



Turning Thin Files into Fat Profits: Using Non-Credit based Identity Proofing to Evaluate Risk

An IDology, Inc. Whitepaper

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Overcoming the Credit Challenge of an Under Served Market

The use of credit histories has evolved from a simple tool to help financial lenders, such as mortgage companies or credit card issuers, evaluate if a consumer will pay his or her debts, to a full-blown screening tool for all types of businesses to evaluate risk.

But what about the 70 million consumers¹ who fall outside of the credit system? According to some, the unbanked immigrants and ethnic minorities spending on financial products and services will increase by 94% in the next 4 years.² With so many people in the United States having little to no credit combined with an expected increase in spending from this market, relying only on credit scores during the decision process, whether it is for a bank loan, new account or purchase order, means your business may be turning down a legitimate customer and missing a real opportunity for revenue.

One of the key findings in a report conducted last year by the Political Economic Research Council (PERC) and The Brookings Institution Urban Markets Initiative found that those outside of the credit mainstream have similar risk profiles as those in the mainstream when including nontraditional data in credit assessments.³ In fact, using nontraditional data lowered the rate of serious default by more than 20% among previously unscorable populations.⁴



Source: www.CartoonStock.com

1. As reported by the National Credit Reporting Association Inc. in March 2007

2. Global Advertising Strategies research report overview, *Financial Services and the Underbanked*, http://www.researchandmarkets.com/reportinfo.asp?report_id=297175, April 2005

3. Political and Economic Research Council & The Brookings Institution Urban Markets Initiative, *Give Credit Where Credit Is Due: Increasing Access to Affordable Mainstream Credit Using Alternative Data*, 2006, p.2

4. *Ibid*, p.2

As Michael Turner, president of PERC says, “While consumer credit-reporting has become a principal means of risk assessment for gaining access to the credit markets, consumers who have little or no information in their credit files – although they may be creditworthy – are actually deemed not creditworthy.”⁵

Since a high saturation in the banking market among credit-ready consumers exists, financial institutions are looking for new ways to increase market share. One solution is to target the thin file market and offer products and services that will drive more revenue. Fortunately, there is an easier way to evaluate the risk in dealing with this market before sinking too much time and effort into researching the creditworthiness of a consumer through alternative means.

This whitepaper will review the challenges involved with identifying the thin file market and demonstrate the role non-credit based identity proofing technologies play in creating more profits within your business.

Understanding the Types of Thin File Consumers

As one would guess, the very definition of “thin-file” means there is not a lot of information available to completely understand all the demographics of these consumers. However, there are typically two groups that fall within the thin file category. These are:

- **Young People** – because people do not start building a credit history until they are 18 or older, young people often do not have credit reports.
- **New In Country** – our credit system is strictly US based so even if immigrants have a good credit history in another country, it will not move with them here.

Other types of consumers with thin files include minorities, lower-income consumers, older widows or divorcees whose credit histories link to their husbands’ names only, retirees without a mortgage, extremely wealthy individuals who pay cash for everything, and people who deliberately do not use or want credit.

5. Steve Bergsman, *The Thin-File Problem*, Mortgage Banking, March 1, 2007