



Consumer Migration Into the Alternative Credit Market

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In this session, we'll cover:

- How do consumers behave following entry into the alternative credit market?
 - What happens to traditional borrowing activity, performance and traditional credit scores after taking out an alternative loan?
 - What actions can lenders take to safely meet the credit needs of new alternative credit participants?
 - What should traditional lenders do in response to their account holders entering this market?
- Can we anticipate entry into the alternative credit market?
 - What are traditional credit characteristics common to those about to access alternative credit?
 - How can lenders create strategies that appropriately segment consumers before they migrate?



Alternative Credit Overview

What alternative credit loans will be discussed today?

TransUnion's **alternative credit database**

captures small dollar and short-term loans not reflected in the traditional credit file

- FCRA-compliant
- Reciprocity-driven reporting
- Real-time updates



2-week, single-pay loans



High-cost installment loans



Rent-to-own



Auto title loans

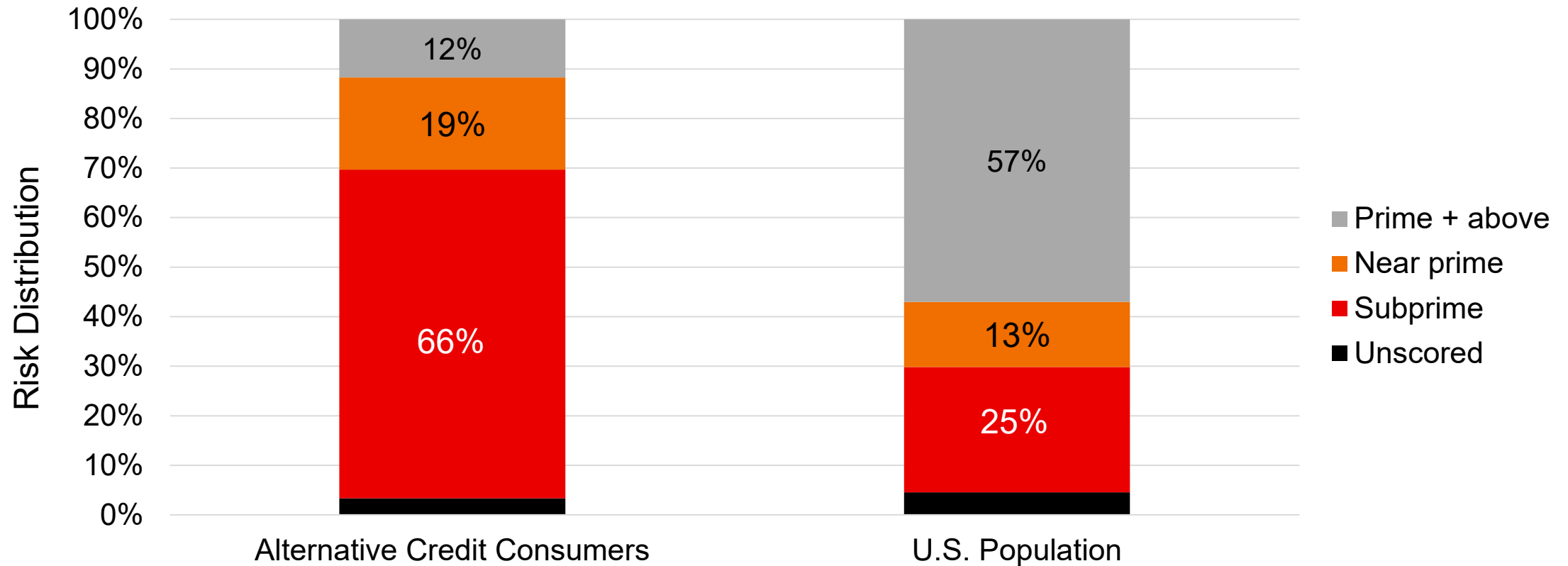


Unsecured lines of credit



Most consumers leveraging alternative credit are considered subprime and near prime — but not all

Consumer Risk Distribution as of Q1 2018

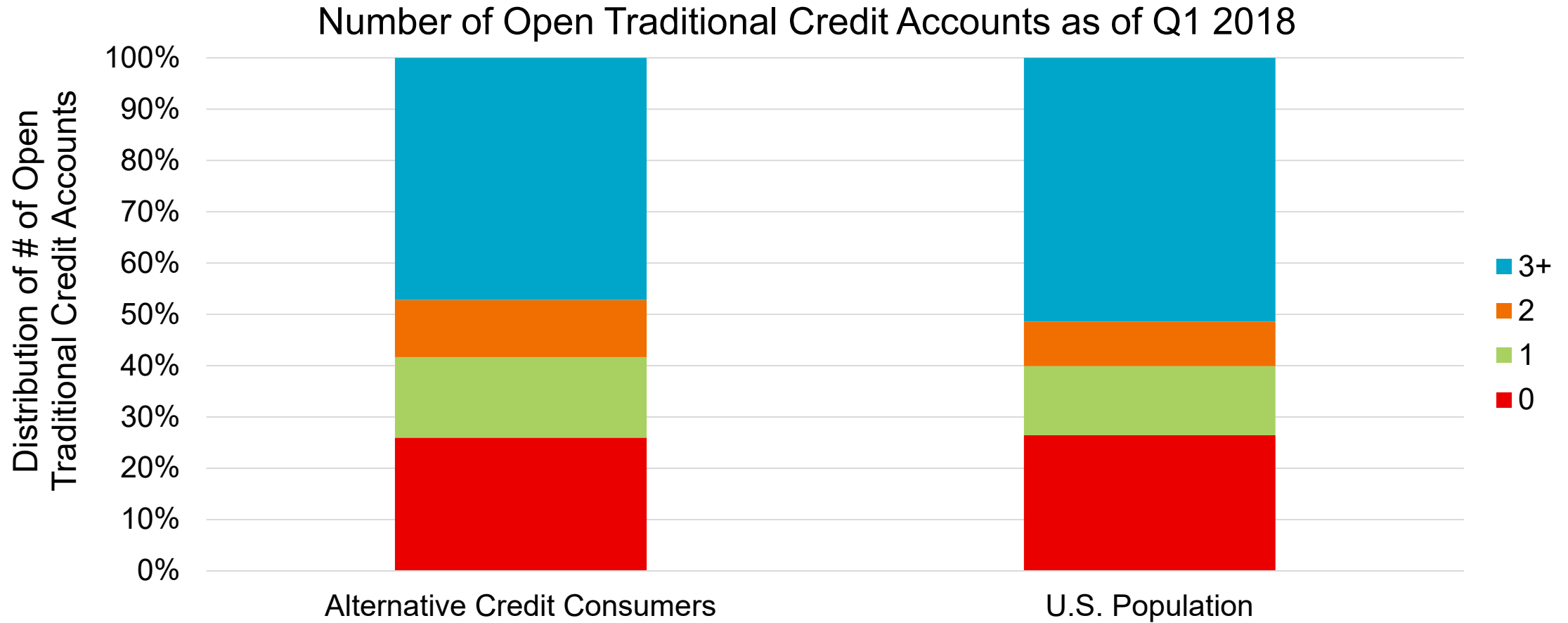


VantageScore® 3.0 risk ranges
Subprime = 300-600; Near prime = 601-660; Prime + above = 661-850





