Pinwheel

Beyond the Credit Score

2022 White Paper

Propelling consumer finance into the future with income data

Creating a fairer financial system for underserved consumers and fostering innovation in the financial services industry.

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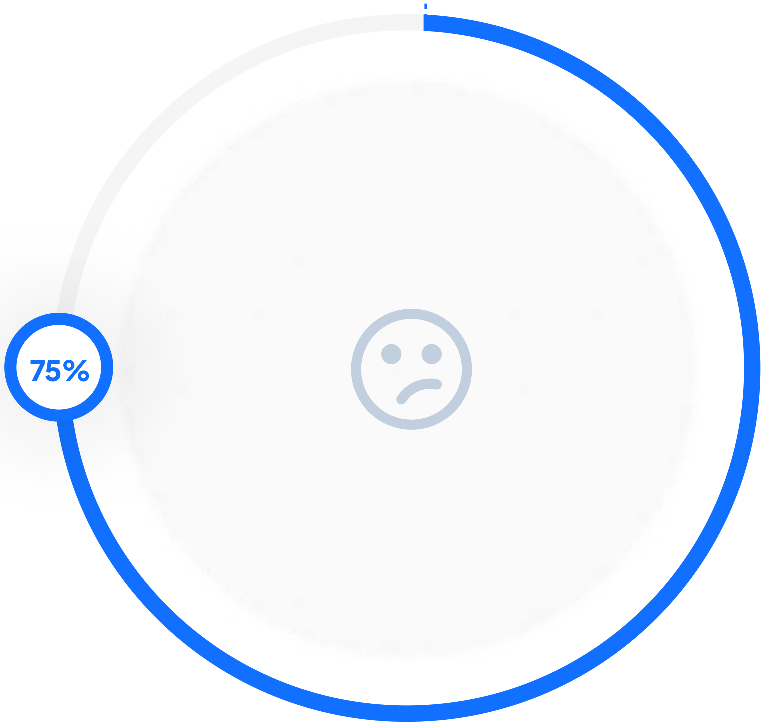
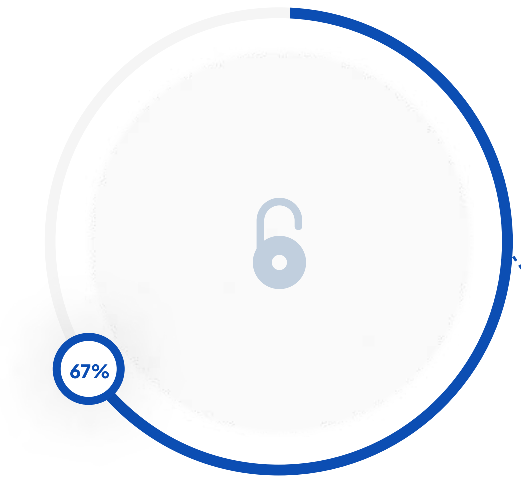
Key takeaways

Key takeaway #1

Consumers are unhappy with the traditional credit scoring system.

Nearly 8 in 10 respondents (75%) agree that credit scores should not be the only criteria for getting a loan.





Key takeaway #2

They are willing to grant access to their income data to prove their creditworthiness and access better financial products.

Almost 7 out of 10 (67%) respondents say they would like their income to contribute to their creditworthiness.

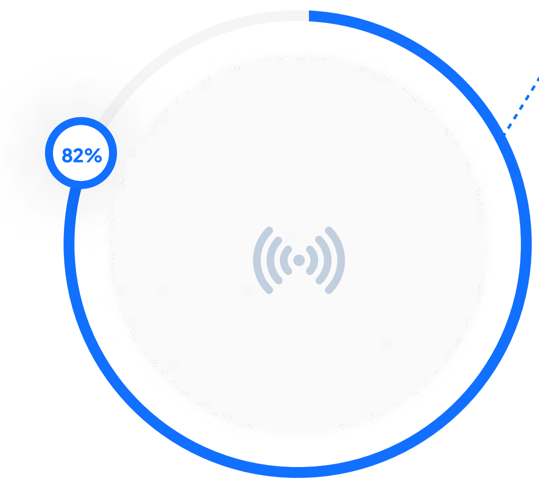
More than half of consumers also agree that credit scoring methods lack transparency and that credit scores are not updated in real time. The consequences of a poor credit score are naturally more severe for low-income consumers.

With no other options, they take on high-interest loans that increase their financial strain. In the worst-case scenario, borrowers are trapped in a cycle of debt, forced to take out new loans to repay others. In a better and fairer financial system, these consumers can prove their creditworthiness with alternative data, data that shows they are excellent candidates for credit despite their credit score — **income data.**

Insights into a consumer's income provide an additional layer of data that can demonstrate their ability to repay, even if their credit score indicates otherwise. Additionally, ongoing real-time access to income data enables lenders to lower risk, proactively respond to any changes in the borrower's income, and offer personalized financial services, such as:

- Seamless identity verification
- Financial management tools
- Cash flow underwriting
- Earned wage access
- Proactive remediation plans

Naturally, all of the above benefits hinge on consumers' willingness to grant access to their income data.



