

# BANK SYSTEMS & TECHNOLOGY

Business Innovation Powered By Technology

September 2007



## I N D U S T R Y      W A T C H

L E N D I N G

### Alternative Decisioning

Nontraditional credit data for credit scoring is gaining acceptance among lenders seeking new sources of growth.

**A**S BANKS AND other lenders look for new paths to profitability, alternative credit data is gaining acceptance for credit decisioning. “[Traditional] credit markets are tapped out,” says Jennifer Tescher, director of Chicago-based Center for Financial Services Innovation (CFSI), a nonprofit whose mission is to assist the industry in profitably serving the underbanked market. Tescher explains that banks are looking at the growing underbanked population as a new market for lending services. “Lenders are looking for new ways to grow their business further. They want to go after these untapped consumers,” she says.

Alternative credit data is data from nontraditional sources that is used to help predict the credit worthiness of consumers with thin or nonexistent credit files. Rather than using the traditional FICO score to gauge credit risk, alternative data can include information from private and public records, utility companies’ payments data, bankruptcies, liens and licensing information.

“Estimates for consumers with thin or no credit files vary from 35 to 50 million consumers,” Tescher relates. But, “They’re not being marketed to because

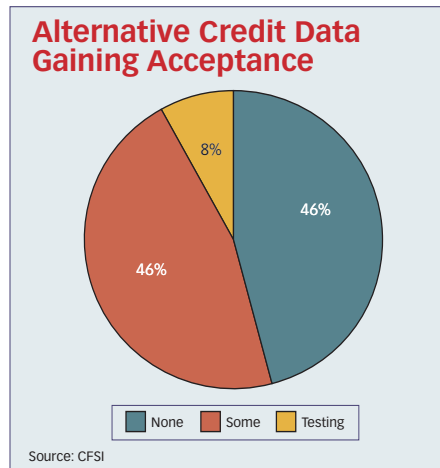
they’re not in the databases used for things like preauthorized offers. They’re nearly invisible [to lenders].”

According to Tom Brown, VP of financial services solutions with LexisNexis’ risk and information analytics group in Dayton, Ohio, “About 25 percent of bank card issuers’ applicants can’t be approved because of insufficient credit information.” Using alternative forms of data, Brown maintains, can give lenders a way to engage some of these applicants as customers.

CFSI’s Tescher points out that those with thin or no credit files are not necessarily bad credit risks. “Many of these people simply don’t have enough of a credit history to be scored the traditional way,” she explains.

As banks recognize the opportunity, the use of alternative data for credit decisioning is growing, Tescher notes. In a recent CFSI study that polled 23 top financial institutions, “More than half said they were using or thinking of using this kind of data to some degree,” she relates (see chart below).

And vendor solutions are emerging to meet the growing demand. LexisNexis, for example, has been offering RiskView, a credit evaluation tool that uses alternative data, for about eight years. LexisNexis’ Brown claims the product is able to generate sufficient data to score 80 percent of the bank card population that is normally



**More than half of the 23 financial institutions polled by CFSI are either using alternative credit data or are evaluating its use.**



**Tom Brown, VP of Financial Services Solutions for LexisNexis Risk & Information Analytics Group.**

**banktech.com** 

**BANKS** are tapping technology to target the underbanked:  
[banktech.com/showArticle.jhtml?articleID=191203058](http://banktech.com/showArticle.jhtml?articleID=191203058)

declined. “Credit bureaus only have one side of the consumer picture — the liabilities,” he says. “What we offer goes beyond this and looks at consumers’ lifestyles.”

RiskView is provided to lenders via an XML connection to their loan origination systems. Brown says the solution’s real-time capabilities allow it to issue a credit response to a lender’s inquiry within seconds. The solution also is available in online and batch-processing versions, he notes.

The question for large banks with extensive analytics capabilities, however, is whether to buy an alternative data solution or to build one in-house, says CFSI’s Tescher. The challenge is understanding the data sources, she relates, noting that solution providers such as LexisNexis often don’t divulge the sources of their data.

Further, there is the challenge of integrating the technology into the lending process. “You have to build a pipe so it gets integrated to your underwriting tools,” Tescher notes. □

—Maria Bruno-Britz

(#15123) Adapted with permission from the September 2007 issue of Bank Systems & Technology. Copyright 2007 CMP Media LLC. For more information about reprints from Bank Systems & Technology, please contact PARS International Corp. at 212-221-9595.



**LexisNexis®**

**Kristina Grammatico**

LexisNexis

1.866.411.7335

6601 Park of Commerce

Boca Raton, FL 33435