

# LENDER CONFIDENCE

in a Time of Uncertainty



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## COVID-19 Has Changed the Paradigm

The world is in midst of an **unprecedented** global health and financial crisis.

Prime, subprime, credit thin or credit invisible: COVID-19 has likely **changed their worlds**.

**25+ million**

COVID-19 cases worldwide

**13.6 million**

people out of work

**40+ percent**

people with job loss  
or pay decrease

Credit reports remain strong indicator of credit history and past financial reliability. COVID-19 brings the **power of alternative data** into even sharper focus.

### **PRIOR TO COVID-19**

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Lenders could be confident in decisions on 161 million consumers or **64%** of the population

### **COVID-19**

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Lenders could be confident in decisions on 95 million consumers or **34%** of the population

## Past Informs Models of the Future

### Striking similarity

between Hurricane Harvey's sharp, sudden economic impact on Texas economy in 2017 and national economic impact of COVID-19.

Equifax models of Hurricane Harvey alongside current COVID-19 information predict we are on trajectory for consumer delinquencies to peak at rate **23% higher** than January 2020.

## Turning Data Insights into Action

Best practices call for lenders of all types to use **layered approach** to credit decisioning:

Start with the traditional credit file.

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Extend available insights with use of A.I. and alternative data.



This layered approach allows for better management of risk by lenders

Deeper view of traditional credit reports allows nearly **4 million people** who were moved down due to credit policy tightening to move back to prime and super prime credit categories.

# Explainability is the Key

With any AI or machine learning solution you need to be able to **explain** -- and **understand** -- what is included in the models.

**Understand** why someone should or shouldn't be approved for a card or personal loan.

Be able to **explain** to a consumer why or why not they were approved.

Explainable AI, like the patented Equifax NeuroDecision Technology, **brings strong science to data.**

**Prediction**  
is important.

Equifax models show  
xAI on top of traditional  
credit reports enables  
another **3+ million**  
**consumers** to move  
back to super prime  
credit bands.

## Beyond the Credit File

Alternative data in the form of income and employment information has become **critical.**

**Why?** → U.S. has an **8.4%** unemployment rate.



## Meet Jane

- Good credit
- Steadily employed
- Maximizing the benefits of cash-back cards over the last 2 years
- 10 cards in her name, each with a 5% or slightly greater utilization rate

How are you approving Jane for another new credit card **today**?

Verified income, employment and debt-to-income information is critical in **accurately** assessing consumer's ability to pay.



Layering **The Work Number** database into credit decisioning can move more than **7 million people** into prime and super prime categories

Consumer consented data puts the **individual consumer in charge** of what information is shared with insurers, lenders and other service providers.

**60% of consumers** surveyed by Citizens Bank are comfortable sharing personal information with their bank for more personalized solutions and better experiences

Utility payment information is a **powerful** source of data.

Urjanet surveys show **majority** of consumers have utility/telecom payment data available to enhance visibility into credit files.

Pre-pandemic Equifax data indicated that layering consumer consented alternative data sources, like utility payment information, on top of traditional credit file could move **5.5 million people** from “unscorable” or “subprime” to “prime” or “near prime”

Equifax data also showed **3.4 million consumers** would be able to move from being “unscorable” into “subprime” score bands.



## Jane's Financial Profile

- 10 cards with 5 percent utilization rate
- Ongoing employment has been verified
- Given consent for you to view her payment history to her water company and gas company
- Jane's utility payment history shows a largely on-time payment history for the last two years

Utility payment provides important “**lift**” for credit thin and credit invisible consumers.

Utility data also has the power to move over **5 million** more people into prime and super prime bands.

Consumer  
consented bank  
transactions  
provide a clearer  
picture

Helps understand how Jane **spends money**, but also how often money comes in and assets available to pay bills with.

Jane's bank information shows **regular payments** from her non-traditional job.

It shows a **bank balance** of \$30K -- a nice reserve to pay bills in a time of hardship.

Balance has also increased post COVID-19, meaning Jane is in better position than ever before -- she is a **strong candidate** for a new card.

## Equifax data analysis shows:

Having bank transactions on all consumers, could reduce the credit unscorable population by as much as **50 percent**.

We believe use of bank transaction data alone -- without other alternative data assets -- could increase prime or better consumers by more than **5 million people**.

Real world example:  
Equifax assessed one lender's ability to increase approvals without taking on more risk.

With bank transaction data on 40% of the lender's credit card applicants, the lender could **increase credit card approvals by 8.2%** without increasing its delinquency rate.

Smarter insights for  
smarter actions -- and  
the data you need to be  
more certain today and  
in the future.

More data provides **more confidence** in era of uncertainty.

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Deeper data insights can drive the **better decisions** needed to weather the pandemic and create new financial opportunities consumers need during the storm.

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