Key takeaway #3

Based on our research, a vast majority of respondents (82%) are comfortable sharing their income and payroll data.

34% are willing to share it if it more accurately reflects their financial picture and allows them access to better financial products.

27% of respondents are willing to freely share their income and payroll data.

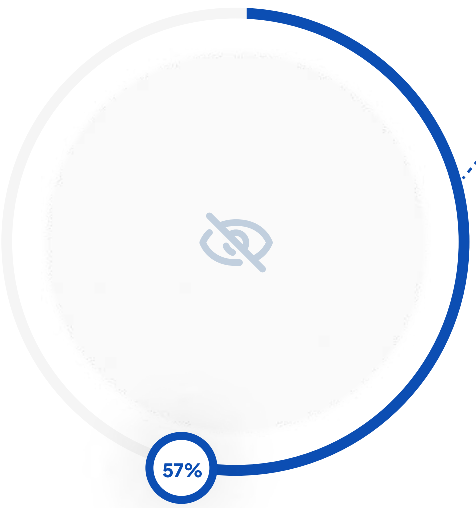
21% consider it an invasion of privacy for financial institutions to access their data without their knowledge, suggesting they would be open to data-sharing with their consent.

Consumers' openness to sharing their income and employment information represents a window of opportunity for financial service providers to reach new consumers and offer better financial services to low-income households that need them most.

Regardless of their income, consumers today expect more from their banks and fintechs — and rightfully so. The technology that can build better financial services already exists, and it's only a matter of time before we see greater adoption. Financial service providers who fail to take a holistic view to evaluate creditworthiness risk losing clients.

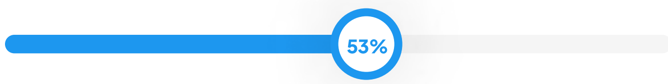
What are the attitudes of US workers toward credit scores?

US workers struggle with unfairness, exclusion, limited control, and lack of transparency in the current credit scoring system.

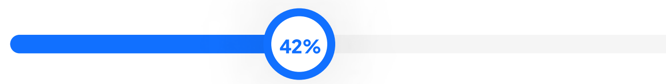


Over half (57%) of respondents agree that credit scoring methods are not transparent, which should raise significant concerns for the financial services industry.

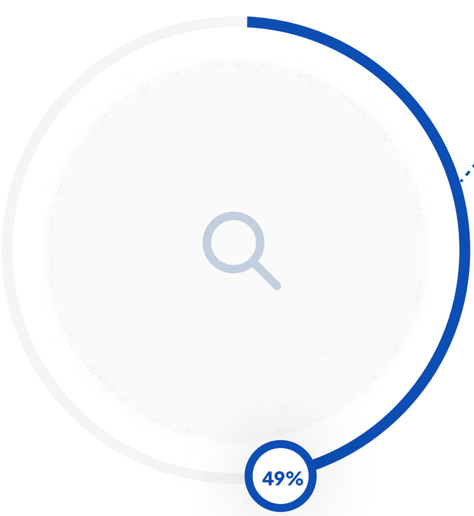
Considering the importance of the credit score in the credit-decisioning process, a lack of awareness of how it's calculated indicates consumers are excluded from a system that exerts a significant influence on their financial health.



53% percent of respondents believe the credit scoring system is unfair.

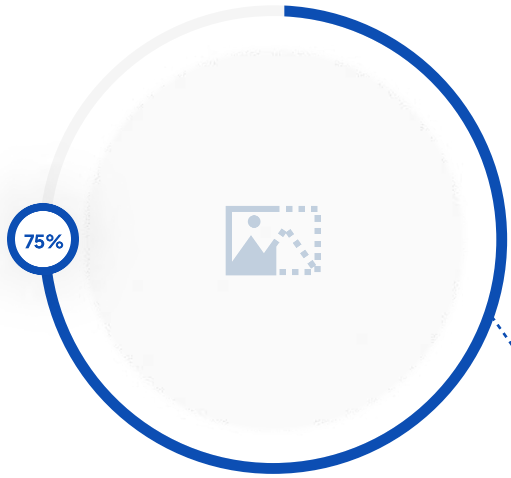


42% percent of respondents also agree they don't feel included in the current credit scoring system and have limited control over their personal financial data.



49% of respondents believe the current credit scoring system is missing information that shows they are financially responsible, demonstrating the demand for additional insights into their creditworthiness.

However, it's not just consumers who experience the negative impacts of an inefficient credit scoring system. Financial service providers must also turn away customers who would potentially make good lending candidates. Because the credit score offers only a partial insight into a consumer's financial situation, it's harder to understand their individual needs and offer the right tools and services.



