

Cash flow data is going mainstream

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And other trends shaping the future of lending



A note from Plaid

01

Over the past several years, one thing has become increasingly clear in the lending sector: Cash flow data is here to stay. In addition to the growing number of digital lenders who have integrated it into their underwriting models,¹ so have more traditional institutions such as Freddie Mac.²

That's because cash flow data has been shown to paint a more complete picture of a loan applicant's true financial situation, particularly when used alongside traditional credit bureau data. More than ever in this challenging macroeconomic environment, having real-time cash flow data can meaningfully change the trajectory of a loan-decisioning outcome. In fact, in July 2023, the Consumer Financial Protection Bureau (CFPB) released a study³ suggesting credit scores paired with cash flow data were more likely to predict serious loan delinquency than those without—thus improving the accuracy of the traditional underwriting model. The analysis was found to be “consistent with other reports,” demonstrating the “more stable effects” of its usage.

Despite this, many still wonder if the lending industry as a whole is ready to make cash flow data a standard piece of the loan equation, as well as how comfortable loan applicants are with sharing this data in the first place. To find out—and better understand the headwinds and opportunities within the industry more broadly—Plaid partnered with independent market research agencies Ipsos and Opinium, who surveyed US lenders and applicants, respectively.

This report presents their findings and takes a closer look at applicant expectations, lender needs, and what this all means for the ecosystem as we enter 2024.



¹ Fast Company, 2023.

² Plaid, 2023.

³ Consumer Financial Protection Bureau, 2023.

Key takeaways

02

- 01** | **Cash flow data is going mainstream, as lenders embrace new data sources to navigate the realities of the credit ecosystem.**

83% of lenders say they're open to using new types of data, the majority of which are cash flow related.

- 02** | **Consumers agree: Cash flow data is a key part of the financial profile they wish to share with lenders.**

On average, 72% of personal loan and mortgage loan applicants say they're comfortable sharing their bank data with lenders.

- 03** | **Clear opportunities exist to increase efficiency and competitiveness for both lenders and loan applicants.**

Nearly 60% of loan applicants say they'd be incentivized to share their bank account information if it meant obtaining lower interest rates.



Methodologies

03

The data in this report comes directly from independent surveys carried out by Ipsos and Opinium in the United States, as detailed below:

Ipsos lender survey

SURVEY SAMPLE
400 US lending professionals, overwhelming from retail/commercial or merchant banking • With a high level of hands-on involvement in the loan approval process end-to-end, in either automotive, mortgage, personal, or small-business lending. • With 4+ years of professional experience in the lending space. • Currently employed by an organization of 50+ employees.
FIELDWORK DATES
December 7 - 15, 2022

Opinium loan applicant survey

SURVEY SAMPLE
2,000 US adults between the ages of 23 and 60 • Who've applied for a personal and/or mortgage loan in the past 5 years.
FIELDWORK DATES
March 15 - 23, 2023

