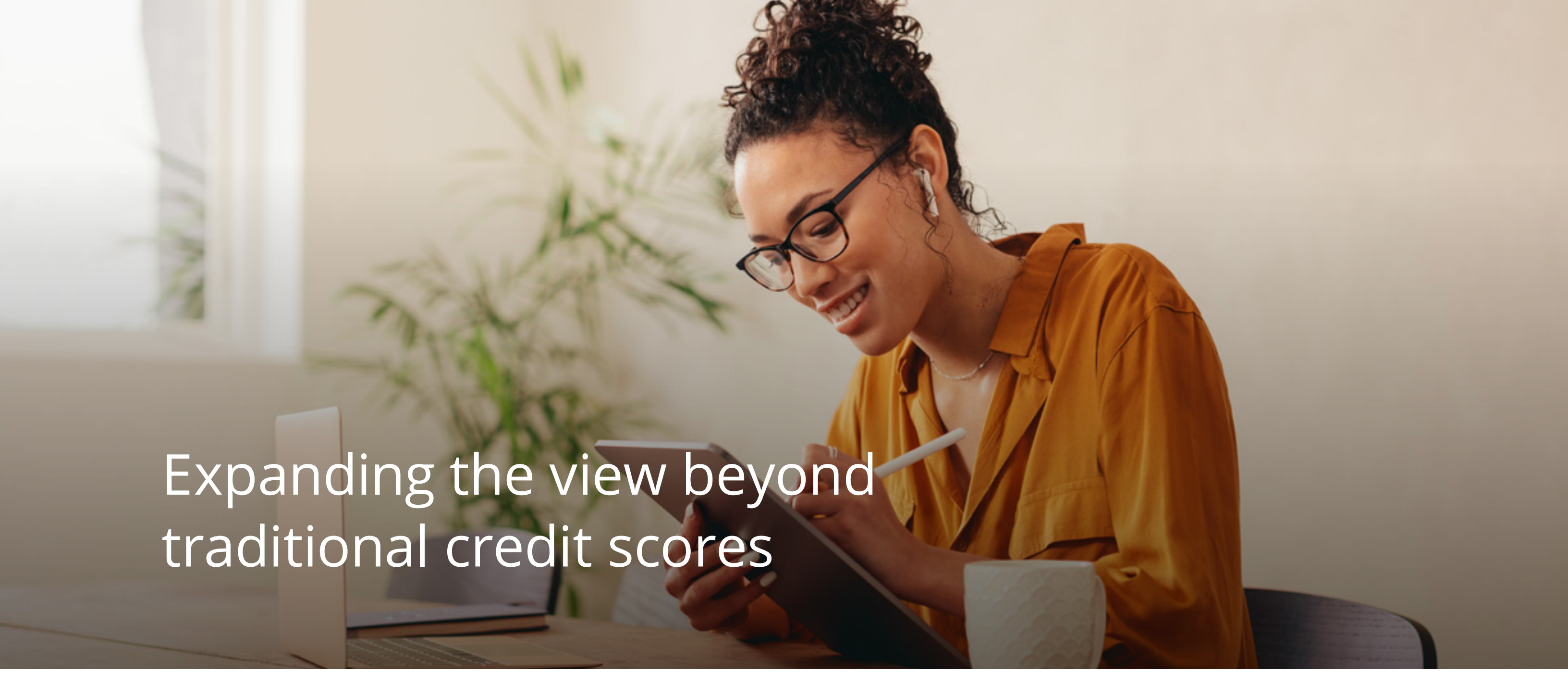
Achieve more inclusive credit:

Expanding your credit reach to marginalized populations can help them and you



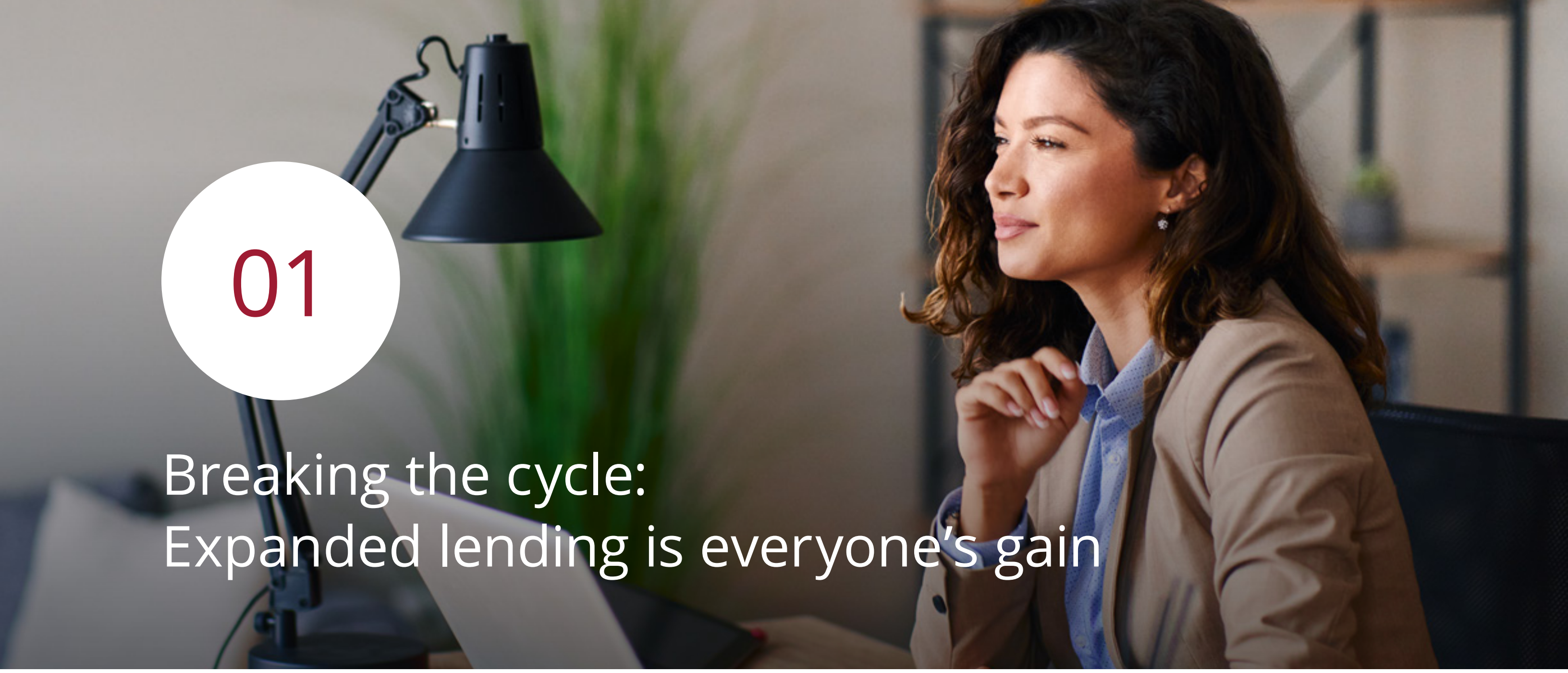
Expanding the view beyond traditional credit scores