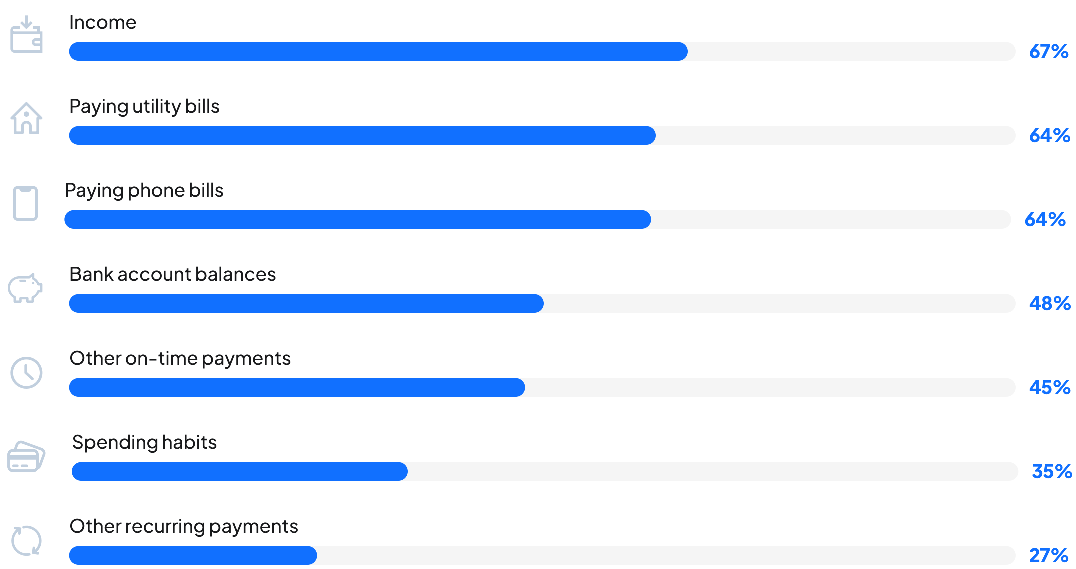
What do US workers want to contribute to their creditworthiness?

Credit scores are unable to provide a comprehensive picture of an individual's financial standing. Consumers believe other information should also be used to determine creditworthiness.

75% of respondents agree that credit scores should not be the only criteria to get a loan.

Traditional credit scoring models like FICO are made up of factors such as payment history and credit history length. They don't include data on income, employment, and other assets. But consumers also see other factors as being crucial in evaluating their financial responsibility, including income and bill payments.

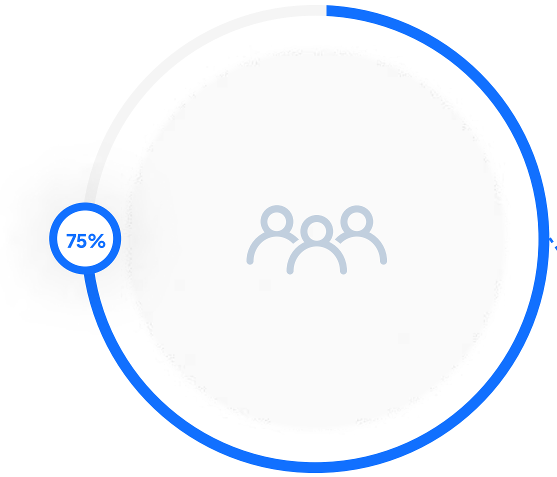
Factors that US workers would like to contribute to their creditworthiness



A considerable number of consumers would also rather qualify for loans with their income. Fifty percent of consumers say they prefer income as a lending qualifier over their credit score, while 34% prefer both. Only 16% have a preference for their credit score, and those with a very good (740–799) and exceptional (800–850) credit score are most likely to prefer it.

While credit scores provide insight into a person's willingness to pay, their income data is an indicator of their ability to pay. By taking into account both income insights and the credit score, financial providers create a holistic picture of an individual's financial needs and creditworthiness while benefiting consumers who have been excluded from accessing affordable credit products.

Who do credit scores impact most?



A more equitable financial system is a pressing need for millions of US workers whose credit scores have limited their access to low-interest credit products.

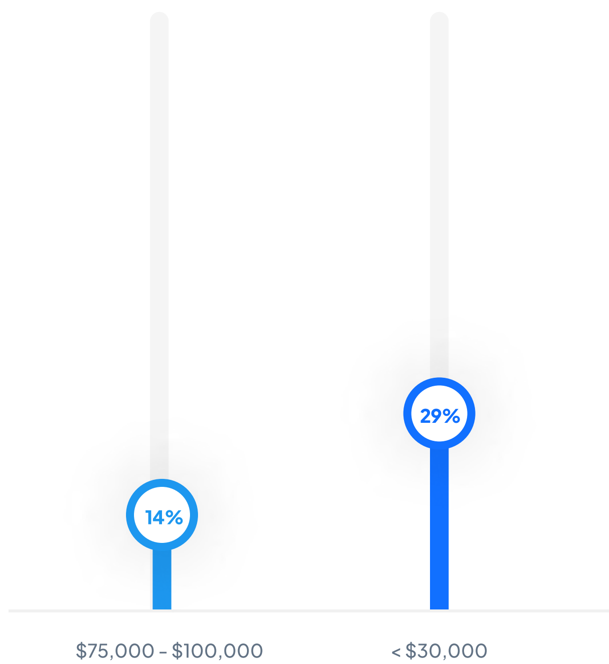
A large majority of respondents (75%) report that their credit scores were impacted by factors such as late payments of credit accounts, an insufficient credit history, and applying for multiple loans or credit cards within a short period of time.

