



# **Alternative credit data reporting: Strengthening FinTech lending models**

2020

## *Alternative credit data reporting promotes financial inclusion for businesses as well as consumers.*

The only component of the U.S. consumer credit reporting industry that remains constant over the past decade is disruption. The financial crisis and constantly evolving regulatory requirements force many businesses, financial institutions, and banks to consistently tighten internal lending standards. Meanwhile, innovations and advancements in FinTech and marketplace lending continue to offer new channels and sources of credit.

As consumer credit behaviors evolve, the data and scoring systems that represent these behaviors must adapt along with them. The resulting gap in the U.S. credit ecosystem leaves many consumers without access to traditional financial services. Efficient and timely alternative credit data reporting helps bridge this divide while further protecting both the lender and the consumer.

### **The current state of consumer financial inclusion**

A substantial majority of U.S. consumers rely heavily on credit to achieve financial stability. However, many in this demographic tend to have either zero credit or poor credit ratings that essentially excludes them from obtaining reputable sources of traditional financing. Nearly 20% of U.S. adults have outstanding credit that falls outside the purview of conventional credit bureau scores [\[i\]](#), and over 30% of score-able consumers have a poor credit rating [\[ii\]](#).

It's a Catch-22. In order to get credit, consumers must first establish credit. Unfortunately, certain demographics of individuals tend to struggle with financial inclusion more than others. The most typical examples include consumers with lower incomes, immigrants, and young adults. Microbilt research indicates that as much as one-third of millennials are simply unable to qualify for a conventional loan due to a non-existent or poor credit rating from a national consumer reporting agency.

Financial lenders can often classify consumers with poor credit ratings as sub prime or marginal. However, many of these individuals are formerly top-rated or prime consumers who are struggling temporarily and in the process of recovering from a negative life event.

By collecting and analyzing data derived from mortgages, credit cards, student loans, and auto lending records, conventional credit reporting agencies can successfully predict whether consumers with already-established credit histories will likely default on additional loans. Yet, these same agencies fail to take into consideration more modernized forms of financial obligations that can provide a clearer picture of the consumer's behavior. This incomplete perspective places unscorable consumers and those with poor credit ratings at a considerable disadvantage.

In fact, in an industry benchmark study involving more than 300 lenders, almost 60% of those surveyed agree that a substantial number of consumers who lack traditional credit scores are actually low risk. Approximately 80% further believe that lower income borrowers are in desperate need of improved access to financial and lending services.

## **What qualifies as alternative credit data?**

In the U.S. marketplace of consumer lending, alternative credit data often refers to payment information and histories relating to regular, everyday living expenses. These payments rarely factor into the consumer's overall credit ratings performed by conventional credit reporting agencies like Equifax, Experian, and TransUnion.

Some examples of alternative credit data might include:

- Bank account information, such as deposits, withdrawals or transfers
- Rental payments
- Small-dollar loans
- Mobile phone payments
- Internet and utility payments
- Cable TV payments
- PayPal and other online payment activities and systems

Other types of alternative credit may relate to borrower behaviors involving issues that are less-directly tied to the applicant, such as financial obligations surrounding education or occupation. To adhere to the regulatory requirements of the Fair Credit Reporting Act (FCRA), alternative credit data must be readily accessible by the consumer to facilitate disputes and corrections challenges due to misinformation. Reputable agencies like the MicroBilt Corporation streamline the multi-faceted processes related to alternative credit data reporting for both the lender and the borrower in real time.

The added inclusion, collection, and evaluation of these types of alternative credit provide lenders with previously untapped insights into both thin-file and full-file consumers. By enhancing the visibility and transparency of the consumers' individual behaviors, borrowers also benefit by gaining improved access to conventional lending services while gradually building their credit histories over time.

## **The benefits of alternative credit data reporting**

The MicroBilt Corporation is the leading single-source provider of alternative credit data reporting services and risk management solutions in the United States. By aggregating the most diverse and comprehensive combination of alternative credit data in the industry, lenders and businesses gain 24/7 access to decision-critical financial information in a variety of areas, including the following:

- Consumer financing
- Short-term lending
- Fraud prevention
- Debt collection and recovery
- Background screening
- Business credentialing
- Bank verification
- Identity identification

The compiled alternative credit reports are at least partially based on data collected from over 8,500 companies representing more than 125,000 consumer locations across the United States. By taking advantage of professional and secure reporting services for alternative credit and banking data, companies large and small and across all business sectors gain any number of valuable benefits.

### ➤ **Improve Data, Analytics & Scoring**

By reporting consumer financial data to MicroBilt's alternative credit bureau and banking risk databases, lenders are assured of receiving the most accurate scorings possible for assessing risk, underwriting loans, and verifying bank, business, and consumer identification.

Organizations also receive more predictive scoring, more comprehensive results, and a consistently updated variety of specialty services that are only available to contributing members. Example services include but are not limited to customized dashboard reporting, industry benchmarking, custom data studies, and "living" risk scoring models tailored to a company's specific data performance trends.

