7 ways to uncover hidden risk in an uncertain economy

Leverage consumer financial insights to better assess consumer, portfolio, and market risk

Focus on **forward**

Forward.
The only way to go.

In uncertain times, businesses are inclined to pause and may miss opportunities or fail to uncover hidden risks — while waiting for the perfect picture to emerge. But you must keep momentum to move through changing and difficult economic conditions.

Equifax is an empowerment engine. We help businesses plan so your operation is resilient and prepared for whatever is next. We help you adapt with confidence and focus on moving forward.

To discover the latest data-backed insights on navigating risk and finding opportunity in an uncertain economy, visit **equifax.com/focusonforward**

Focus on **forward**

Economic uncertainty continues to deeply impact consumers' finances.

Between inflation, supply-chain challenges, and rising interest rates, many consumers are faced with intense pressure to meet financial obligations.

This can introduce new risks for marketers and lenders — but it can be difficult to know exactly where those risks lie:

- Which consumers may struggle to pay for expenses and day-to-day bills?
- Are current acquisition models and portfolio management strategies sufficient to proactively spot risk?
- Do forecasts include the right data to account for continued market volatility?

Hidden risks may be concealed across your business. We can help.

The consumer wallet reveals the impact of economic volatility:

8% increase in consumer borrowing year over year*

18% increase in some delinquencies*

3.6% decrease in inflation-adjusted income from a year ago**

17% jump in monthly debt commitments for some student loan borrowers after lifting accommodations***

Here are 7 ways that marketers and lenders can use consumer financial insights to better spot hidden risk.

*Equifax analysis
**CNBC, July 13, 2022 and U.S. Bureau of Labor Statistics Consumer Price Index Summary
*** The student loan crisis white paper, Shur℠, Equifax, and VantageScore®, July 2022

What are consumer financial insights?

Before we review the 7 strategies to uncover hidden risk, let's explore what we mean by consumer financial insights.

Consumer financial insights are the key ingredients that businesses need to better understand consumers' financial health and their ability to conduct their finances.

- Keep spending, even with rising prices
- Meet financial commitments, even when under financial stress
- Build wealth, even with rising expenses

With advanced understanding of consumers' credit, wealth, income, and employment, we can help you leverage consumer financial insights to uncover hidden risk across your business.

Apply consumer financial insights to identify hidden risk across the customer lifecycle from acquiring new customers, to managing your existing portfolio, to planning for the future.

1 **Review lending accounts** monthly to prevent losses

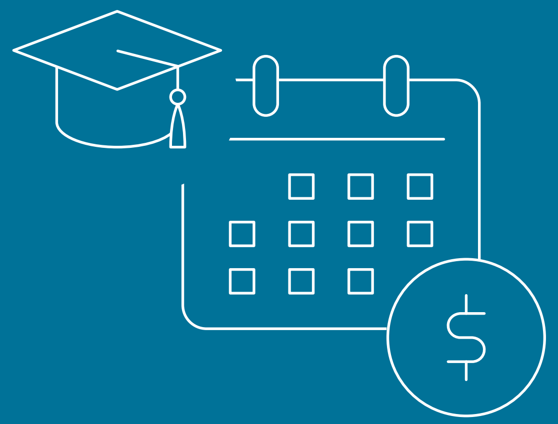
Customers' financial situations can change rapidly. Just think, in a short period of time, a customer could lose their job, be faced with higher interest rates, lose student loan accommodations, and become newly delinquent on a car payment.

But quarterly or annual reviews are unable to pick up on these changes rapidly — leading to higher risk and potentially higher losses for your firm.

Instead, review accounts monthly.

With more frequent reviews, you can spot changes faster and better help consumers manage their credit. Make sure you are using comprehensive credit data to support your reviews:

- Analyze core risk scores and **attributes** to screen for changes in utilization and late payments
- Understand consumers' **total debt-to-income** and **payment-to-income**
- Use ability to pay, accommodations, and distressed **attributes** to spot additional risk
- Explore optimized risk scores for **credit card**, **personal loans**, and **insurance**
- Leverage trended **attributes** to study behaviors over 24 months



Once the student loan accommodation status is lifted, every age group will experience a **17% jump** in scheduled monthly debt payments.*

*The student loan crisis white paper, Shur℠, Equifax, and VantageScore, July 2022

2 **Act fast to changes** in consumers' finances

Consumers' financial situations change from day to day.

