microbilt

E-book

Alternative Credit Reporting

INTRODUCTION

When your business extends credit to a customer – or declines to do so – you want to be confident you made the right decision. When evaluating potential borrowers, most companies turn to credit histories and other standard financial records to determine the merits of an applicant.
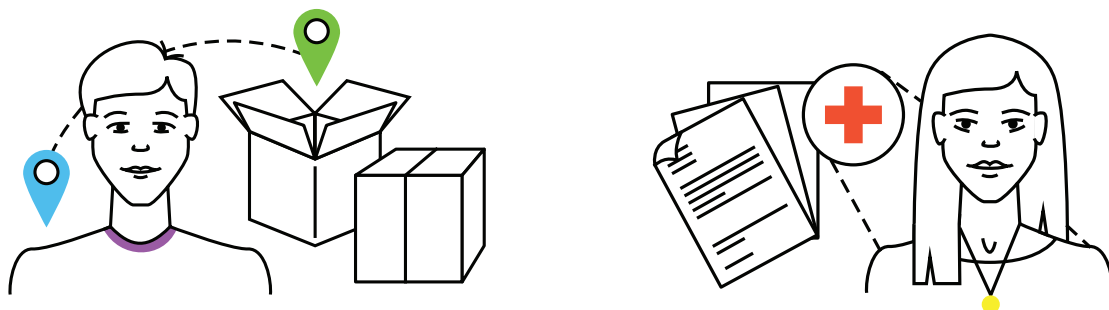
But sometimes traditional data doesn't offer the full picture, which can cause you to miss out on valuable opportunities for expanding your client base to those who may not have an established credit history.

In these situations, you need to be able to look outside the usual sources to make an informed decision that will benefit your business.

CONTENTS

MEET JULIAN AND SUSAN

Julian immigrated to the U.S. last year. He is 35 years old and employed full-time in advertising. Back in the U.K., he owned his own condo and leased a car, building up a high credit score. But his financial history didn't follow him to the U.S., where he now is considered a risk despite being a responsible borrower his entire adult life.

Susan is a 53-year-old accountant. She had a great credit history until she was diagnosed with terminal illness five years ago. Medical expenses that weren't covered by her insurance decimated her savings and maxed out her credit cards. Though she consistently pays her rent and utilities on time each month, her low credit score makes it difficult to get a loan.

What do these two have in common? They're both low-risk applicants who would nonetheless be overlooked by lenders using traditional data.

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TRADITIONAL DATA AND RISK EVALUATION
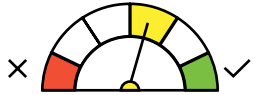
To assess and manage risk when considering consumers such as Julian and Susan, lenders tend to rely on traditional data included in reports and scores created by the big three credit reporting agencies: Experian, TransUnion and Equifax. These methods typically emphasize a person's FICO score, which is influenced by a number of factors related to past credit experience, including existing debt and payment history. Much of the data is gathered from previous interactions with borrowers, such as credit cards and auto loans.

Though common, the traditional method of determining risk can oversimplify consumer profiles, excluding borrowers who are reliable but may not have had a chance to build up credit. This means you may end up turning down applicants who, in reality, could be trusted to pay off their debt, needlessly limiting your pool of clients. It's frustrating for your consumers and certainly not advantageous for your business.

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ALTERNATIVE DATA AND RISK EVALUATION
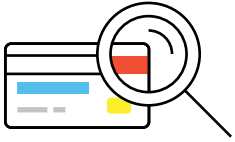
When it comes to customers like Julian and Susan who don't fit the conventional model, alternative data can provide businesses with a more accurate borrower profile.

Alternative data looks beyond traditional information to data that is used less often, but nonetheless demonstrates reliability, such as rent payments or utility bills. These checks provide a more accurate picture of consumers who are responsible and low-risk, but either haven't had a chance to build up credit or have intentionally chosen to avoid credit cards and similar financial dealings.

Forms of alternative data include recurring payments, such as telecommunications and utility bills or childcare fees, as well as employment records and bank data. This information can give potential lenders increased confidence in an applicant's consistency based on past financial reliability, even if he or she doesn't have a credit score in the traditional sense.

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EXAMPLES OF TRADITIONAL VS. ALTERNATIVE DATA

Though traditional and alternative data is gathered from different sources, both strategies look for the same evidence: a pattern of consistency and responsibility in past financial dealings.

Credit cards and other sources traditionally used to calculate FICO scores are not the only evidence that can demonstrate an applicant's reliability. Utility bills and other recurring payments show lenders consumers' stability, timeliness and other metrics that should influence their risk evaluation.

