Lending

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Can Alternative Lending bust barriers to financial inclusion in America?

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America has long grappled with stark inequality.

In financial services, the gap between many Americans is more than that — it's a gulf.

African American and Latin American homes make up **two-thirds of America's unbanked and almost half of its underbanked households**, despite only accounting for a third of the country's population.

Most average Americans are unaware of it, but of the U.S. adult population, you've got an estimated **53 million people without any presence at the credit bureaus**, another 28 million people with a limited presence at the credit bureau, then 70 million people who are classed as 'subprime' borrowers.

In a lending landscape still driven by credit bureaus report-centric environments, too many lenders are still relying only on credit reports and the information that drives these sorts of credit risk assessments.

Yes, there is value in information like credit cards, instalment loans, and auto mortgages. They can give lenders and other providers of credit products some understanding of how a consumer is likely to pay their credit cards, their instalment loans, their auto loans, and their mortgages in the future.

But if you look that footprint — how can you bolster financial inclusion?

Pandemic credit pressures

Financial inclusion is getting more challenging to achieve. For example, the pandemic has driven a shift in U.S. consumer credit demand. And forbearance from lenders has changed lenders' ability to assess consumer credit risk. Not to mention the rapid fluctuations in consumer credit risk that are happening at a speed that makes traditional credit risk assessments outdated and irrelevant.

Credit invisible consumers are seeking out products at a far greater rate than we've seen before. Meanwhile, credit visible customers have started paying down credit, thanks to the excess savings they collected as a result of stimulus dollars and reduced spending.
On the flip side, many communities have been struggling. For example, they may have been working jobs that disappeared during the pandemic. As a result, they may have turned to costly loans to make ends meet, loans that could be cheaper and fairer if lenders had an alternative view of borrowers based on real-time, relevant data.

Support for alternative credit data

Change may be afoot. In December 2019, five federal regulators issued a **joint statement** encouraging the responsible use of alternative data. The agencies said alternative data may:

- improve the speed and accuracy of credit decisions
- help firms evaluate the creditworthiness of financially excluded consumers
- potentially lower credit costs — and increase credit access.

More recent developments also hint at more consistent efforts to lift financial inclusion.

- The **Roundtable for Economic Access and Change** is part of a greater effort from the U.S. Treasury Department to reduce barriers that prevent full, equal, and fair participation in the nation's economy.
- Banks are becoming more willing to **issue cards to people without credit scores**.
- President Biden appears to be encouraging **alternative credit data** and fair lending.
- **Buy now pay later** is becoming more popular among younger consumers and minority groups with limited access to credit.

Many fintechs are also making serious efforts to serve the underserved. **Paybby**, for example, is a challenger bank built to empower African American and Latin American communities to build wealth and gain full access to the benefits of banking. Meanwhile, neobank **Cheese** provides a checking account for immigrants, Asian Americans, and others who want to support Asian American communities.

Including more Americans

It's good news that both the U.S. Treasury and President Biden are making encouraging sounds about alternative credit data. But it doesn't have to be all or nothing either. By combining alternative data and traditional credit bureau data, lenders can **achieve better segmentation**. It's not just good business; it's the right thing to do.

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