Lender survey

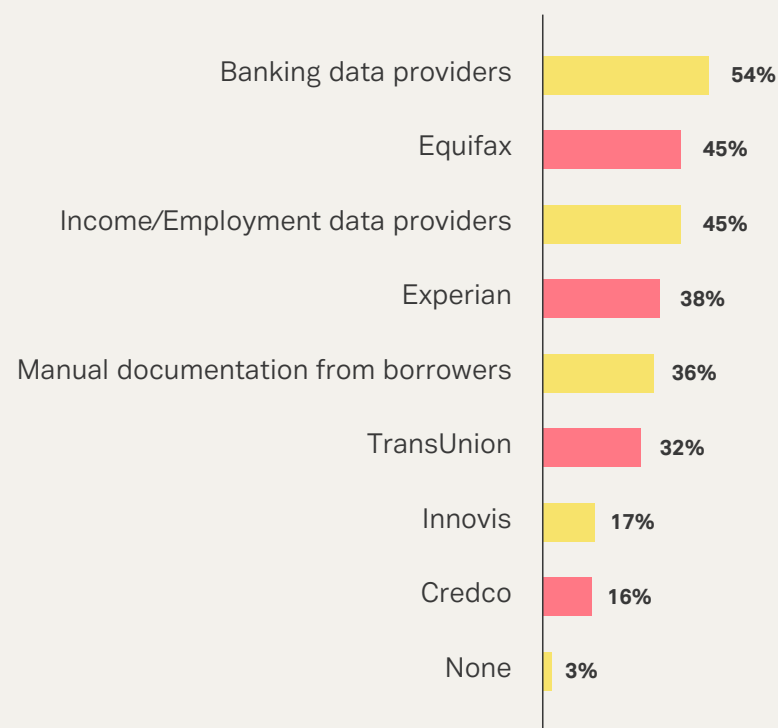
Lenders are embracing new data sources

When it comes to gathering financial data for use in the underwriting process, our study shows that lenders across the industry still mostly rely on traditional sources like banks—referred to here as *banking data providers*—and credit bureaus.⁴ On average, lenders use between three and four different data transfer, aggregation, or sourcing tools throughout the lending process.

Nevertheless, lenders are overwhelmingly open to using new types of data: 83% said they were open to doing so, while an additional 15% said they were “somewhat open.” When asked to specify which data sets they desired most, lenders pointed to those based on cash flow data, including income verification, bank balance and transaction data, debt-to-income ratio, family financial information, and rent and utility payment data.

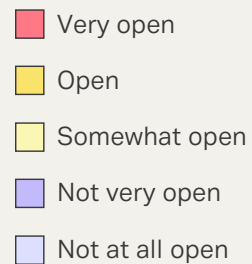
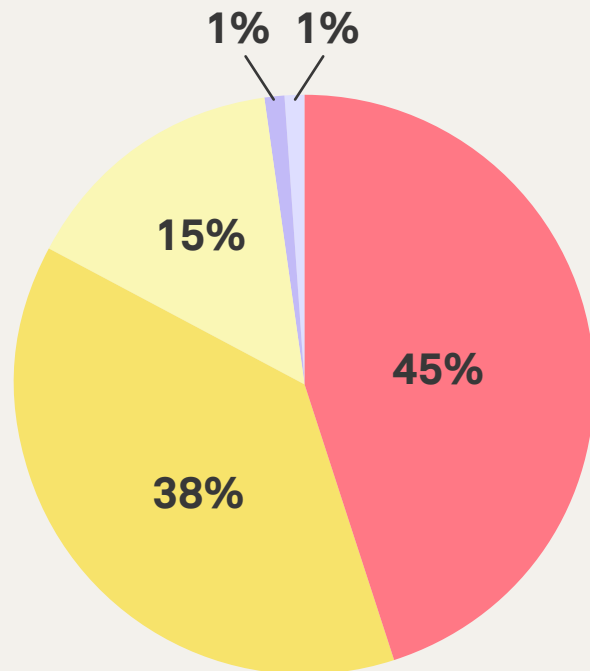
Paradoxically, the umbrella of *real-time cash flow insights* appeared as only the fourth most desired data set. However, this most likely suggests that the scope of the term is not fully understood by lenders.

