

LexisNexis® Case Study

Phoenix Capital Management, LLC

**RiskView™ Drives Faster,
More Profitable Loan Decisions**

July 2008



ROI: RETURN ON INFORMATION SOLUTIONS

Customer
Development

Authentication
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Fraud
Prevention

Collections
Management



CASE STUDY:

RiskView™ Drives Faster, More Profitable Loan Decisions

Overview

Phoenix Capital Management LLC (Phoenix) is a Denver-based, specialized consumer finance asset management company engaged primarily in analyzing, acquiring and servicing retail installment sales contracts. The company was formed in September 2006 to assume management responsibility for special auto finance and real estate portfolios and perform statistical, actuarial, mathematical and financial due diligence analysis. By the fall of 2007, Phoenix decided to expand its business by creating a new investment portfolio. The company is focused on building a fund backed by auto loans to subprime and underbanked borrowers in the belief that this market segment has the potential to generate solid growth and profit.

The Challenge

As plans for the new investment portfolio took shape, Phoenix began to evaluate the tools they would need to screen applicants and extend loans. In particular, Phoenix executives were focused on finding a way to build a profitable investment portfolio of loans extended to traditionally risky populations: subprime and underbanked borrowers.

Subprime and underbanked lending can be extremely lucrative but comes with well-publicized risks. Borrowers who can only qualify for subprime loans tend to have a history of bad credit. Past history is often indicative of future performance. While this is true, many borrowers who qualify as subprime are actually underbanked consumers with no traditional credit history.

Representing roughly 25 percent of the U.S. consumer-base, or about 60 million Americans, underbanked consumers are borrowers with little or no traditional credit history. These consumers spend an estimated \$11 billion annually on 324 million alternative financial transactions.¹ Underbanked customers are a diverse population, representing groups as varied as immigrants, young adults, students, recently widowed or divorced individuals and consumers who operate on a cash basis.

Because of their modest credit history, underbanked customers are often misclassified when using traditional credit scoring methodology. In addition, conventional approaches to scoring are unable to segment the population for risk-based pricing because they tend to look the same under traditional metrics. As a result, financial services institutions either avoid risk by rejecting them all or assume unnecessary risk by accepting them en masse and potentially mis-pricing the risk.

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Industry

Finance



Phoenix Capital Management, LLC

Situation

Phoenix wanted to create a profitable investment portfolio around loans extended to subprime and underbanked borrowers. Traditional credit scoring was inadequate because underbanked customers have little or no credit history. Phoenix needed a solution that would help identify and segment creditworthy borrowers in these categories.

Solution

Phoenix chose RiskView™, an alternative credit scoring solution from LexisNexis® Risk & Information Analytics Group. RiskView is a powerful tool that uses public records and other non-traditional data to create a score for consumers or businesses that have been deemed 'thin-file' or 'no-hit' by traditional credit bureaus.

Results

Phoenix projects an increase in automated decision-making by 50 percent, resulting in significantly reduced operational expenses. Phoenix has also been able to determine that RiskView can deliver a 15% increase in return by better pricing alone. Finally, improved screening and segmentation enabled more refined pricing and reduced defaults.

Organization Profile

Phoenix is a specialized consumer finance asset management company engaged primarily in analyzing, acquiring and servicing retail installment sales contracts. The company was formed to assume management responsibility for special auto finance and real estate portfolios and perform statistical, actuarial, mathematical and financial due diligence analysis.



Phoenix did not want to fall into this trap. The company had experience evaluating borrowers with auto-enhanced scores and other ratings from the major credit bureaus—combining these ratings with manual processing to refine results and identify the most creditworthy borrowers. However, this system was inexact, subjective, time-consuming and inefficient. Furthermore, Phoenix viewed screening and segmentation as essential components of a successful strategy.

“Our goal is to create a highly profitable portfolio that is attractive to investors,” said Annette Girmus-Orford, Chief Risk Officer of Phoenix Capital Management. “That profitability is directly influenced by our ability to identify, and extend loans to candidates that other institutions might overlook because they are categorized as subprime. As a result, it is critical for us to have a scoring mechanism in place that can accurately screen and segment underbanked borrowers.”