Credit reports and traditional credit scores are a mainstay of consumer lending, but Fair Credit Reporting Act (FCRA) compliant information that is not included in traditional credit report data has the potential to help responsibly expand consumer access to credit opportunity and support a more inclusive economy. Leveraging this type of data can help credit unions access more potential consumers as well as create availability of credit to more worthy borrowers.

According to Equifax research, more than one-third of Americans are unbanked, underbanked, have a thin credit file, or are credit invisible (no credit file). Ultimately, without traditional credit standing, many consumers who can responsibly handle credit are shut out of mainstream financial products due to a lack of opportunity to establish a credit history.

This has become an even starker reality in the wake of a global pandemic, which will have a lasting impact on the economy that some experts characterize as “K-shaped.” This means that as everyone moves forward, one part of the population (the top half of the K) is poised to prosper, while another segment (the lower half of the K) faces struggles on a divergent path. One way to look at this is to consider that the pandemic’s impact was disproportionate. Some consumers may have actually increased their asset size because, for example, working at home may have reduced their expenditures. Meanwhile, those people in the lower half of the K may have struggled financially due to layoffs or needing to stay home to take care of children or elderly relatives.

As the country looks toward economic recovery from the pandemic and other stressors, realistically these challenges will persist, particularly for the unbanked—but there are ways to expand the view beyond traditional credit scores and bring in new viable consumers.



01

Breaking the cycle: Expanded lending is everyone’s gain

When potential responsible borrowers are shut out of the credit process, it’s a lose-lose scenario for those borrowers, their potential creditors, and the economy. Building a more inclusive set of financial practices helps bring more consumers into the financial mainstream. Their full participation in the economy and better access to credit means more consumer spending, spurring economic growth.

Credit unions can play a key role in breaking the vicious cycle of credit shutout and removing barriers to financial inclusion.

A first step would be to elevate existing efforts and partnerships to increase financial capability for communities—for example, by offering financial education classes and resources that help increase financial literacy.

In addition, credit unions can provide more education about their services specifically and how to access them, such as by making it easier and more understandable to open an account and establish a relationship with a credit union. Credit unions could also offer credit-building loans to those who complete financial education programs, and they can partner with community organizations to offer services to those who complete financial education programs with them.

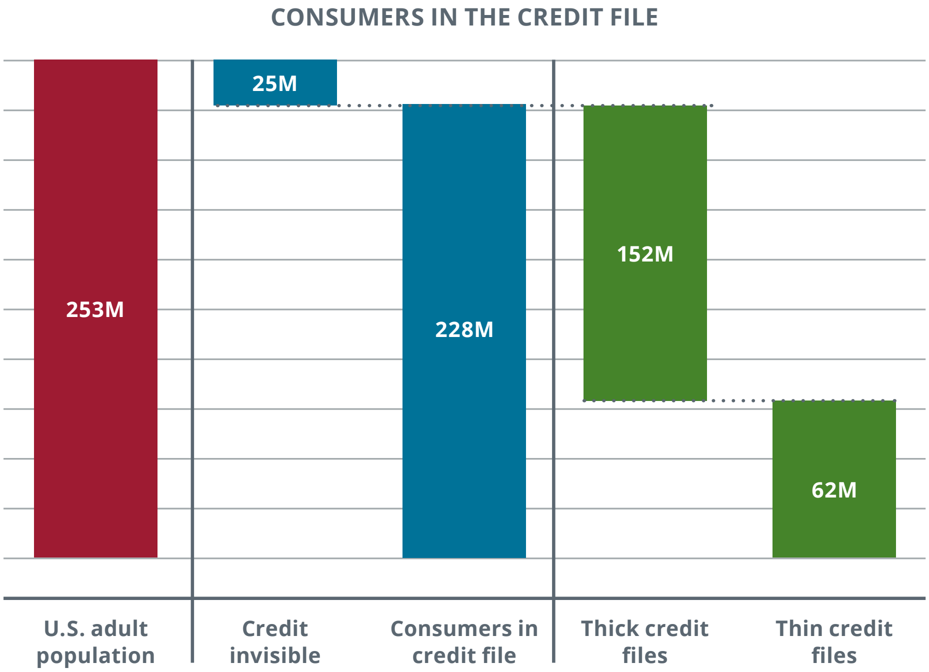
Credit unions can play a key role in breaking the vicious cycle of credit shutout and removing barriers to financial inclusion.

