How Enhanced Loan Origination Can Offset the Impact of Rising Delinquency

Refresh your underwriting strategies to book more profitable loans

EBOOK

LexisNexis® RISK SOLUTIONS

Bridging visibility gaps in credit risk amid rising demand and shifting market conditions

Rising delinquencies are likely placing pressure on lenders to reevaluate their underwriting strategies.

Given the finite number of prime consumers, lenders should consider additional approaches beyond simply issuing more loans across the top credit bands. For example, they could diversify their loan origination strategies with alternative data to identify and approve more good prospects whose traditional credit scores fall outside prime ranges. This can help them continue to grow during economic uncertainty and maintain their portfolio performance goals.

In our first two ebooks in the Regaining Visibility series, we explored the impact of rising delinquency rates and evolving credit reporting practices. Faced with these challenges, lenders are seeking new tools to properly assess credit risk and navigate economic volatility for improved service and recovery outcomes.

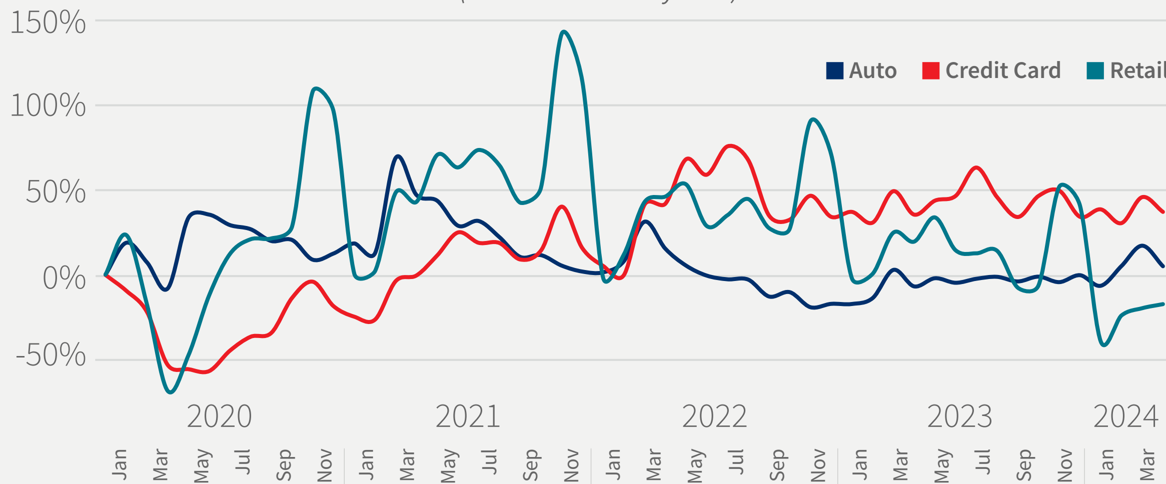
For the third and final installment, we will investigate how limited credit risk visibility impacts loan origination and what lenders can do in response.

Transitioned into delinquency as of September 2024:[1]

~8.8% *credit card balances*

8.2% *auto loans*

To offset the impact of rising delinquency rates, financial institutions will need to book more good loans. Since competition among the prime credit band can be intense, they may have to look elsewhere for qualified borrowers. Finding and extending offers to those customers will require additional insights beyond those offered by traditional credit data alone.



Demand for credit remains high in auto, retail and credit card segments.

Across industries, shifts in credit demand will require risk managers to rethink their underwriting strategies. With the help of alternative data insights, they can better assess the consumers driving these shifts, allowing them to manage portfolio risk in response to evolving market conditions, while remaining within organizational risk thresholds.

Since January 2022, credit card demand has risen 30% as of April 2024.

During that time, we also saw a rise in auto loan demand. Given the anticipated reduction of interest rates, we expect these trends to continue.[2]

Who is driving credit demand?

During times of economic uncertainty, consumers in the 18–24 age group often need to rely on revolving credit to make ends meet. This tracks with the market activity we see driving credit card demand.

Furthermore, many of these younger individuals are either credit invisible or located within subprime credit segments, and they could need access to additional resources to successfully navigate their financial circumstances.

Factors	*Credit cards*	*Auto loans*
AGE	*18–24*	*65+*
CREDIT SEGMENT	*Credit invisibles, deep subprime & subprime*	*Super prime*

Overall | Deep Subprime | Subprime | Near Prime | Prime | Super Prime | Invisible

One economic shift that has occurred since the pandemic is in auto loan demand. Before March of 2022, subprime and credit invisible consumers primarily drove demand.