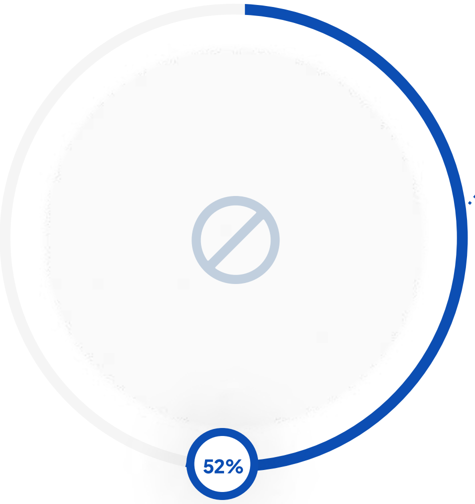
Insufficient credit history is more likely to impact the credit scores of low-income workers.

Only 14% of respondents making $75,000–$100,000 were impacted by insufficient credit history, compared to 29% of respondents with a yearly income of less than $30,000.

Worryingly, the data implies that individuals who try to stay out of debt due to their lower income are being punished for making responsible decisions, hindering their ability to get credit in the future.

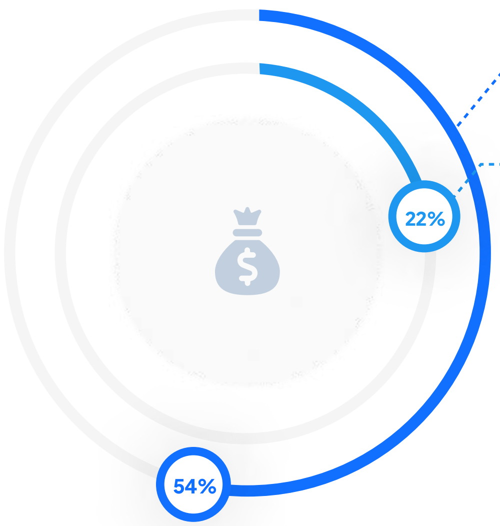
Credit scores also contain inaccurate information that often affects historically marginalized groups. Nearly 1 in 10 (9%) respondents report that inaccurate personal information has impacted their credit score – a concerning fact considering that credit reports have such an outsized impact on a person's ability to qualify for credit. Other research by the Consumer Financial Protection Bureau has also discovered that inaccurate information is more likely to affect younger people, those with poor credit, and people living in majority Hispanic and Black communities.





A low credit score is the biggest hurdle to accessing credit, with 52% of respondents who were recently rejected for a loan naming it as the reason their application was denied.

Again, lower-income individuals earning less than $50,000 were more likely to have a poor credit score (300–579) than those in the higher income brackets. Additionally,consumers with a poor credit score are most likely to have had to make a choice between paying bills and paying back bank creditors.



More than half (54%) have taken out a payday loan.

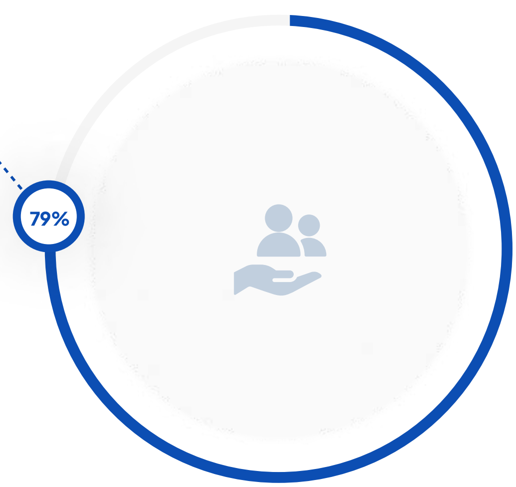
22% have taken out a payday loan for debt consolidation purposes.

As a result of their inability to access credit by traditional means, individuals with poor credit scores resort to high-interest payday loans.

Taking out a payday loan is also not a one-time occurrence, with 48% of consumers borrowing from payday lenders anywhere from two to five times. Considering annual percentage rates (APR) for payday loans can be as high as 664%, consumers are paying a premium and risking debt traps just to make ends meet.

Nearly eight in ten (79%) respondents with a poor credit score have also had to ask family members or friends for money because of limited access to affordable credit.

At the same time, 77% paid their family or friends back, indicating that these consumers are potentially good candidates for various lending products but are underserved by the financial system.



