EBOOK

How to Drive Innovation in Lending

Staying Ahead of the Curve with Alternative Lending Technology and Tools.

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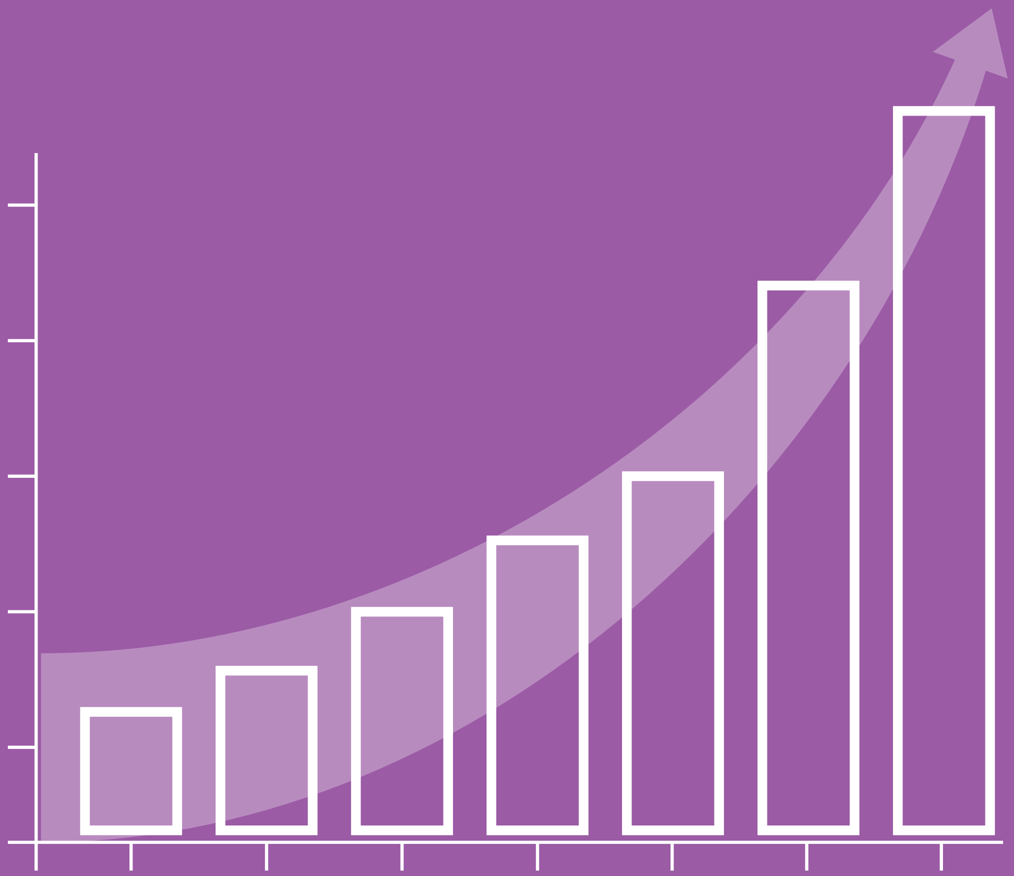
Introduction

Online lending has taken off, with small businesses and consumers able to connect directly to lenders and bypass the middleman via technology. While app developers can offer an online loan application process that's faster and easier than what traditional financial institutions offer, being truly innovative and agile in the lending space calls for leveraging alternative data to enable faster evaluation and approval of loans – without increasing the risk of defaults.

The Alternative Lending Boom



The alternative lending industry is still emerging, but it is growing fast. Loan origination volume estimates vary, but the constant theme is that alternative lending volumes are showing triple- digit growth in both the United States and the United Kingdom.

Alternate lending fills as least two gaps: it can improve credit access to people with gaps in their credit files, and it can help consumers consolidate credit-card debt at lower interest rates.

> "**Peer-to-peer lenders in the US generated $6.6 billion in loans in 2014,** up 128 percent."[1]

[1] *"Peer-to-Peer Lending Is Poised to Grow." Clevelandfed. August 14, 2014. https://www.clevelandfed.org/newsroom-and-events/publications/economic-trends/2014-economic-trends/et-20140814-peer-to-peer-lending-is-poised-to-grow.aspx.*

Increasing the Customer Pool

A 2015 FICO study revealed approximately 25 million U.S. consumers — or about 10 percent of the adult population — were "credit invisible," meaning they did not have credit history with a national credit bureau. Another 28 million consumers didn't have enough credit to be scored.

Given the weight placed on national credit bureau scores, it's unlikely those consumers or business owners would receive loans from a traditional financial institution. Many of them, however, have the cash and earnings to repay loans without difficulty.

> "**Augmenting traditional credit scores with alternate data makes it possible to generate predictive credit scores** for more than 50 percent of previously unscorable credit applicants and to help provide unbanked consumers a safe onramp to mainstream credit."[2]

[2] *"Can Alternative Data Expand Credit Access?" Fico.com. October 8, 2015. http://www.fico.com/en/blogs/risk-compliance/can-alternative-data-expand-credit-access/.*

The Advantage of New Data

Alternative lenders are gaining the upper hand by using new tools and data sources to better grasp the risks associated with lending to consumers and small business while improving the application process.

The technologies developed by alternative lenders boost consumer confidence and transparency. It might take weeks for a traditional lender to reach a decision on a loan, but the platforms used by alternative lenders tend to return results within days, hours, or even minutes.