However, once interest rates began to go up, subprime and credit invisible demand slowed down and seniors over 65 (many of whom have super prime scores) began driving demand for auto loans. Since the pandemic, inventories have increased and prices have dropped in the auto sector, and many of these older consumers may be more market-savvy and waiting until they can capitalize on better pricing.[3]

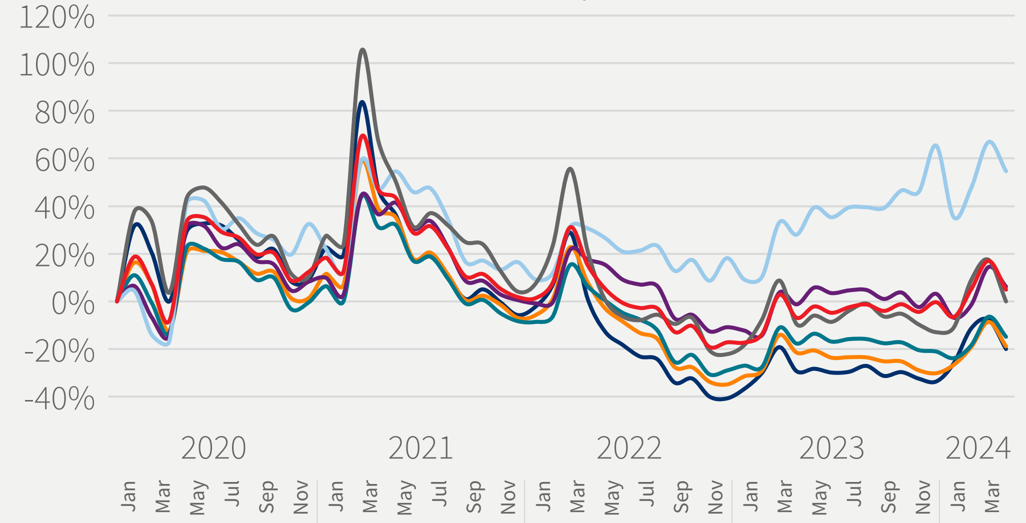
Financial institutions are looking for ways to counterbalance rising delinquency rates by booking more good loans. The more they understand about who is driving credit demand, and why, the better prepared they will be to anticipate and respond to shifts. Because auto loans, credit cards and retail credit vary according to different economic circumstances, savvy lenders will bolster their view of the consumer with alternative data.

KEY TAKEAWAY

The growing percentage of credit invisible applicants driving credit demand presents an opportunity for lenders who can leverage alternative data to more accurately assess this group of potential customers.

Change in Auto Lending Demand by Credit Tier

(indexed to January 2020)



Change in Credit Card Demand by Credit Tier

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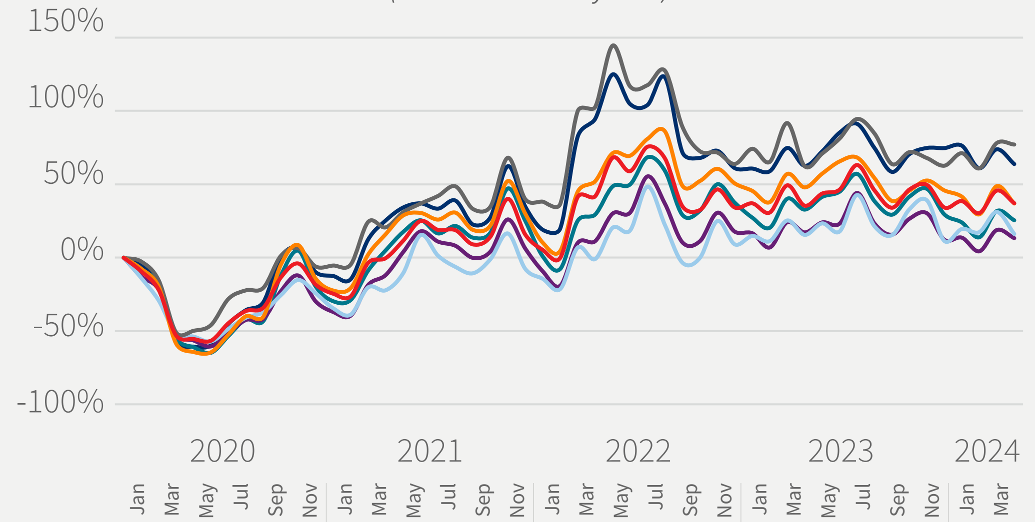