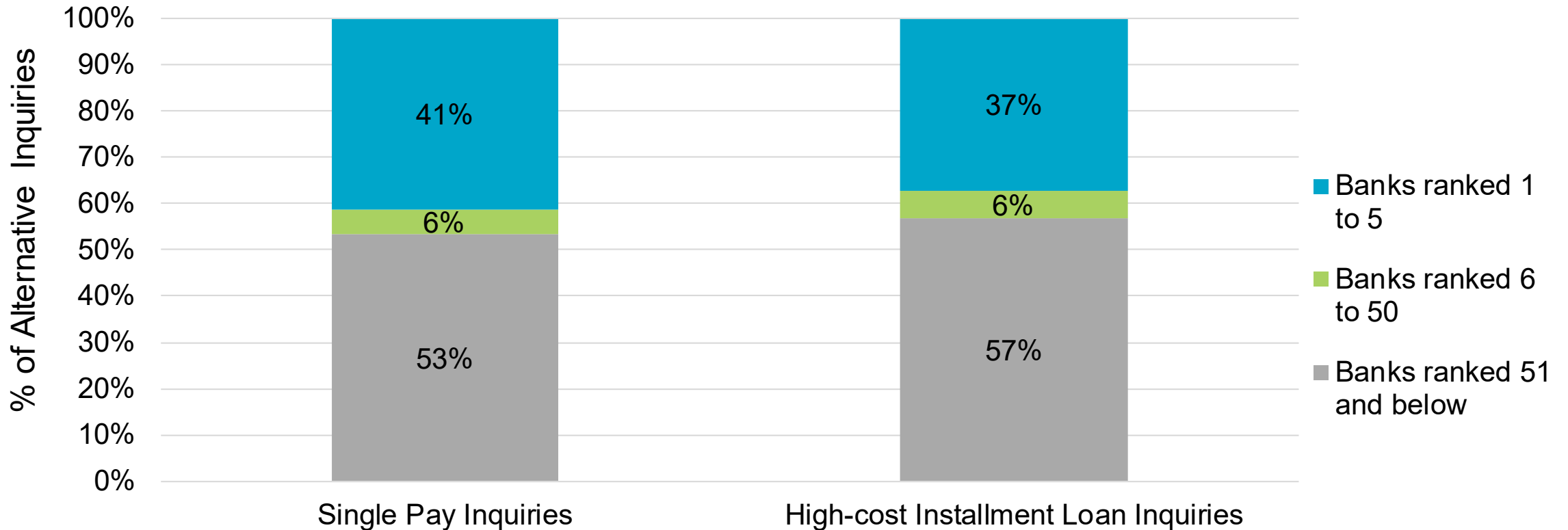
Alternative credit participants hold traditional credit accounts on par with the U.S. population





In addition, many alternative credit participants hold bank accounts with top tier banks

Alternative Inquiry Volume by Bank Tier



Bank ranking by consolidated assets, as classified by the Federal Reserve:
www.federalreserve.gov/releases/lbr/current/

Sources: TransUnion alternative credit database, Federal Reserve

We want to know how consumers behave before and after entry into the alternative credit market.



Entry Into the Alternative Market

What can we learn from the full consumer picture of an individual who enters the short-term loan market?



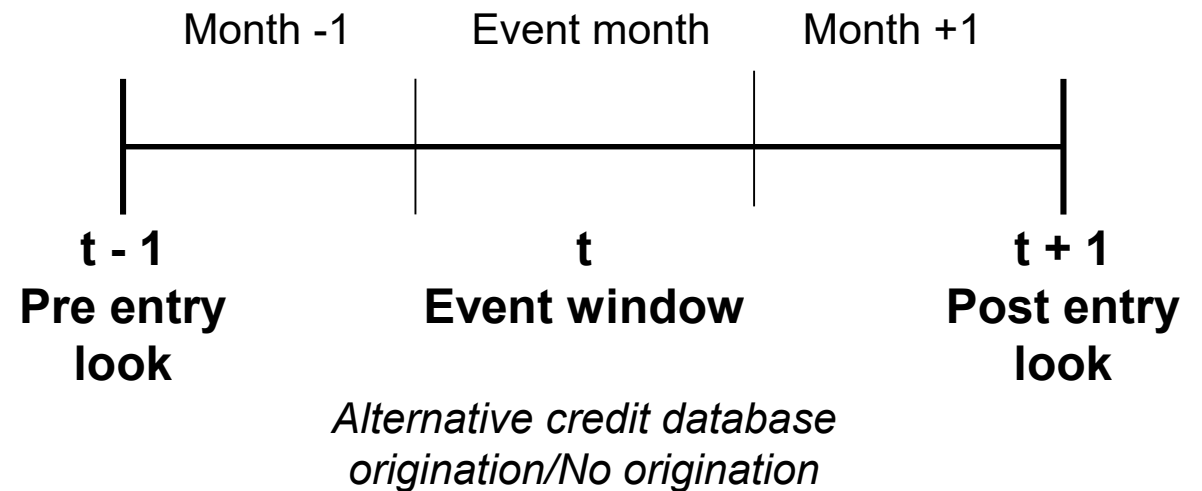
Our study focused on consumers who took out an alternative loan for the first time in May, August or November 2016

First-timers

Consumers who originated an alternative loan **for the first time**

Control

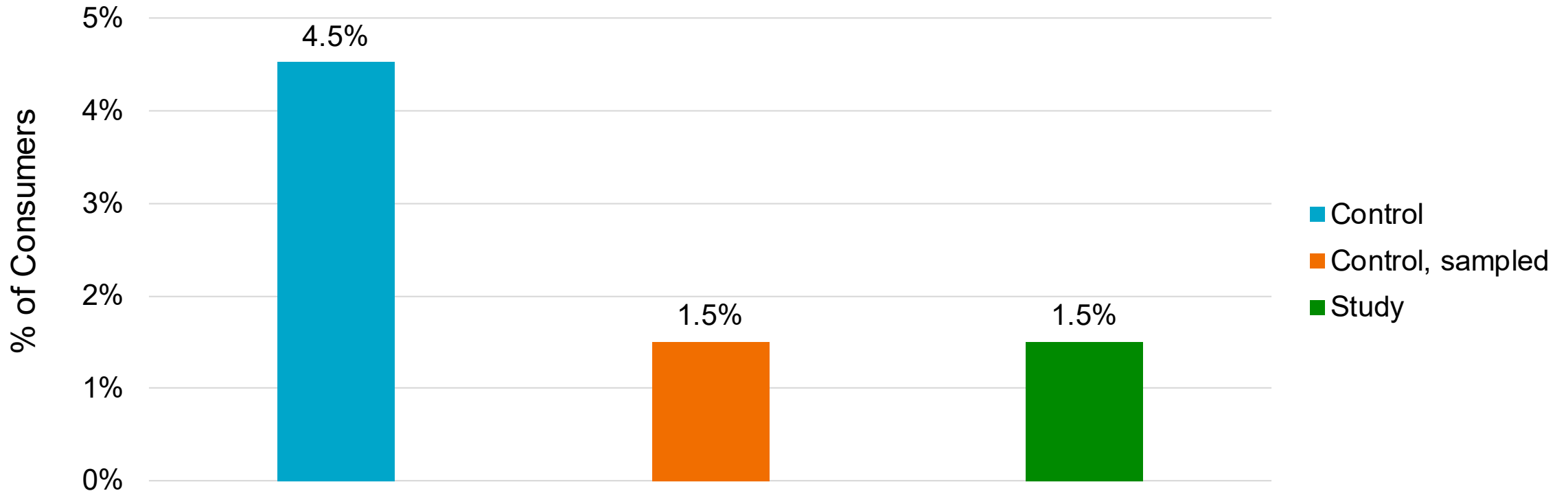
Similar consumers who **did not originate an alternative loan** during the same timeframe





We controlled for risk tier, trade volume, delinquency status and previous inquiry behavior