The consumer demand for real-time income data

The credit reporting system as we know it today has been around for more than 30 years,

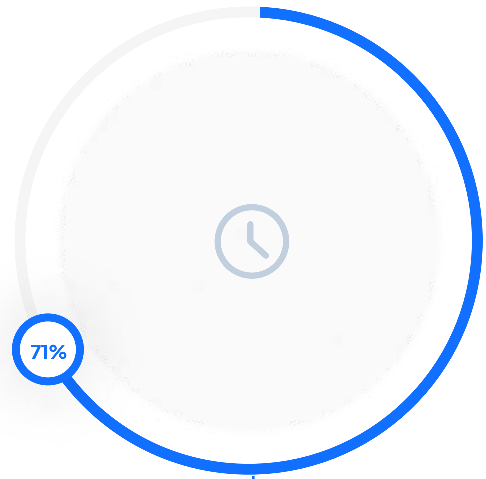
evolving from a reputation-based model where lenders would approve customers based on word of mouth and previous payment history. After three-plus decades, consumers are ready for an upgrade.

Despite the weight credit scores carry in the credit decisioning process, they are not updated in real time. Typically, credit reporting agencies update consumer credit reports once a month or every 45 days. For example, if an applicant needs an immediate re-evaluation to qualify for a mortgage, the lender would have to request a rapid rescore on the applicant's behalf — and pay a fee to do so.

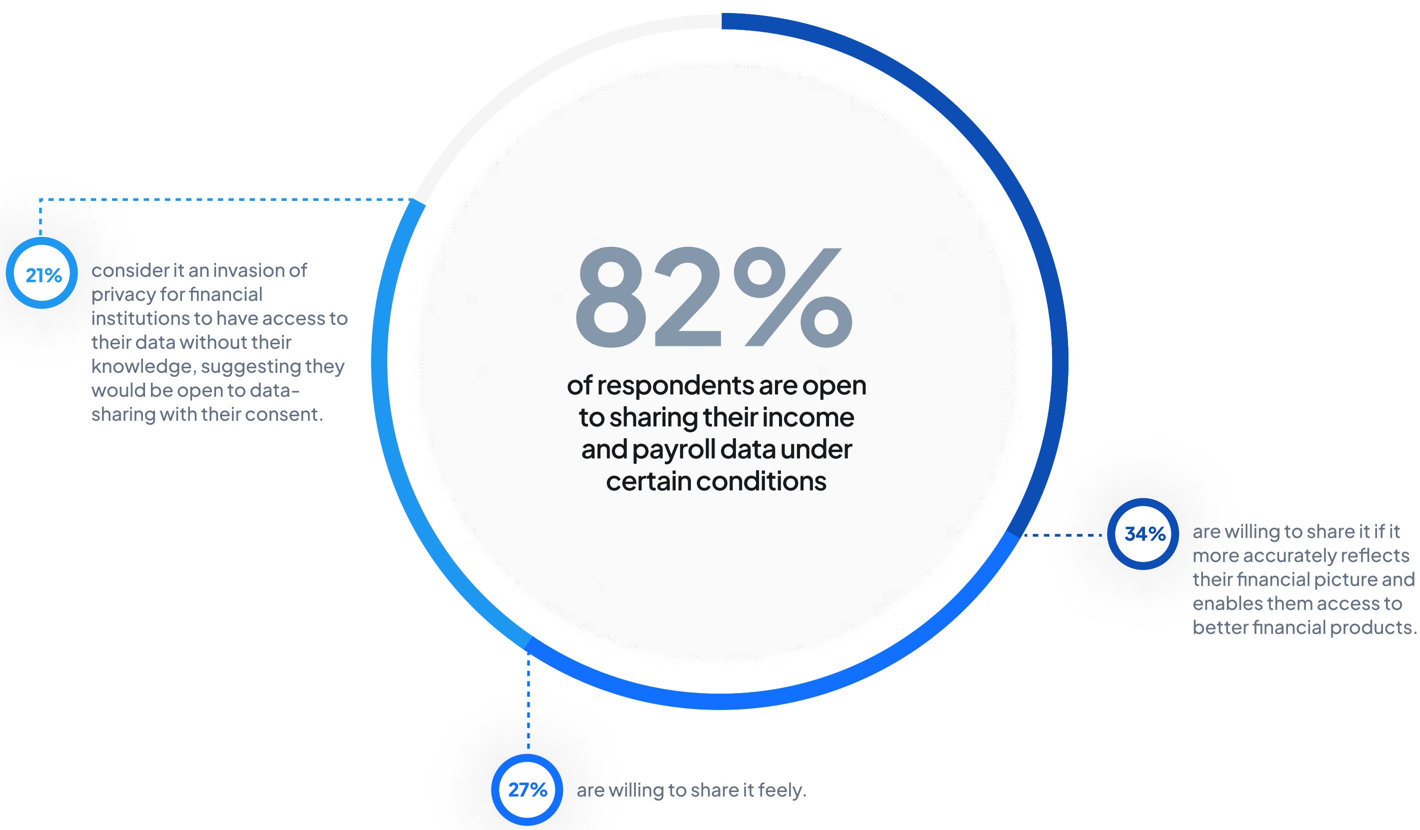
This slow, manual process is the exact opposite of what consumers want — **real-time data updates.**

Real-time access to income data is possible with payroll data connectivity APIs that retrieve this information from payroll systems, and consumers are open to the idea of granting access to additional information to demonstrate their creditworthiness.