DATA SOURCES USED IN THE UNDERWRITING PROCESS, ACCORDING TO LENDERS

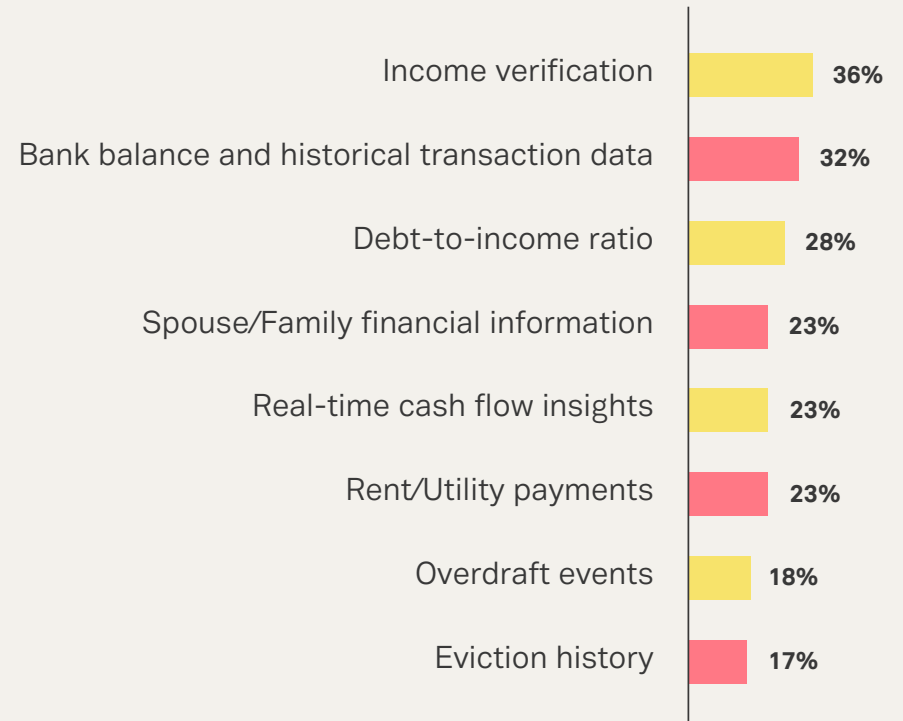


⁴ N.B.: In this context, *banking data providers* most likely represents respondents' own data.

LENDER OPENNESS TO USING NEW TYPES OF DATA



DESIRED DATA SETS FOR USE AMONG LENDERS



Lenders want to easily make sense of data and better manage fraud

Lenders' top three pain points in the underwriting process all center around data, from its acquisition and aggregation to its analysis and ingestion. This is emphasized further by lenders' top measure of success (itself a negative mirror to the above pain points): the seamless integration of applicant data into their decisioning models.

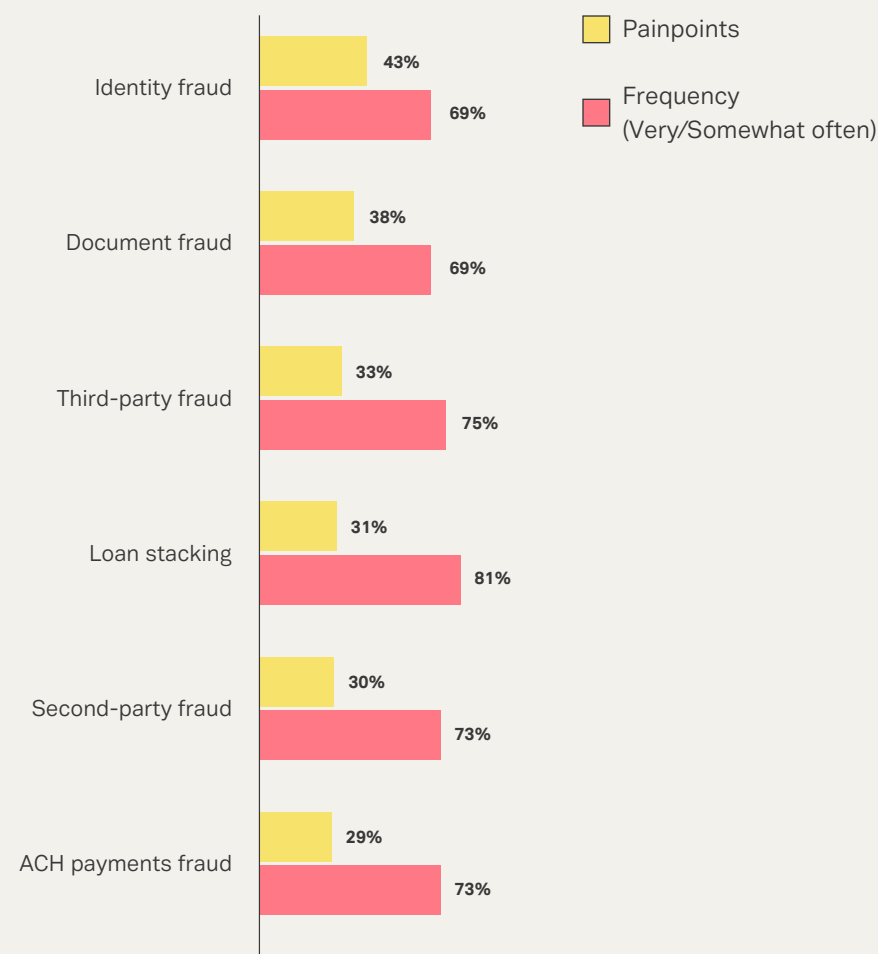
When it comes to fraud, lenders name identity fraud and document fraud as their biggest pain points (at 43% and 38%, respectively), though they report loan stacking as the most frequent form of fraud encountered (at 81%).

