Online Short-Term Lending Second Annual Statistical Analysis Report

Underwriting Fact Sheet

Bretton Woods conducted a survey of several lenders to better understand the industry's approach to approve applications. The following represent some of the questions posed to the lenders as well as a summary of the most common responses.

Products Offered

- Single payment
- Installment
- No open ended credit

What And How Many Types of Data Sources and Data Points are Currently Utilized to Underwrite Loans?

- Up to 25 distinct data sources with anywhere from 1,000 to 2,000 data points;
- Instant Bank Verification that is consumer provided. Other tools, such as "Hello Soda," are being considered for their psycho-linguistic models.
- Utilize other tools in the underwriting process to verify a borrower's identity, account number and balance in real-time as necessary.

At What Frequency Do You Evaluate Your Underwriting Methodology?

Daily to monthly based on the sophistication of the underwriting algorithms.

What Types of Tools And Models Are Being Used?

- Traditional credit, anti-fraud, credit worthiness, trend assessments, decision trees, scorecards, internal filters and lending rules.
- The source data comes from the application and third party databases.

What Are the Greatest Challenges in Determining an Applicant's Ability to Repay?

- Fraud detection.
- Ability to access information on other debt obligations.
- Incomplete reporting back of loan activity to the alternative credit bureaus.

What is Your Estimate of the Additional Costs of Operating in Multiple Jurisdictions Versus a Federal Charter?

Most respondents indicated that their costs are somewhere between 10 to 25 percent higher by operating in multiple jurisdictions. One lender indicated higher costs of 50 percent.

How Would You Differentiate Your Underwriting From Traditional Bank Underwriting for Unsecured Consumer Loans?

To facilitate this object some lenders have two streams of underwriting:

- Fraud detection and prevention
- Credit worthiness

One lender that responded to the survey pointed out its focus on meeting its customers' need for a quick answer to their money shortfalls. As result, the lender uses an automate decision-making algorithm the relies on traditional trade lines, payment history and the customer's declared information like income and places of employment to make a good credit decision about customer willingness to repay the loan.

Lenders also look at several aspects from verification of the application including loan to income ratio, payment to income and big data, machine learning and credit scoring as part of their processes.

To What Extent Do You Use "Big Data" (Extremely Large Data Sets That May Be Analyzed Computationally To Reveal Patterns, Trends, And Associations) in Analyzing Loan Applications?

Lenders utilize underwriting responses from third parties, such as credit bureaus, which can include up to 6,000 attributes per loan application, and they run internal statistical analysis on this data monthly.

Emerging Underwriting Technologies

Alternative credit bureaus are developing solutions that review months of bank statements to analyze both deposit trends for sources of income as well as spending patterns for recurring household expenses and other debt obligations. This paired with the ongoing evolution of algorithms to assess fraud and credit risk, provide sophisticated underwriting for this market.

Underwriting Criteria

We believe that underwriting should include the willingness to repay, the ability to repay and the ability to collect. This is similar to the traditional underwriting criteria banks have used for decades.

That is, the five C's of credit:

- *Character – willingness to repay*
- *Capacity – capability to repay as measured by income and total obligations*
- *Conditions – loan and payment structure*
- Capital
- Collateral