

SPECIAL REPORT

Making Faster Loan Decisions

WITH

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CREDIT UNION
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Introduction

A couple of months into 2022, it feels like we're seeing a significant shift in how credit unions allocate credit. Digital, automation, and speed rule. In a survey of credit union professionals at NACUSO Network in late 2021, six out of ten said the industry's underwriting technology is outdated. Eight out of ten said the increased use of artificial intelligence (AI) and machine learning (ML) would lead to better risk scoring. And (last statistic, we swear), six out of ten said AI underwriting is an investment priority for 2022.

The benefits of AI-driven lending are simple: You can risk-rank borrowers much more accurately than with national scores and widen the credit box to say yes to more members. Credit unions have always focused on serving communities better. A tailored AI model that understands your market can approve more loans, especially for underserved groups, without adding risk.

Lending at the speed of AI

One CEO who's ahead of the pack with AI lending is Erik Shaw of 5Point Credit Union. 5Point is an \$830 million (assets) organization serving 50,000 members along Texas' bustling Gulf Coast. Shaw's roots go deep in the region, having graduated in finance from Lamar University in Beaumont. Shaw spent his first nine years in banking and the last 25 at 5Point. "It's been a good career for me. I'm happy to be in financial services, especially in a credit union."

5Point had already cut its funding time substantially by mid-2021, when 5Point started working with Zest to implement AI-driven lending. The objectives: Safely say yes to more apps faster in both direct and indirect auto channels.



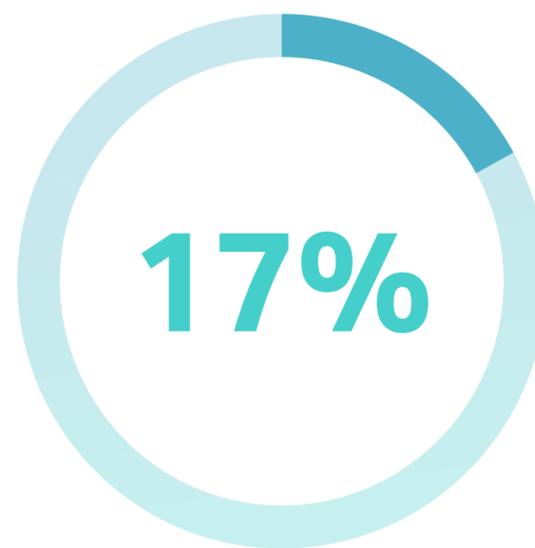
Erik Shaw, 5Point CEO

“The industry has changed exponentially in the last five years. I think it's going to change even faster over the next five.”

Shaw's overarching goal is to return a decision immediately on half or more of his auto loans. "Anything our members can do in-person we want them to be able to do digitally, and just as effectively, if not better," says Shaw.

5Point's new Zest-built model can deliver a more accurate risk score in under a second, as it was trained on 10x more variables than FICO can consume. That opens up approvals all down the credit spectrum, reducing disparities for women and borrowers of color. Best part? Zest integrated smoothly with 5Point's LOS, Corelation. The teams were able to go from data to model implementation in a month.

Credit unions need to decision loans faster to keep up with fintechs



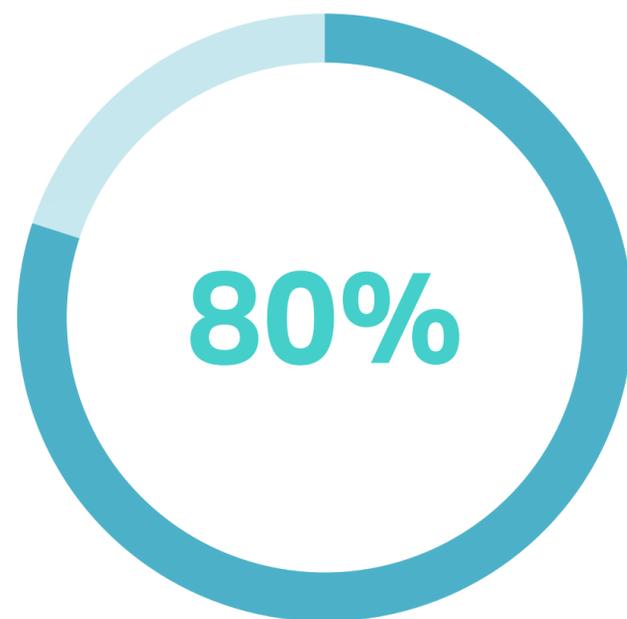
Portion of CU industry pros who typically approve loans in under 30 minutes

"You should be dealing with your finances on your time, not our time."

