THE TRAJECTORY IS CLEAR FOR A DIGITAL LENDING LANDSCAPE

EQUIFAX WHITE PAPER

Following the worldwide outbreak of COVID-19, news outlets around the world chronicled the disruption of almost everything people considered “normal.” In the U.S., the way of life to which many were accustomed changed dramatically seemingly overnight. In a matter of weeks, activities from social events to school to grocery shopping were forced into transition. (Google “COVID-19 impact on daily life” for a slew of interesting articles on the many and varied ways the pandemic has altered life in, what some argue may be, permanent ways.)

Rapid digitization:
The phoenix that rose from COVID-19 ashes

Of course, business as we knew it also changed. Just ask anyone who had to quickly adapt from going into an office every day to working from home instead. Also, the opportunity to eat out in restaurants was suddenly lost for many. We could all see the accelerated pace of the restaurant industry’s pivot to online ordering as a result of the pandemic. We also saw the resiliency of highly-regulated industries, such as financial services, that adapted by finding new ways to reach and service customers. Business leaders proved it is possible to adjust to a virtual marketplace, and digitization quickly became the star of the show.

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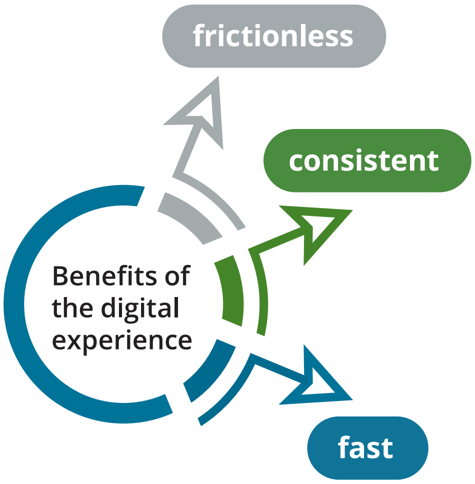
Based on the fact that business kept going during the pandemic, companies that facilitate financial transactions (such as lending to other businesses and consumers,) appear to have also moved to incorporate more digital transactions. By their success, companies that provide loans online demonstrated consumer appetite for digital lending and the need for new strategies around innovation throughout the entire loan origination process, well before the pandemic hit. With the pandemic, it became clear that disrupting the status quo to meet digital challenges wasn't just a priority — it was an existential necessity. The current environment also suggests that more and more consumers desire a lending experience similar to the one they have when shopping online or using same-day delivery services — frictionless, consistent, and fast.



In today's market, the most successful lenders are often those that are able to best meet consumer expectations of speed and convenience. And those lenders usually deliver on that expectation in a way that many times creates a positive, if not delightful, customer experience. A key component to success in this new borrower-lender model hinges on the ability of the lender to effectively access consumer data from a secure, independent, third-party source. Savvy lenders rely on instant access to borrower information to help enable quicker, even same day, decisions regarding a loan application.

The right type of data can mean better lending decisions and improved business results

Having access to the right type of data can bring a higher degree of certainty to the loan origination process. One Equifax customer found, over time, it can also help yield fewer defaults, improve efficiency and shorten time-to-close.

Increasingly, lenders are seeking information beyond just the traditional credit score when making lending decisions. They've found that additional data, such as employment and income information, is useful when considering a potential borrower's ability to repay a loan. This added layer of data can help paint a more informed picture of the borrower. In fact, a recent analysis of consumer income data demonstrated the importance of understanding income trends. The analysis showed that even prime borrowers were significantly impacted by the economic fluctuations brought on by the pandemic.

Historically, verifying employment and income required documents such as pay stubs, bank statements and other borrower-provided paperwork. This placed a burden on the borrower and the lender. Now, savvy lenders (the ones delivering that positive customer experience mentioned earlier,) choose to access this information themselves. Either via direct access or by leveraging technology through third-party integrations, lender access to employment and income data benefits consumers by potentially reducing the amount of paper documentation required from them. It can benefit lenders by helping to reduce processing costs, boosting efficiency and freeing up internal resources to focus on closing more deals.

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Income and employment verifications for digital lending:
The value proposition

Everyone in the loan origination lifecycle benefits when verification of employment and income is made easier. Even before the pandemic, in a 2019 study conducted by Equifax, 60% of participants said they wanted their lender to get income and employment data in a way that "requires little effort on my part."[1] This helps explain why financial institutions were already making significant progress toward digitizing the lending process. As part of the process, digital access to employment and income data is key. With this access, lenders can benefit by reducing both the risk of customer dissatisfaction and of losing a sale altogether because the potential customer stepped away from the showroom or retail floor or website) to retrieve paperwork.

Another recent Equifax study in consumer finance shows that applications are 34% more likely to be converted to funded loans when the applicant's employment and income information is verified. For auto the increased likelihood is 40%.[2]

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34% of consumer finance applications are more likely to be converted to funded loans when the applicant's employment and income information is verified

40% of auto applications are more likely to be converted to funded loans when the applicant's employment and income information is verified

One more thing

But as intuitive as the decision to pursue a digital lending framework may appear to be, lenders still have a few things to consider as they make the transition. Perhaps the most straightforward—although critical to get right—is choosing a verification provider that offers the right variety of solutions and services to meet lender needs. When looking for a provider—or evaluating a current one—there are five key factors to consider.

While technology advances are visible on multiple fronts, it's sometimes challenging for lenders to realize these advancements. Too often, what appear to be innovative offerings simply don't deliver as promised. To help avoid potential pitfalls, lenders should look for a provider with:

1. **HISTORY AND EXPERIENCE**
   How long has the firm been in business and worked in your industry?
2. **A VARIETY OF SOLUTIONS**
   Not just the number of products or services, but was the product or service being considered purpose-built to address industry-specific needs?
3. **SOLUTION SCALE**
   How far-reaching is the data the provider offers?
4. **CONSUMER PROTECTIONS**
   Are policies in place to vet and credential users?
5. **DELIVERY OPTIONS**
   Can the provider's solution be accessed in a way that best fits your needs?

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Conclusion

While all parties involved can benefit from the efficiencies and cost-savings technology has delivered, lenders and consumers alike must continue to embrace technological changes and advancements, which will ultimately redefine the loan origination process. To excel in this competitive and challenging marketplace, lenders must continue to make greater investments in technology and invest in ways to enhance the consumer experience.

Explore more at theworknumber.com

[1] 2019 Equifax Consumer Study / SurveyMonkey
[2] Equifax Internal Study of The Work Number Inquiry Data, December 2018 - December 2019 United States consumer finance loans. Individual results may vary.