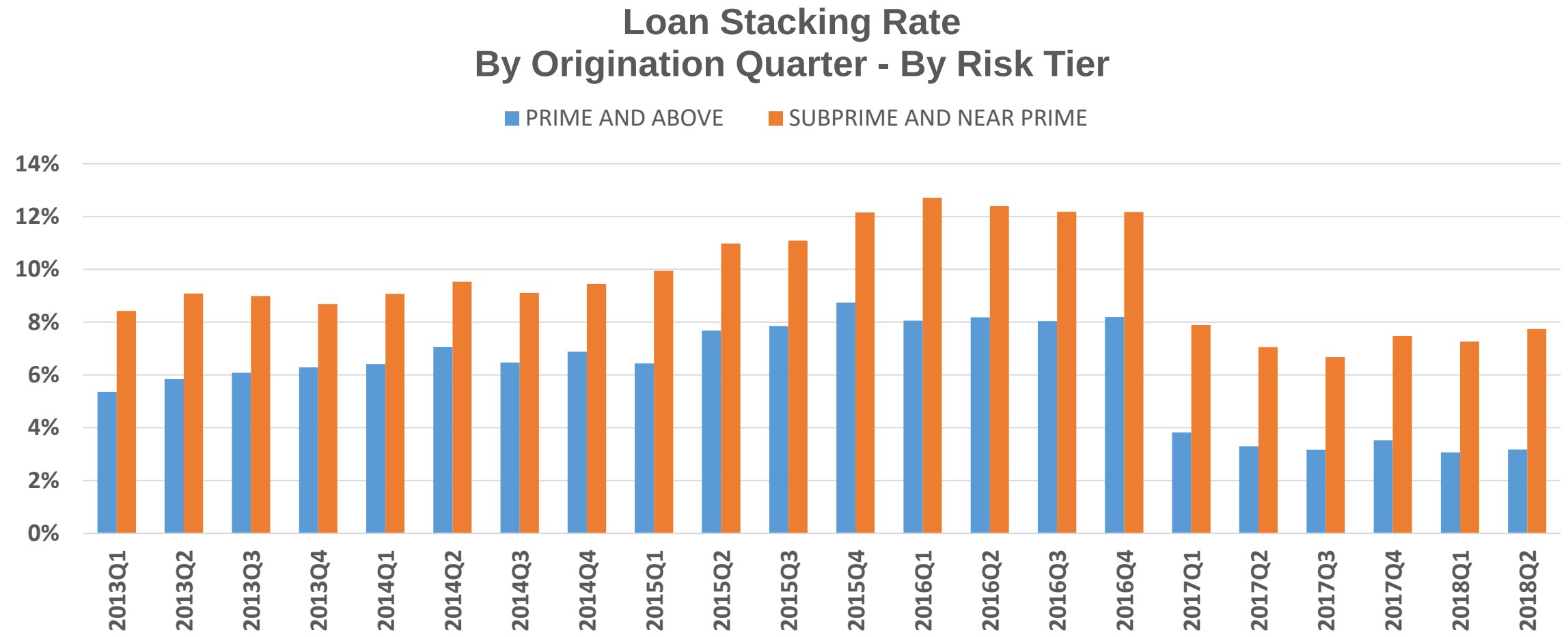
Applied focus on this issue has led to a reduction in incidence in the last 2 years



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

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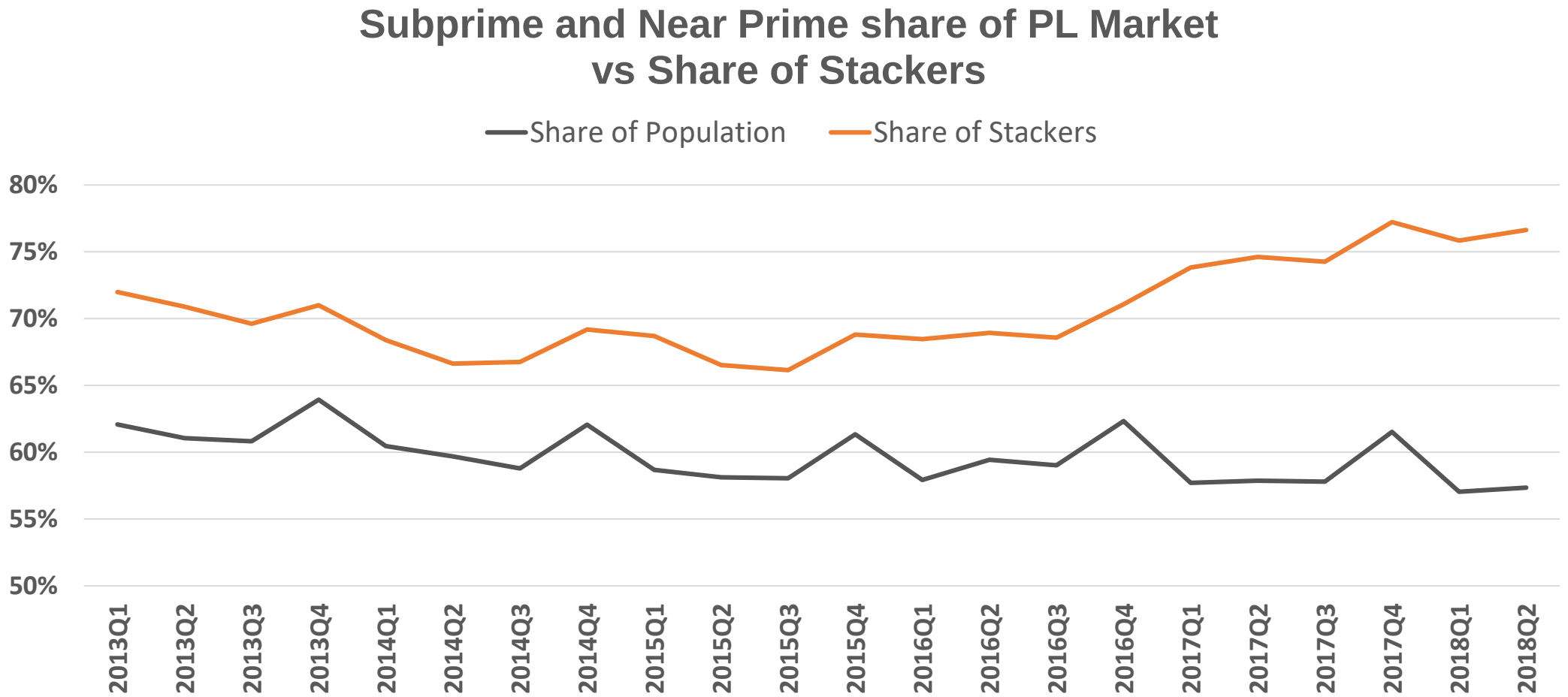