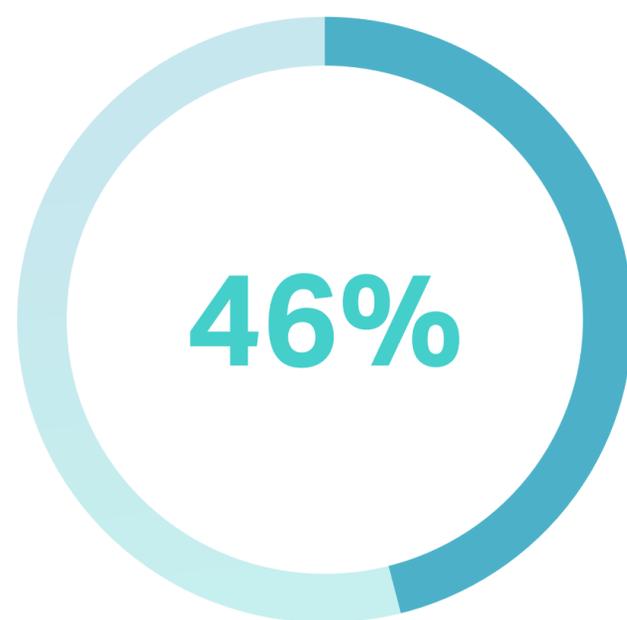
Is AI a job-killer? Not really.

Human underwriters naturally fear for their jobs when an algorithm can suddenly auto-decide 85% of loans. But the reality is that AI makes their job easier by freeing them up to focus on the things that people do well, such as interacting and problem-solving with other humans.

5Point's Shaw, for example, says that AI will help his team focus more on their auto loan recapture program. "Automated decisioning frees them up for those meaningful discussions where you find out about the vehicles that members are financing elsewhere," he says. "I told them, 'Your positions are still very much needed.'"



Portion of CU execs who say AI/ML would lead to better credit scoring



Portion of CU execs who have no concerns at all about the use of AI

Size doesn't matter

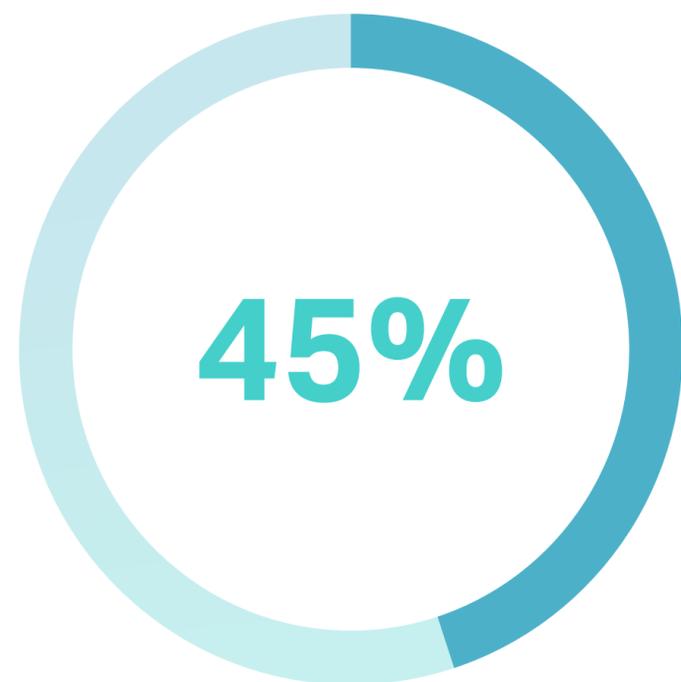
Smaller credit unions often balk at AI lending because they think it's too expensive or they lack the data. That's no longer true. 5Point is no giant, but it had plenty of loan data to build a high-performing model. Partners like Zest can bring in new kinds of FCRA-compliant data from telcos and utilities, or enhance a smaller CU's loan data with raw tradelines from the bureaus. Zest and 5Point worked together to produce a model from raw tradeline data from Equifax and generated a full statistical and economic analysis, all without a contract. That made the adoption decision much easier. Someday, AI-powered scores will be as embedded in the system and accessible as national scores are today.

“Sometimes I think we have too much data. The real job is choosing which data is important and knowing what to do with it.”