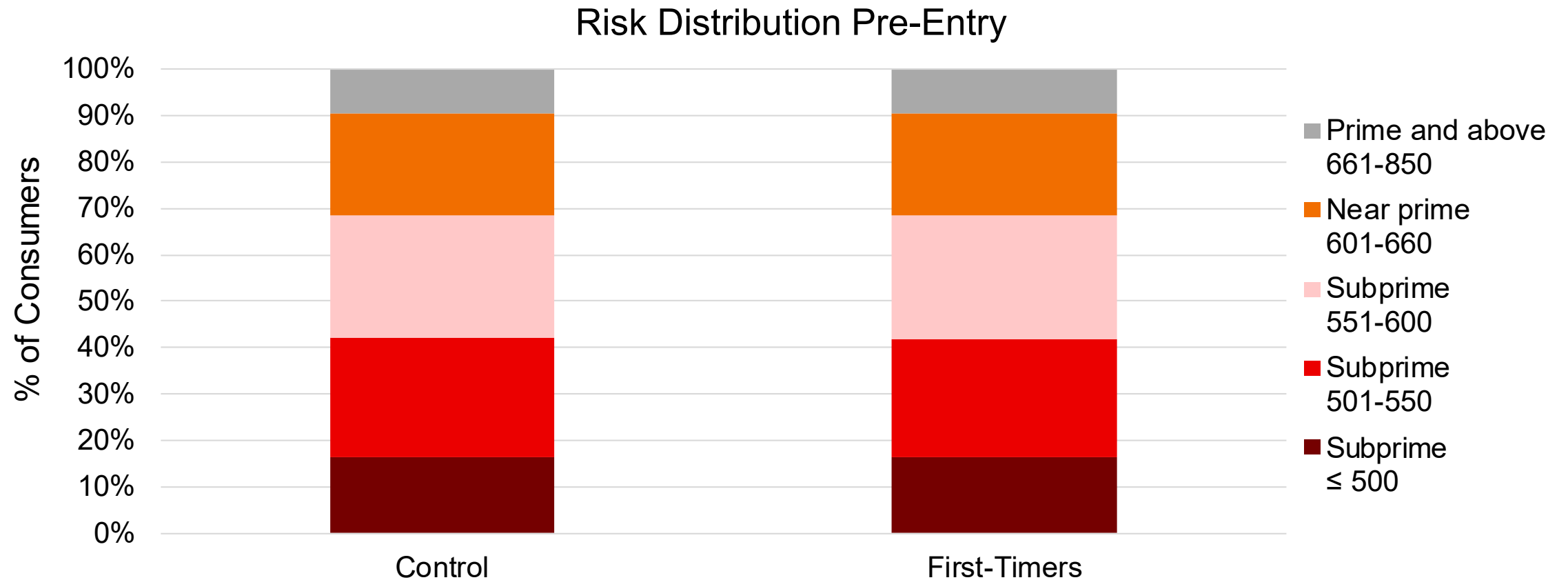
Example of Sampling: Nov '16 Cohort, VantageScore® 3.0 \geq 661, 3 to 6 Open Traditional Trades as of Sep '16, No Serious Delinquency* at Sep '16, 4 Traditional Inquiries in Past 2 Yrs



*Serious delinquency defined as 90+ DPD for bankcard and private label cards, 60+ DPD for all other products



After sampling, the control and study groups have similar profiles



VantageScore® 3.0 risk ranges

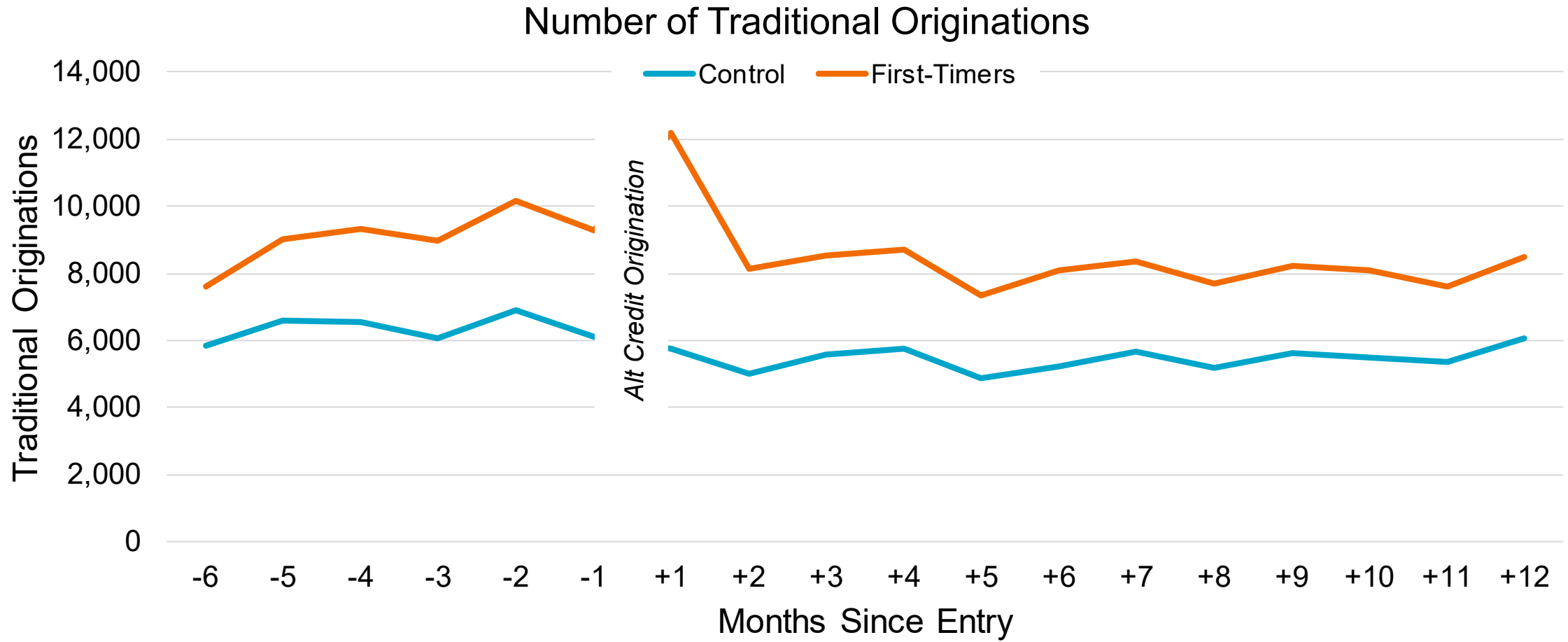


Sources: TransUnion US consumer credit database
TransUnion alternative credit database

What happens to traditional borrowing activity over the 12 months following the origination of an alternative loan?

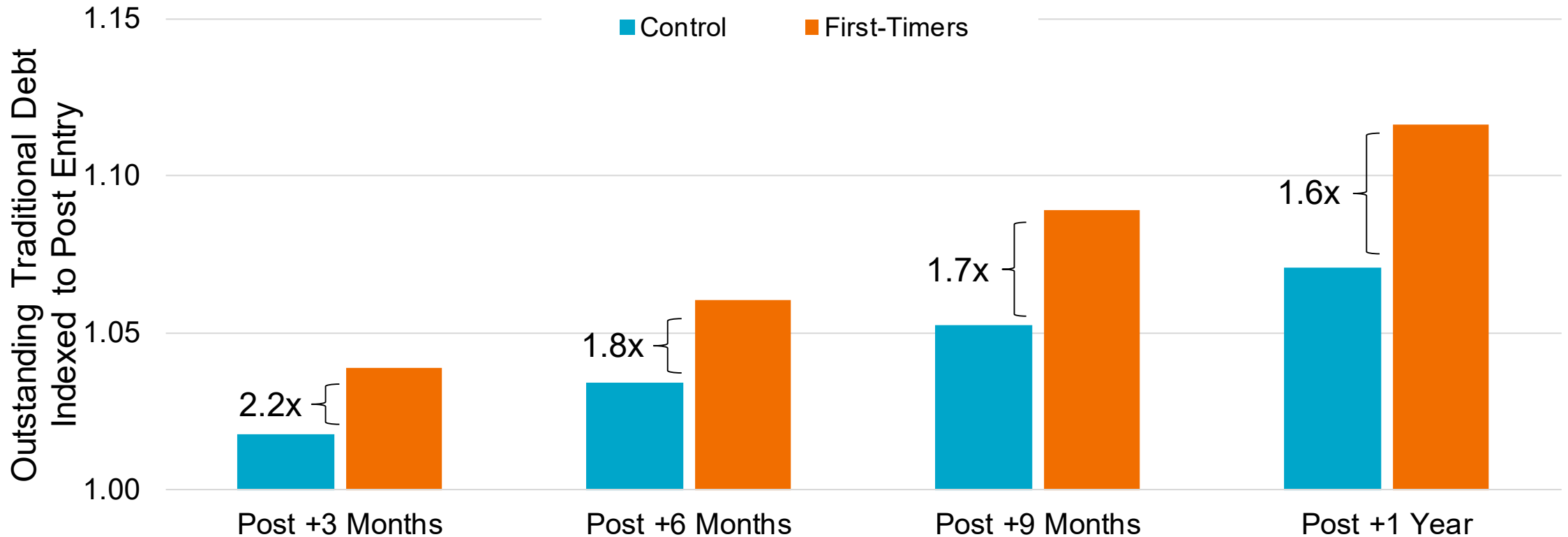


New alternative credit entrants access traditional and alternative credit, with an uptick in traditional originations just after entry