As an additional indication of a potential shift beyond traditional credit scores, lenders' most common frustration with fraud management is the verification of credit records, at 33%.

TOP FRUSTRATIONS WITH FRAUD MANAGEMENT

- ✓ **33% - Verifying credit records**
- ✓ **31% - Identity verification / Theft detection**
- ✓ **31% - Employment verification**
- ✓ **31% - Balancing fraud with friction**

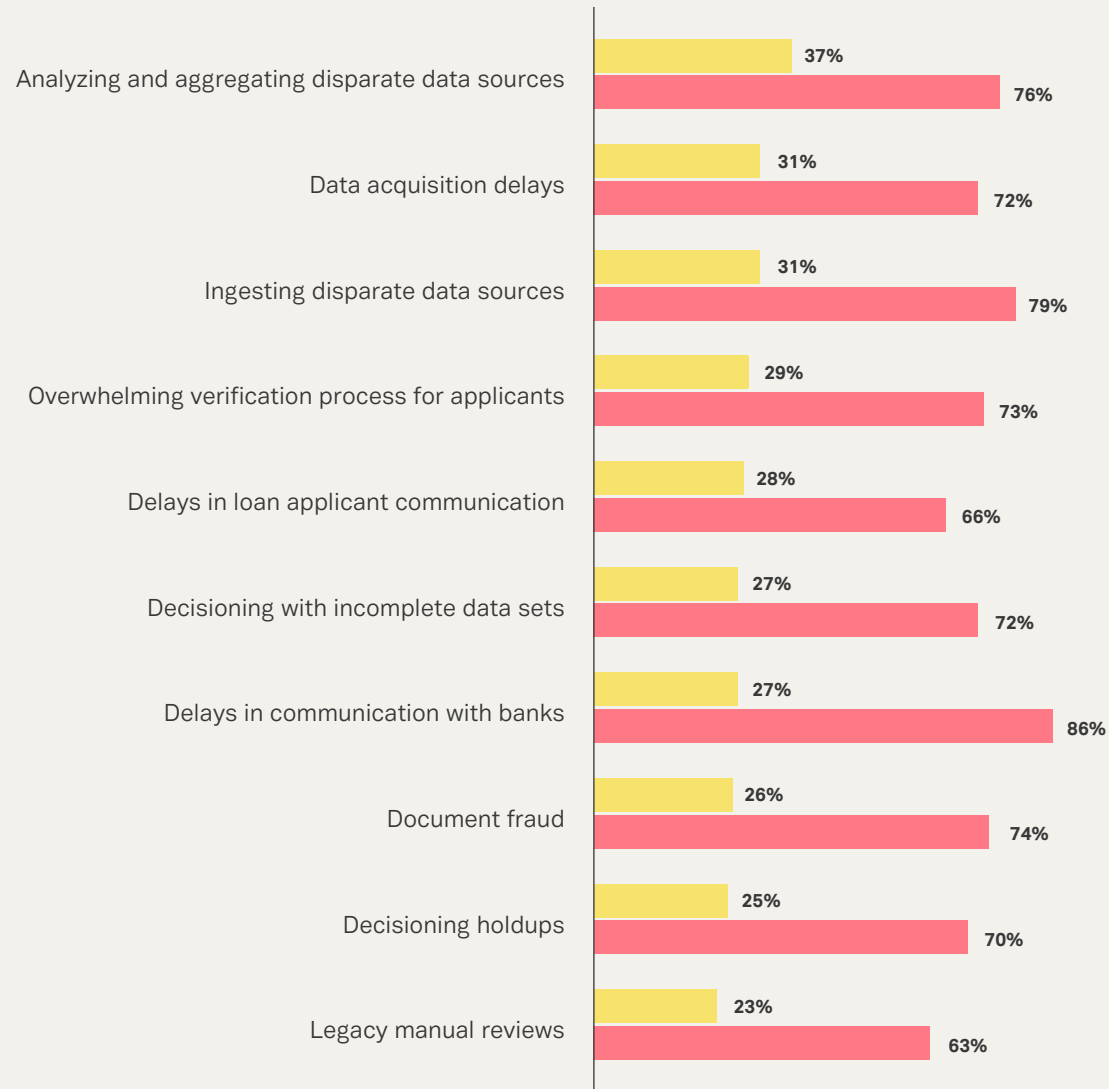
PAIN POINTS EXPERIENCED BY LENDERS IN FRAUD MITIGATION



PAIN POINTS EXPERIENCED BY LENDERS IN THE UNDERWRITING PROCESS

■ Painpoints

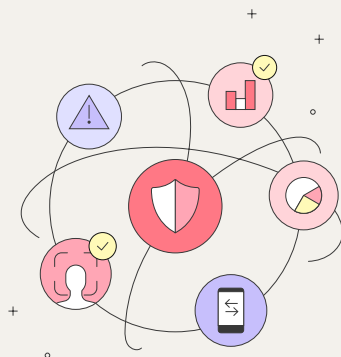