02

Reaching marginalized and underserved communities

How much of a potential market are credit unions missing out on if they don't expand and innovate in terms of scoring and assessing consumers? As many as 91.5 million Americans. That's how many consumers have little to no access to credit because of lack of credit activity, according to Equifax.

Defining the credit population



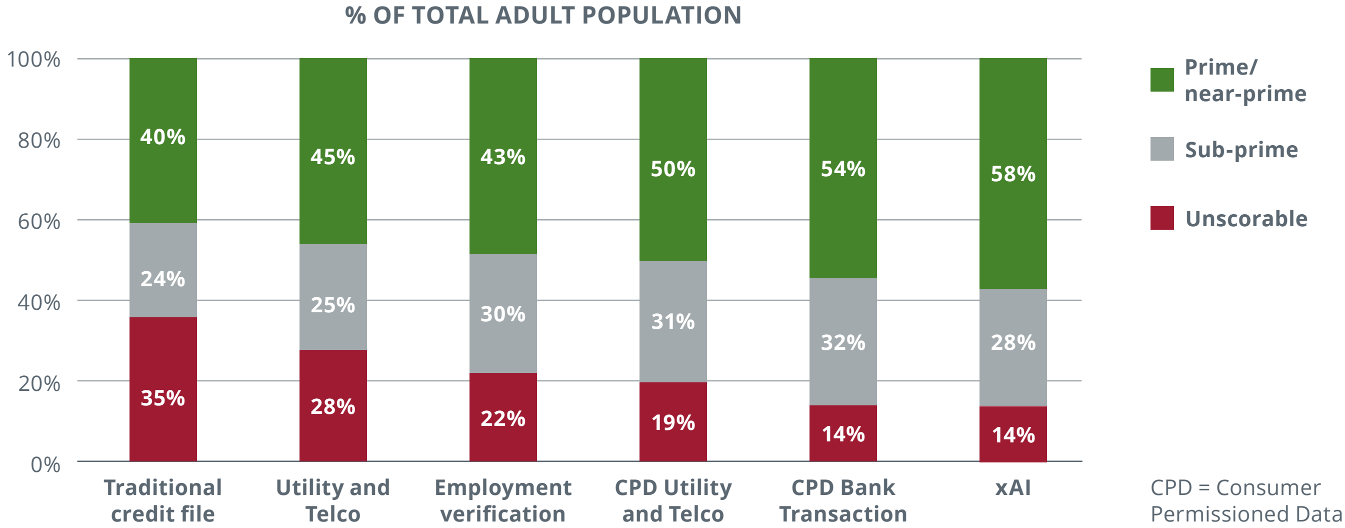
Scorable:
Consumers who have enough credit history to compute a score. However, more information would likely yield a more productive score.

Unscorable:
There's too little information to compute a score at all.

Using more expansive alternative data sets along with traditional ones can reveal additional applicants who may not have shown up on the radar before, whether they are from traditionally underserved populations, have not used credit much or at all before, or are credit rebuilders (consumers working to reestablish a positive credit history).

Moreover, when financial institutions expand their data sets, they not only identify these new opportunities but also get a more complete view of these consumers. Creditors can even get a clearer picture of current members by using alternative data.

Expanding your view beyond the credit file



By layering in alternative credit and consumer-contributed data, financial institutions can score more than 20% additional consumers.

How it's done

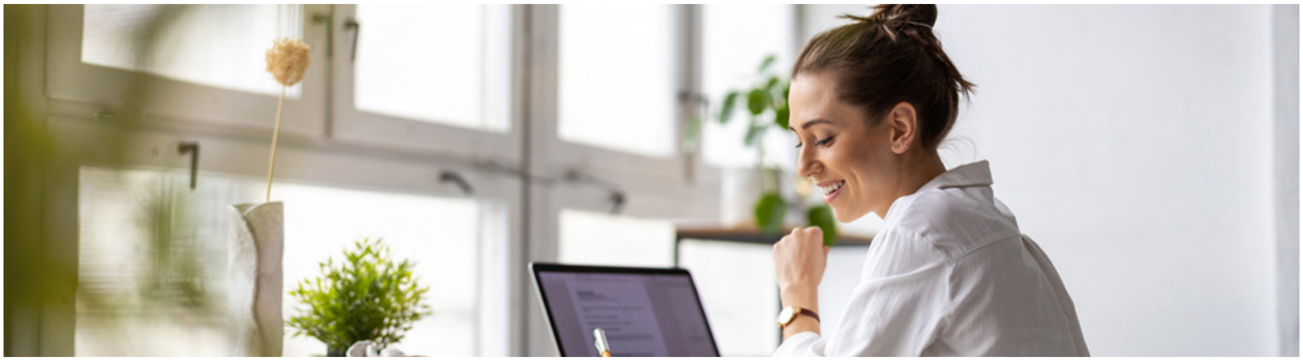
Equifax has found several ways to broaden the capabilities of financial institutions in identifying these untapped borrowers.

Cashflow Insights, a product that leverages Yodlee data, gives consumers an easy way to directly share their online bank account information. This can help create a more robust personal financial profile when applying for loans and services, as well as give potential lenders additional confidence to responsibly open up new credit opportunities.

Consistent and timely payments of cable, water, and electric bills are another reliable indicator of consumers' ability to handle debt. By adding alternative data (including utility, pay TV, internet, and wireless payment history), not available through other third-party providers to the credit decision process, almost four million more consumers can move to prime or super-prime offers.

