experian™

2022 State of **Alternative Credit Data**

See the full picture of your consumer

Businesses have long relied on traditional credit data, focused on financial borrowing and repayment behavior, when evaluating consumers' stability. But times are changing. Many businesses are proactively turning to alternative credit data – or "expanded FCRA-regulated data"[1] – to make smarter decisions, mitigate risk and seize new opportunities. With the incorporation of alternative data, traditional credit data is no longer the sole determinant for creditworthiness, improving credit access and decisioning for millions of consumers who may otherwise be overlooked.

In both times of growth and economic volatility, Experian® is constantly pursuing ways to extend and improve the methods by which businesses evaluate borrowers' risk. By leveraging our industry-leading data and capabilities, you can enhance predictive performance, better serve your customers and improve profitability.

In this report, we'll take a closer look at why alternative credit data is essential to consumer and small business lending. We'll explore:

▶ Accessing credit and COVID-19's impact on consumer finances

▶ Using alternative data to improve decisioning and increase financial inclusion

▶ Adopting the latest innovations in credit attributes and scoring

▶ Enhancing strategies across the lending lifecycle

▶ Accelerating into the future of alternative data

The better you understand what this data can provide and how it can be used, the sooner you can unlock your portfolio's growth potential and expand your consumer universe. Ready to gain more insight? **Let's go.**

Unlock the next growth frontier

Today's rapidly changing economic environment directly impacts consumers' financial behavior, creating a need for businesses to gain deeper insight into creditworthiness for more precise decisioning.

"Alternative" credit data is FCRA-regulated (displayable, disputable, and correctable) data that is not typically included in traditional credit reports and drives greater visibility and transparency around inquiry and payment behaviors. Types of alternative data used to enrich decisions across the entire credit spectrum include, but aren't limited to:

Alternative financial services (AFS) – Includes loan types such as small dollar single payment and installment loans, line of credit, auto title and rent-to-own. *Want the latest insights into the AFS industry and its consumers?* View our 2022 Lending Trends Report!

Consumer-permissioned data – Transactional and account-level information, including online banking and bank transaction data (I.e., checking, savings and investments), in addition to bill payment information for telco, utility and streaming services.

Cash flow transactions – Access to the largest network of demand deposit account (DDA) and account closure data for greater insight into critical consumer checking and savings account information.

Full-file public records – Includes property and asset information, address stability, education, identity verification, risk factors and professional licensure at the state and local levels.

Rental payments – Data from property manager and rental collections agencies payment processors that includes lease terms, on-time payments and late payments.

Buy Now Pay Later data – Buy now pay later tradeline and account data that include fields unique to a BNPL merchandise and ecommerce purchase/point-of-sale-type loan, including scheduled payment data, on-time and late payments and return data.

Property data – Includes all the information related to a location to obtain a more detailed look at where your consumers live, including real estate, which can be particularly important to residential lenders making first or second mortgages and Home Equity Lines of Credit (HELOC).

Verified income data – Validates a reported income against information on file from employers to highlight any discrepancies.

Experian's real-time alternative financial services credit bureau, Clarity Services, specializes in alternative financial services data and solutions. Clarity's suite of FCRA-regulated reports and scores gives lenders visibility into critical subprime consumer information, including the thin-file consumer segments.

Evolve your lending process

With fresh, high-quality data and attributes, you can better assess and reduce risk while nurturing your best customers and driving portfolio profitability. Expanded FCRA-compliant credit data and advanced analytics allow you to **score 96% of U.S. adults** and effectively **future-proof your business**.[2] The benefits of incorporating alternative credit data in your lending process include:

Improved risk management
Seeing the full picture of an applicant's risk profile is critical. The addition of alternative credit data may uncover significant changes in creditworthiness and, when used in credit risk modeling, can help you more easily identify risky consumers.

More strategic decisioning
In the face of financial stress, the adoption of additional data helps you gain a more holistic view of stability and resiliency to more easily identify ability to pay, better predict future behavior and deliver the best treatment option based on their specific situation.

Portfolio growth
Drawing on expanded data sources helps lenders widen their pool of applicants who meet their eligibility requirements. By layering alternative data with artificial intelligence and machine learning, you can score more consumers with speed and accuracy.