■ Frequency
(Very/Somewhat often)



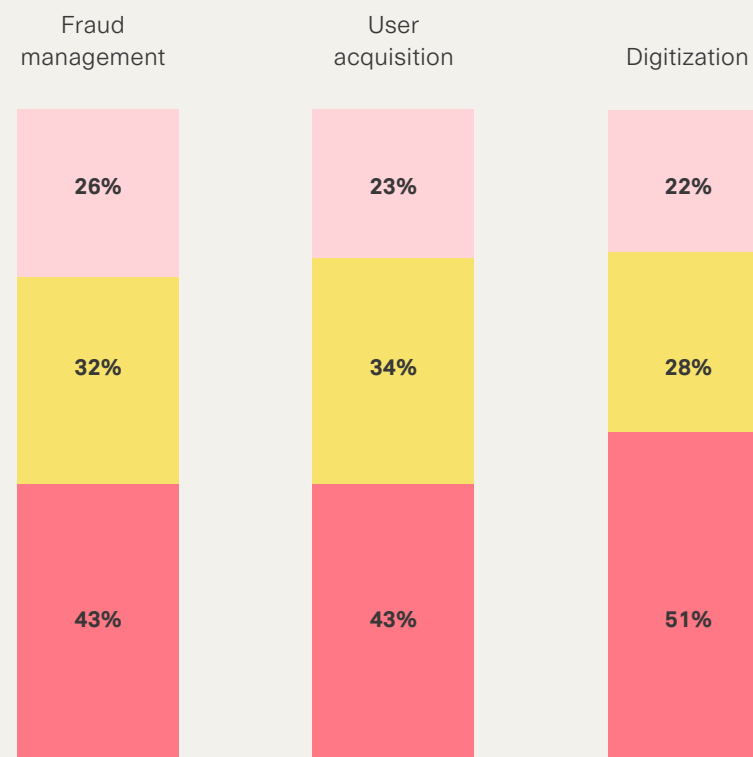
Lenders are prioritizing automation and digitization to lower costs

Finally, our study shows a concrete correlation between automated or digitized processes and financial security. Lenders with over 50% automated processes are less likely to report financial strain during the loan approval process, particularly during the origination and underwriting stages. Conversely, lenders with less automated processes report the most financial strain at every step of the lending process, from the loan application through to servicing.