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Uncovering opportunities within credit score bands to improve risk decisions

Lender confidence in consumer credit decisions

88% *are more confident using alternative data*	**60%** *are less confident using traditional credit data alone*

A recent study of 150 U.S. consumer lenders reveals rising confidence in alternative data alongside declining confidence in traditional credit data.[4]

The respondents were asked to express their confidence level compared with a year earlier.

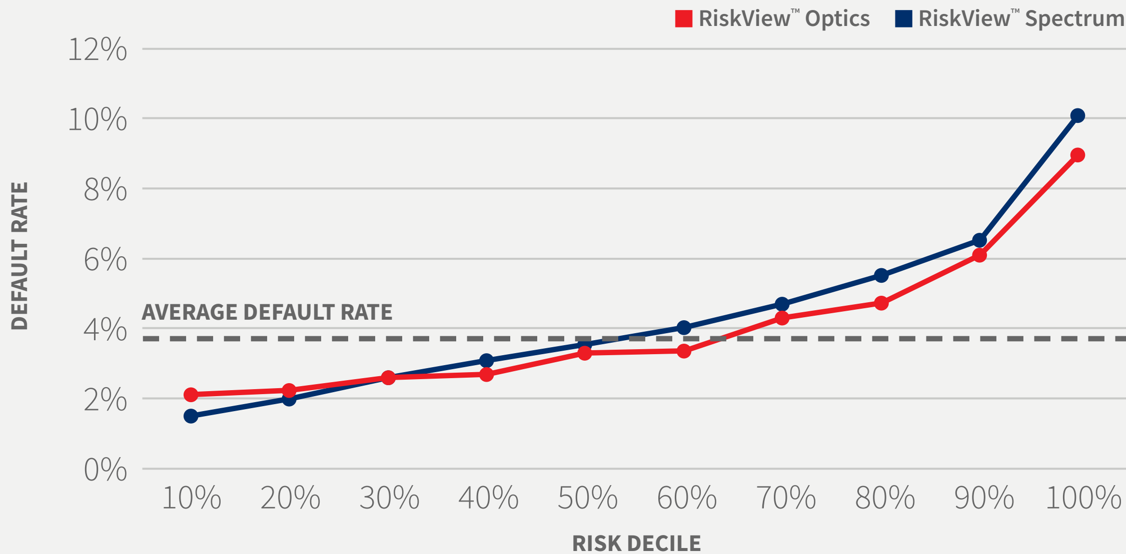
While traditional credit data places consumers into broad score bands, lenders have discovered that using alternative credit data can provide more insight into credit risk within those bands. Risk managers who take advantage of this could gain a competitive advantage in a tight marketplace.

One category of alternative data includes life event insights, such as professional licenses, asset ownership and public records. Information related to alternative credit seeking behaviors is also relevant. By combining these data sets with advanced analytics, lenders can acquire a more comprehensive view of their customers and their current economic trajectory.

TAKING A CLOSER LOOK AT INTER-DECILE SEGMENTATION

RiskView™ Optics and RiskView™ Spectrum scores help improve decisioning by better separating risk within tradeline subprime score bands

Within this tradeline subprime score band, lenders can identify potential customers who align more precisely with their target risk profile.