Non-prime borrowers are making up a larger portion of the stacking population



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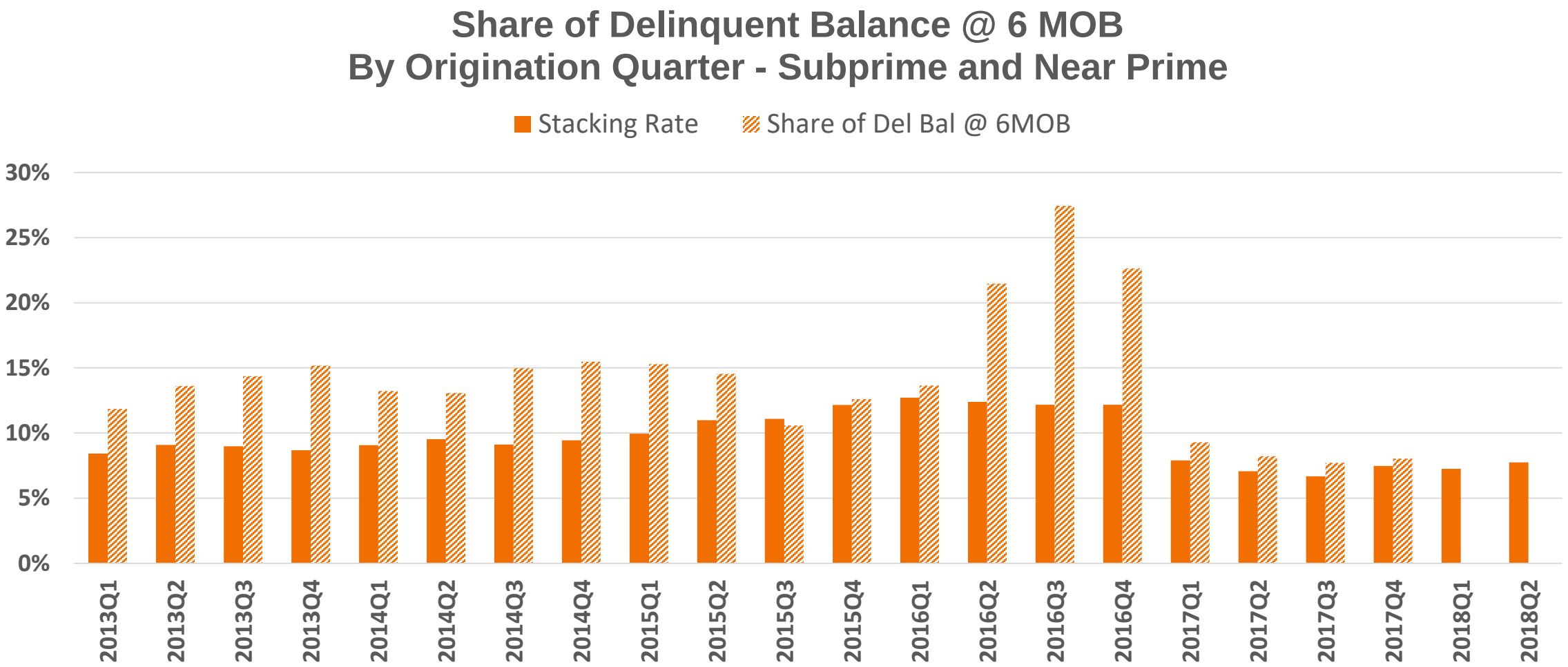
In non-prime, the stacking rate overall has reduced, but lenders