It's of little surprise, therefore, that lenders have predominantly accelerated their plans around digitization, as well as around fraud management and user acquisition, suggesting an effort to cut costs through streamlined processes and the more thoughtful allocation of resources.

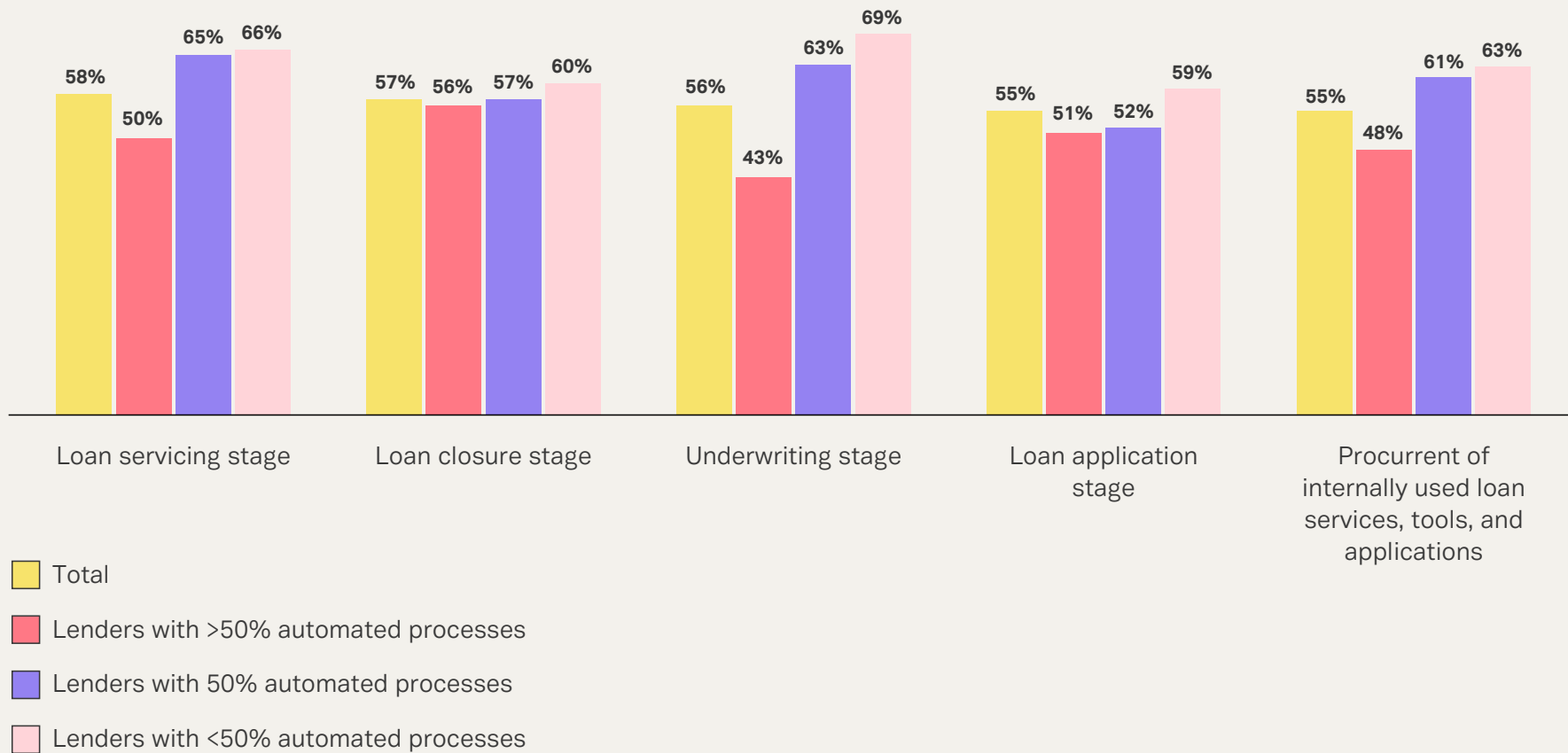


LENDER RESPONSE TO THE CURRENT ECONOMIC CLIMATE, BY CATEGORY



- Scaled back the process
- No change
- Accelerated process

FINANCIAL STRAIN BY STAGE, ACCORDING TO LENDERS



Loan applicant survey

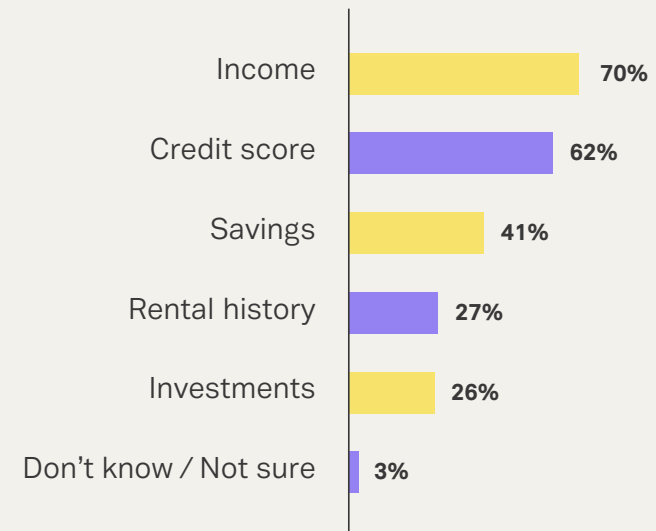
Loan applicants, too, consider cash flow data a key part of their financial profile

Like lenders who are embracing new types of data sources, applicants believe it takes more than their credit score to paint an accurate picture of their financial situation. In fact, they see the former as only the second most relevant piece of information (62%), behind income (70%) but ahead of savings (41%).