With more insights into the borrower's income, lenders can overcome the limitations of the traditional credit scoring system and access real-time data to lower risk.



Around seven in ten (71%) respondents expect the income used to evaluate their creditworthiness when applying for a loan to be up to date within the last 24 hours.



The income data opportunity

Income data is the missing link to a more inclusive financial system and innovative, personalized products and services.

- **Income data offers insight into tax contributions, 401(k) distributions and more.**
- **Payroll data connectivity APIs also enable ongoing access to income data.**

When applying for a loan, applicants submit documents to prove their income and employment status. Documents may include paystubs, tax returns, bank statements, and an employment verification letter. While this type of manual income verification is sufficient to prove the bare minimum (that the applicant is employed and getting paid), it offers nothing more than a snapshot of the applicant's income that can change at any time. It's also susceptible to fraud.

To improve this process, some lenders have recently implemented APIs that connect to the applicant's bank account and retrieve transaction data. However, this method is also limited. For one, employees might have more than one bank account that they direct deposit into. Furthermore, transaction data offers zero insights into the employee's tax contributions, 401(k) distributions, or flexible spending accounts (FSA).

When lenders connect to a consumer's income data via a payroll data connectivity API, however, they gain access to all of the above-mentioned data points, in addition to verified identity, income, and employment data from payroll platforms. And the access is ongoing, allowing them to respond to any changes and proactively offer personalized financial tools and services.

How Pinwheel's income data insights support better financial services.

Developing innovative ways of assessing creditworthiness is key to propelling consumer finance into a more accessible future. As more financial service providers adopt alternative credit data to assess creditworthiness, fintechs and traditional financial institutions that stick to the status quo risk being left behind.

Pinwheel supports innovation in the financial industry with Verify and Earnings Stream, two API solutions that use payroll data connectivity to enable financial service providers to access real-time income data and support improved processes and new services.

Pinwheel Verify

Pinwheel Verify is Pinwheel's income and employment verification solution that connects financial service providers with their customer's user-permissioned payroll data, so they can reduce fraud and risk, expedite application processing, and enhance underwriting models with more data. The API features recurring access, meaning that financial providers' access to payroll data is ongoing, with alerts when any changes take place.

Pinwheel Earnings Stream

Pinwheel Earnings Stream takes payroll data, analyzes it using advanced machine learning and modeling techniques, and returns real-time insights into a customer's earnings. It displays actual historical cash flows, accrued earnings in the current pay period, and projected earnings and pay dates. With these insights, financial providers can lower risk, increase customer engagement, and support new financial products.

Financial services built on income data.

Income data insights are a powerful tool for both improving existing processes and launching new tools and services.

Seamless identity verification

Manual identity, income, and employment verification processes are outdated, time-consuming, and prone to fraud. Access to income data removes paperwork and creates a seamless experience. The user only needs to log into their payroll provider to authenticate the API to retrieve the data on their behalf, and the rest of the process is handled automatically. Nearly six in 10 US workers would be willing to connect their payroll provider for identity verification when applying for a loan. Additionally, 57% would have a more positive perception of their financial service provider if they were to implement this solution.

Proactive remediation plans and credit line management

An individual's income isn't static, and the financial services they're using shouldn't be either. 62% of US workers are interested in automatic credit line increases based on income growth and 63% have an interest in proactive loan repayment plan recommendations if there is a sudden decrease in income. Ongoing API-enabled access to income data is essential for enabling real-time alerts to any income or employment changes, allowing banks and fintechs to offer personalized tools and services.

Earned wage access

Consumer interest in earned wage access (EWA), or the ability to withdraw their earnings before their scheduled payday, is considerable. 77% of consumers said that they would use an earned wage access service if offered by their bank. Despite the consumer demand for EWA, most consumers do not have access to on-demand pay. Income data insights provided by payroll data connectivity APIs are able to automatically connect financial providers to the data they need to power EWA and dramatically reduce time-to-market.

Cash flow underwriting

Cash flow underwriting allows consumers to get access to credit based on cash flow data rather than their credit score. Around a third (31%) of US workers have used a cash flow underwritten loan. To underwrite these loans, lenders can rely on income data from payroll platforms to create a holistic view of an individual's earnings and receive real-time alerts to changes in income or employment status.