With more lenders using information beyond the traditional credit report to make lending decisions, the value of alternative data is evident. **Learn more on the next page.**

Explore the complex consumer credit universe

Credit plays a vital role in the lives of consumers and helps them meet important milestones – like buying a car or home. Unfortunately, not every creditworthy individual has equal access to financial services. In fact, **28 million adult Americans are credit invisible** and another **21 million are considered unscorable.**[3] These people typically consist of young adults who have yet to build their credit history, immigrants who can't transfer their credit reports from their previous home country and people who are part of a historically disadvantaged group.

Who's affected:

| Thin File | Communities of color | Immigrants | Students | Elderly | Disabled |

While traditional credit data has long been the primary means of gauging creditworthiness, it doesn't tell the full story of a consumer's financial situation – and research shows that consumers are willing to share various types of financial information if it would help increase their chances of approval.[4]

Many financial institutions have made inclusion a strategic priority to expand their reach and help more U.S. consumers access affordable financial services. By leveraging expanded data sources to dive deeper into a consumer's profile, you can facilitate first and second chances for borrowers and **increase the number of profitable loans in your portfolio without impacting your risk threshold.**

30% of consumers in low-income neighborhoods are credit "invisible."[3]

40% of invisibles in the U.S. are under the age of 25.[3]

35% of 18- and 19-year-olds are credit visible.[5]

42% of the U.S. adult population can borrow only at significantly elevated interest rates.[3]

19M consumers could be scored with enhanced scoring models.[3]

Assess the pandemic's impact on credit risk

The COVID-19 pandemic's economic impact has yielded a plethora of credit risk challenges related to unemployment, debt and bankruptcies. **How can you better evaluate credit risk and the economic impacts on individual consumers? And how can you predict a customer's payment behavior after payment relief ends?**

To better manage and mitigate credit risk, businesses should **use risk management analytics products** – like credit attributes and scores – to gain a detailed view of consumer behavior and not rely solely on traditional credit scores. With these products, you can better predict future payment performance on consumer accounts and more effectively help customers with their individual needs.

quick stats

Consumers' finances

- Unemployment rate as of May is 3.6%, the lowest since February 2020.[6]

- Overall consumer sentiment is down 41% since the start of the pandemic.[7]

- 46% of consumers with an income of $40k-$99k say they are moderately to severely financially impacted by inflation.[8]

- Zillow home values are up by 20.9% YoY.[8]

- Median VantageScore® v4 reached 710 at the end of May – a record high.[9]

- Borrowers received student loan deferments on $800 million worth of student loan accounts during the pandemic.[9]

Credit attributes help you go beyond the credit score to get a fuller picture of a consumer. Experian has thousands of attributes that fall into 10 distinct categories, such as those relevant during times of substantial distress. **Keep reading to discover more.** ➡

Turn complex data into actionable insights

The ability to respond quickly to changing consumer behavior isn't a 'nice to have' – it's a 'need to have.' Custom attributes and models are key to staying ahead of your competitors, helping you make more informed credit decisions across the entire lending lifecycle and opening the door for growth, reduced risk and improved loyalty.

Trended 3D™ Attributes

Analyze consumer behavior patterns over time. These time-series attributes uncover valuable information within the credit report, like how much of their credit limit your consumers typically use, whether they consistently revolve or transact and how likely they are to transfer a balance. With a more complete view of credit behavior, you can improve scorecard performance.

Premier Attributes℠

Access the most accurate and comprehensive set of credit attributes that summarize the data on a credit report – to turn that data into actionable insights. With over 2,100 attributes across 51 industries, Premier Attributes can be used to develop highly predictive custom models to identify consumer and industry trends quickly and design more effective segmentation strategies.

Clearview Attributes™

View an alternative set of data that provides information on loans typically not reported to traditional credit bureaus, such as installment and small-dollar, single pay, line of credit, auto and rent-to-own. With a more complete assessment of creditworthiness, you can optimize operational outcomes, including enhanced prospecting and more efficient collections.