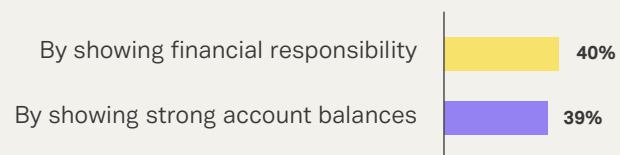
Over a quarter of applicants surveyed also feel their rental history or investments are relevant to illustrating their financial situation. Unsurprisingly, as household income increases, so does the likelihood that applicants see their savings and investments as pertinent.

Furthermore, applicants are more likely to think sharing their bank account information with a lender—including proof of income streams, utility and rental payment histories, bank statements, and account balances—can help their application (roughly 40% versus 30%), rather than hurt it. And the vast majority of loan applicants (an average of 72% across all categories) are comfortable sharing this financial information with lenders.

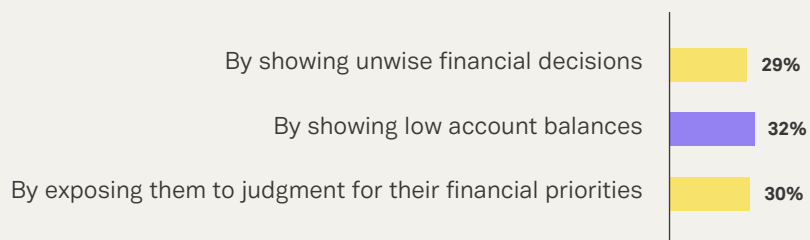
MOST RELEVANT TYPES OF INFORMATION TO PROVIDE THE BEST PICTURE OF ONE'S FINANCIAL SITUATION, ACCORDING TO LOAN APPLICANTS



