Credit Invisibles

THE ROAD TO FINANCIAL INCLUSION

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Financial Inclusion

Financial Inclusion

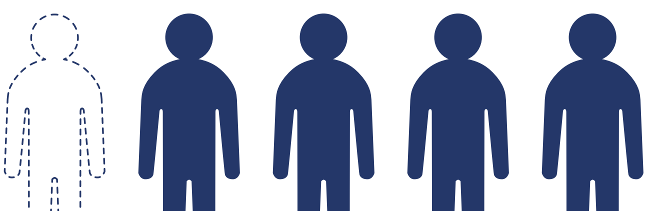
[fi-nan-shuhl in-kloo-zhuhn]

Access to useful, affordable financial products and services that meet the needs of individuals and businesses (e.g., transactions, payments, savings, credit and insurance), and are delivered in a responsible and sustainable way.[1]

Worldwide, 1.7 billion adults lack access to basic financial services[2] which are critical to day-to-day tasks like online payments, mobile deposits, preparing for emergencies ("financial shocks") and more.[3]

Financial inclusion provides access to financial services, which are necessary to build financial security and accumulate assets.[4] The ability to earn and amass assets determines whether families can leave poverty behind and achieve economic security, according to the CFED (Corporation for Enterprise Development).[5]

A key component of access to financial services is access to credit. Credit is at the foundation of financial growth, but for many credit-constrained, historically disadvantaged and underserved consumers, simply establishing (or improving) a credit score is challenging.



In the U.S., an estimated 1 out of 5 adults (50 million people) do not have a conventional credit score.

20% of Americans are credit invisible or unscorable. With an additional 57 million subprime consumers, 42% (106M) of the adult population is faced with establishing or reestablishing credit.[6]

According to Christine Lagarde, former Managing Director of the International Monetary Fund, "The merits of financial inclusion are strongly rooted in empowerment. (It) empowers individuals and families to cultivate economic opportunities and can be a powerful agent for strong and inclusive growth." [7]

Credit Invisibles and unscorables often face barriers accessing credit. As pointed out by FinLab, **"no file"** and **"thin file"** consumers face an irresolvable conflict: they often need a score to qualify for loans and obtain better pricing on credit, and yet to generate a score they need to have borrowed before.[8]

> ***"In short, income allows families to get out of poverty, assets are how they stay out."*** [9]
>
> \- Alexandra Bastien
> Former Program Associate, PolicyLink

Who are They?[10]

Credit Invisible
No-File

Consumers who do not have a credit record with the NCRAs. Also referred to as No-Hit consumers.

Credit Unscorable
Thin File

Consumers who have limited credit records with no recent activity, too few accounts, or accounts too new to be reliably scored.

Subprime Credit
Greater Risk

Consumers with below average credit scores who, in general, are extended credit at a higher interest rate - if at all.

The credit invisible, unscorable and subprime population includes disproportionate numbers of consumers of color, low-income households, immigrants, young adults and the general population of renters.[11] This population presents an opportunity for Financial Institutions (FIs) to expand their market while supporting financial inclusion.

- **26% are Hispanic and 28% are Black.** Compared with only 16% of Asian and White consumers.[12]
- **Live in low income neighborhoods.** Almost half of consumers living in low-income areas are credit invisible or unscorable vs. 9% of consumers living in higher income neighborhoods.[13]
- **Around 1/5 are recent immigrants.** 70% come from countries with mature credit reporting infrastructures already in place.[14]
- **40% are under age 25.** Those with credit history often have scores buoyed by student loans and family-guaranteed credit - advantages less common among consumers in low-income areas.[15]
- **Renters.** Renters with a Black or Latino head of household make up a larger share of the rental market than other populations.[16]
- **12.5% of senior citizens are credit invisible.** On average, senior citizens boast the highest credit scores of any age group. Factors affecting their credit include low credit utilization, no job, fixed-income and historic gender constraints (i.e., women came of age when financial matters were often deferred to men).[17]

In the U.S., Black and Hispanic consumers are statistically more likely to be credit invisible or unscorable than White consumers, and are less likely to be extended access to mainstream credit.[18]

Digital

Often, people who face barriers to mainstream financial services are also excluded from digital financial access. The dramatic reduction in "in-person" activities has accelerated the adoption of automation and digital technologies on a global scale.[19]

> ***"As much economic activity moves online, the technology needed to level the playing field is increasingly available."***
>
> \- Ravi Loganathan
> Chief Analytics Officer, Early Warning

Policymakers and regulators are calling for new technology to expand digital financial access to underserved segments - while maintaining consumer protection, fair competition and the stability and integrity of the financial sector.[20]

With the right technology and business strategy, FIs can promote financial inclusion. Technology can enable consumers with better solutions and better outcomes. Jim Yong Kim, President of World Bank Group, suggests, "Universal access to financial services is within reach - thanks to new technologies and transformative business models." [21]

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Alternative Credit Data

Leveraging alternative and trended data is a win-win solution for credit invisible, unscorable and subprime consumers and Financial Institutions. Alternative credit data integrates structured, supplemental, FCRA-compliant information into credit decisioning.[22]

