

Navigating Lending in an Uncertain Economy

by Joel Rickmann, SVP of Verification Services

Labor market trends are typically a leading indicator of the health of the economy, but with talks of a potential recession still ongoing, it's nearly impossible to predict with certainty how the market will unfold.

For example, last summer, the labor market appeared to be softening from the 2021 "Great Resignation," during which we saw record job openings and low unemployment; however, job openings have **edged down slightly** and the number of new hires has declined in tandem. We've also witnessed widespread layoffs at major tech companies, as detailed in a **comprehensive list sourced by Crunchbase**. With these trends changing on a nearly monthly basis, lenders are left to navigate uncharted territory.

Leveraging expanded datasets can help financial institutions continue to provide fast, confident lending decisions; expand access to credit; and grow their portfolios along the way.



Leveraging data to unlock more lending opportunities

In today's world, lenders take various approaches to determine credit worthiness. They expand their efforts to gather and use data from multiple, often disconnected sources. This might include traditional and alternative sources like bank transaction data, modeled income, estimated income, consumer provided documents (paystubs, W-2s), and even stated income.

As well intended as all your efforts might be, they may have consequences. With limited data or missing data, you could end up with a less accurate or a limited view of your applicants. Trusted and verified data on a potential borrower's income and ability to pay may be the greatest enabler of credit when used early in the application process.

For one thing, while the current credit environment is still healthy, inflation is impacting U.S. households in a big way – in fact, many consumers are having to dig deeper into their savings to maintain normal spending habits (Equifax **Market Pulse** data). While a traditional credit score can be a strong indicator of credit worthiness, with consumers' wallets already stretched thin, lenders should layer multiple alternative data sources to help glean a more extensive picture of a consumer's ability to pay. Expanded visibility starts with lenders leveraging more data, such as income and employment data, to deliver deeper current and historical context.

Without this data-driven approach, lenders could be unknowingly leaving opportunities on the table. By enabling a broader financial picture across populations, supplementing the traditional credit file with third-party information, such as income and employment data, can help lenders unlock potential customers that may have otherwise been overlooked. On the flip side, additional data sources also serve as another risk management tool for lenders trying to better understand their portfolio and make more informed decisions.

"Without the data-driven approach, lenders could be unknowingly leaving opportunities on the table."



Expanding inclusion by enabling greater visibility

At the same time, credit is evolving, and consumers' payment histories and financial responsibility are generally demonstrated by more than just traditional credit data alone. 91.5 million U.S. consumers have thin or no credit files, representing an untapped, potentially financially durable customer base that may need access to credit.

Even if lenders aren't considering these thin- or no-file consumers now, they're still there, and in today's uncertain market, enabling expanded visibility to help foster greater financial inclusion is only growing in importance. Leveraging verifications of income and employment – and layering other types of data, such as telco and utilities data – has become increasingly common as lenders seek better insights into a borrower's current financial condition and compete to provide qualified applicants more competitive loan terms. Yet many lenders still aren't taking advantage of the opportunity to not only expand access to credit but also potentially drive immense portfolio growth in the process.

By digging a little deeper, lenders can consider new customer bases they may not have considered before, while helping enable credit access to financially durable consumers when they need it most. And by understanding consumer income and employment stability – and looking at more than traditional credit scores alone – lenders can start paving the way towards greater access to credit, despite economic uncertainty.

¹ Equifax analysis of credit activity, 2019

...

The Work Number®

...

info@theworknumber.com

...

theworknumber.com

Copyright © 2022, Equifax Inc., Atlanta, Georgia. All rights reserved.
Equifax is a registered trademark of Equifax Inc. The Work Number ®
is a registered trademark of Equifax Workforce Solutions LLC, a wholly
owned subsidiary of Equifax Inc. EWSMKC-00925