### ➤ **Reduce Default Rates & Protect Your Customer Base**

As the premier credit reporting agency in the alternative credit marketplace, MicroBilt helps banks, business, and lenders protect investments while also increasing the number of consumers in the markets served. When membership organizations report new loan applications, defaults, judgments, and collections, the platform automatically alerts other creditors of outstanding debts owed by the consumer.

This innovative system allows contributing members to limit the individual consumer's access to additional services until such time that the business receives payment as originally agreed upon for services already rendered. At the same time, the reporting of timely payments only increases the consumer's confidence in the originating lending institution.

As these credit-challenged individuals steadily build their credit scores, their access to both alternative and conventional credit products can increase dramatically. Building relationships with these consumers early in their credit histories only enhances customer retention and repeat business opportunities - which is a win-win for borrowers and lenders alike.

### ➤ **Compliance & Government Relations**

In today's environment, the importance of maintaining strict compliance standards and practices is crucial. Regulations regarding business lending, payment processing, and other consumer-related financial matters seem to be constantly evolving. By leveraging professional analysis and reporting services for alternative credit data, companies can instantaneously demonstrate their commitment to compliance and standards protocols when regulatory officials come calling unexpectedly.

To avoid these sometimes-difficult conversations regarding the Fair Credit Reporting Act, the Bureau of Consumer Financial Protection (BCFP), and other industry-specific government agencies, accessing pertinent information - either positive or negative - is easily available through MicroBilt's company-customized dashboard.

### ➤ **Grow the Alternative Credit Market & Develop Prospective Customers**

Businesses and lenders often have difficulty in determining how best to serve consumers with non-existent or poor credit ratings. Furthermore, these unfortunate customers tend to view the financial institution negatively for many years following their denials of credit applications. These situations often result in lost revenue opportunities that can never be recovered.

However, now PRBC (Payment Reporting Builds Credit) offers lenders the ability to demonstrate expressions of good faith in support of these under-banked and underserved consumer markets. By implementing the use of PRBC Consumer Report and by referring consumers to [www.PRBC.com](http://www.PRBC.com), businesses can enhance their brand name reputation by acting as a consumer advocate, helping credit-challenged consumers enter the marketplace and build their credit histories. By allowing these individuals to prove their creditworthiness through the PRBC Consumer Report platform, organizations develop new customer relationships that can grow steadily over time.

### ➤ **Attract New Customers**

Companies which sign-up and agree to report consumer financial data to PRBC automatically become members of the PRBC Mainstreet platform, which becomes an additional lead generation source for the business. PRBC Mainstreet allows individual consumers with a PRBC credit profile to search for businesses that leverage PRBC Consumer Reports at part of their risk decisioning and management processes.

For example, many consumers with lower credit scores generated through conventional reporting agencies may have substantially higher rankings on PRBC Mainstreet thanks to the inclusion of alternative credit data. In turn, these "higher-risk" borrowers can use the PRBC platform to locate additional credit-friendly businesses to apply for loans and other services provided by the PRBC membership. Visit [www.PRBCMainstreet.com](http://www.PRBCMainstreet.com) for additional information about how MicroBilt alternative credit data reporting services help businesses consistently expand their customer base.

## In summary

Current research clearly indicates the existence of a substantial information shortage in relation to traditional credit scoring models. Regrettably, this shortage prevents a large percentage of U.S. consumers from achieving financial inclusion. However, research also shows that alternative credit data reporting is a vital component of the much-needed improvements for the current credit ecosystem.

Millennials are not the only ones underestimated and unfairly penalized from a credit data perspective. When one-third of the country's largest consumer generation cannot be rated accurately or are significantly undervalued according to convention credit bureau data, there's a tremendous opportunity for improved financial inclusion.

The past 10 years have witnessed incredible change and evolution in the consumer credit industry. Consequently, traditional agencies like Experian, Equifax, and TransUnion, while still important, can no longer be counted upon to provide accurate reporting data in real time. Utilizing professional services for alternative credit data analysis and reporting helps even the playing field for the individual consumer. Meanwhile, businesses and lenders can expand their customer base by identifying an unlimited number of individuals who – up until recently – were completely missing from the credit conversation.

---

## About MicroBilt

The MicroBilt Corporation is a leader in consumer risk management and alternative credit data reporting services. With proven expertise and patented analytics, MicroBilt offers its members unlimited access to the superior data necessary to make the most accurate and well-informed lending decisions possible. By identifying and evaluating the borrower behaviors of consumers with a significant reliance on alternative credit, MicroBilt offers the nation's largest network of cross-industry consumer behavioral analytics.

For more information regarding alternative credit data and reporting services, PRBC Consumer Report, PRBC Consumer Site, and PRBC Mainstreet, please contact MicroBilt Customer Support at (800) 884-4747 or visit [www.MicroBilt.com](http://www.MicroBilt.com) today.

---

[i] Consumer Finance Protection Bureau (CFPB), *Data Point: Credit Invisibles* (May 2015), retrieved from [http://files.consumerfinance.gov/f/201505\\_cfpb\\_data-point-credit-invisibles.pdf](http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf)

[ii] Fair Isaac Company (FICO), *US Credit quality continues to climb – but will it level off?* (August 2015), retrieved from <http://www.fico.com/en/blogs/risk-compliance/us-credit-quality-continues-climb-will-level/>