Trended credit data aggregates information about financial activity over a specific time period - typically around 24 months. It is used to predict future consumer credit behavior based on their historical pattern (e.g., increasing or decreasing assets or liabilities).[23]

Alternative and trended data can be further bolstered by adding consumer-permissible data like cash flow, employment verification and public records into the automatic decisioning flow. Millions could get a leg up financially if credit scores included alternative data.[24]

Using alternative data, such as payments for **rent, telecommunications, utilities and bank account transactions** can be helpful to consumers trying to establish a credit score. Trended data from deposit and card accounts (e.g., payroll deposits, recurring payments, spending and withdrawal activity, average account balance, etc.) provides a clear picture of how applicants manage their finances on an ongoing basis.[25]

> ***"Alternative credit data essentially fills the gaps of the traditional credit file, including alternative financial services data, rental payments, asset ownership, utility payments, full-file public records, and consumer-permissioned data - all FCRA-compliant data."*** [26]
>
> \- Stefani Wendel
> Content Marketing Manager, Experian

UTR Data

Payment history of data sources from Utilities, Telecommunications and Rent.

91%
U.S. adults have at least one utility account in their name.

97%
U.S. adults own a cell phone.

1/3
Around a third of U.S. adults rent their housing.

97%
U.S. consumers who make UTR payments do not have that data in their credit bureau files.

[27]

UTR is a common source for alternative data. Simply adding these three additional sources to the decisioning process could result in millions of additional customers who could qualify for conventional credit. Yet this data is rarely included in credit files.

For example, only 5% of renters have their rent payments regularly reported on their credit bureau report.[28]

According to Dara Duguay, CRO of Credit Builders Alliance, rent reporting has helped "tenants that were once underscored or didn't have a credit history obtain a credit score within six months." [29]

When expanded data sets are combined with additional decisioning resources, an estimated 96% of applicants can be scored. This includes all conventionally unscoreable consumers and 65% of credit invisible consumers. Plus, 6 million subprime consumers could potentially score higher, shifting to near-prime or better.[30]

> *"We looked at the impact of adding just alternative and trended credit data in the auto industry, we were able to increase the number of scorable records by 19%, and increase approved applications by 40%."* [31]
>
> \- Amy Graybill
> VP of Customer Co-Innovation and Design, Equifax

TheDemand for Data

As the demand for alternative data grows, the time is right for Financial Insitutions to adopt a strategy for financial inclusion.

FinRegLab tested cash-flow variables and credit scores using data from six non-bank, financial services providers.

The providers use it when evaluating unsecured credit for the credit-constrained. In general, the strength of the data tested was as strong as the traditional credit scores and credit bureau attributes – suggesting predictive power when analyzing credit risk when traditional credit history is not available or reliable.[32]

> *"It's in both of our interests for Financial Institutions to get a 'yes' for thin file customers - but for a product they can afford and meets their needs."* [33]
>
> \- Lisa Fischer
> Chief Growth and Lending Officer at Mission Lane

Financial inclusion is moving up the priority list of FIs. In a recent survey of 300 senior financial services executives, almost half said their organizations plan to scale financial inclusion efforts over the next 6-12 months. The top initiatives include employee financial well-being, reaching currently unserved and underserved customer segments and financial literacy endeavors.[34]

Scale matters for FIs, and growing the business and market means developing products and services for more segments of the economy.

Financial Institutions likewise benefit from new customer segments they can cultivate over the long term. The overall economy is more likely to flourish as more people gain access to the financial system and begin to build wealth.[35] According to Ravi Loganathan, Chief Analytics Officer at Early Warning Systems, improved technology is opening the door for FIs to strategically look at data that opens more doors to credit. [36]

> *"Financial exclusion is detrimental to individuals, and it has ripple effects felt by the entire nation, slowing economic growth and prosperity. During a time of great economic uncertainty, financial inclusion is one of the most important engines of economic development."* [37]
>
> \- Wil Lewis
> Chief Diversity, Equity and Inclusion Officer at Experian

ABOUT ZOOT

Zoot Enterprises is a global provider of advanced origination, acquisition and decision management solutions for some of the largest organizations in the world. We offer comprehensive and flexible platforms for specific business needs that include loan origination, fraud detection and prevention, data acquisition, and more.

Zoot is a leader in the technology industry. We enable clients to access hundreds of cutting-edge data sources in real time, and provide business user control that empowers our clients to adapt to their evolving strategies. Our cloud-based, secure processing environment delivers decisions in milliseconds and has the capacity to deliver billions of real time decisions annually.

For more than 30 years, we have launched solutions to market faster than the competition. We have partnered with influential U.S. and international organizations including major financial institutions, retailers, healthcare organizations and payment providers to foster excellence in multiple industries.

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At Zoot, our promise is simple: To make our clients successful. We work closely with the top financial institutions in the world to deliver state-of-the-art solutions that satisfy the most demanding decisioning needs.

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