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A Detailed Account

Software: DecisionLogic Fills In the Financial Picture Beyond the Credit Score of Borrowers

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San Diego — Nearly 13 million people have had their banking information instantly and electronically verified by a lender using software invented by a San Diego company that offers an alternate method of determining a borrower's creditworthiness.

DecisionLogic's President David Evans, left, and CEO Carl Fredericks have developed software they say provides a more accurate picture of a borrower's ability to repay a loan.

David Evans, president of DecisionLogic, says his firm's software service provides a more accurate and fair picture of the risk involved in making a loan to a consumer or merchant than do credit scores, information that can also lead to lower interest rates.

In 2005, Evans co-founded a company called Clarilogic Inc. that sold personal finance management software, using financial data purchased from aggregators such as Intuit, to tech companies.

As the cost of data dropped, Evans realized: "Instead of just selling our software in onesies and twosies, there was a service we could provide if we added a layer of intelligence on top of the data to make it easy to use."

That led to the creation of DecisionLogic, software that analyzes real-time transactional data — how much your paycheck is, what you've been spending it on recently — and provides the result to customers such as payday and cash installment lenders, consumer finance companies, mortgage brokers and merchant lenders.

Two Products

DecisionLogic has two products: The version for consumer lenders pulls 90 days of financial data, while merchant lenders get 365 days.

The company, which now does business under the name of the product, has been profitable for nearly five years and is self-funded, Evans said.

"It started off essentially as an electronic bank statement," he said. "We started working with lenders who wanted to lend to honest consumers who are stuck."

The electronic documents are consistently formatted, read-only reports that arrive less than a minute after requested. To protect the information, it is encrypted and never stored with DecisionLogic, Evans said.

Lenders are charged $1.15 to $5 per lookup, depending on volume.

FICO Flaws

Recent banking information is a better indicator of whether a person or business looking for a loan will be able to pay it back than a credit score, which can fluctuate seemingly by the day and relies heavily on historical data, Evans said.

“Let’s say there’s a single mom paid by the hour and Monday morning her car breaks down,” Evans said. “She’s trying to get her kid to school, she’s trying to get to her job; it’s only a $400 alternator, but where is she going to get $400?”

A poor credit score may block her from getting emergency funds, even if she has the means to pay it back, he said.

Whether she is likely to repay a loan on time isn’t necessarily reflected in her FICO credit scores, he said.

“It doesn’t represent who you are today,” he said of the scores, which take into account payment history, any amounts owed, the length of credit history, the mix of credit in use and any new credit.

Adding Variables to the View

Tony Cherin, San Diego State University professor emeritus of finance, said a FICO score takes into account only prior debt.

“Whether transactional information for the last 90 days is sufficient is subject to question, but what I do like about it is it’s getting away from the FICO score which is based solely on debt,” he said. “The only thing that goes into a FICO score is the individual’s history in dealing with prior debt. It has nothing to do with the person’s ability to repay debt.”

Cherin said if he was considering writing a loan, he would look at other facets of a person’s financial history in addition to a FICO score.

“You could have a person with a relatively low FICO score simply because they don’t use debt a lot,” he said. “In other words, there’s very little history of repaying debt but they could be a multimillionaire in terms of their assets.”

“There are too many variables that aren’t going to show up in a FICO score which might mean the individual is completely creditworthy,” he said. “The great god of FICO has been around so long it’s sort of difficult to think beyond it. I think a lot gets missed if you don’t look at a prospective borrower’s entire balance sheet.”

Rapid Response

Still, nearly all lenders depend on the credit-scoring company to determine credit risk: 90 percent of lending decisions made today use FICO scores to determine credit risk, according to the company.

DecisionLogic’s online verification system speeds up the loan process for the borrower and lender alike, eliminating the need to track down bank statements, he said.

In today’s digital world, where online banking and lending have become commonplace, consumers expect easy, electronic access to such information, he said.

Soon, the company plans to launch a third product, DL Plus, a platform intended to “facilitate a relationship” between consumers and lenders by housing electronic financial data and allowing a back-and-forth.

“We’ll focus that mostly on America,” said Evans, whose company’s secondary markets are the United Kingdom, Canada, Australia and New Zealand. “We’ll be selling to the smaller banks.”

DECISIONLOGIC
CEO: Carl Fredericks
Revenue: At least $6 million this year; 70 percent increase from 2015
No. of local employees: 18
Headquarters: Scripps Ranch
Year founded: Parent company Clarilogic founded in 2005