

Situation

Banco Popular sought to offer the unbanked population an alternative to predatory lenders charging 60 to 300%. These solutions would create genuine customer value, foster economic growth, and benefit the bank. Popular also wanted to mainstream clients via credit reporting and a migration path of right-fitting products and services.

At the time, Banco Popular's connection with the unbanked was mainly through non-bank offices offering payroll, check cashing, bill pay, and money transfers. Charting new territory, Banco Popular was prepared to learn and adapt toward a solution.

Challenge

- No conventional underwriting documentation
- Most customers have limited or no formal borrowing experience
- Many customers fear banks – feel they won't be treated fairly
- Educational attainment, literacy, and financial literacy are limited
- Small loan sizes require high efficiency to achieve acceptable ROE

Solution

We assessed all available data sources associated with non-bank office customers. The centers had five major data collection and storage points.

1. ID verification: Image recognition and government ID lookup systems
2. Main point of sale: Associated verified IDs with all direct transactions
3. Money transfer and third-party POS: ID, time, and amounts passed to bank
4. Office security system: Time, location, and image recognition
5. Loan applications

Models were created by using these data sources to assess work, financial, and life behavior patterns, accountability, community connectedness and strength of references. Models used a combination of ML and expert modeling to rapidly evolve performance and improve loan applications. Credit approval was instant, subject to reference verification. Preapprovals were presented at bank POS. First time loans were small. Subsequent types included unsecured and vehicle secured. Credit reporting was promoted as a benefit and provided free CRA access. Customers were extended custom solicitations for traditional bank relationships.

Results

- The initial model for clients with no lending history had an average PD of 6%. (This is 3 to 4 times smaller than PD at predatory lenders.)
- Models quickly improved to an average PD under 3%.
- Unsecured interest rates were between 13% - 28%.
- Even with small loans and short terms, the program operates profitably due to high automation, low operating costs, and advanced analytics.