To spot risk quicker, lenders can react to detrimental changes to consumers' credit or accommodations. With this monitoring, lenders can act fast to identify potential delinquencies and mitigate losses.

SAMPLE ALERT:
Customer is newly delinquent on a bankcard held with another firm

POSSIBLE ACTION:
Actively monitor for additional delinquencies

Off-brand early delinquency trigger could identify almost **8x more** accounts that actually went 30DPD delinquent compared to non-triggered accounts.*

* Equifax analysis

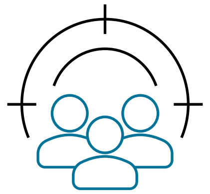
3 **Identify consumers** that may struggle to meet financial obligations

How well can you identify consumers that might lack the financial ability to pay their credit balances?

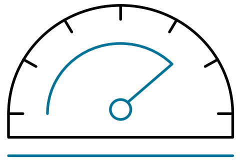
To better spot these consumers, lenders can analyze data that sheds light on consumers' financial durability — namely, their financial resources and resilience to meet credit obligations, even when under financial stress.

Financial durability is based on non-FCRA metrics such as anonymized wealth, estimated income, spending power, and credit capacity.

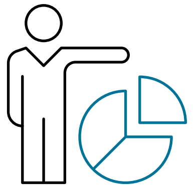
Use financial durability to:



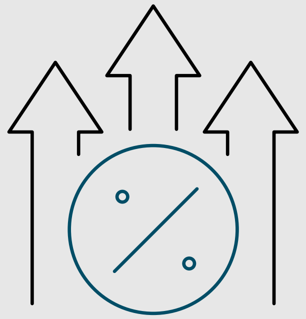
Identify potentially new customers with limited financial means that may present higher acquisition risk



Go beyond credit scores to spot current customers with higher risk of delinquency or default



Differentiate customers in collections that may be less likely to be able to repay



Low-durability households have delinquency rates up to **13 times higher** than those with the highest durability.*

* Equifax analysis

4 **Differentiate consumers with changes** in employment, income, and day-to-day bill pay behavior

While credit scores remain a strong indicator of financial reliability, they don't tell the whole story. To broaden your view of consumers' finances, lenders can use **alternative consumer financial data** to help fill in the gaps in customers' credit profiles and better identify consumers that present higher risk.

Here are just some of the data points that lenders can use to deepen their view:

- **Verified employment and income data** — can reveal declines in expected cash inflow
- **Payment data for telecom, pay TV, and utilities accounts** — can show delinquencies in day-to-day bill pay behavior
- Payment history for borrowers that use **specialty finance** services — can reveal higher risk non-prime accounts
- Consumer-permissioned **bank transaction data**, as well as statement data for **utility and telecom** bills — can deliver additional insight on day-to-day financial behaviors

Bank transaction data can provide a **7.3% lift** over a benchmark score in predicting accounts that will go 90 days past due.*

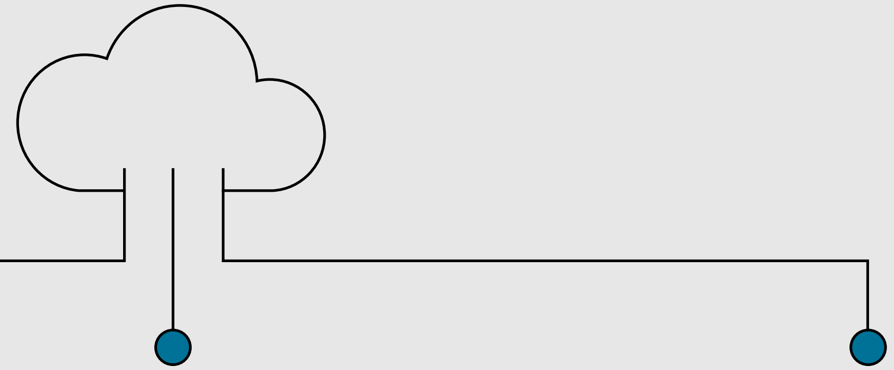
* Equifax analysis

5 **Leverage the cloud** to recalibrate your models with current credit scores and expanded data