TRADITIONAL
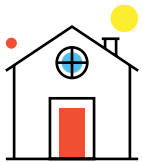
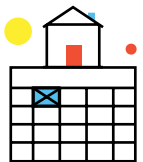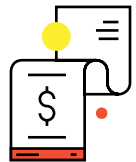| Mortgage	Credit Cards	Home Equity	Auto Loans	Dept. Store Cards

ALTERNATIVE
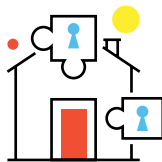
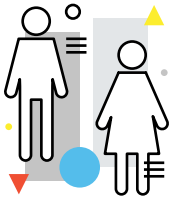| Monthly Rent	Bank Accounts	Utility Bills	Rent-to-Own	Student Loans

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Traditional

Mortgage
Credit cards
Home equity
Auto loans
Department store cards

Alternative

Monthly rent
Bank accounts
Utility bills
Rent-to-own
Student loans

WHO BENEFITS FROM ALTERNATIVE DATA?

A variety of consumers benefit from the use of alternative data, including the large portion of the U.S. population that is considered "underbanked" - those who have some form of relationship with a bank, such as a checking account, but don't utilize credit cards or other traditional credit options.

According to estimates from the Federal Deposit Insurance Corporation, 50 million adults across the country fall into this category. This demographic frequently includes immigrants, like Julian, whose credit history did not follow them to the U.S., as well as young adults who have yet to build up credit and consumers who have chosen to avoid credit cards.

Alternative data can also benefit those who simply have a bad credit score due to unavoidable circumstances. Some applicants, such as Susan, may have struggled with medical bills following a health crisis, been laid off or experienced other unavoidable financial difficulties beyond their control.

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THE BENEFITS FOR YOUR BUSINESS

Ultimately, using alternative data to assess and manage risk benefits not only your customers, but your business as well. This method of determining an applicant's reliability has the potential to expand your consumer base, which in turn can increase your profits, adding dollars to your bottom line.

Including alternative data in your assessments could also give you an edge over any competitors who still determine eligibility through traditional data. Consumers like Julian and Susan who are incorrectly labeled as risks by these other companies may choose to use your business instead. Their loss will become your gain.

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A PARTNER YOU CAN TRUST

When it comes to determining risk prior to extending credit, you need a partner you can trust to aggregate this sensitive data. Assessing a person's credit history, whether through traditional or alternative data, requires the handling of confidential information, such as personal identification data and financial records. These materials are desirable targets for hacking and other forms of online theft.

According to Javelin's 2016 Identity Theft and Cybercrime report, $16 billion was stolen from 15.4 million consumers in the U.S. in 2016 alone.

Working with a reputable company ensures your customers' information is safe, which will protect your business from the legal and public relations ramifications of a data breach.

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THE ADVANTAGE OF A PARTNERSHIP WITH MICROBILT

For more than 35 years, MicroBilt has made risk assessment and management simple by providing best-in-class data to small- and medium-sized businesses that are often left out of the Big Data game.

Through predictive modeling, MicroBilt can help you to make accurate and strategic decisions about leasing, lending, risk management and collections. Based on the size, budget and needs of your business, you can customize your tools and access every product through the user-friendly MicroBilt portal.

Using alternative data from MicroBilt, your business can gain a more accurate picture of consumers like Julian and Susan and make an informed decision that is beneficial to both your company and your customers.

> MicroBilt can help you to make accurate and strategic decisions about leasing, lending, risk management and collections.

CONCLUSION

As alternative data becomes an increasingly popular option in the data credit space, you don't want your business to be left behind. By partnering with a company you can trust, like MicroBilt, you will be able to make an educated decision when extending credit to customers. This action will grow your bottom line and further protect both your clients and your business.

Why settle for the mainstream approach when alternative data holds so many opportunities? Contact MicroBilt today to learn more about how assessing and managing risk using alternative data can benefit your company.

Sources: www.credco.com/assets/pdfs/datasheets/FICO-booklet.pdf | www.americanbanker.com/news/can-alternative-data-determine-a-borrowers-ability-to-repay | www.javelinstrategy.com/press-release/identity-fraud-hits-record-high-154-million-us-victims-2016-16â-percent-according-new

Why settle for the mainstream approach when alternative data holds so many opportunities?

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For over 35 years MicroBilt has been helping business assess and manage risk. We were a pioneer in the now exploding alternative credit data space and as such have refined our products and services to deliver true business value.

At our core, we believe that any successful company needs access to the right information to make the smartest decisions possible.

Over the years, MicroBilt has invested heavily in acquiring best-in-class data. We've built sophisticated systems for keeping our data fresh and accurate and powerful predictive models for making decisions around lending, leasing, collections and risk management.

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