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The Next Generation of Credit Risk
and Fraud Underwriting



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Our Discussion Today

- Recent trends
- Credit evaluation
- Fraud detection
- Future considerations



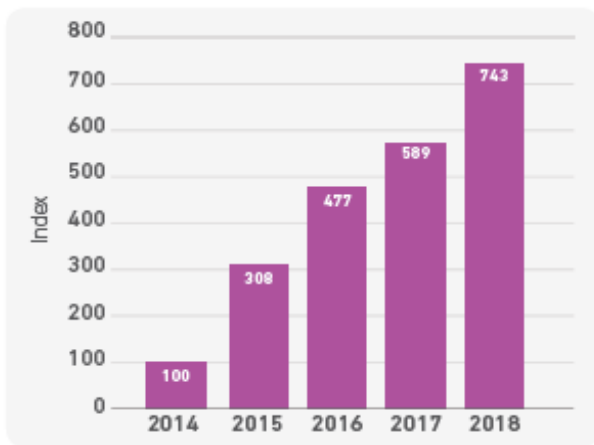
Trends

- Significant installment loan growth
- Diversification of product offerings, marketing channels and application sources
- Structure of loan products require stronger credit risk management tools

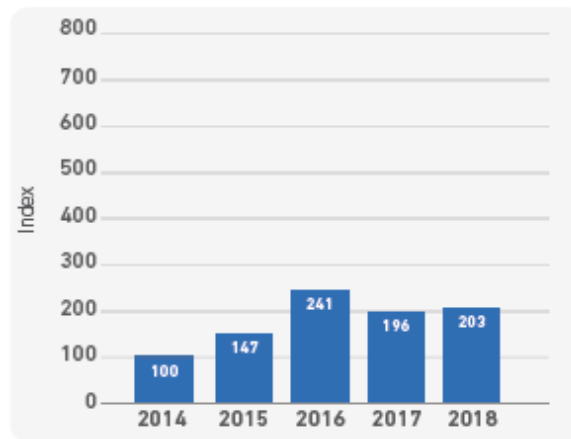


Installment Lending Fuels Industry Growth

Growth of Funded Loan Volume (\$) –
Online Installment



Growth of Funded Loan Volume (\$) –
Online Single Pay





Trends

- Substantial increase in use of prescreen direct mail and organic channels to acquire customers
- Demand for tools that can be used across all acquisition channels



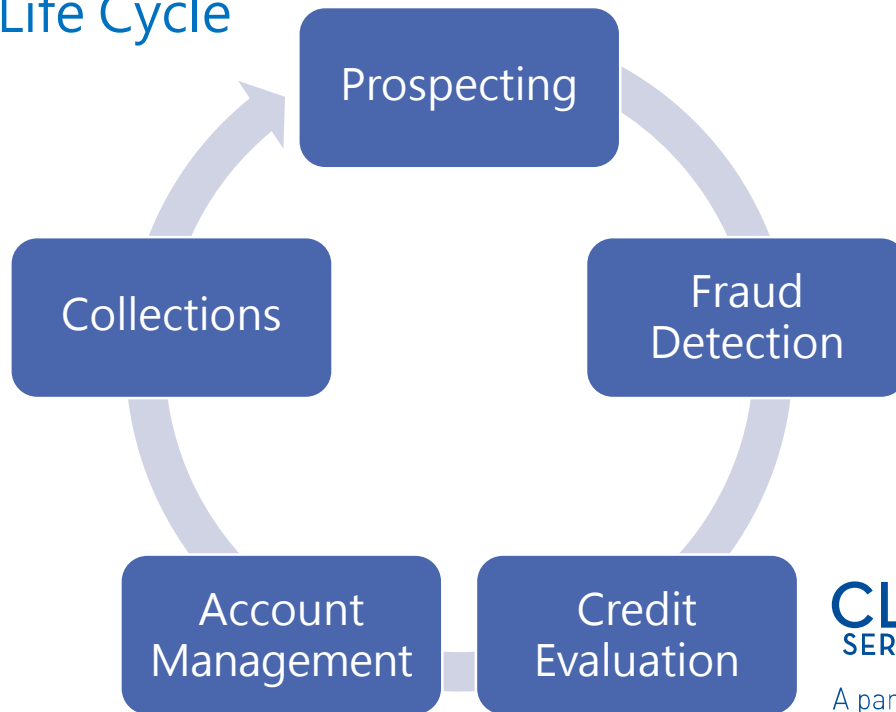
Trends

- Increased competition for subprime consumers
- Advancement in analytical techniques and tools for developing underwriting strategies
- Data, data, data...
- Need for more industry-specific models



Tools for the Lending Life Cycle

- Credit risk scores
- Response models
- Fraud scores
- Identity verification
- Conversion optimization
- Ability to pay
- Income data
- Banking information
- Retention strategies
- Behavior scores
- Collection strategies
- Recovery models





