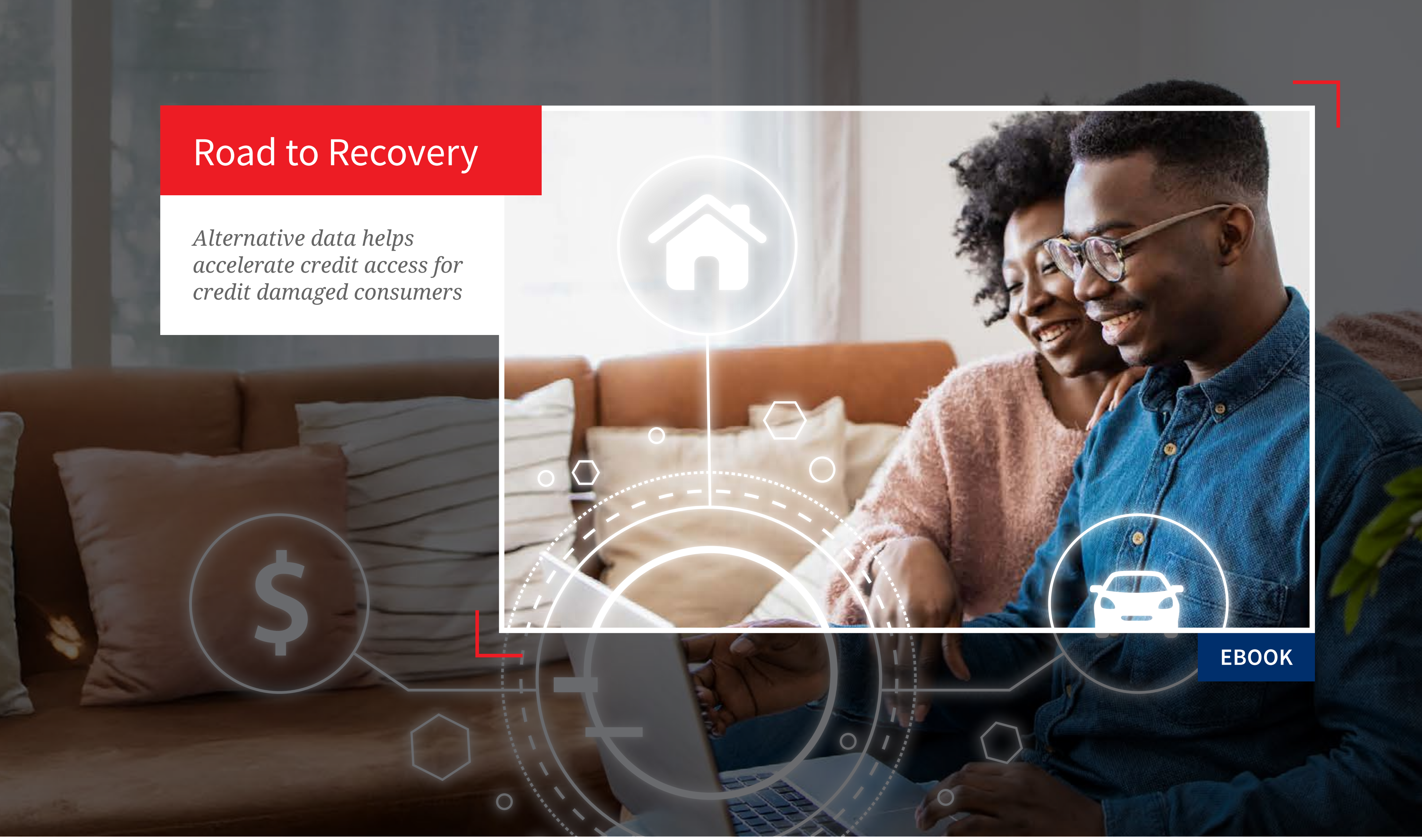
Road to Recovery

Alternative data helps accelerate credit access for credit damaged consumers



EBOOK

LexisNexis® RISK SOLUTIONS

How poor credit impacts consumers

Damaged credit can often lead to significant challenges, impacting an individual's ability to access financial services. As a result, it can negatively affect economic stability and quality of life.

Helping consumers improve their credit produces a range of benefits. Consumers can improve their standard of living, while financial institutions can build credibility and trust with potential customers.