Furthermore, The Work Number® from Equifax provides direct-from-the-employer income and employment data to give lenders a better picture of consumers' ability to pay. It can also provide critical debt-to-income information when combined with traditional credit rating data. Equifax estimates that more than seven million people could move into the prime and super-prime categories by layering The Work Number into credit decisioning.

In addition, the VantageScore 4.0 model provides particularly useful insights that can help financial institutions access consumers in underserved and marginalized populations.



Expanding access to credit through innovation in credit scoring

VantageScore Solutions has taken a different approach to driving financial inclusion: Using the data available in the established credit file in alternative ways to provide predictive credit scores to more U.S. consumers.

When the first VantageScore credit model was launched in 2006, financial inclusion was a core goal for the newly founded company. The newest scoring model, VantageScore 4.0, launched in 2017, expanded the population of newly scoreable consumers to 37 million more Americans than traditional scores. The new score is innovative in its use of machine learning in model development.

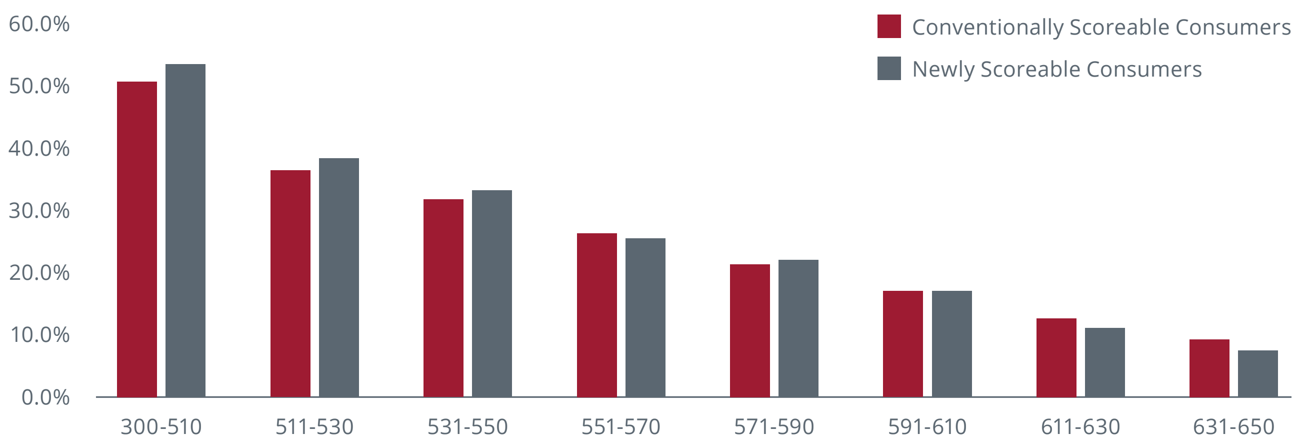
Many institutions are still stuck on using a conventional credit score model, and this limits the scoreable population by employing a chosen, minimum scoring criteria, which is defined as requiring: (1) at least one tradeline/account to be open and reported to the credit bureaus for six months or more, and (2) at least one tradeline/account that has been reported to a credit bureau within the past six months.

In contrast, by applying machine learning, VantageScore generates scores for three groups that are commonly left without a conventional credit score, and the scores generated remain an accurate reflection of the credit risk they represent:

CATEGORY	CONVENTIONAL MODELS	VANTAGESCORE 4.0
Dormant: Infrequent credit use; consumers who haven't had updates to their credit files in the past 6 months but have earlier updates	✗ EXCLUDED	✓ SCORE GENERATED
No Trades: Consumers who have no tradelines but do have inquiries, external collections, and public records on their file	✗ EXCLUDED	✓ SCORE GENERATED
Young File: Young to credit; consumers who only have tradelines that are less than 6 months in age	✗ EXCLUDED	✓ SCORE GENERATED

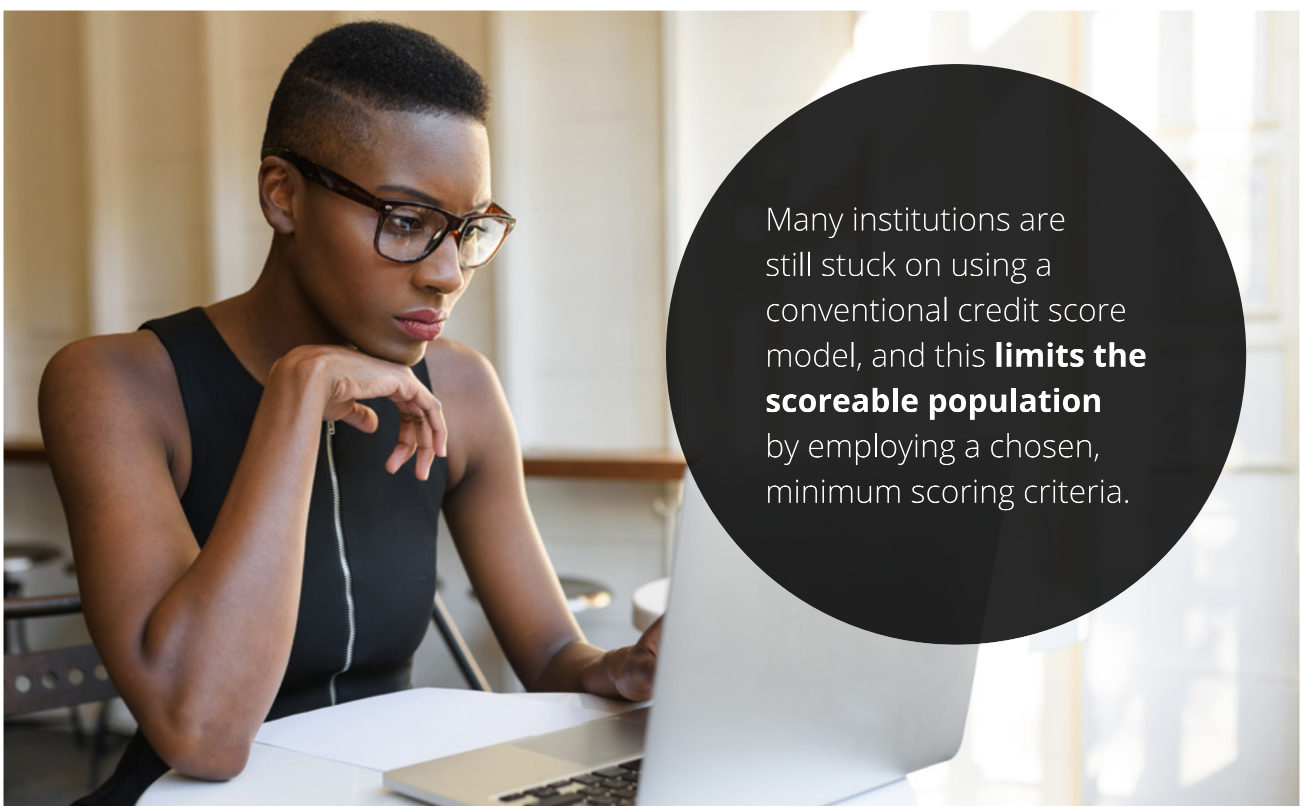
VantageScore's annual model assessment shows that expanding the scoreable population in this way has no impact on the model accuracy and that default rates experienced for those clients are equivalent to those scored when applying the minimum scoring criteria of conventional models.