Traditional balances grew immediately after entrance into the alternative credit market

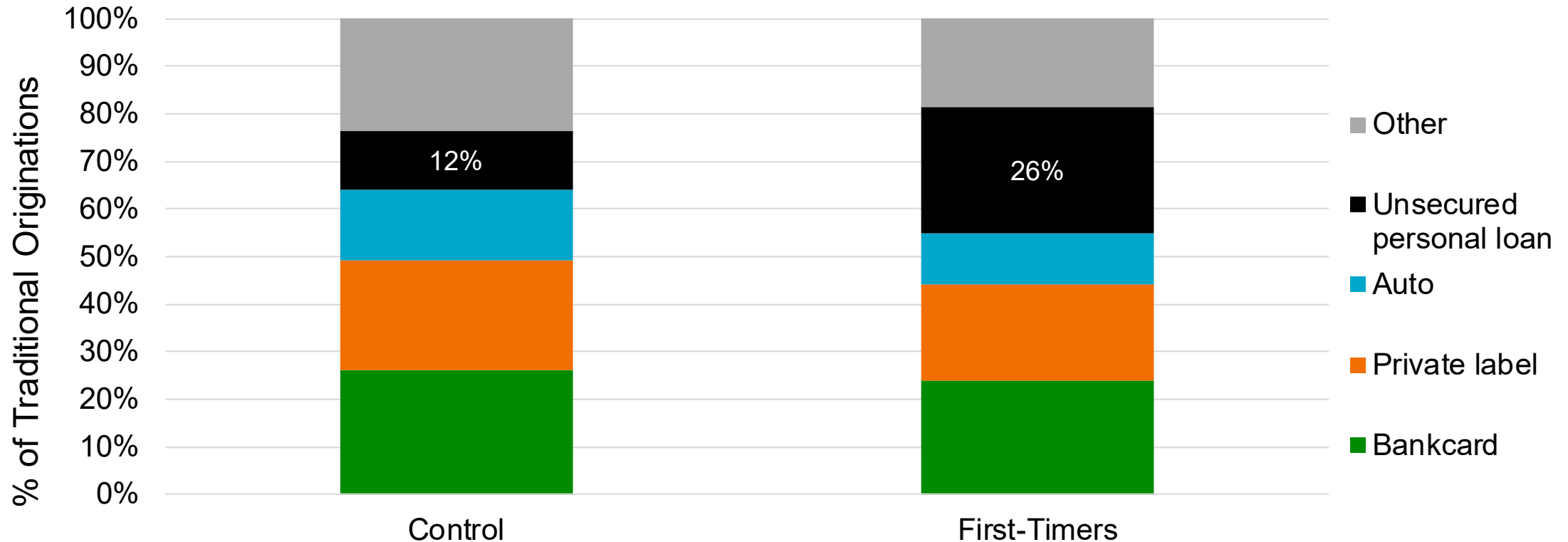
Growth in Traditional Outstanding Balances Post Entry





First-time entrants demonstrate a demand for traditional unsecured personal loans over the next year

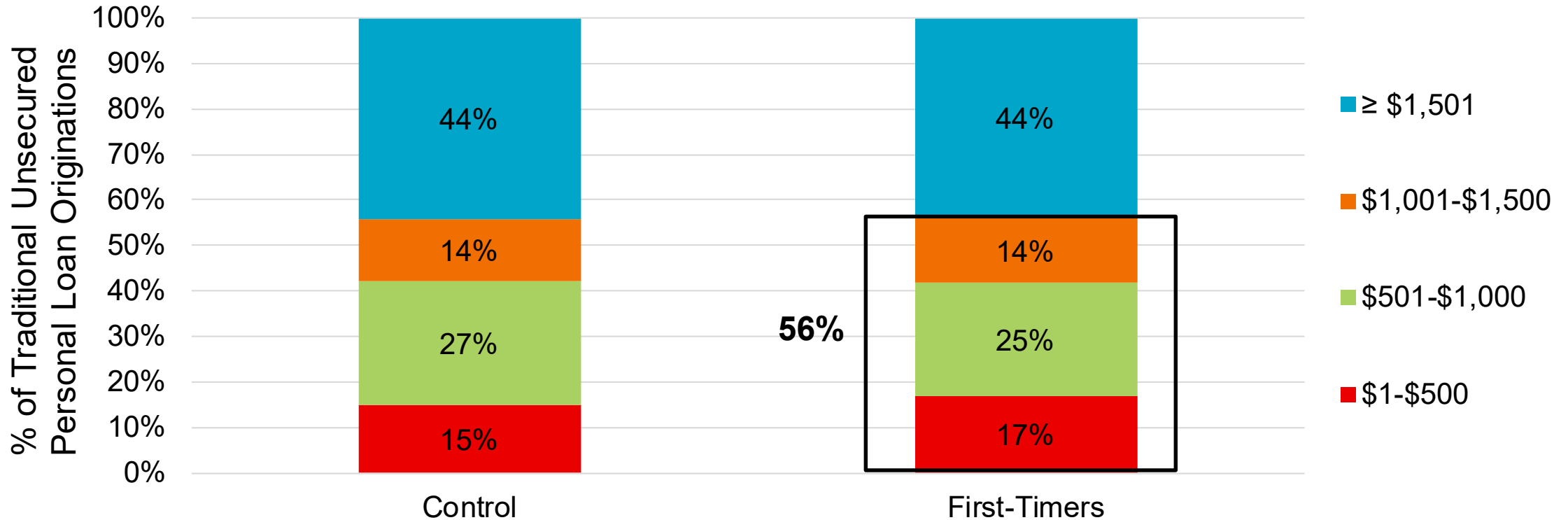
Traditional Originations for Key Products Post Entry, 12 Month Total





Over half of traditional unsecured personal loan amounts were for less than \$1,500

Traditional Unsecured Personal Loan Amounts for First-Timers, 12 Month Total



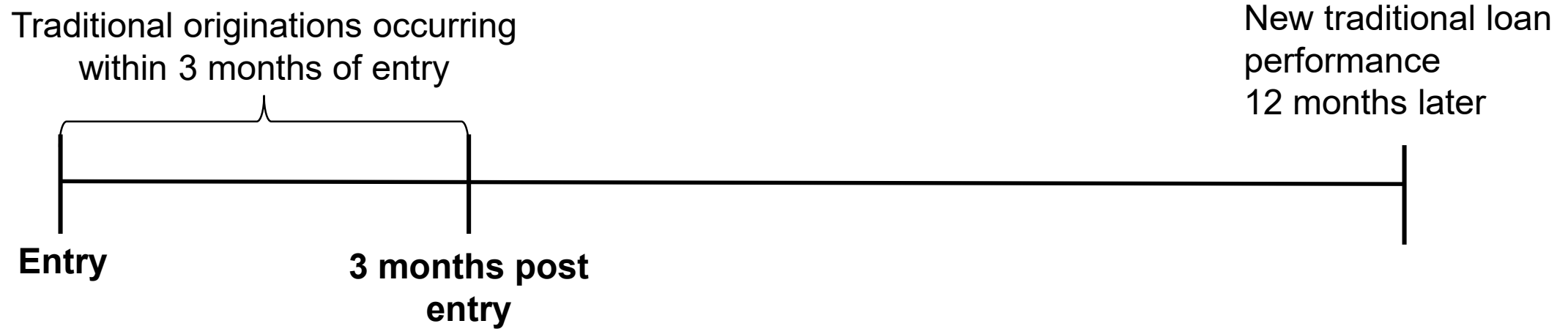


In summary, first-time entrants access more traditional credit than their peers, with nuanced preferences

- Alternative credit consumers aren't just shopping for small dollar and short-term loans; they're looking for unsecured personal loans and other traditional products at the same time
- These consumers may be receiving multiple loans concurrently that traditional lenders can't see if they're not looking at alternative data

How do consumers perform on their traditional wallet following entry into the alternative credit market?