have managed the share of delinquent balances



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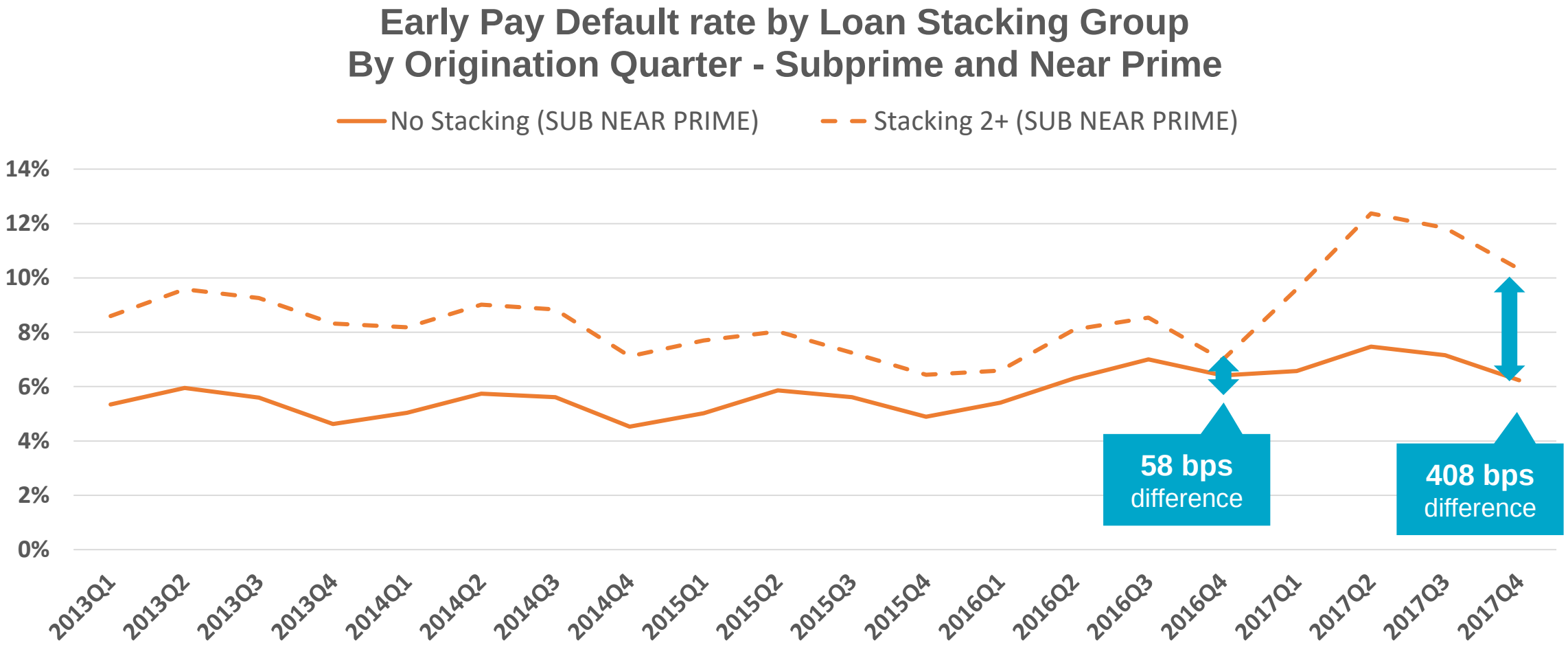
Despite downward trend in delinquent stacked balances, the delinquency rate for stacked loans is growing