Atlas Credit, a consumer loan company that provides small-dollar personal loans with terms up to 12 months, was looking to **maximize their number of booked loans without increasing risk.** Atlas Credit chose to partner with Experian to utilize our deep modeling expertise and in-depth knowledge of credit. After creating a custom model using trended data and alternative financial services data, as well as our industry-leading attributes,

they nearly
DOUBLED THEIR APPROVALS

and MINIMIZED RISK ⚠ by
15-20%

Layering attributes with our custom scoring models can help you reach new segments of loyal customers.
Learn more on the next page. ➡

PART I – Alternative credit data today

PART II – Using alternative credit data across the lending lifecycle

Drive growth by scoring more customers

At Experian, we're innovating how to better use data to identify ways we can make access to credit faster and simpler for millions of consumers. With the introduction of Experian Lift™ Premium and Experian Go™, we've recently hit some significant milestones in the ways that we harness and use alternative data to solve pressing business and consumer challenges.

Experian Lift™ Premium - Experian's flagship risk scoring solution that aggregates FCRA-regulated data assets, advanced analytics and machine learning to unmask lending opportunities and deliver an all-new standard for predictive performance and accuracy.

Experian Boost™ – A first-of-its-kind feature that empowers consumers to add positive utility, rental telecom bill and video streaming service payments directly into their credit file to improve their FICO® 8 Scores in real time. This data can be added or removed at any time by the consumer.

Beginning in August 2022, Experian Boost will offer consumers the opportunity to contribute positive rental payments directly to their Experian credit report for free to help navigate challenges brought on by record high inflation and high rental costs.

Experian Go™ – The only tool available today that helps credit invisible consumers establish their financial identity by creating an Experian credit report. When paired with Experian Boost, users can add positive payment data to their newly created credit report to get their first FICO® Score in minutes – going from credit invisible to scoreable in one session.

Going beyond conventional scoring models can help improve predictive performance across the entire credit spectrum and add performance value among credit-invisible and thin-file consumers while maintaining compliance and risk.

quick stats[10]

Experian Lift Premium

- Scores 96% of all credit eligible consumers (U.S. adults).

- Can score 65% of the mainstream credit invisible consumers.

quick stats[11]

Experian Boost

- 68% of consumers have a score increase.

- Average score boost is 13 points.

- Average number of trades added is 1.9 trades.

- 9% of consumers move into a better score band.

- Consumers have added 2.6M trades to their Boost accounts.

quick stats[12]

Experian Go

- 62,514 credit files for invisible consumers created.

- 7,260 consumers have boosted their scores.

"Experian is the first credit bureau to allow everyday cashflow data to be used as an on-ramp for building credit."
– Fast Company

Advance inclusive lending practices with access to buy now, pay later insights

Consumers across all ages, income and credit-risk segments enjoy the ease of access, flexibility and choice that BNPL loans offer. In fact, **45 million Americans used BNPL products** in 2021 and **spending on BNPL has increased 230 percent** since the start of 2020. This is contributing to an increasing balance of loans that aren't visible through traditional credit bureaus.

The majority of BNPL accounts are not reported to credit bureaus because today's most-used score models are designed to predict risk based on payment behaviors of mainstream credit products, not BNPL accounts. Reflecting BNPL information on credit reports as traditional loans or lines of credit could harm consumers' credit scores, even when BNPL products are used responsibly. This has prevented the majority of BNPL providers from reporting information to credit bureaus, leaving a gap in transparency for lenders who need a complete view of a consumer's financial obligations.

To solve this, Experian has launched the Buy Now Pay Later Bureau™.

Experian's one-of-a-kind specialty bureau will provide real-time reporting of consumers' BNPL activity as well as FCRA-regulated scores and attributes that BNPL providers and traditional lenders can use to make instant and accurate credit decisions.