20%

of consumers have difficulty accessing financial products.[1]

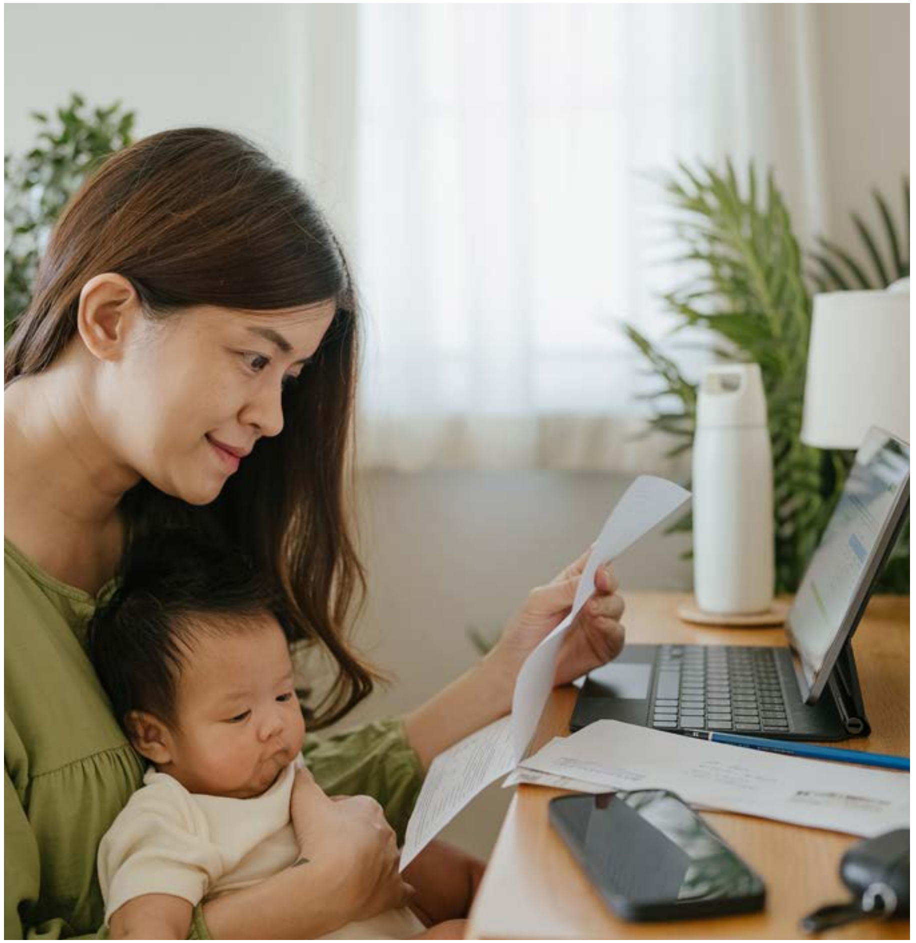
Poor credit management

A consumer that is managing their credit poorly is simply overextending themselves in the absence of an unexpected event.

Credit damaged

A consumer whose credit has been damaged due to an unexpected event such as medical bills or job loss.

Removing the barriers to affordable credit



Consumers with subprime traditional credit scores often face a catch-22: they require access to credit to improve their situation, but their situation often prevents them from being able to do so. And when credit is available, higher interest rates can make it prohibitively expensive.

Banks and lenders want to say "yes" to more customers, but many institutions rely solely on traditional credit scores when evaluating consumers. This makes it difficult to identify credit damaged candidates with the potential to recover.

Until then, consumers with damaged credit can have difficulty obtaining:

- LOAN Loans
- Utilities
- Housing
- Insurance
- Credit cards
- Phones

The struggle to rebuild credit

Repairing traditional credit scores can take time and often add to financial stress. Negative credit events — such as late or missed payments, collections filings and bankruptcies — often impact traditional credit scores for years.

7 years

the time period negative credit events can remain on credit reports[2]

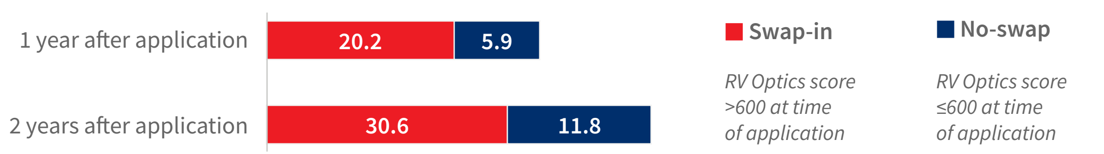
Improving credit is possible, but it can mean accepting higher interest rates on credit cards or car loans.

Other options, such as secured loans, require the consumer to deposit money into an account as collateral for credit. In both cases, the repair takes time and costs money.