> **"Borrowers benefit from a streamlined application process, quick funding decisions, and 24/7 access** to the status of their loans."[3]

[3] *"Peer Pressure: How Peer-to-peer Lending Platforms Are Transforming the Consumer Lending Industry." Pwc.com/consumerfinance. February 2015. https://www.pwc.com/us/en/consumer-finance/publications/assets/peer-to-peer-lending.pdf.*

Opportunity Knocks in Small Business Lending

Bank credit for small businesses showed a steady decline before the mid-2000 financial crisis and continued to decline in the recovery as banks focused on more profitable market segments.[4] As banks looked for better profits in larger loans, new digital tech firms began to fill the hole in the market for those seeking smaller loans.

Smart alternative lenders have found a way to make lending more cost efficient and user friendly by using alternative data like current cash flow, bill payment history, and forecasting to supplement thin credit reports and gain deeper risk insights.

> "**39.8 percent of people with credit histories shorter than three years** have credit scores higher than the subprime threshold, generally **good enough to obtain a loan.**"[5]

[4] *Mills, Karen Gordon, and Brayden McCarthy. "The State of Small Business Lending: Credit Access during the Recovery and How Technology May Change the Game." Harvard Business School, July 22, 2014. http://www.hbs.edu/faculty/Publication Files/15-004_09b1bf8b-eb2a-4e63-9c4e-0374f770856f.pdf.*

[5] *"Peer-to-Peer Lending Is Poised to Grow." Clevelandfed. Accessed March 02, 2016. https://www.clevelandfed.org/newsroom-and-events/ publications/economic-trends/2014-economic-trends/et-20140814-peer-to-peer-lending-is-poised-to-grow.aspx.*

Time Is Money

While traditional banks may offer low rates, the application process is time-consuming. The Federal Reserve Bank of New York reported business owners spend an average of 24 hours applying for credit. That's an enormous amount of time that most business owners could better use running their company.

The fact that businesses struggle to get approved only compounds matters, and if they are approved, they're often required to put up major assets — such as their home — as collateral. Meanwhile, alternative lenders are raising the bar, making the lending process faster, easier, and more inclusive.

> "An **important initiative** in 2016 will be the **elimination of friction** from the customer's experience, as traditional institutions continue to vie with emerging disruptors for credit-worthy borrowers."[6]
>
> *Christine Pratt, Senior Analyst at Aite Group*

[6] *"Leveraging Technology and Data to Drive Profitability in Lending." www.yodlee.com. http://www.yodlee.com/resources/whitepaper/leveraging-technology-data-drive-profitability-lending-2/*

Partnering to Gain Competitive Advantages

In a recent Global Fintech Influencer Survey, one of the most common predictions was that there would be increased partnering between legacy players, aka banks, and fintech innovators in 2016.[7]

Increasing regulatory compliance, the need for alternative data technologies, and market demand for an easy and speedy lending experience converge to make collaborating on lending apps not only highly profitable, but virtually required.

By joining forces with fintech providers to tap risk-management tools and loan- origination process, traditional banks can expand into new markets, improve efficiency, and make the applicant's experience more positive. Meanwhile, fintech providers gain access to an existing customer-base and a ready-made audience for their apps, which can drive loyalty as they develop the digital solutions customers are seeking.

> **"The traditional strength of community banks** — intimate knowledge of their communities and local businesses — **could be meshed with the faster decision making and funds provision that alternative online lenders employ."**[8]
>
> *Lael Brainard, Federal Reserve governor*

[7] *Mohan, Devie. "Global Fintech Survey Results: 51 Experts Reveal 2016 Trands." www.yodlee.com. February 15, 2016. http://www.yodlee.com/global-fintech-survey-results-51-experts-reveal-2016-trends/*

[8] *Ginovsky, John. "Community Banks, Alternative Lenders, Can Coexist." Www.bankingexchange.com. October 16, 2015. http://www.bankingexchange.com/community-banking/c-suite/item/5810-community-banks-alternative-lenders-can-coexist.*

Envestnet | Yodlee Risk Insight

Technology and data are essential to maintaining a competitive edge in lending, especially when granting lower-dollar loans to small businesses and consumers.

Envestnet® | Yodlee® Risk Insight is a packaged solution that captures data elements not available through the credit bureaus. This includes income data, cash flow data, bill payment history, account receivables, account payables, payroll, and outside investments.

This powerful big data solution enables lenders to glean critical business income and spending insights, with better data to assess a borrower's credit risk. This can boost profitability while reducing the chance of loan risks and defaults.

Envestnet | Yodlee's Financial Data Platform connects financial data from over 15,000 global sources. More than 71 percent of this data comes from direct data feeds with leading financial institutions, which enables speed and performance and reflects the strength of Envestnet | Yodlee's connection and banking relationships.

Conclusion

Alternative lending technology and tools can help distinguish good lending risks from bad ones. Having accurate, integrated, and transparent data with a holistic view of the consumer's financial standing can drive confident, proactive decisions and help financial institutions and fintech providers alike drive lending activity and profits while fulfilling regulatory risk limits and customer preferences.

How can I learn more?

- Download the whitepaper: "Optimizing Credit Risk for Increased Lending Profitability"
- Download the data sheet: "Envestnet | Yodlee Risk Insight"
- Watch the webinar: "Driving Profitability in Lending"

For more information, visit: **www.yodlee.com.**

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