Types of Models Traditionally Used Across the Lending Life Cycle



Prospecting

- Risk
- Bankruptcy
- Profit
- Response



Underwriting

- Risk
- Conversion
- Bankruptcy
- Profit
- Revenue
- Ability to pay
- Fraud



Account Management

- Risk
- Bankruptcy
- Retention
- Loss
- Forecasting



Collections

- Bankruptcy
- Collections
- Recovery



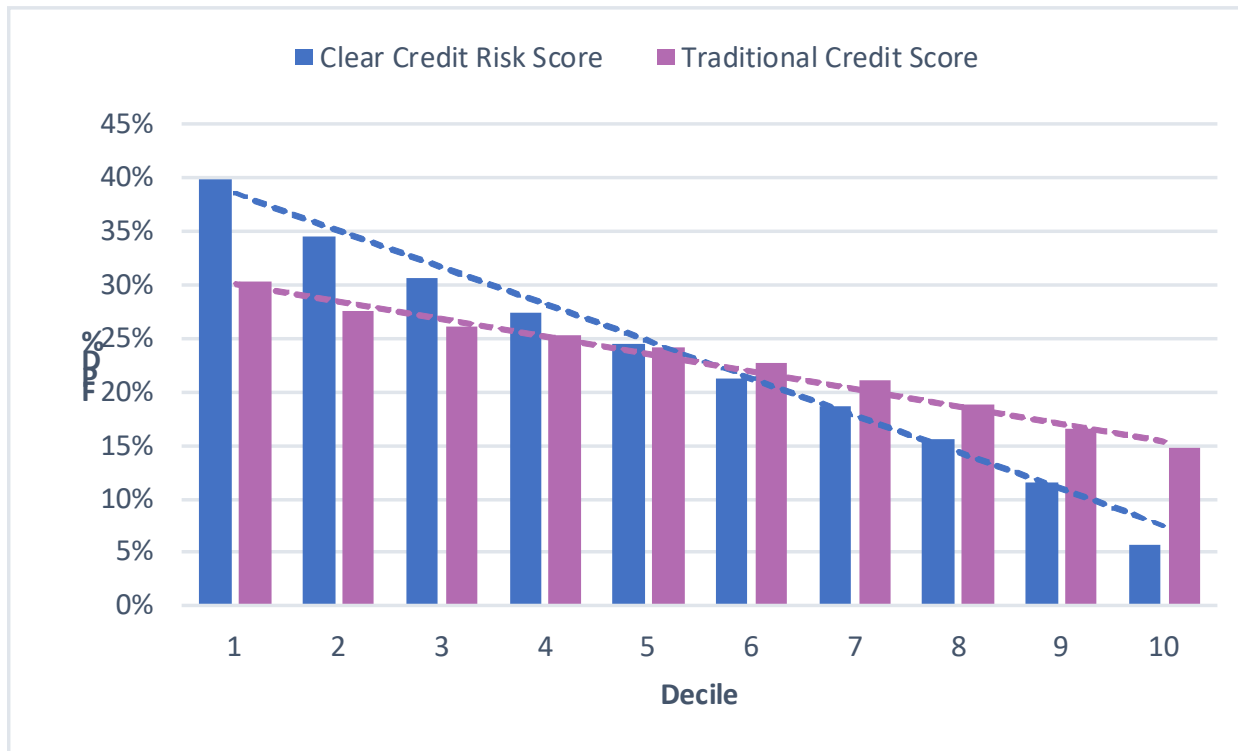
Credit Evaluation

- Off-the-shelf credit risk scores
 - Generic
 - Industry specific
- Custom credit scores



What You Need to Consider When Choosing a Risk Model

- Underlying population
- Dependent variable (FPD, ever 90+ DPD, charge off)
- Input variables – consumer dimensions
- Loan product (payment terms, secured/unsecured)
- Is it for standalone use or in combination with other scores/attributes?





Traditional Credit Score	Metric	Clear Credit Risk Score					
		300-526	527-553	554-571	572-589	590-850	Total
300-543	FPD Rate	25.4%	18.8%	15.2%	13.3%	8.8%	19.6%
	Response Rate	3.6%	1.5%	1.2%	1.1%	1.6%	2.2%
544-578	FPD Rate	20.4%	16.2%	12.5%	11.4%	7.9%	15.0%
	Response Rate	2.3%	1.3%	0.9%	0.7%	1.0%	1.3%
579-605	FPD Rate	18.0%	13.3%	10.1%	9.9%	7.2%	12.0%
	Response Rate	1.6%	1.0%	0.6%	0.5%	0.6%	0.8%
606-633	FPD Rate	13.6%	12.6%	9.3%	8.9%	5.9%	10.1%
	Response Rate	1.0%	0.6%	0.4%	0.3%	0.3%	0.5%
634-850	FPD Rate	15.2%	10.2%	9.5%	8.1%	6.6%	9.3%
	Response Rate	0.6%	0.3%	0.2%	0.1%	0.1%	0.2%
Total	FPD Rate	22.0%	15.8%	11.9%	10.7%	7.4%	15.0%
	Response Rate	2.4%	1.1%	0.7%	0.5%	0.5%	1.0%



Today's Fraud Problems Need Today's Fraud Solutions

Problem	Solution
First-party fraud – consumer has no intent to pay	Consumer credit activity and stability attributes Industry fraud scores
Third-party fraud – identity theft	Fraud signatures (fraud ring linkage) Identity verification Fraud indicators KYC
Bust out fraud	Synthetic identity scores Loan stacking indicators



Keep Fraud Tools Up to Date

- Consider an applicant pool that was determined to be low risk based on older tools.
- The Clear Fraud Insight™ score was able to identify the higher-risk consumers that would have passed underwriting.
- For example, those 'low-risk' consumers with a Clear Fraud Insight score of less than 600 had an FPD rate of 58.4%.

Clear Fraud Insight Score Threshold	FPD Rate
Overall	10.6%
< 550	64.8%
< 600	58.4%
< 650	50.2%
< 700	45.4%
< 725	42.6%



On the horizon...

- Industry-optimized credit risk scores built to predict longer-term performance
- Continued identification and escalation of fraud patterns/rings
- Tools to improve conversion and response rates for AFS loans