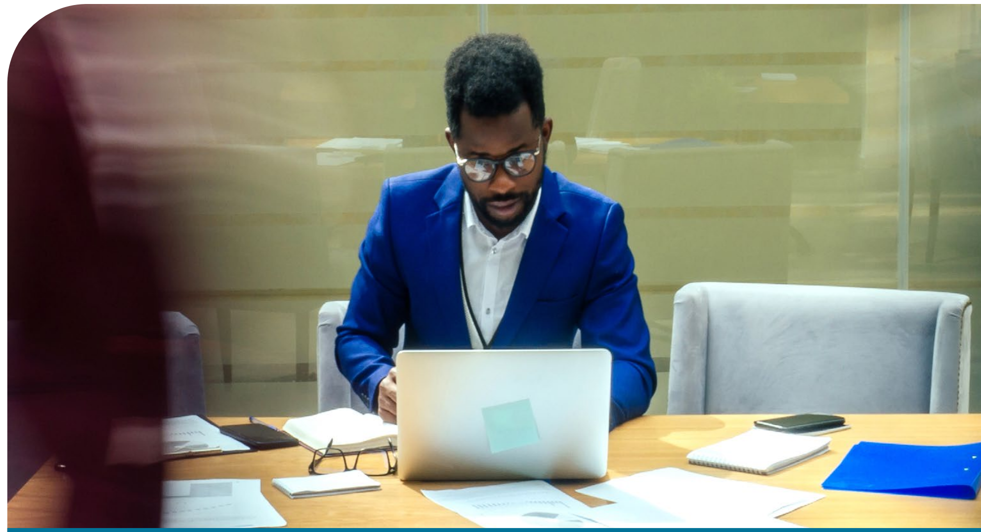
When was the last time your firm updated its acquisition and account management models in an effort to better spot risk?

For many firms, **incorporating new data — and easily accessing that data** — in an effort to enhance existing models is a **monumental challenge**.

To ease the process and more easily uncover hidden risk, businesses can leverage our cloud-based platform to:



- Easily access the most current credit scores and attributes
- Incorporate alternative and historical data beyond credit scores
- Explore scenarios in real-time to develop more predictive models that better address risk



Firms that have not updated their models to include our latest credit attributes could be **missing out on up to a 15% lift** in performance over legacy attributes.*

* Equifax analysis

6 Monitor consumer financial trends to spot areas of concern

Economic uncertainty can increase the complexity of risk analysis as firms work to identify lower risk segments for acquisition, predict delinquencies, and manage defaults.

To stay ahead of market volatility, lenders can inform strategies with time-series credit data and market analysis. Inform your firm's risk analysis with a better understanding of:

How consumers changed their credit behaviors at the macro level during periods of instability

Which geographies have shown increased rates of delinquency during volatile periods

The factors that drive changes in originations, balances, and delinquency rates

How your firm's performance compares to the industry and peers

One firm leveraged time-series credit data during the pandemic to understand changes in **credit lines, delinquencies, and score thresholds** for its card portfolio and compare metrics to the industry.*

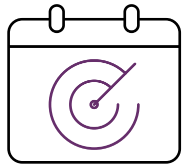
* Results for scenarios may vary based on actual data and situation.

7 **Update your forecasts** with recent historical credit data

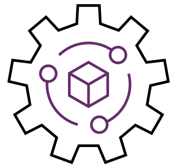
Historians say to study the past to better understand the present and to help predict the future — and we agree. But relying on the same information you've used before isn't likely to be adequate in today's uncertain environment.

With access to over 50 years of recent and historical credit and geographical data, lenders can study past trends and economic conditions. This comprehensive data enables analysts to:

Better assess account and portfolio risk



Validate existing risk models and forecasts



Implement champion/ challenger testing to examine possible future market scenarios

One firm leveraged historical credit data to develop a custom prescreen response model that would allow it to **lend deeper** to previously under-performing segments **without creating additional risk**.*

*Results for scenarios may vary based on actual data and situation.

Focus on **forward**

In an uncertain economy, it can be hard to find your opportunities or know where hidden risks lie.

Equifax is here to help you move through changing and difficult dynamics. **Adapt with confidence and focus on moving forward**.

For a personalized consultation and actionable recommendations, contact the Equifax Risk Advisor team: **riskadvisors@equifax.com**.

Learn more about how Equifax can help your business during periods of economic uncertainty.

equifax.com/focusonforward