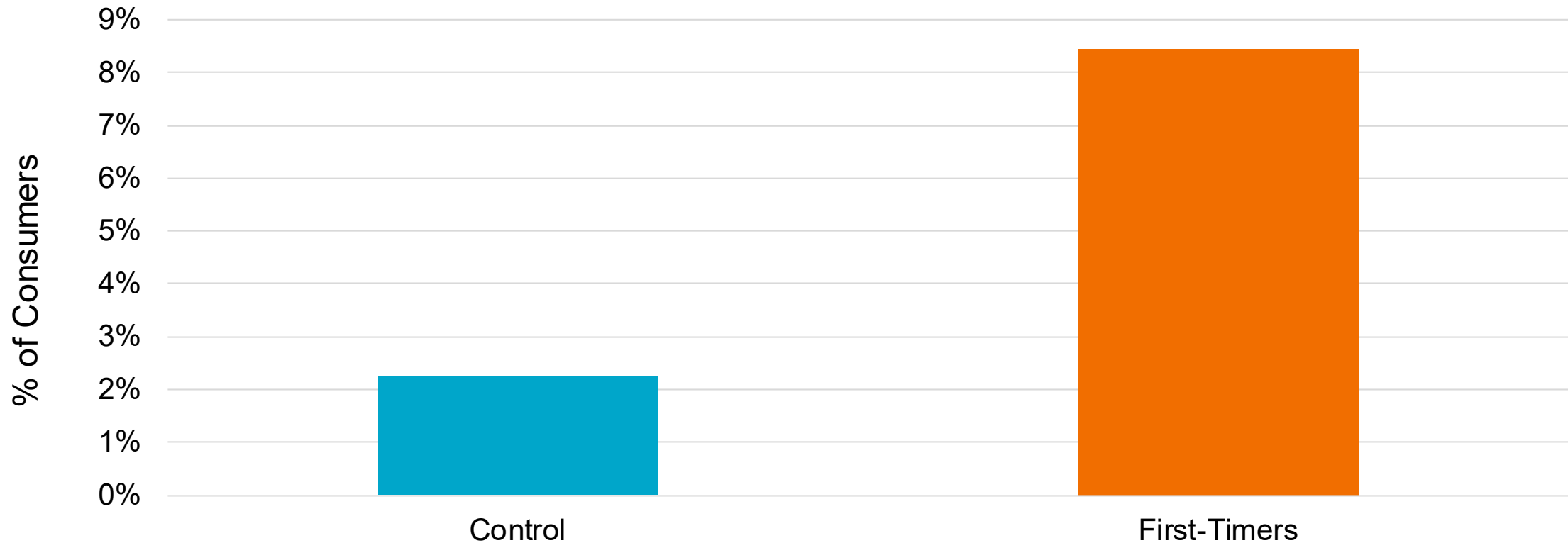
We assessed traditional origination performance over the next year





First-timers performed worse on new traditional unsecured personal loans, though over 9 in 10 still paid satisfactorily

Seriously Delinquent* Traditional Unsecured Personal Loan Accounts, 12 Months Post Origination



*60+ DPD

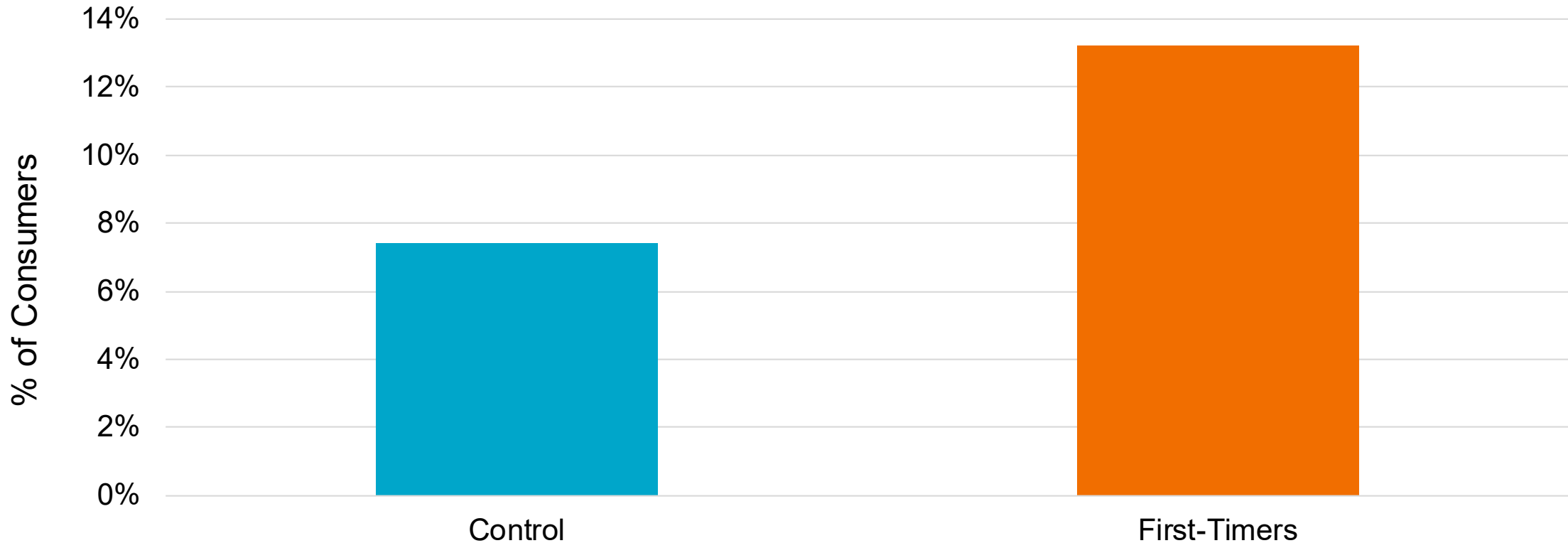


Sources: TransUnion US consumer credit database
TransUnion alternative credit database



While first-timers' performance on bankcards was worse as well, the difference in risk level was less dramatic

Seriously Delinquent* Bankcard Accounts, 12 Months Post Origination



*90+ DPD



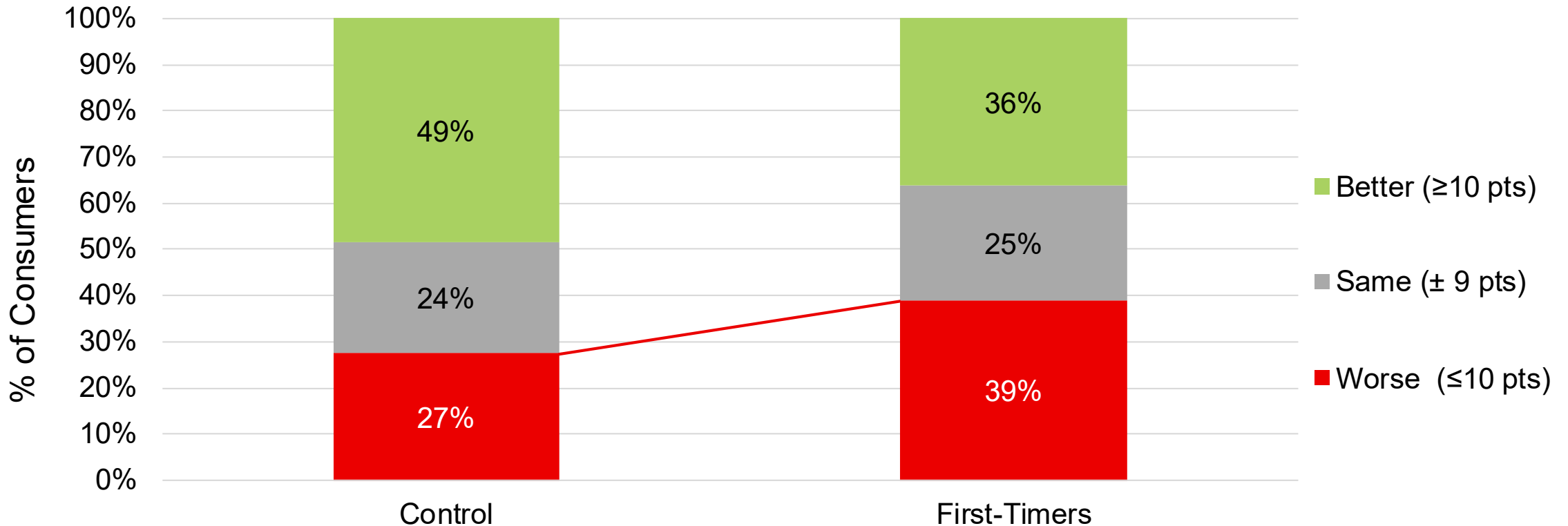
Sources: TransUnion US consumer credit database
TransUnion alternative credit database