Through this specialty bureau, businesses will be able to access the insights they need to drive responsible and inclusive lending while protecting consumers' credit scores. Not only that, The Buy Now Pay Later Bureau can help more consumers gain access to fair and affordable financial services. By gaining a more complete view of consumer's BNPL repayment behaviors, lenders can provide thin-file or subprime consumers who would otherwise be denied credit with first or second chances.

quick stats

BNPL

- The BNPL industry is projected to grow from $25B to $1T in gross merchandise value by 2025.[13]

- 80% of U.S. consumers have a credit card but choose to use BNPL to avoid credit card debt.[14]
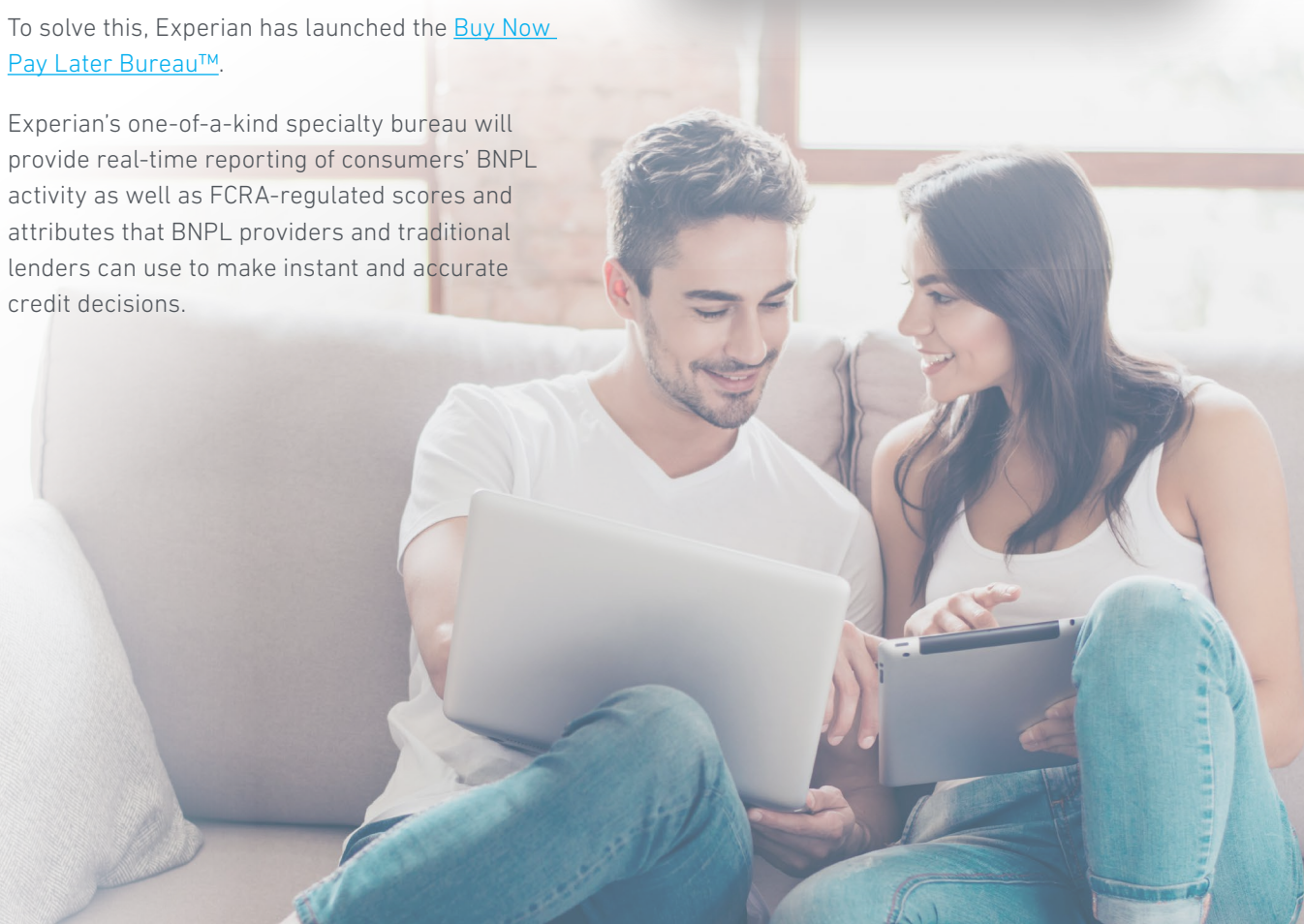
Grow revenue with data-driven marketing

Consumers are calling for increased marketing personalization – and they want it delivered quickly and efficiently. These expectations create unique challenges for businesses of all sizes.