Consumers and lenders can benefit when credit improves

Figure 1

Traditional score change



When the generic credit score is <620 and the alternative data score with LexisNexis® RiskView™ Optics Cross Industry is:

>600
prime score
SWAP-IN

≤600
not prime score
NO-SWAP

Results of analysis after one year

- Traditional credit scores for applicants identified as prime using alternative data improved from **600 to 620 points**
- **3.4x greater improvement** than the subprime group

Alternative data is a leading indicator of improving credit quality

In order to grow their base of loyal customers, lenders need a clearer understanding of consumer risk trajectories. This involves moving beyond traditional credit scores and examining data that paints a more comprehensive picture of the individual's financial situation.

To learn more about how lenders can utilize alternative data to better assess consumer credit risk, we took a closer look at a group of credit applicants with subprime traditional credit scores from January 2021 through October 2023.

We segmented the applicants into two groups: swap-in (those with prime alternative data scores) and no-swap (those with subprime alternative data scores). Our goal was to investigate how alternative data predicts future payment behavior, which has direct implications for improving credit. *[See Figure 1]*

Taking a closer look at our study population

During the course of our research, we discovered several other significant statistical differences between our study groups. The presence of positive alternative data indicators has a strong correlation with high positive score changes.

When compared against no-swap candidates, swap-ins are:

1.3x
more likely to have attended some college

2x
more likely to have active professional licenses

3x
more likely to own their homes
Their home value is 1.3x higher than no-swaps

1/3
as likely to have derogatory public record on file

2/3
as likely to inquire for credit

30%
as likely to inquire for alternative lending

Identifying credit predictability across age groups

It can be difficult to predict future creditworthiness using traditional credit data alone

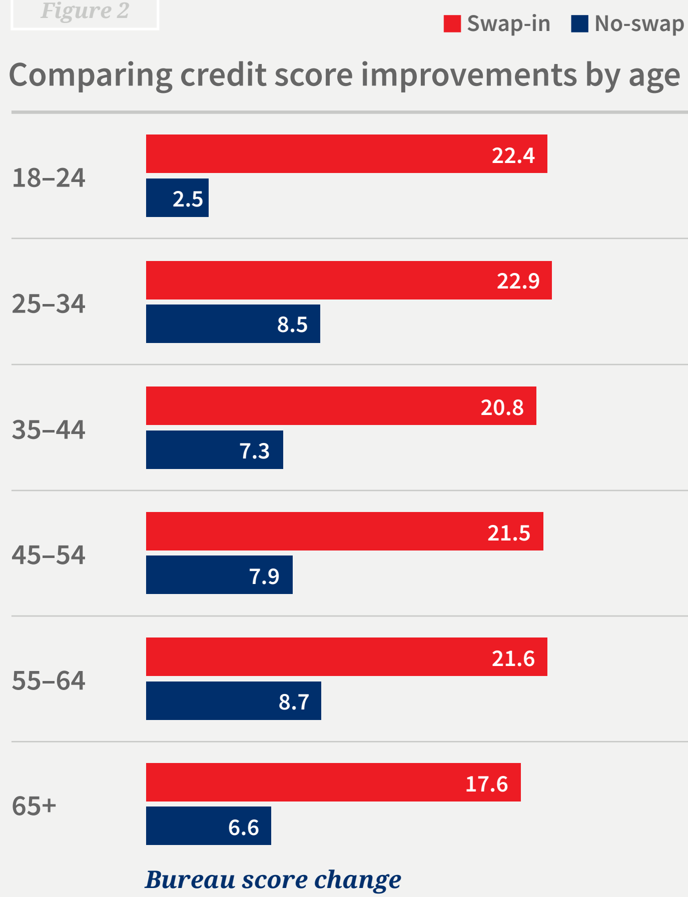
However, alternative data showed promise for indicating future performance across a wide range of ages. For each of the six age groups, swap-ins showed improvement over the course of the study.

One key takeaway for lenders from this data is the opportunity to use alternative data to predict future credit performance for consumers across all age groups.

Every swap-in age group studied showed at least a 17-point improvement in their bureau credit scores.

Figure 2

Comparing credit score improvements by age



Lenders can gain a competitive advantage with alternative data

Alternative data is a leading indicator of improved credit quality for subprime populations

By identifying consumers with positive risk trajectories, financial institutions can extend more credit offers before their competitors, earning valuable customers while also building trust over the long term.

At the same time, investing in subprime consumers with the help of alternative data helps the consumer rebuild their credit and set themselves on the path to economic stability. Everyone benefits.

Learn more about how adopting alternative data can benefit consumers while helping you improve profitability and manage risk.

Visit risk.lexisnexis.com/credit-damaged

Sources:

1. https://risk.lexisnexis.com/-/media/files/financial%20services/infographics/lnrs_financial%20inclusion-wave_2_infographic-nxr15040-00-0721-en-us.pdf
2. https://www.fcra.com/blog/debt-over-7-years-old-still-on-credit-report

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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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