Will traditional credit scores capture the difference in traditional credit performance outcomes?



The initially identical score distributions of the study and control groups diverge in the year after alternative credit market entry

Traditional Score Migration, Pre-Event to Post +1 Year



Score migration is considered better if the VantageScore® 3.0 increased by at least 10 pts, worse if it decreased by at least 10 pts, and same if the score shift was within ±9 points



While most alternative credit entrants continue to meet traditional credit obligations, lenders should rethink their decision strategies

- Traditional lenders can benefit from augmenting traditional credit files and scores to account for the performance impact associated with alternative credit entry
- Accessing a combined view of the traditional and alternative credit files equips lenders to take new action with alternative credit entrants



Lenders that combine traditional and alternative credit can make more profitable decisions throughout the consumer credit lifecycle

Marketing

Define target customers in terms of traditional and alternative credit profiles, executing marketing campaigns with blended credit criteria

Underwriting

Grow your portfolio and mitigate risk by enhancing underwriting policies with alternative credit data

Account Management

Safeguard your portfolio with account management strategies that activate when your current customers access alternative credit



Can We Anticipate Activity in the Alternative Credit Market?



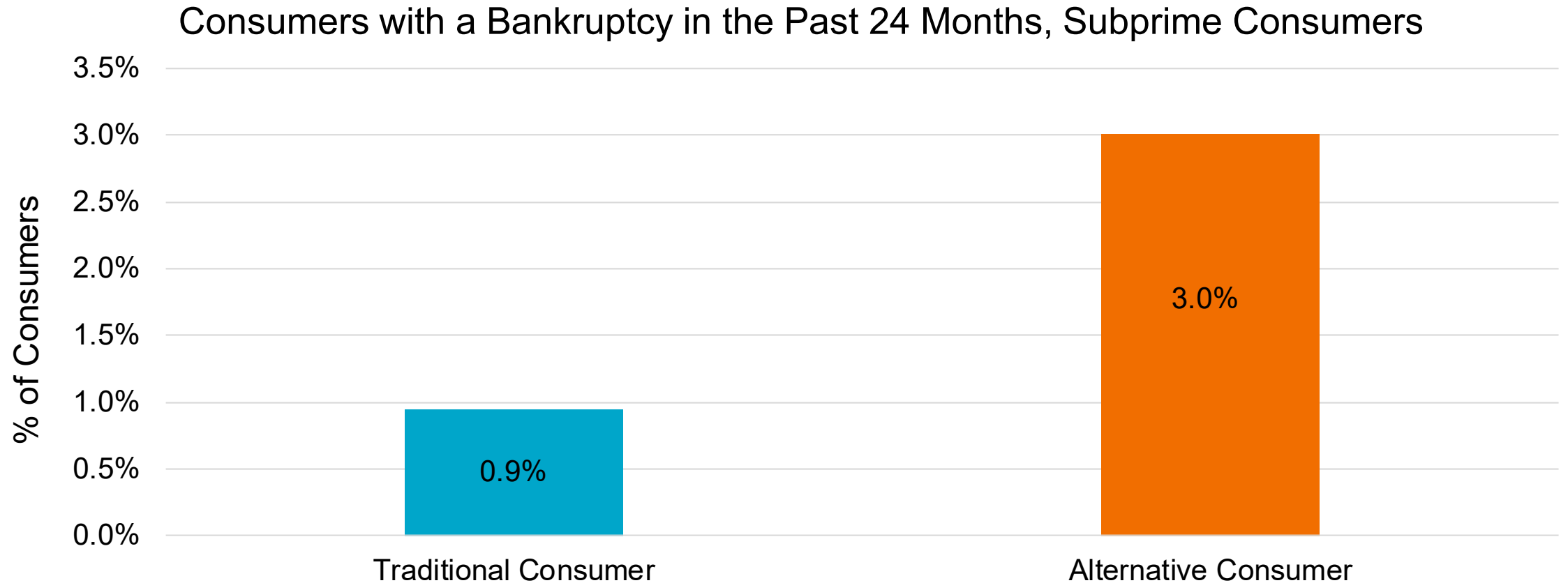
We profiled consumers who originated an alternative loan in 2016

Alternative consumer: Consumers who originated an alternative loan in May, August, or November of 2016 (including both first-timers and consumers who previously originated an alternative loan)

Traditional consumer: Consumers who did not originate an alternative loan during the same timeframe, randomly sampled from TransUnion's database



Consumers with a recent bankruptcy are more likely to enter the alternative credit market



VantageScore® 3.0
Subprime = 300–600

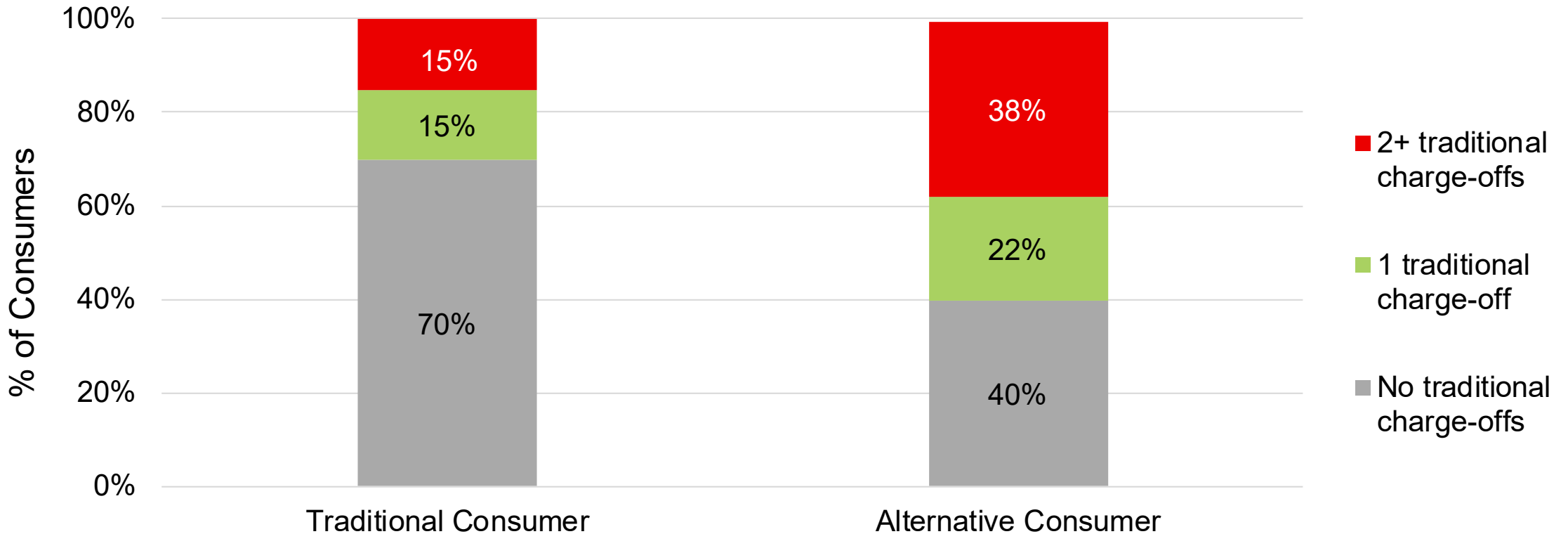


Sources: TransUnion US consumer credit database
TransUnion alternative credit database