*40% of consumers belong in a **more prime** score band*

*~25% of consumers belong in a **less prime** score band*

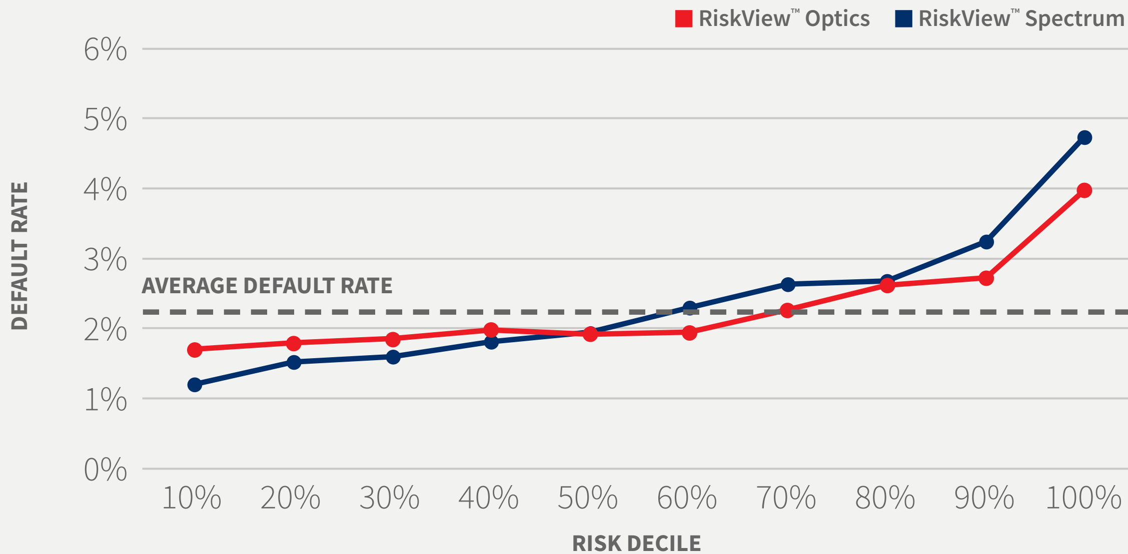
Tradeline Credit Score[1] Risk Ranking	
SCORE BANDS	**DEFAULT RATE**
795–850	1.01%
767–794	1.33%
743–766	1.58%
721–742	1.83%
702–720	2.07%
682–701	2.28%
658–681	2.72%
625–657	3.19%
588–624	**3.64%**
355–587	5.28%
OVERALL	**2.51%**

*Results represented are based upon an internal analysis using a variety of industry samples. Actual results in production may vary depending upon consumer populations.
1: Traditional credit score utilized from large card issuer dataset

TAKING A CLOSER LOOK AT INTER-DECILE SEGMENTATION

RiskView™ Optics and RiskView™ Spectrum scores help improve decisioning by better separating risk within tradeline near prime score bands

Improved predictive performance in near prime score bands can provide clarity about consumers on the margins, helping lenders maximize acceptance rates while mitigating risk exposure.



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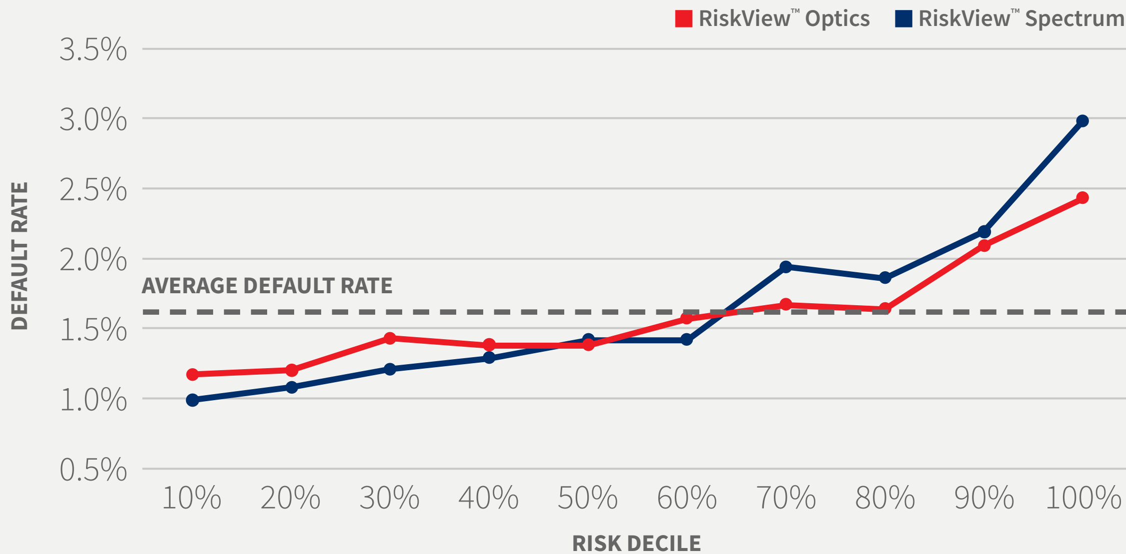
TAKING A CLOSER LOOK AT INTER-DECILE SEGMENTATION

RiskView™ Optics and RiskView™ Spectrum scores help improve decisioning by better separating risk within tradeline super prime score bands

Fierce competition for prime customers may pressure lenders to fine-tune their pricing offers. By improving assessment within this score band, lenders can remain competitive.



