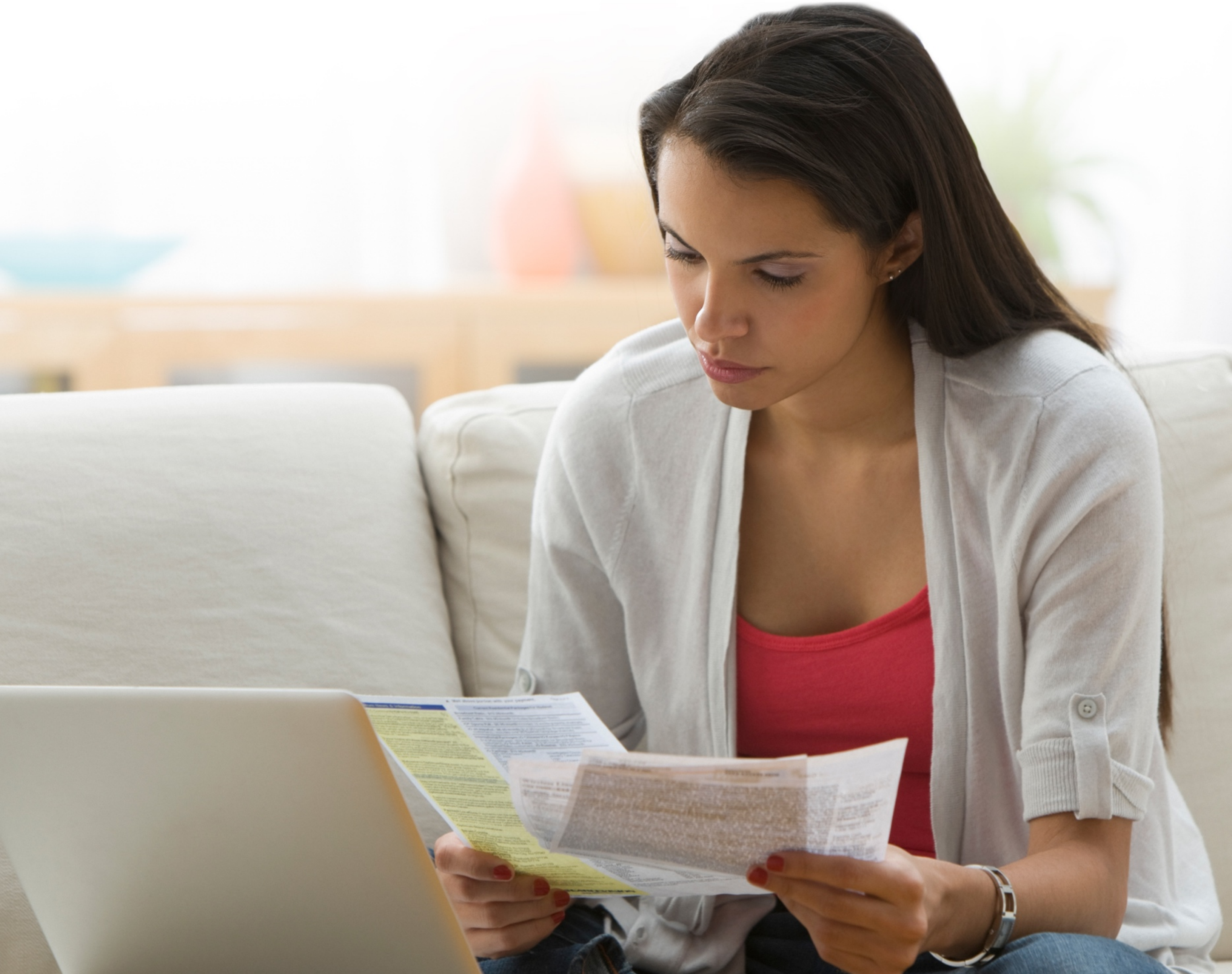
TransUnion

QUICK GUIDE

The Migration to Alternative Credit: The Risks and Rewards



Question: Who among your target demographic and existing customer base has accessed alternative credit in the past 12 months? The percentage is likely higher than you think, and the true risk level of those consumers may surprise you.

TransUnion recently conducted a research study “Consumer Migration into the Alternative Credit Market” to shed some light on this question. Here’s a quick look at the findings, and how you can capitalize on consumers’ shift to alternative credit options.

Key findings from the study

→ Alternative credit borrowers aren’t just shopping for small-dollar and short-term loans; they’re also looking for traditional unsecured personal loans, bankcards, and other traditional products

→ First-time entrants to the alternative credit market:

- Open traditional unsecured personal loans with a majority of loan amounts comparable to alternative loans;
- In fact, they are responsible for 33% more traditional credit originations and 60% higher traditional balance growth in the year after entry to the alternative lending market than their peers;
- Generally pay satisfactorily for at least one year after originating on traditional credit obligations, with more than 90% paying on traditional unsecured personal loans and more than 86% paying on traditional bankcards;
- However, they are four times more likely to be seriously delinquent[1] on traditional unsecured personal loans and twice as likely to be seriously delinquent on traditional bankcards than their peers, even when controlling for risk scores;
- And they evolve toward a unique, higher-risk traditional credit profile after entering the alternative credit market compared to their peers

Snapshot of first-time entrants in the first 12 month post origination of a short-term loan

33% more traditional credit originations than their peers

60% higher traditional balance growth a year after entry than their peers

4X more likely to be seriously delinquent on traditional unsecured personal loans compared to their peers

2X as likely to be seriously delinquent on traditional bankcards compared to their peers

36% of consumers saw a 10 point or more credit score increase a year after entry

<$1,500 majority of traditional unsecured personal loan amounts

What do these findings mean for you?

Increasingly, traditional subprime installment lenders and alternative lenders are competing for the same consumers with loan products of similar size. This direct competition challenges traditional and alternative lenders to understand the influence of a broader ecosystem upon marketing effectiveness, conversion rates, and wallet share.

Additionally, if you are only looking at traditional credit scores or only at alternative credit scores, but not both, you won't have the full picture of the consumer. Borrowers may be receiving multiple loans from both traditional and alternative credit sources concurrently. Their total indebtedness at the time of decisioning may be heavier than you realize.

Also, since traditional credit reports and scores do not capture alternative borrowing activity explicitly, traditional lenders often unwittingly absorb the aftershock of consumers' entry into the alternative market. These borrowers subsequently demonstrate higher default rates on traditional credit products, which traditional credit scores might only reflect some time after entry to the alternative credit market. Lenders that directly access both traditional and alternative credit information to evaluate consumers are better positioned to apply timely, optimized risk treatment strategies using the full credit picture of the consumer.

How can you act on these insights?

One key to seizing the opportunities — and avoiding the risks — is being able to predict when consumers will enter the alternative credit market. TransUnion CreditVision® attributes that capture consumers' traditional credit product usage, delinquency, and inquiry activity can be leading indicators of entry to the alternative credit marketplace. Propensity models that blend these behaviors to create a prediction of alternative credit activity enable lenders to target consumers on credit trajectories that fit well with their desired risk level. TransUnion's diverse array of both traditional and alternative credit data provides you with consumers' comprehensive credit profiles, so you can make strategic decisions before and after consumer migration into the alternative credit space.

LEARN MORE

To learn how TransUnion can help you refine your marketing, underwriting and account management strategies, contact your sales rep or email **tu_info@transunion.com**.

[1] Seriously delinquent defined as 60+ DPD on unsecured personal loan (90+ DPD on bankcard) at least once on the loan originated within 3 months of entry into the alternative credit market.