

Political & Economic Research Council

Alternative Credit Data Reaching Untapped Markets

Innovative Financial Tools for Serving the Underbanked
Federal Reserve Bank of Philadelphia - October 16, 2007

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What is Alternative Data?

Alternative Data - Payment data not traditionally reported to the major credit bureaus to any large extent

Assessed usefulness along 3 key dimensions

- “Cash-like” vs. “Credit-like” (incentive to furnish)
- Coverage (reach of data in population)
- Concentration (resources needed to reach furnishers)

- Traditional “credit-like” data
- Non-traditional “cash-like” data

Concentration of Data Furnisher

Low	High	
<ul style="list-style-type: none"> ■ Rental Payments 	<ul style="list-style-type: none"> ● Energy ● Telecom ● Water ● Cable ■ Auto liability insurance 	Many Consumers Utilizing Services
<ul style="list-style-type: none"> ■ Child care ● Payment cards ● Payday loans 	<ul style="list-style-type: none"> ■ Tuition 	Few Consumers Utilizing Services

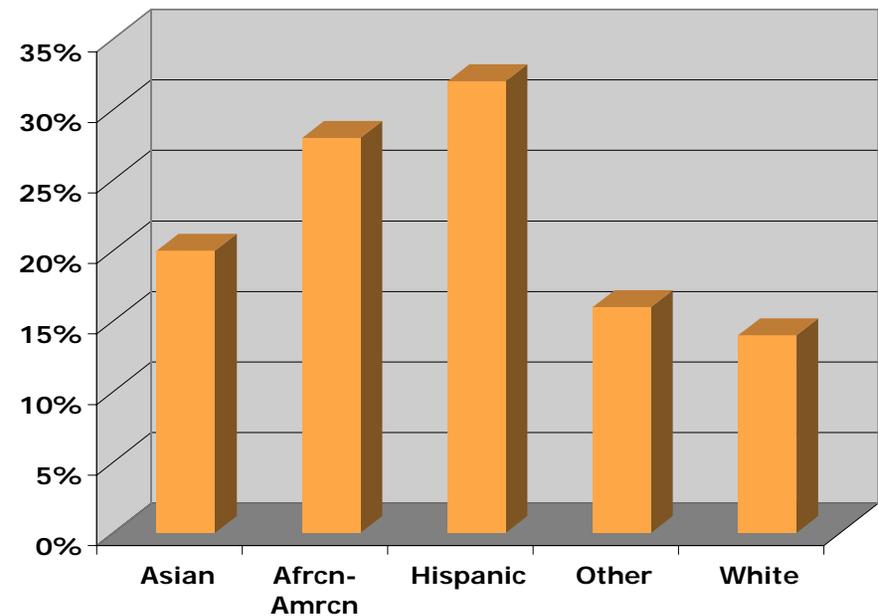
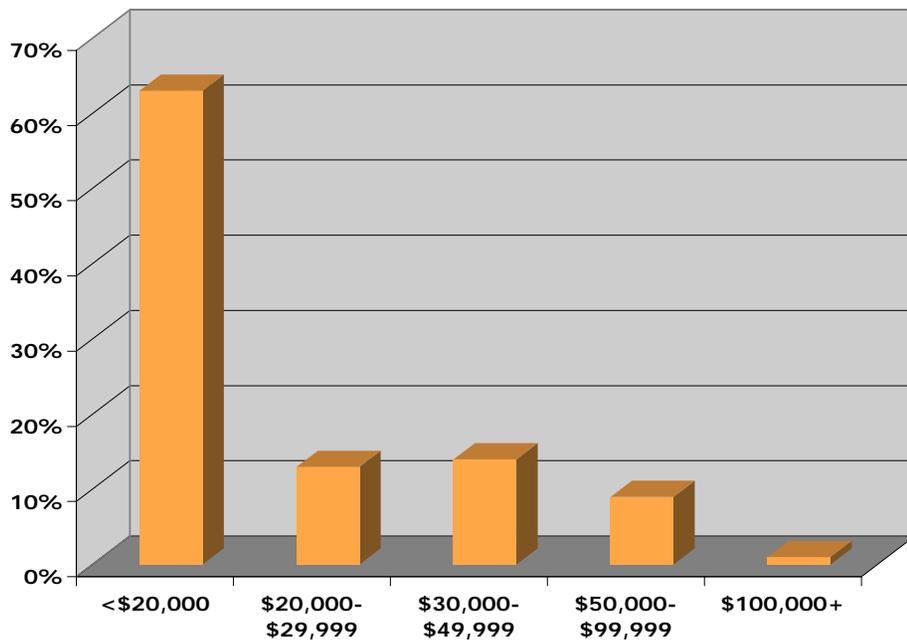
Importance of Alternative Data

Why Care About Alternative Data?

- **35 to 54 million Americans “unscorable”**
- **Primarily low income, immigrants, elderly, and ethnic minorities**
- **A credit history is needed to enter the financial mainstream**
- **Access to credit crucial for asset formation**
- **In start-ups and small businesses personal credit is a major source of capital**
- **Personal credit histories of owners loom large in small business financing**

Thin-files disproportionately low-income and ethnic

Thin-file with Energy Utility Trade by Income & Ethnicity



Key Finding Little Information Is Not High Risk

Risk profile shows promise

- Score distribution of thin-file sample similar to general population
- Nearly 40% of the African-American unscorable population have credits scores above 620 when energy utility and telecoms data included
 - 1 tradeline matters
 - Multiple tradelines is better
- Around 15% of the African-Americans in the sample would have been unscorable but for Alternative data.
- Around 22% of the Hispanics in the sample would have been unscorable but for Alternative data.
- GE Money - 40% thin file borrowers could be profitably booked with competitive mainstream rates using alternative data

Key Findings-- Access by Ethnicity and Income

Considerable lift for ethnic minorities and low income groups
Change in Acceptance Rate at 3% Delinquency Target