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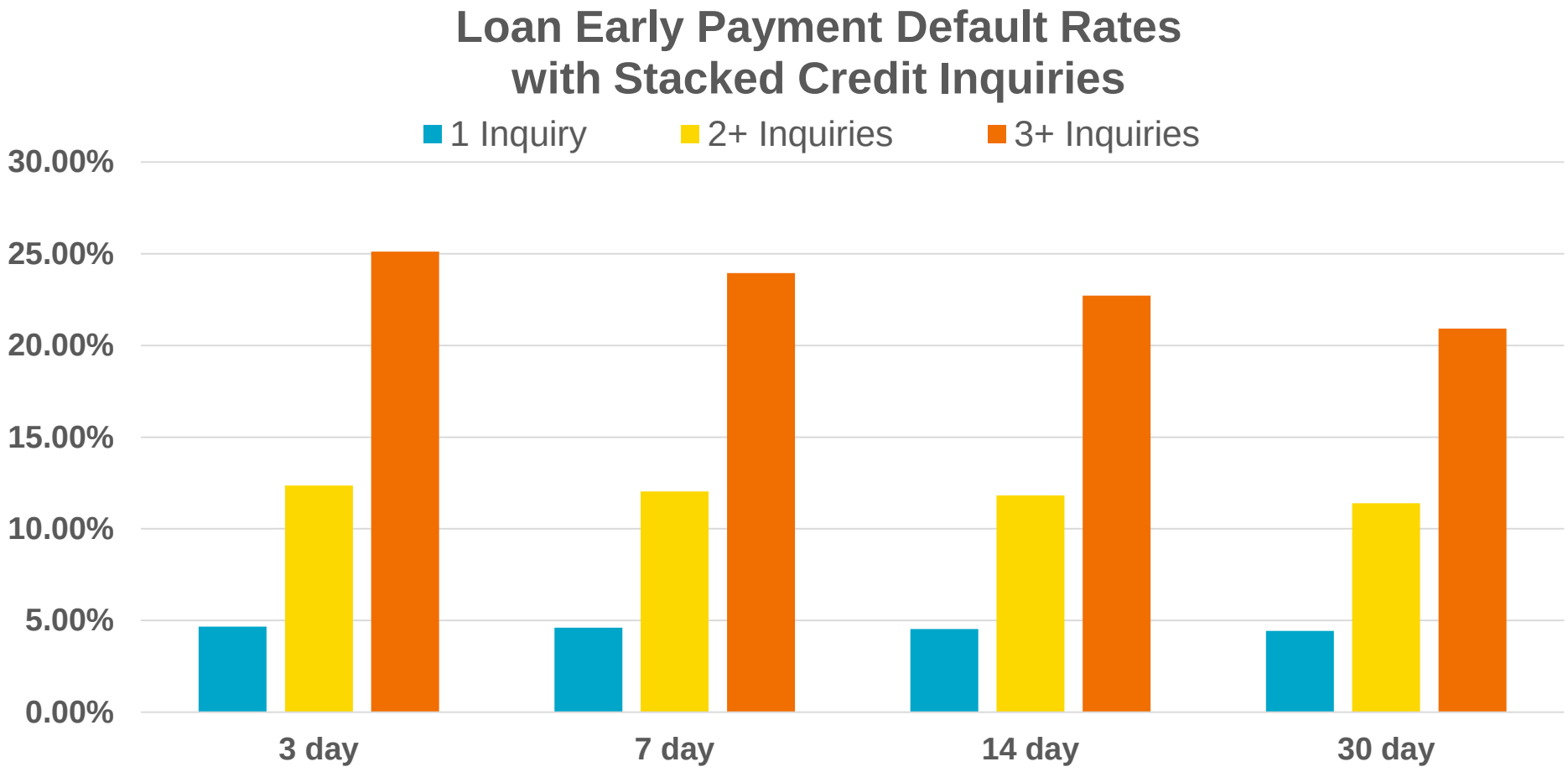
Loans to non-prime borrowers with three or more inquiries default early much more frequently



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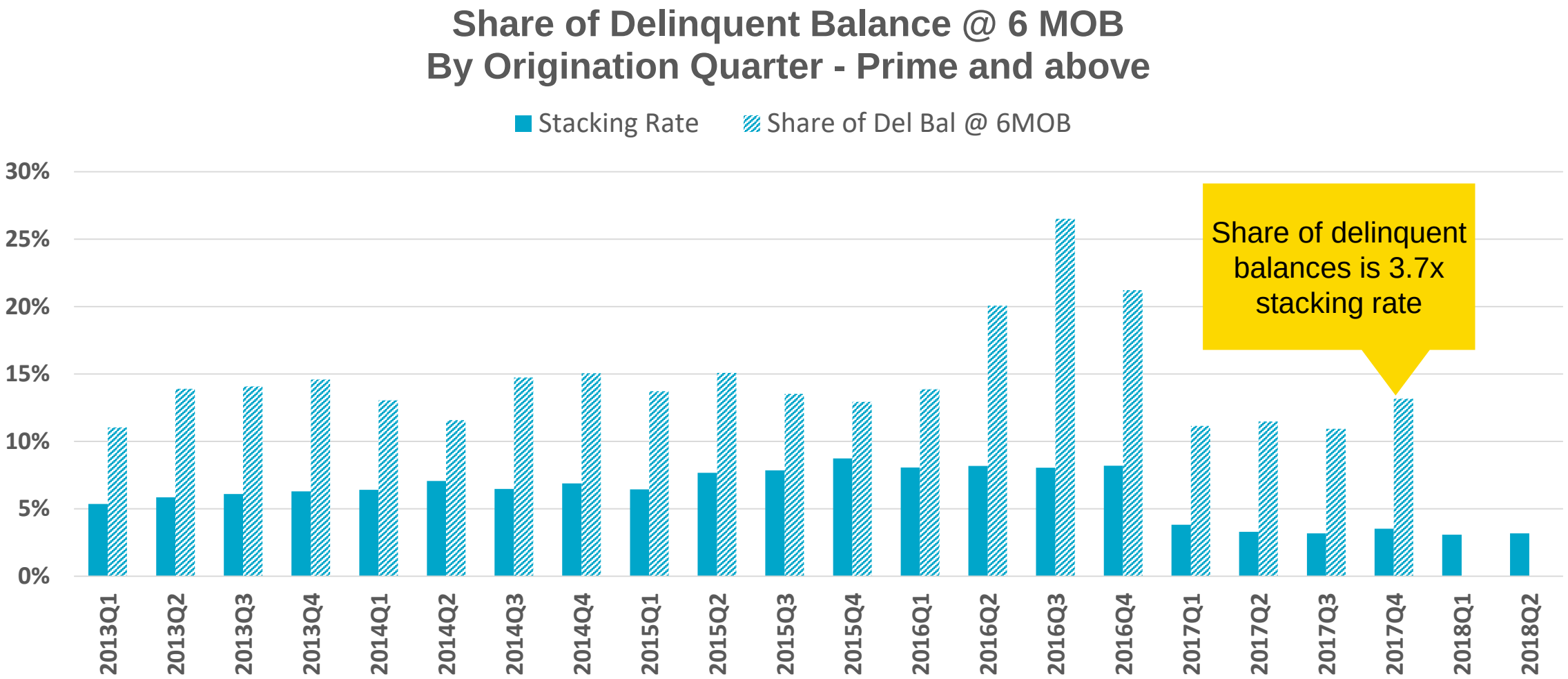
