



EBOOK

Using Alternative Data to Help Automate Decisioning

Throughout the Credit Lending Journey



Inflation and slowing job growth may impact spending habits as many Americans may be stretched thin for cash and seek borrowing options for extra capital. It is common for consumers to request new credit or increases in lines of credit from their card providers to curb the loss of employment or to take on additional expenses like furniture for a new apartment, recreational traveling, or entertainment.

To help ensure borrowers are not overextending themselves or taking on more debt than they can handle, lenders should prioritize leveraging alternative data. Using alternative data sources, such as employment and income verifications, would better allow lenders to deter the risk of delinquency or defaults by members on credit card payments by expanding their view of members' financial health during the application process. Financial institutions that leverage alternative data to reduce credit-loss rates may be able to present better terms and offers at application to card applicants while protecting themselves from undue risk.

Lenders Should Monitor Consumer Borrowing Trends



Although inflation is outpacing incomes, the average American still needs to make purchases for household essentials, food, and sometimes even those larger, practical purchases that are needed. Many members will continue to take advantage of credit cards and the increase in alternative financing options like Buy Now, Pay Later. More Americans may be carrying a credit card balance month to month.

With borrowers leveraging credit card financing to counter the loss in value of their capital in an inflationary market, lenders need to ensure they are easing the financial pressure of monetary obligations for their members in a safe way for themselves and the borrower.

Is the Traditional Process Of Card Application and Credit Line Increase Requests Outdated?



Lenders can make better, more inclusive decisions about credit card applications and credit line increases by using automated tools to analyze a wider range of financial information about their borrowers.

Traditionally, when borrowers applied for a new credit card or requested an increase in their line of credit, they were asked to jump through a few hoops to meet requirements. The card issuer would assign a credit limit based on a credit score, credit history, income, and existing debt. Before technology and automation innovations such a request would be processed over the phone or at a branch, often requiring members to provide their own documentation as proof of their creditworthiness.

This clunky way of doing business left financial institutions taking on unwanted risk, with some borrowers providing overstated income and phony employment information or leading to staff errors in the underwriting process. Now, cardholders can apply for new credit or request a line of credit increase conveniently from their phone with the same immediacy as an online purchase.

Automated income and employment data helps provide more informed affordability insights

Lenders need an up-to-date view of their borrowers' financial stability to make the best lending decisions possible. Credit applications and line increase requests usually require members to update income and employment information. Once approved, it could take several weeks before the increase shows on the borrower's credit statement. Income and employment verification data can help throughout the entire credit lending cycle: starting with the application process, onto approval, during portfolio review and account management, and even into the recovery strategy.



Faster and more efficient processing of credit requests will help center the lending experience around borrower convenience

Borrowers being able to gain approval for new or additional credit for which they have applied at the same speed they may shop for household goods online could contribute to a lender's ability to retain and attract business.



Traditional credit requests can take weeks to process versus the immediate flow of verification information that credit unions can access with alternative data. Credit unions that leverage alternative data sets will better position themselves to gauge a borrower's financial well-being more effectively.

Borrowers with higher credit-risk profiles are more likely to sustain losses than those with lower credit-risk profiles.

Lenders no longer have to fear the risk of approving borrowers who do not otherwise meet specific credit qualifications, thanks to alternative data providing a more complete picture of a user's ability to pay. Fair Credit Reporting Act-compliant alternative data can permit credit unions to supply qualified applicants with better suited terms and offers.



During uncertain financial climates, lenders should ensure they are leveraging alternative forms of data, such as income and employment data from The Work Number® by Equifax. An enhanced look at the financial health of a borrower may indicate if they are eligible for new credit or a credit line increase on terms more favorable to them.

Ready to unlock the full potential of your portfolio? Learn more about how The Work Number® can revolutionize your portfolio review process and empower you to make smarter, more informed lending decisions.

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