Financial management tools

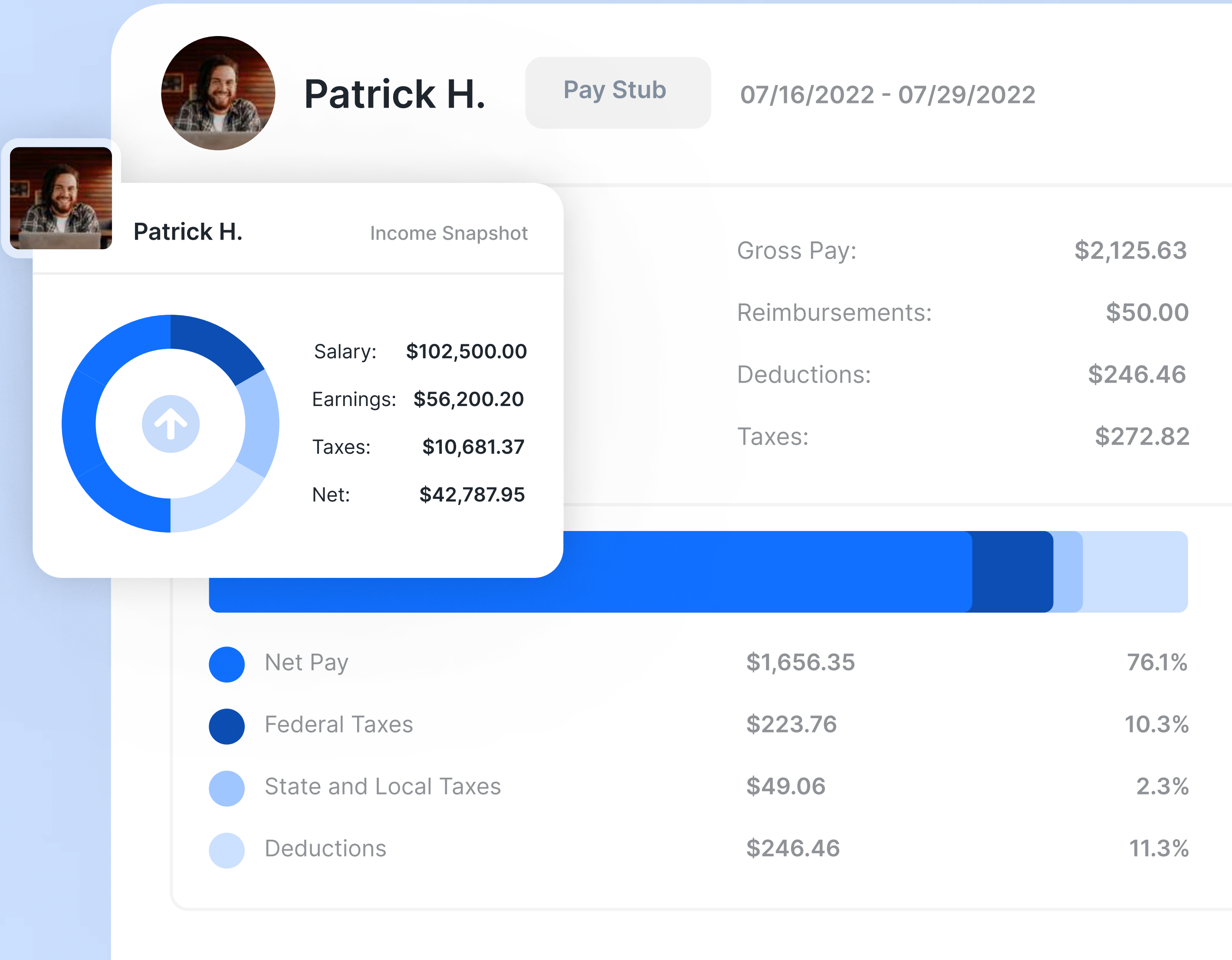
Better financial management skills are crucial for helping low-income households improve their financial health. More than a third (36%) of US workers are interested in personalized financial literacy tools from their bank or fintech. Income data insights enable banks and fintechs to power personalized financial management tools. For example, providing consumers with an overview of their accrued and projected earnings helps them spend and invest their money more wisely.

Looking to the future of consumer finance

A consumer's credit score is undoubtedly an important indicator of their financial well-being. But it's not the only one.

Today, thanks to open finance technologies that connect payroll systems and financial institutions, we can look at a consumer's financial picture more holistically.

With more data and insights, we're in a position to build financial tools and services that are inclusive and help consumers enter a virtuous rather than vicious financial cycle. Meanwhile, financial service providers can get a precise understanding of consumer needs, boosting innovation and aiding with the process of developing new products that are exactly what their customers need.