DELINQUENCY RATE COMPARISON



Source: 2021 VantageScore 4.0 Performance Assessment whitepaper

From the lenders' perspective, this is a streamlined way of expanding the population they can lend to while maintaining their established risk tolerances. With 13 million clients in the newly scoreable population having scores higher than 620, this could play a major part in expanding access to credit.



The impact on underserved groups

For many consumers, there are significant consequences to the way in which conventional minimum scoring criteria and the inability to obtain a credit score limits consumer access to mainstream credit products. The situation, in turn, contributes to persistent disparities in lending and wealth accumulation which exist for historically disadvantaged groups and minorities.

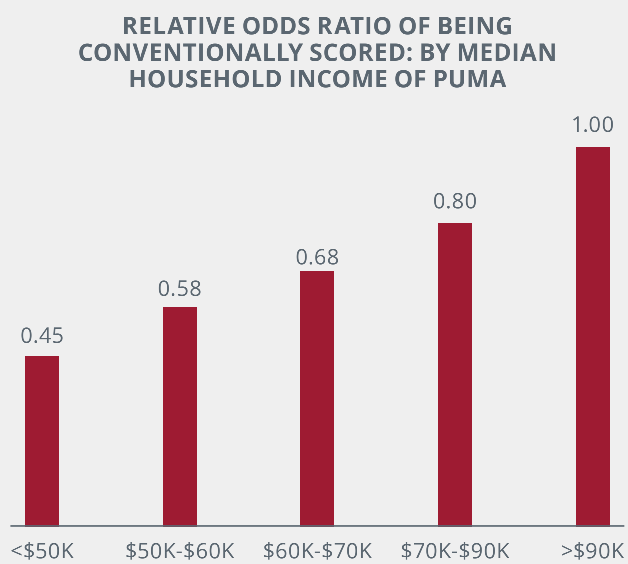
VantageScore Solutions combined 2019 census data and a large random sample of consumers from the National Credit Reporting Companies to understand the impact of conventional scoring models' minimum scoring criteria. Nearly 47 million consumers are invisible to these legacy scoring models; whereas VantageScore is able to generate a fair and accurate score for an additional 37 million of these consumers. This means VantageScore can score 96% of all U.S. consumers 18 years or older.

VantageScore's analysis revealed the disparate consequences for different racial and ethnic groups and U.S. geographic regions, some of which have significantly higher rates of consumers unable to get a score through conventional models.

The analysis used the American Community Survey published by the U.S. Census Bureau, which provides data related to socioeconomic measures for the entire country, organized by statistical geographic areas referred to as PUMAs (Public Use Microdata Areas), each representing communities of 100,000 or more people. The analysis included measures related to income levels, homeownership, access to brick-and-mortar financial services as well as race and ethnicity. The findings were as follows:

INCOME

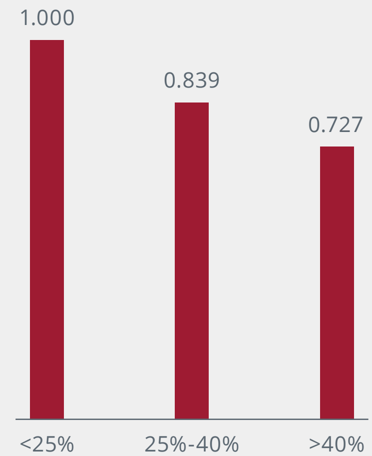
As a consumer's income is not part of a credit file, it is not a direct contributor to a score, but VantageScore's scoreability analysis determined a strong positive relationship between income and a consumer's ability to receive a conventional credit score. As areas with a high representation of African Americans have lower median incomes, African Americans are similarly experiencing lower levels of conventional scoreability.



RENTER RATES

VantageScore's scoreability analysis determined a positive relationship between home ownership rates and conventional scoreability. Areas with high renter rates tended to experience lower conventional scoreability. About 70% of areas with high African American populations are also high renter areas, 54.7% of which also have low conventional scoreability.