The importance of a tailored model

Legacy credit scores still exert a powerful grip on the market, but credit unions are loosening their reliance. Industry veterans like Shaw know the statistical limitations and bias that come with national scores. It makes no sense for a lender in Texas to be using the same yardstick as lenders in Honolulu, Minneapolis, and Maine.

Especially when ML math unlocks the ability to build better, tailored models. 5Point looked at hundreds of variables from funded and unfunded loans in its market to capture all the local, counterfactual intelligence it could. The big benefit of machine learning is the ability to consume more data to identify the overlooked but creditworthy applicants in your community.



Portion of CU execs who predict that credit unions will end their reliance on FICO within ten years

The takeaways

5Point's Shaw knew AI lending was coming, but the pandemic sped up his plans. While he acknowledges that AI/ML might not be for everyone, it is something everyone needs to consider. "I said, 'Let's dig in and do an ROI on this. I'll be surprised if this does not pay for itself.'" And sure enough, he says, it most certainly will.

The top things to get right:

- Start with the endgame: How will this make our members' lives better? How will it deliver more efficient service?
- Kick the tires. A lot. Make sure any model you're presented is transparent, well-documented, free of bias, and you own it.
- Ask to see a vendor's integration agreements with your LOS.

- Perform "dark scoring" to get comfortable with the model's decisions.
- Ensure the vendor will help you monitor/review the model closely once it is live-scoring.

Doing AI the right way requires real partnership — and the best kind of partners are the ones who work with you every step of the way to create significant long-term value for members.

"AI will likely be a bigger part of the delivery of financial services in the next 10 years. I'd rather get in early than jump on board late."



Background on 5Point Credit Union

5Point was founded in 1935 and is now one of the largest independent, not-for-profit financial institutions in Southeast Texas, committed to providing financial opportunities to the hardworking families in its area.

Reasons for Choosing AI-Driven Lending With Zest

5Point wanted to say yes to more vehicle applications without adding risk and make faster decisions in its direct channel but, especially with indirect using more automated underwriting. Zest was able to get 5Point's model implemented in one month.

Target products & market

AUTO LOANS

Region: Southeast Texas

Key Team Members

- CHRISTIE DOWNS, VP LENDING
- JENNIFER WEBB, SVP LENDING
- ERIK SHAW, CEO

LOS Provider



<p>TOTAL ASSETS</p> <hr/> <p>\$830M</p>	<p>AUTO LOAN VOLUME (\$)</p> <hr/> <p>\$240M</p>	<p>MEMBERS</p> <hr/> <p>49,000</p>	<p>BRANCHES</p> <hr/> <p>10</p>
<p>OBJECTIVES</p> <hr/> <p>To grow its loan book and serve more members, 5Point knew it needed to get competitive with the bigger banks and online lenders crowding into its auto lending market. 5Point's underwriting team is fast but wanted to get even faster at saying yes to more indirect loans sent through its dealer network.</p>		<p>CHALLENGES</p> <hr/> <p>5Point wanted to expand its auto loan portfolio rapidly without adding risk. Its lending executives knew that AI could improve approval rates but was concerned about adequate risk documentation and compliance with fair lending regulations. It wanted to automate more of its manual underwriting process while ensuring that model decisions were sound and reliable.</p>	
		<p>RESULTS</p> <hr/> <p>5Point used Zest software to build an AI-driven credit model with 10x more variables than before, producing a more accurate picture of borrowers' delinquency risk. The Zest model swaps in more good applicants than the ones it swaps out, producing a bump in yield with no adding risk. The model is also more inclusive, reducing disparity in approval rates between gender and ethnicities. Last but not least, it integrated smoothly with 5Point's LOS.</p>	
<p>EST. ORIGINATIONS GAIN</p> <hr/> <p>7%</p>	<p>EST. ANNUAL PROFIT GAIN</p> <hr/> <p>\$1.5M</p>	<p>FEATURES IN ZEST MODEL</p> <hr/> <p>185</p>	<p>MONTHS TO DEPLOY</p> <hr/> <p>1</p>

Thank You!

[Schedule a demo today](#) to learn how AI can help your organization make better and faster lending decisions.

Or get in touch at hello@zest.ai

About Zest AI

Zest AI makes the power of machine learning safe to use in credit underwriting. Lenders using Zest AI software make better decisions and better loans—increasing revenue, reducing risk, and automating compliance. Zest AI was founded in 2009 with the mission of making fair and transparent credit available to everyone and is now one of the fastest-growing fintech software companies. The company is headquartered in Los Angeles, California. Learn more at www.zest.ai and connect with us on [Twitter](#) and [LinkedIn](#).