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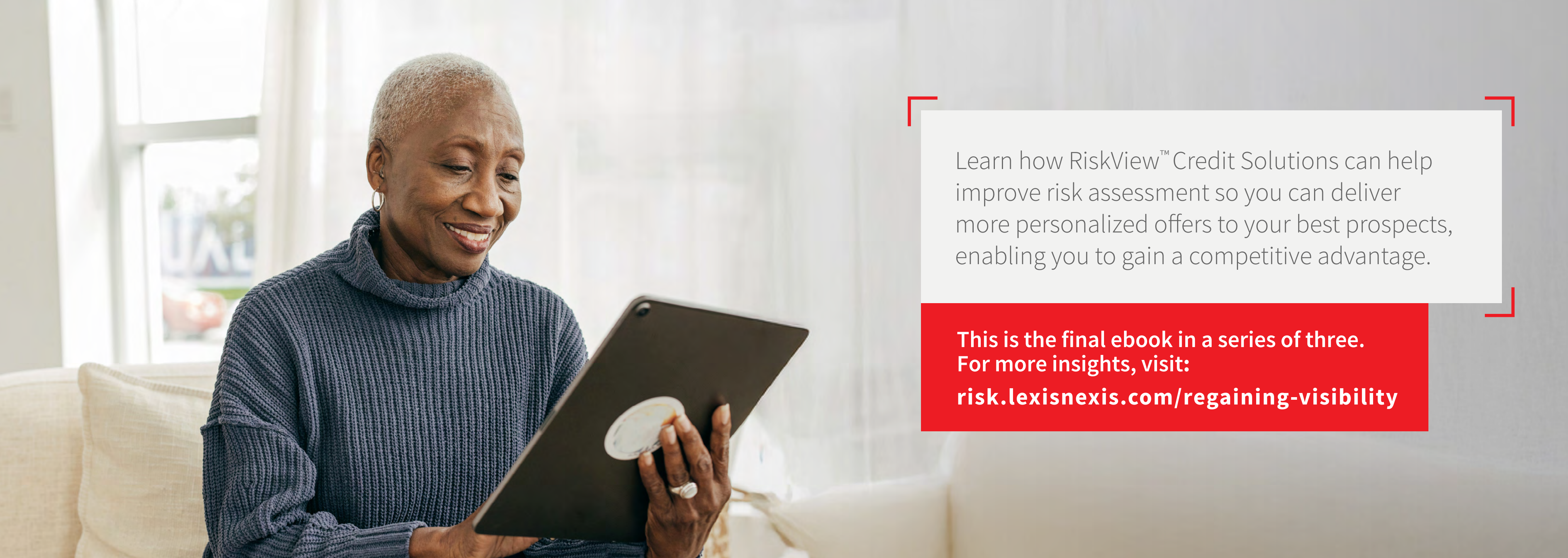
Enhance your understanding of customer creditworthiness with LexisNexis® RiskView™

Risk managers need a more complete view of consumer credit risk to help enhance their underwriting strategies. LexisNexis® RiskView™ Credit Solutions can help assess more consumers, increase approval rates, improve profitability and manage risk thresholds.

LexisNexis® RiskView™ Optics and LexisNexis® RiskView™ Spectrum are industry-leading, three-digit alternative credit scores that combine multiple dimensions of credit data to provide powerful predictive insights. Take your credit risk scoring to the next level.

LexisNexis® RiskView™ Attributes offers 350+ next-generation insights that connect the nuanced details of non-credit life events with near real-time alternative credit seeking behaviors. These attributes can be used in your internal models at every stage in the consumer life cycle.



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4. Datos Insights, Consumer Lending Confidence Survey, 2024

About LexisNexis Risk Solutions

LexisNexis® Risk Solutions includes seven brands that span multiple industries and sectors. We harness the power of data, sophisticated analytics platforms and technology solutions to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX (LSE: REL/NYSE: RELX), a global provider of information-based analytics and decision tools for professional and business customers. For more information, please visit LexisNexis Risk Solutions and RELX.

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