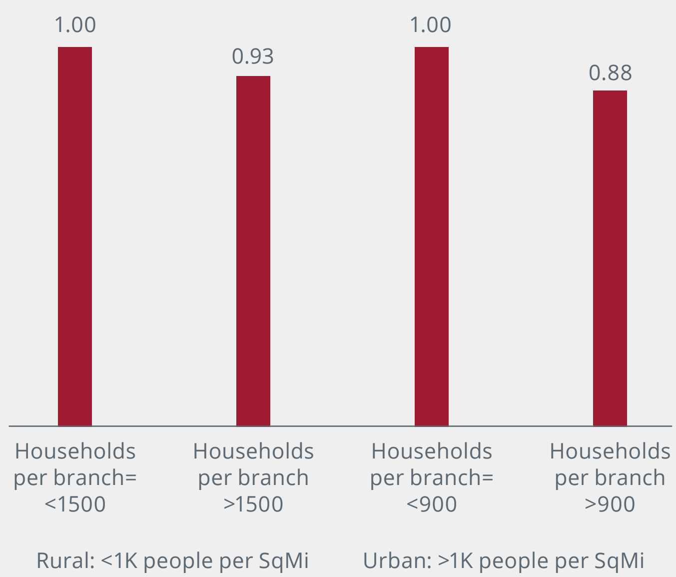
RELATIVE ODDS RATIO OF BEING CONVENTIONALLY SCORED: BY % OF RENTERS IN PUMA



ACCESS TO BANKING

The number of households per bank branch is used as an indication of the level of access to banking services in each area, where a higher number of households per branch suggests an underserved area, while a smaller number of households per branch suggests an area with good access to brick-and-mortar banks. The analysis reveals that limited access to banking results in a drop in conventional scoreability odds.

RELATIVE ODDS RATIO OF BEING CONVENTIONALLY SCORED: BY URBANICITY AND BANKING OF PUMA

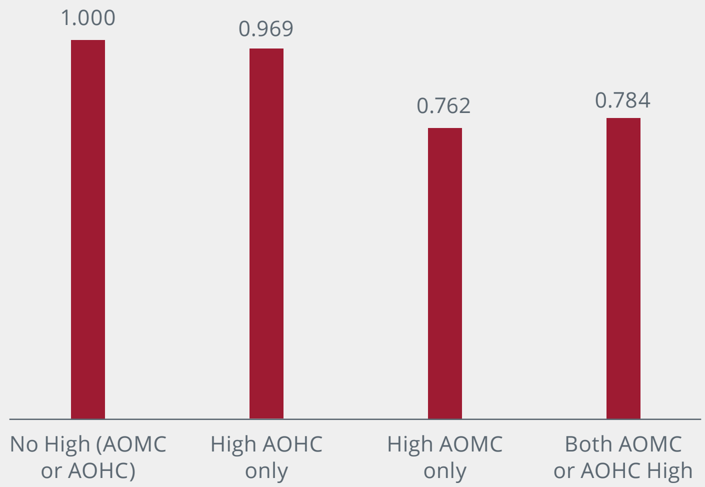


More than half of all areas with lower levels of access to banking and lower rates of conventionally scoreable consumers have high African American populations, highlighting the disparate effects felt by minority groups.

RACE AND ETHNICITY

Independent analysis of the impact of race alone, controlling for income, renter rates, and access to banking, revealed that areas with high concentrations of African American and Hispanic populations explained 14% of the variability in conventional scoreability rates between areas, the highest contributor after income.

RELATIVE ODDS RATIO OF BEING CONVENTIONALLY SCORED: BY RACE/ETHNICITY CONCENTRATION OF PUMA



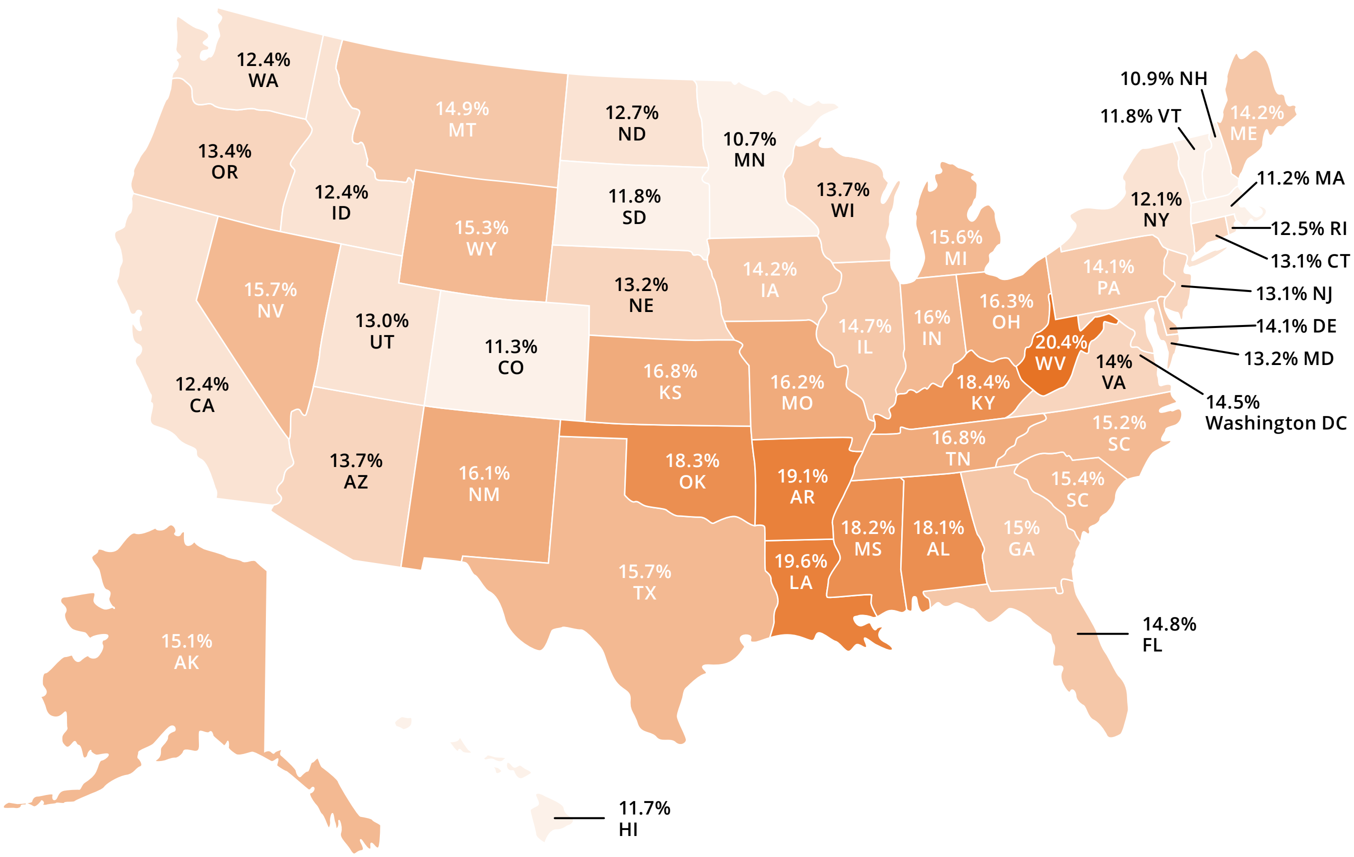
AOMC = African American | AOHC = Hispanic
High concentrations of African American and Hispanic populations defined as >10% of total population