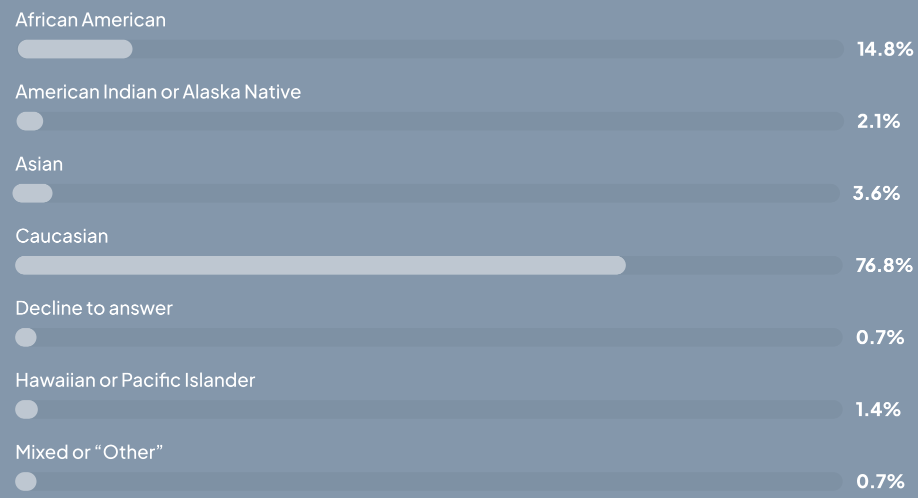


Research methodology and objectives

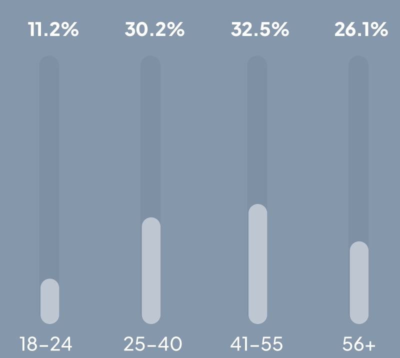
Pinwheel conducted a 12-minute online survey run through an independent and accredited market research firm (Savanta) from September 16 to October 3, 2022, to understand consumers' attitudes and challenges with credit scores, creditworthiness, and alternative measures to the credit scoring system. Responses were collected from 2,000 US workers, mix of full-time, part-time, freelance, and self-employed, financially responsible individuals. Below is an overview of survey participants. Numbers may not add up to 100 due to rounding.

Gender

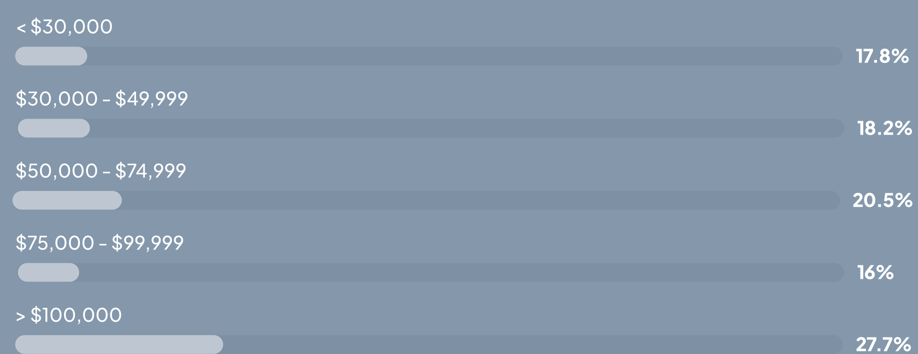
Ethnicity



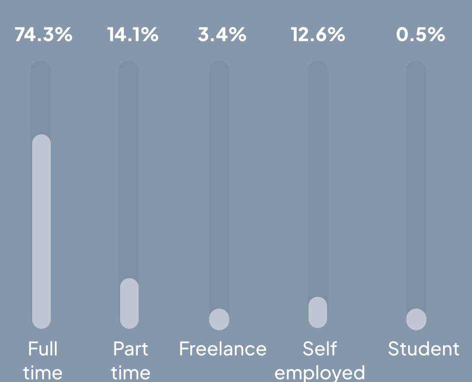
Age



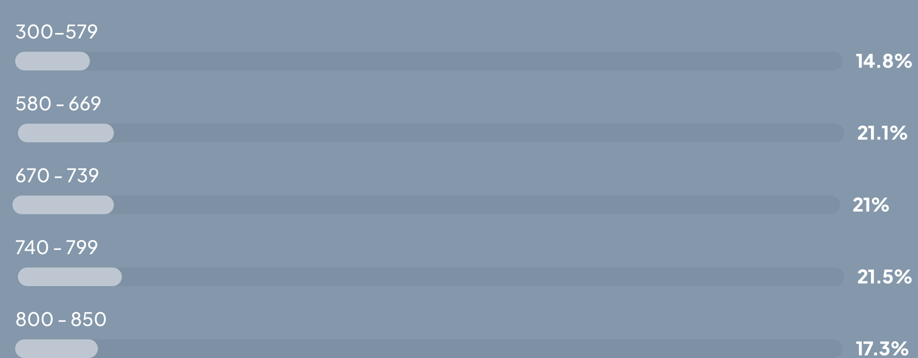
Annual Hosehold Income



Employment



Credit Score



Respondents who don't know their credit score or don't have one made up 3.7% and 0.7% of survey participants, respectively.

Pinwheel

Income data engineered for fintech innovation

Pinwheel makes sense of real time income and employment data so you can become the primary bank, reduce risk, and activate users. Our products power use cases like direct deposit switching, income and employment verification, earned wage access, and more.

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