There is a huge opportunity for financial institutions to leverage supplemental data – both FCRA-regulated and non-FCRA regulated – to better understand their target audience, and then deliver relevant products via multiple channels where they are consuming media now.

Incorporating additional data in your marketing strategy will help to accurately identify and segment audiences to deliver targeted, tailored content along the consumer journey. As a result, you can reach audiences in an effective manner and create a more personalized experience. The benefits of incorporating alternative credit data in your marketing strategy include:

- **Understand and influence consumer behavior:** Access to both online (purchases, status updates, reviews and links) and offline (household and demographic) data helps you gain a deeper view into consumers' activities. With a better understanding of their behavior and actions, you can better tailor your marketing efforts, enhance predictiveness and make analytically driven decisions.

- **Fine-tune your messaging:** Supplemental data helps pinpoint consumers' preferences and habits to create messaging that resonates with their interests and needs. By speaking to consumers using familiar terms and phrases, you demonstrate that your brand understands them, and they'll be more likely to engage.

- **Validate consumer data:** With information from a variety of sources, you can make sure your marketing data is clean and accurate to minimize losses (I.e., wasted time, materials and marketing dollars) and communicate to target customers and prospects more effectively.

- **Increase marketing ROI:** Backed with data insights, clear and concise communication helps cut costs and raise responses. With new sources of information, you can create targeted marketing for specific customer groups and increase the effectiveness of your cross-sell/upsell strategies.

Your marketing efforts are only as powerful as your data. With the right marketing data sources, you can

- ✓ Identify your most profitable audience
- ✓ Improve cost effectiveness of your marketing campaigns
- ✓ Drive new business
- ✓ Deliver intelligent interactions across all channels

Deliver the best treatment options

Today's evolving landscape has raised many unique challenges for the collections industry, including the need to comply with regulatory changes (specifically surrounding outbound communication practices) and prepare for the resumption of repayment as loan forbearance and financial assistance programs come to an end. The benefits of implementing alternative credit data into your collections efforts include:

- **A more robust data management strategy** to proactively design post-deferment and post-forbearance collection treatments.

- **Enhanced model performance** through unique behavior and account information related to short-term loans and other alternative loan products.

- **Better assessment of consumers' ability** to pay with deeper insight into place of employment, banking information and income.

- **Increased right party contact rates** using updated, supplemental consumer contact information for improved communication outreach.

- **Compliance with key privacy and communication laws** and regulations for greater oversight and stronger consumer relationships.

quick stats[15]

Collections

- Bankcard 90-180 DPD delinquency balances up 3% YoY.

- Mortgage 30-59 DPD delinquency balances up 43% YoY.

- 21% of Americans have an unsatisfied collections account.

With Average bankcard balances up 6% YoY[16], there's no time like the present to ensure you're equipped with a solid approach for debt management, loss forecasting and recovery efforts. **With alternative data and our credit attributes, you can gain a deeper understanding** of overall credit risk and apply targeted engagement strategies specific to each borrower to enhance treatment strategies and maximize dollars collected.

Combat fraud and reduce losses

The modern fraudster is constantly finding new opportunities to steal funds, take over accounts and dupe unsuspecting consumers. To prevent fraud – including third-party, first-party, synthetic identity, and account takeover – businesses need to rely on alternative data and fraud signals.

By feeding the right data into the right platforms, you can more easily assess risk, provide a seamless experience for known consumers and apply appropriate friction to riskier requests. **With a holistic consumer view, it's easier to identify red flags like unfamiliar device or location data, apply fraud scores to applications with high-risk indicators and keep up with changing consumer habits and preferences.**

The right data can also help prevent non-risky consumers from getting caught in fraud filters. Fraudsters looking to perpetrate first-party, third-party and synthetic identity fraud will all gain or create identities with high credit scores. This means that attempting to safeguard your business and reduce loss by only providing services to those with good or excellent credit scores won't prevent fraud. In fact, businesses who rely on credit scores as the only indicator of risk could end up letting fraudsters in, while keeping creditworthy consumers out.

quick stats[17]

Fraud

- 52% of consumers are concerned about their online transactions.