More than half of all areas with lower levels of access to banking and lower rates of conventionally scoreable consumers have high African American populations, highlighting the disparate effects felt by minority groups.

Compounding effects: Impact across geographies

In practice, the factors that can independently be identified as being strongly correlated with low levels of conventional scoreability are not uniformly distributed across the U.S. The result is that in locations with lower median income, higher renter rates, and lower access to brick-and-mortar banking, these effects are compounded and rates of newly scoreable consumers vary significantly from the national average.

Approximately 14.5% of adults nationwide are newly scoreable, or put another way, are unscoreable when conventional models are used but can receive a score from VantageScore. Southern states tend to have larger volumes of newly scoreable consumers compared to the rest of the country. The challenges of conventional models and the potential opportunities presented using a more inclusive model like VantageScore 4.0 are particularly pronounced for lenders who may have a geographic footprint in areas with a greater number of newly scoreable consumers.



% Newly Scorable using VantageScore 4.0

- 10% - 12%
- 12.1% - 13%
- 13.1% - 14%
- 14.1% - 15%
- 15.1% - 16%
- 16.1% - 17%
- 17.1% - 18%
- 18.1% - 19%
- 19.1% - 20%
- 20.1% - 22%

The variation within a state can be greater than between states: Michigan has a newly scoreable rate of 15.6%, but the rate is as high as 31.7% in Northeast Detroit and just 8.6% in Central Macomb County. Significant differences in income levels, homeownership rates, racial makeup, and access to banking, among other factors, lead to a large variation.

TOP 15 AREAS BY NEWLY SCOREABLE RATE

PUBLIC USE MICRODATA AREA	NEWLY SCOREABLE RATE
Northeast Detroit, MI	**31.7%**
East Central Fort Worth, TX	**29.3%**
Louisville and Northwest Jefferson County, KY	**29.2%**
St. Francis, Poinsett, Phillips, Cross, Lee, and Monroe Counties, AR	**28.4%**
Southwest Detroit, MI	**27.9%**
Central Genesee County (including Flint), MI	**27.2%**
Logan, Mingo, Wyoming, and McDowell Counties, WV	**27.1%**
South Central and Southeast Detroit, MI	**27.0%**
South Chicago, IL	**27.0%**
Marion County, Center Township, and Central Indianapolis, IN	**26.7%**
Southeast Las Vegas, NV	**26.7%**
Southeast Oklahoma County and East Central Oklahoma City, OK	**26.5%**
East Central Dallas, TX	**26.5%**
West Birmingham, AL	**26.4%**
Southwest Memphis, TN	**26.0%**

Taking all these factors into consideration, the VantageScore 4.0 model can help lenders meet their business objectives and allow them to grow their portfolios in a safe and sound manner, without lowering credit standards. VantageScore 4.0 also improves access to credit and supports financial inclusion for millions of consumers who have been systematically marginalized by outdated systems.