In Prime and above, despite lower incidence rates, stacked loans carry significant serious loss exposure



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

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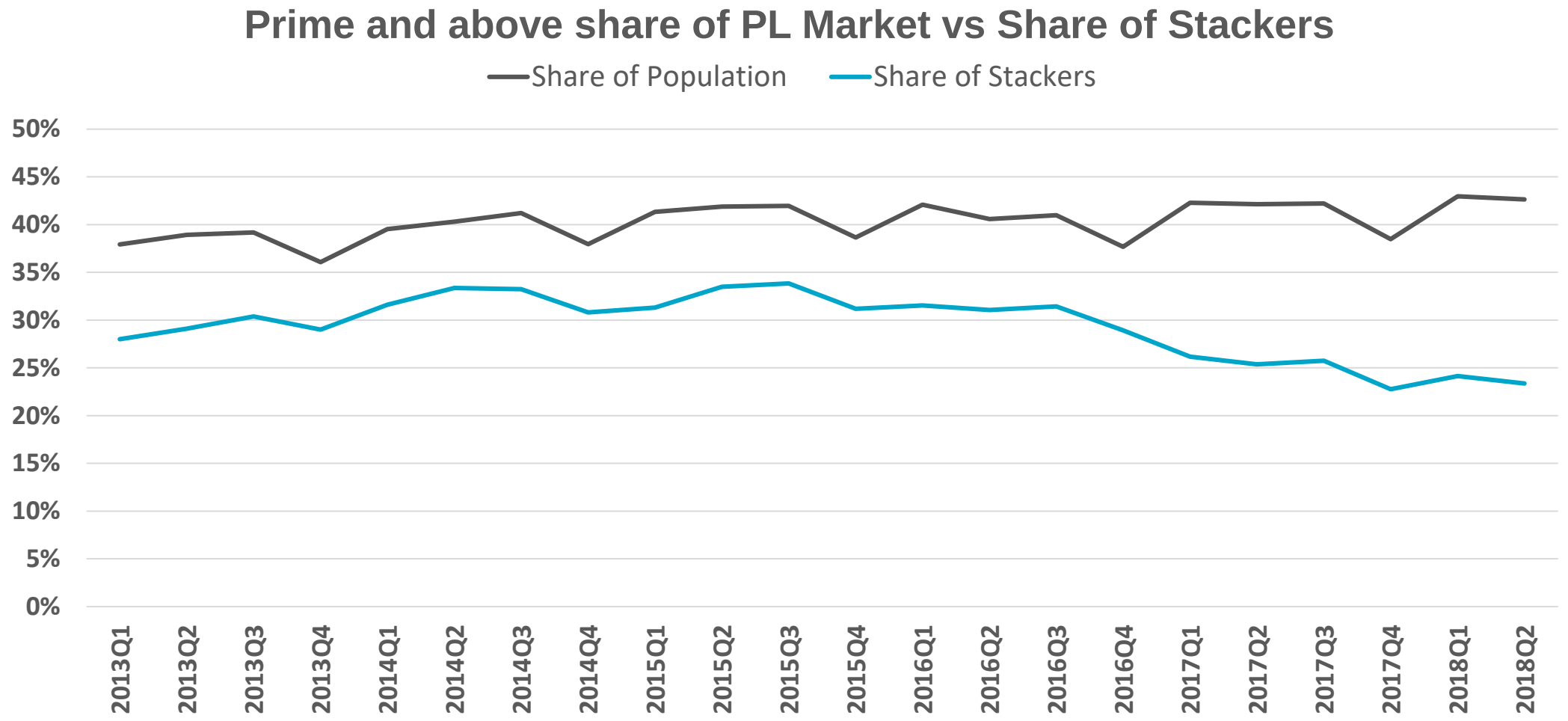