- 73% of consumers say the onus is on businesses to protect them online.

- 57% of consumers are willing to share data if it ensures greater security or prevents fraud.

It's no secret that data holds crucial value in the fight against fraud. As the fraud landscape continues to grow in complexity, **deeper consumer insights fueled by a vast array of multidimensional data can help organizations provide a seamless experience and enhance fraud prevention and detection.**

Did you know supplemental data can help you create attribute-rich profiles of your customers to respond to increasing identity needs? **Flip to the next page.**

Drive identity with multidimensional data

The definition and landscape of identity are rapidly evolving, as are all the various inputs that make up an identity. Accelerated by the proliferation of digital channels and interactions consumers have, the needs for identity span across the entire customer journey, from marketing to a specific consumer's needs, to facilitating a frictionless customer experience, to protecting personal information.

"Identity data sets are constantly growing with inputs from new interactions. Many future sources of data have yet to be even conceived or developed."

– Kathleen Peters
Chief Innovation Officer, Experian Decision Analytics

Experian Identity was introduced in 2022 to provide an integrated approach to identity that puts consumers' needs first and incorporates different solutions and technologies to uncover data-driven business opportunities through segmenting, targeting, acquiring and engaging consumers.

At the core of identity is multidimensional data. Reliable data from a multitude of sources and use cases is critical to making confident decisions that safely accelerate customer engagement.

Experian Identity powers businesses to recognize and connect with consumers in more personalized, meaningful and secure ways. Our identity solutions leverage data and machine learning to help organizations accurately resolve and authenticate consumer identity and provide a premier, personalized experience. Layered with our focus on consumers at the core of our business, Experian is making identities personal.

quick stats

Identity

- 82% of businesses have a consumer recognition strategy in place.[18]

- 56% of consumers are more likely to share their contact information if it improves their experience.[19]

- 42% of consumers will share personal information if it improves their experience.[19]

The future of alternative credit data

Alternative credit data provides up-to-date, real-time information and has taken place alongside traditional qualifiers for credit. **It's become the great equalizer,** enabling lenders to extend credit to more consumers using next-generation data sources to power both traditional and alternative credit models.

Access to alternative FCRA-regulated credit data provides opportunity for **growth into an untapped market of reliable consumers and gives forward-thinking lenders a competitive edge.** By applying alternative data in tandem with machine learning and other forms of artificial intelligence, you can further increase data accuracy, recognize key consumer behavior patterns, improve your credit risk analysis and adopt more financially inclusive practices. This is imperative, as millennials and Gen Zers, who tend to be more credit-invisible, make up an increasing percentage of potential borrowers.

Modern credit scoring methods could allow lenders to grow their pool of new customers **by almost 20%.**[20]

The time to act is NOW.

Let's get started

References:

[1] When we refer to "Alternative Credit Data," this refers to the use of alternative data and its appropriate use in consumer credit lending decisions, as regulated by the Fair Credit Reporting Act. Hence, the term "Expanded FCRA Data" may also apply in this instance and both can be used interchangeably.

[2] U.S. Census (2020)

[3] Data based on Oliver Wyman analysis using a random sample of consumers with Experian credit bureau records as of September 2020. Consumers are considered 'credit invisible' when they have no mainstream credit file at the credit bureaus and 'unscorable' when they have partial information in their mainstream credit file, but not enough to generate a conventional credit score.

[4] Experian (2022, September) State of Alternative Credit Data Report

[5] The CFPB Office of Research (2015, May) Credit Invisible

[6] Bureau of Labor Statistics (2022, May)

[7] University of Michigan (2022, March) Consumer Sentiment Survey and Bureau of Economic Analysis

[8] Gallup (2022, April) Bureau of Labor Statistics and Author's Calculations

[9] Experian Ascend Sandbox (2022, May)

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[20] Oliver Wyman (2022, January) Financial Inclusion and Access to Credit

Experian Go Quote: Fast Company (2022, January) Design your own credit report using this new tool from Experian

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