VantageScore Michigan case study

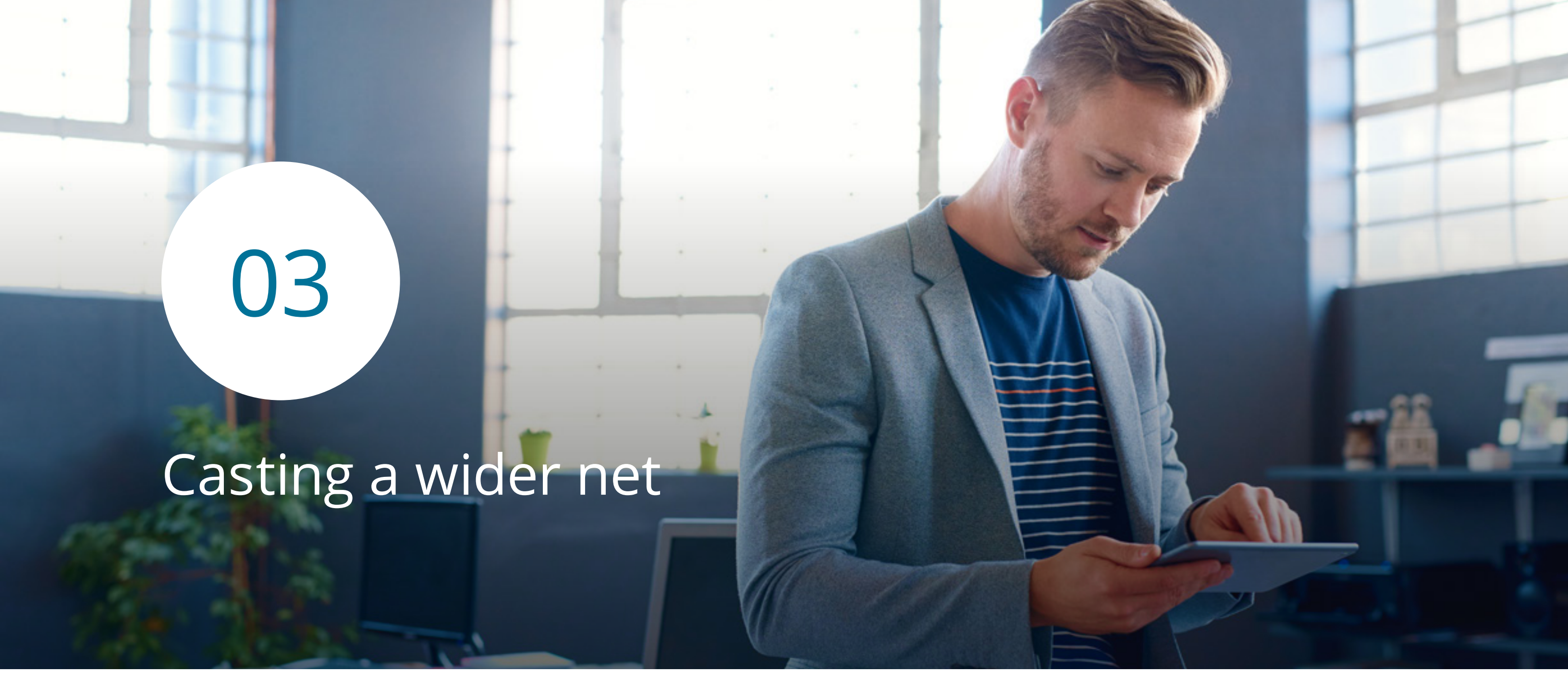
There are nearly 7.8 million consumers 18 years or older living in Michigan. Of these, 15.6% cannot receive a credit score through conventional models but can be scored by VantageScore. Within the state, there are significant differences across communities with respect to scoreability, driven by socioeconomic differences. For instance, in Northeast Detroit, almost 32% of consumers are newly scoreable, meaning they do not have a conventional score but have a VantageScore. In contrast, central Macomb County has only 8.6% newly scoreable consumers.

A significant percentage of the newly scoreable consumers in Michigan have VantageScore credit scores that are 620 or higher, suggesting that they are near-prime and creditworthy borrowers for the right type of mainstream credit products. In fact, nearly 426,000 consumers, including 145,000 living in areas with high African American populations, have scores of 620 or higher.

There is a significant opportunity for improving financial inclusion and access to credit by leveraging more modern and inclusive credit scoring models like VantageScore. This is particularly important for lenders who may have geographic or market footprints that have higher representations of consumers underserved by legacy tools and scoring models.

The Public Use Microdata Area (PUMA) figures for the Detroit and Flint metropolitan areas (as shown in this table) illustrate just how stark a difference can exist between conventional scoring and VantageScore methods.

PUMAs WITH HIGH AFRICAN AMERICAN POPULATIONS	CONVENTIONALLY SCOREABLE	NEWLY SCOREABLE	NEWLY SCORED>620	LENDABLE OPPORTUNITY
Detroit City (Northeast)	56.5%	31.7%	11.5%	3,079
Detroit City (Southwest)	60.8%	27.9%	19.3%	4,442
Genesee County (Central) – Flint City Area	64.9%	27.2%	18.2%	3,585
Detroit City (South Central and Southeast)	62.1%	27.0%	17.7%	4,933
Detroit City (Northwest)	64.8%	25.3%	15.6%	4,682
Detroit City (North Central)	64.5%	24.9%	16.1%	4,017



Casting a wider net

Equifax is leading the way in exploring new and alternative data and helping more U.S. consumers gain access to mainstream financial services opportunities. The company works to help credit unions and other financial institutions incorporate this into their decision-making processes to meet today's economic challenges and opportunities.

While there are many types of underserved communities, the VantageScore data shown previously illustrate in particular how marginalized racial/ethnic populations can be key beneficiaries of the use of expanded and alternative data sets by credit unions and financial institutions. In turn, those institutions benefit from a broader collection of responsible borrowers.

Broader use of innovation in credit scoring and lending practices is essential to ensuring broader access to credit.

By supplementing traditional credit data with newer forms of alternative data, lenders and credit providers can promote greater access to credit at a time when many Americans need it most. Even outside the economic consequences of the pandemic, many people experience economic difficulty from time to time, from unexpected car repairs to layoffs and more. For many, credit is the safety net—too many people are walking tightropes without it, though.

For example, many Americans who are entering the workforce for the first time face a credit paradox: they can't get credit because they don't already have credit. Others are seeking to recover from damage to their credit records because of an extended period of unemployment, family changes, or other events.

By considering alternative data on prospects with thin credit and credit repairers, credit unions can reach viable new members while fostering greater financial inclusion within the U.S. economy—which is a positive move forward for everyone.

Contact Us: equifax.com/business/contact-us/

ABOUT EQUIFAX

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