Prime and above borrowers now make up a smaller portion of loan stackers



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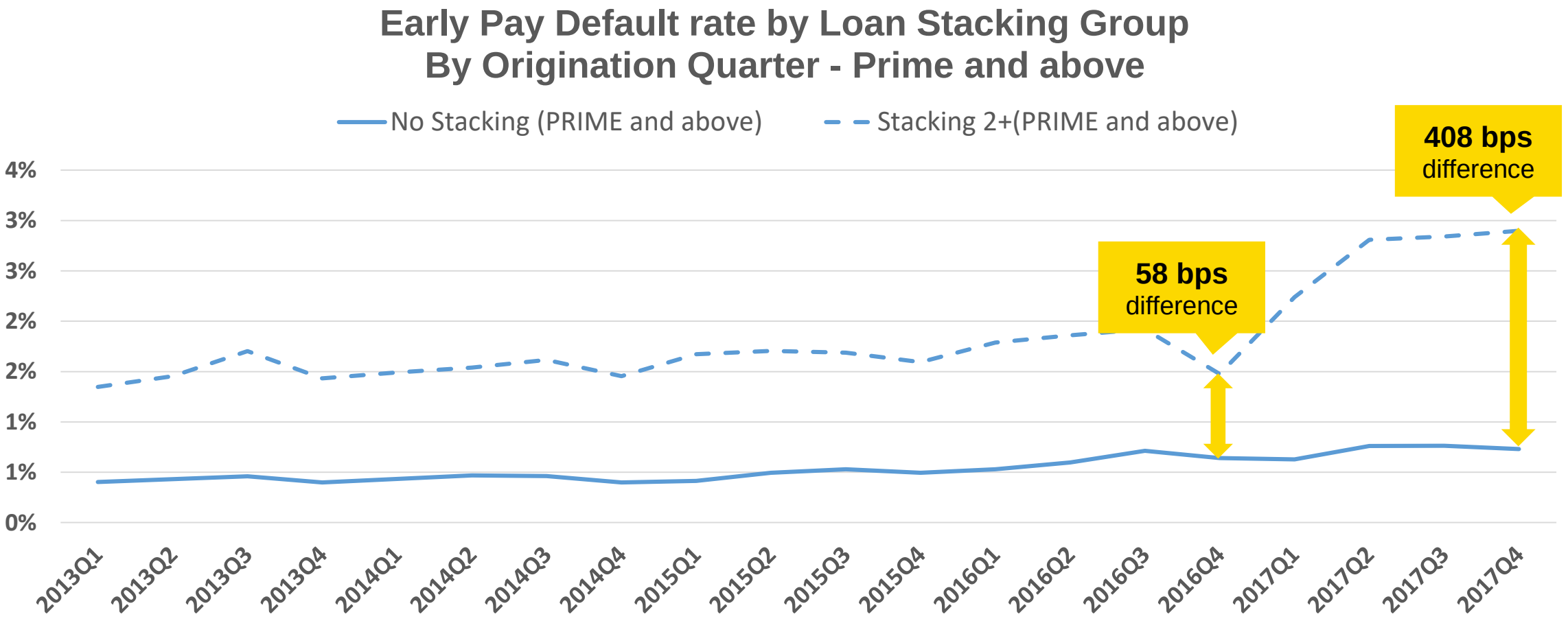
However, Prime and above consumers who do stack two or more loans