Presence of a traditional charge-off is also predictive of alternative credit participation

Consumers with Traditional Charge-Offs on File, Subprime Consumers



VantageScore® 3.0
Subprime = 300-600

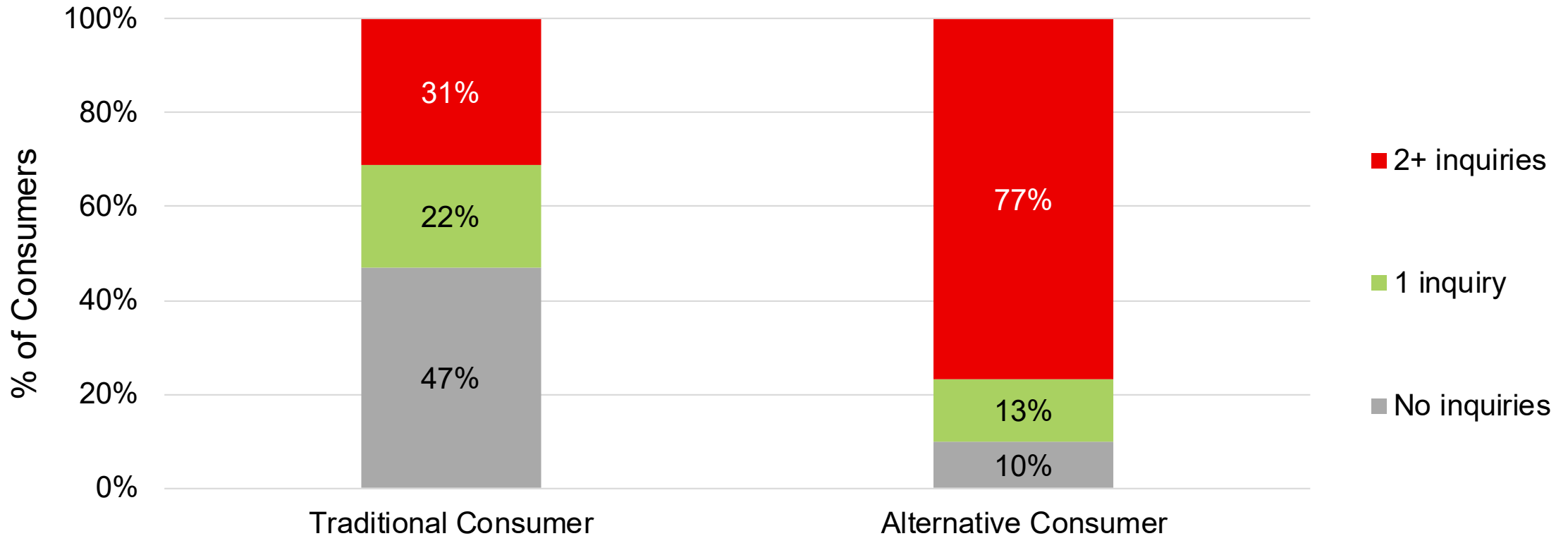


Sources: TransUnion US consumer credit database
TransUnion alternative credit database



Alternative credit entrants have expressed clear interest in acquiring more traditional credit

Consumers with Traditional Inquiries in the Past 24 Months, Subprime Consumers



VantageScore® 3.0
Subprime = 300–600

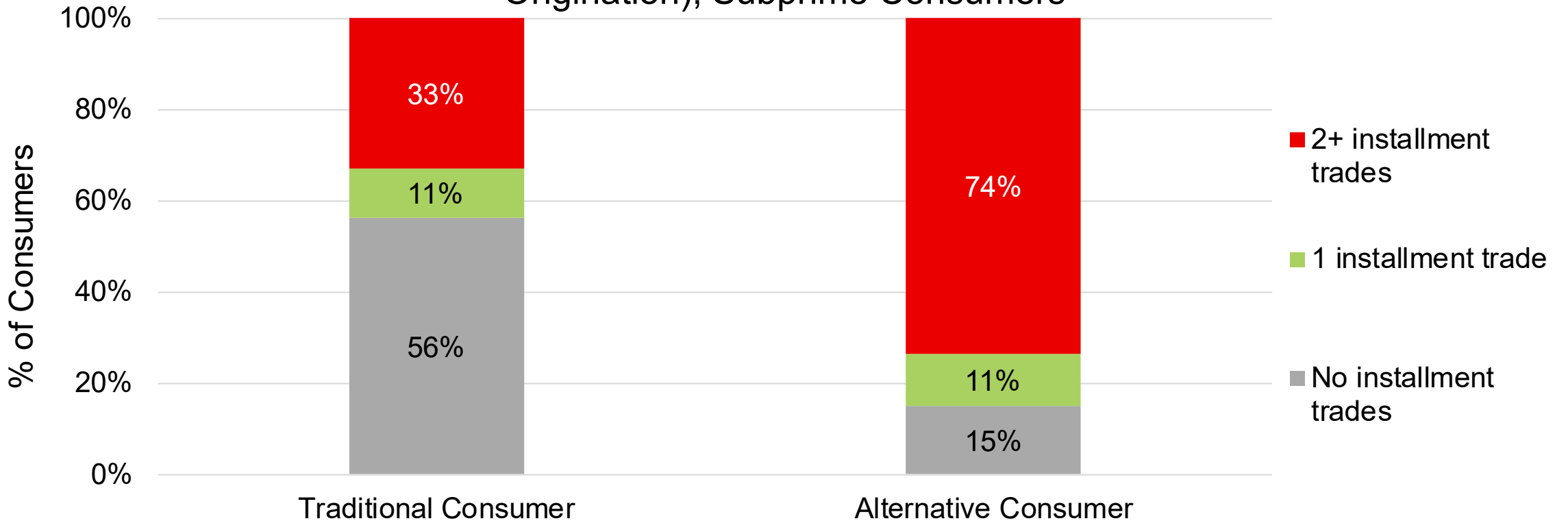


Sources: TransUnion US consumer credit database
TransUnion alternative credit database



Furthermore, new entrants have expressed a historical affinity for installment credit products

Consumers with Traditional Installment Trades Ever (Prior to Alternative Loan Origination), Subprime Consumers