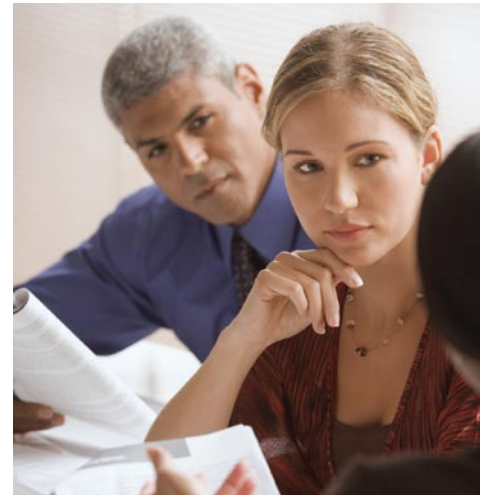
Solution

Phoenix Capital chose RiskView™, an alternative credit scoring solution from LexisNexis® Risk & Information Analytics Group. Phoenix had tested the solution on a pre-existing portfolio of 48,000 loans and was impressed by its ability to improve applicant screening and segmentation. As a result, the company immediately selected RiskView to help create the new auto portfolio.

“Our previous approach, which relied on traditional credit scoring, worked well for customers with full credit histories,” said Ms. Girmus-Orford. “Our evaluation of RiskView allowed us to see the differences in the risk profiles of thin and no file customers, those applicants that previously looked very similar.”

RiskView is a powerful tool that uses public records and other non-traditional data in order to create a score for consumers or businesses that have been deemed ‘thin-file’ or ‘no-file’ by traditional credit bureaus. The tool enables credit professionals to accurately predict the delinquency of non-traditional and underbanked prospects, thereby enabling creditors to make effective pre-screen, account origination, and account management lending decisions on “thin” and “no-file” populations.

Using RiskView, Phoenix has been able to further segment existing customers, reclassifying thin and no-file borrowers into more predictive groups than credit scores alone are able to yield. Furthermore, these refinements improve Phoenix’ decision-making process by automating loan decisions and removing the time and expense associated with manual review of applicants.



“ There are borrowers out there who should be able to qualify for auto loans; with RiskView™ we’re helping them do that while delivering a profitable investment vehicle.”

Annette Girmus-Orford
Chief Risk Officer

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“While intended for the underbanked population, RiskView allows us to get a more accurate and comprehensive understanding of all borrowers; including those with full files,” said Ms. Girmus-Orford. “This helps us better target and refine our pricing, and helps ensure we’re creating a stable and profitable portfolio.”

Benefits

Phoenix incorporated the RiskView score into its decision-making process at the end of 2007 and the company expects to be able to launch its new portfolio in 2008. While the process is not yet complete, Phoenix has already realized tremendous benefits with RiskView.

First, Phoenix is projecting an increase in its automated decision-making by 50 percent, resulting in significantly reduced operational expenses. Secondly, based on a review of past decisions, Phoenix has been able to determine that RiskView can deliver a 15% increase in return by better pricing alone.

Further benefits are harder to quantify, but have a profound impact. First, by improving Phoenix’s ability to segment borrowers into more predictive credit groups, RiskView has enabled Phoenix to move to a more refined pricing structure by aligning risk and rewards more appropriately. Additionally, by enhancing the screening of subprime and underbanked borrowers, the RiskView score will dramatically reduce default rates.

“RiskView will allow us to create a subprime auto portfolio with a better understanding of the risks associated with the subprime borrower,” said Ms. Girmus-Orford. “There are borrowers out there who should be able to qualify for auto loans; with RiskView we’re helping them do that while delivering a profitable investment vehicle.”

“RiskView™ will allow us to create a subprime auto portfolio with a better understanding of the risks associated with the subprime borrower.”

Annette Girmus-Orford
Chief Risk Officer

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¹ Highlights from the “Inaugural Underbanked Financial Services Forum”
The Center for Financial Services Innovation and SourceMedia. July, 2006.