have significantly higher default rates



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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

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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

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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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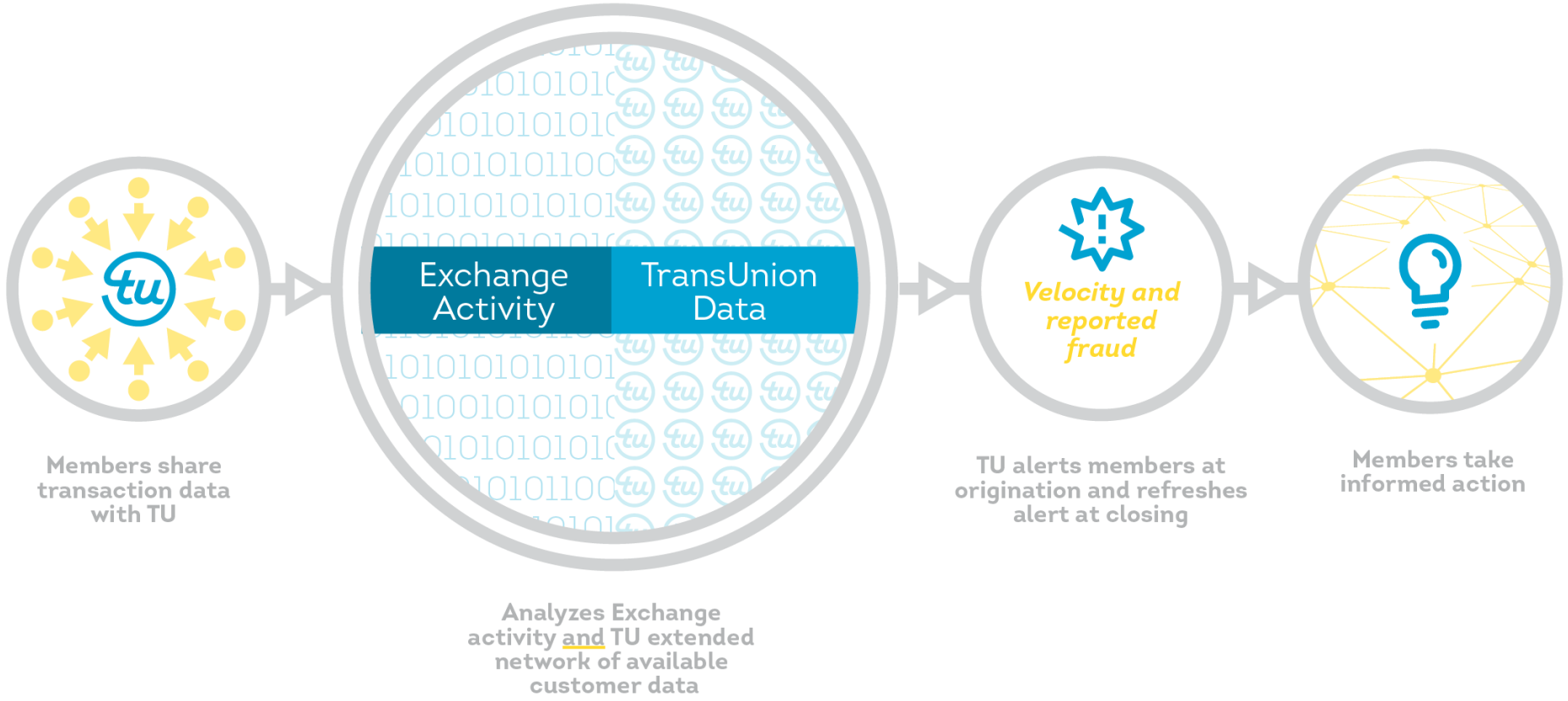

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