VantageScore® 3.0
Subprime = 300-600

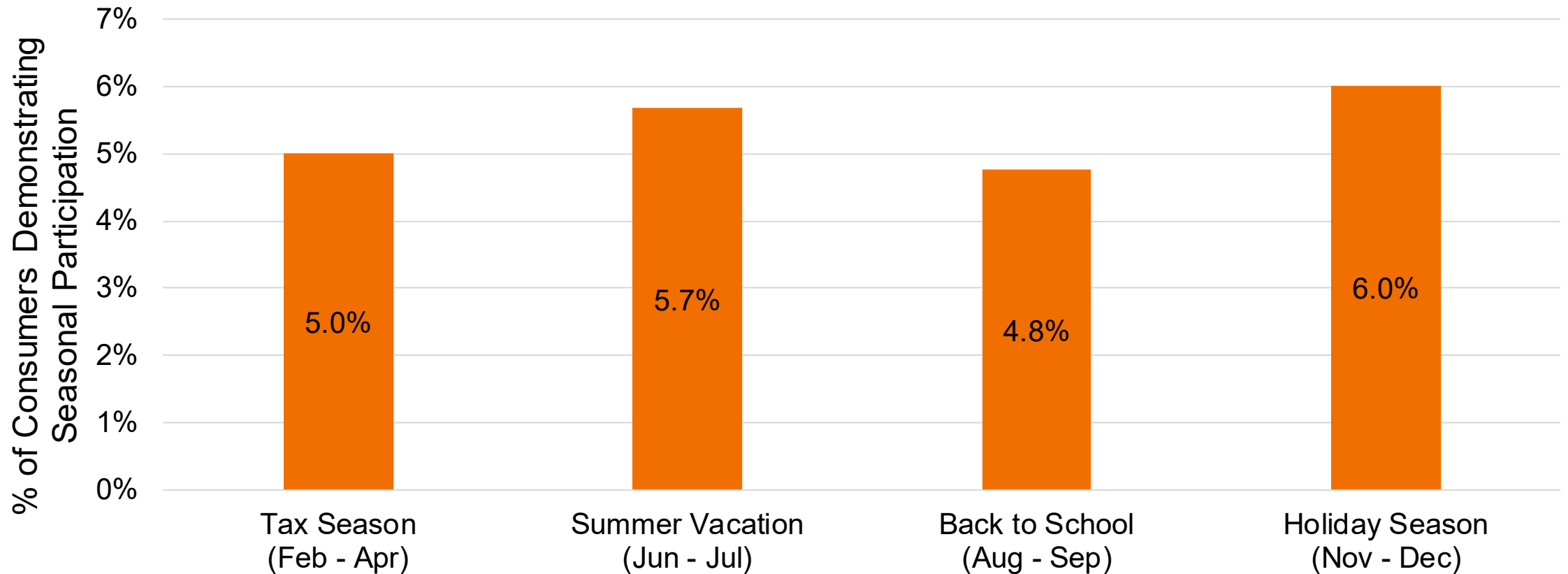


Sources: TransUnion US consumer credit database
TransUnion alternative credit database



Based on a study of seasonal patterns, new entrants may be more likely to enter the market at certain peak seasons

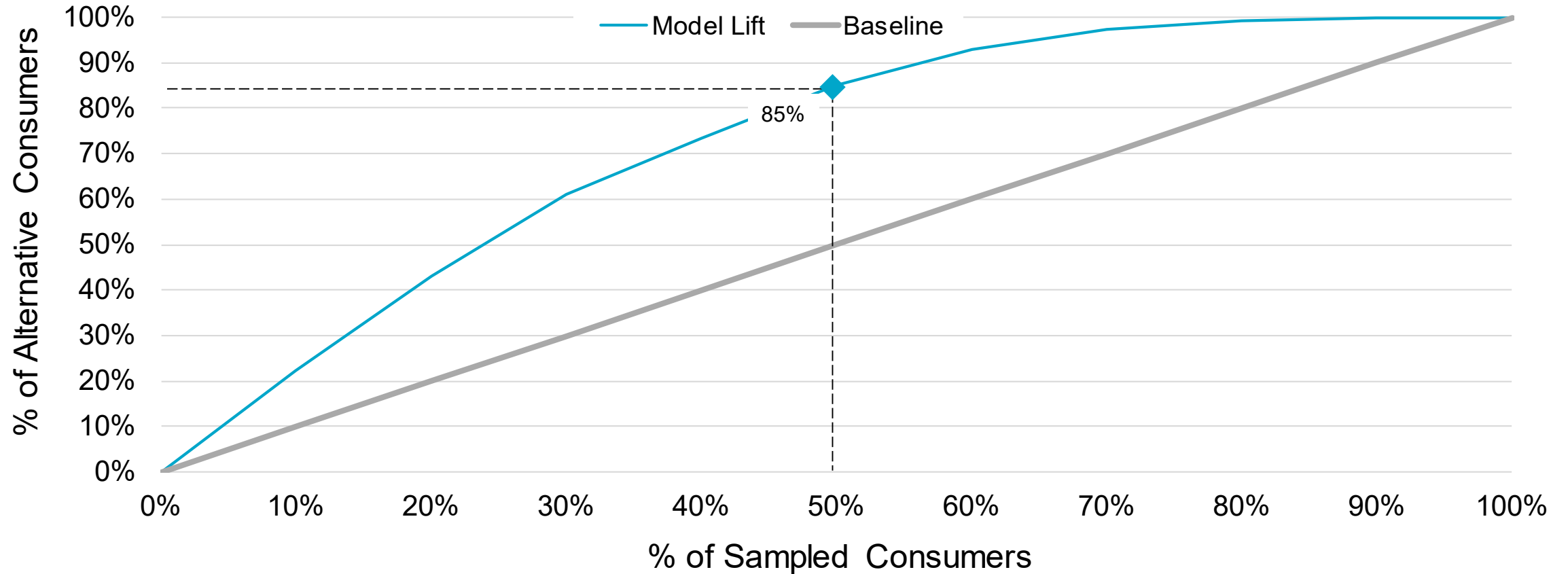
Seasonality of Alternative Credit Participation, 2016–2018





Analyzing a number of traditional credit attributes in tandem allows us to predict loan origination in the alternative market

Traditional Credit Attribute Prediction of Alternative Consumer





Traditional attributes can indicate propensity to originate an alternative loan, equipping lenders to take action

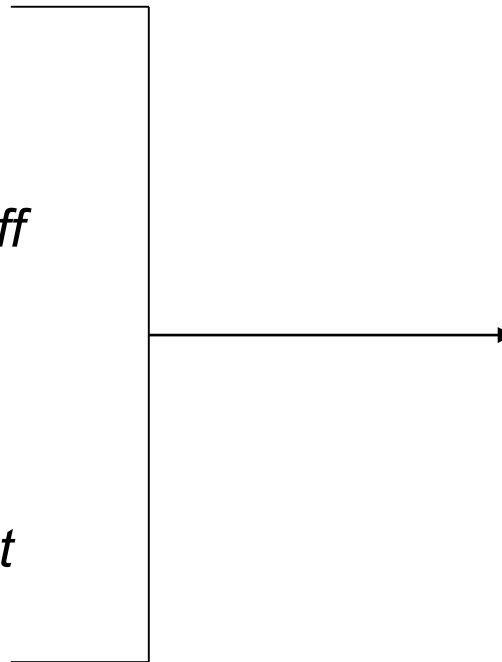
Consumers who...

Have had a bankruptcy in the past two years

Have more traditional charged off accounts

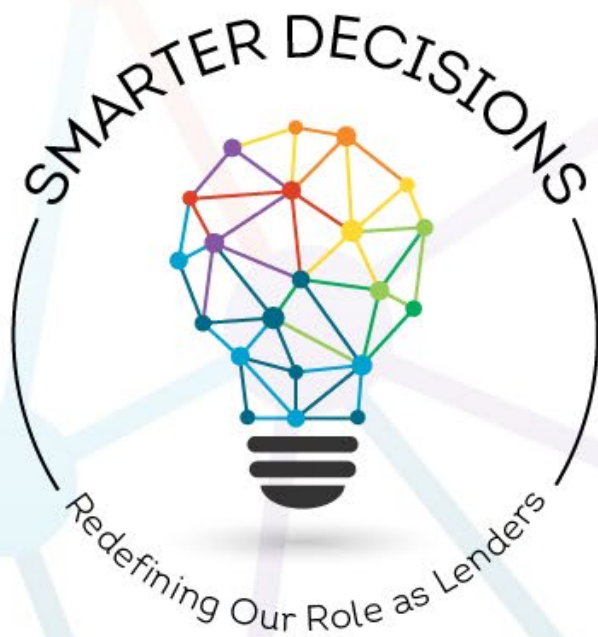
Have more traditional inquiries

Have more traditional installment trade activity



In summary:

- Consumers who enter the alternative credit market demonstrate meaningful changes to their traditional credit profile
 - Lenders may perceive this as an opportunity or a threat, depending upon their relationship with the consumer, product offerings and risk appetite
 - Timely and successful treatment strategies incorporate the alternative credit file
- Traditional credit solutions can anticipate alternative credit activity
 - Opportunistic lenders proactively segment consumers before migration
- TransUnion equips lenders with consumers' comprehensive credit profile, facilitating intelligent decisions before and after consumer migration



Thank you! Questions?