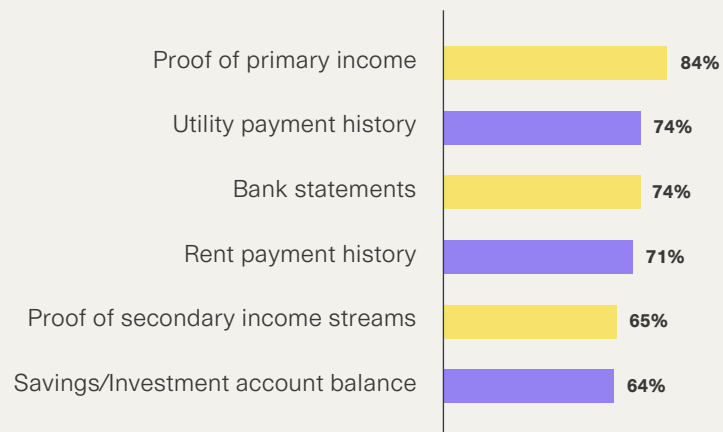
LOAN APPLICANTS WHO THINK SHARING BANK INFORMATION WITH A LENDER CAN HELP, BY REASON



LOAN APPLICANTS WHO THINK SHARING BANK INFORMATION WITH A LENDER CAN HURT, BY REASON



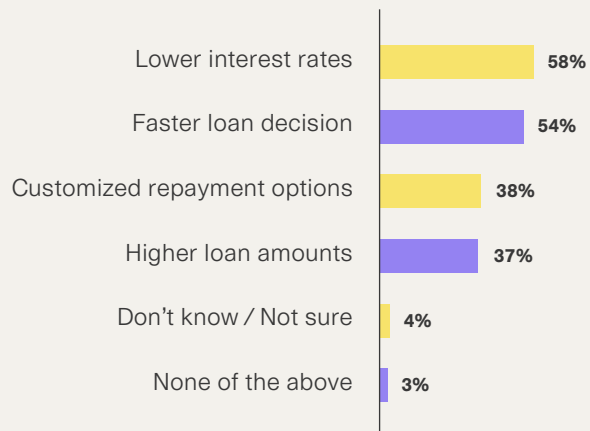
LOAN APPLICANTS' COMFORT LEVEL SHARING FINANCIAL INFORMATION WITH LENDERS, BY TYPE



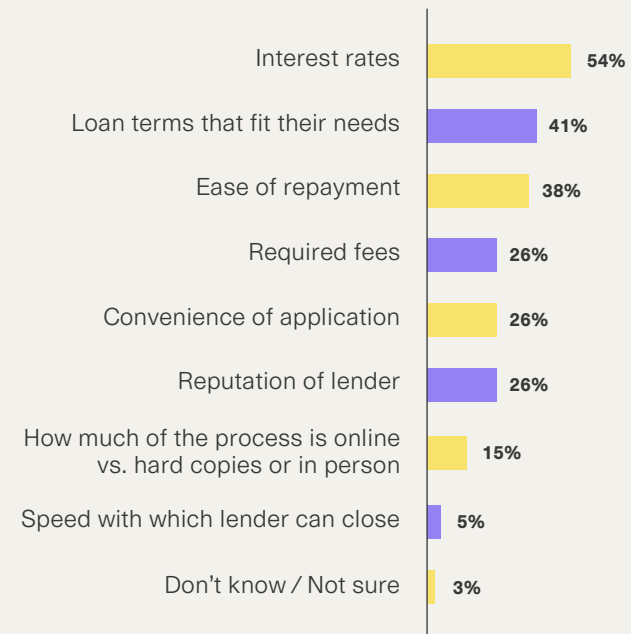
Interest rates and loan terms speak to loan applicants

While loan applicants are already overwhelmingly comfortable sharing their bank account information with lenders, around six in ten say they'd be further incentivized to do so if it meant obtaining lower interest rates. In fact, interest rates are applicants' top consideration when choosing a lender, followed by whether the loan terms fit their needs. On average, loan applicants evaluate two to three lenders before taking out a loan.

INCENTIVES TO CONNECT BANK ACCOUNT INFORMATION TO A LENDER, ACCORDING TO LOAN APPLICANTS



LOAN APPLICANTS' BIGGEST CONSIDERATION WHEN CHOOSING A LENDER

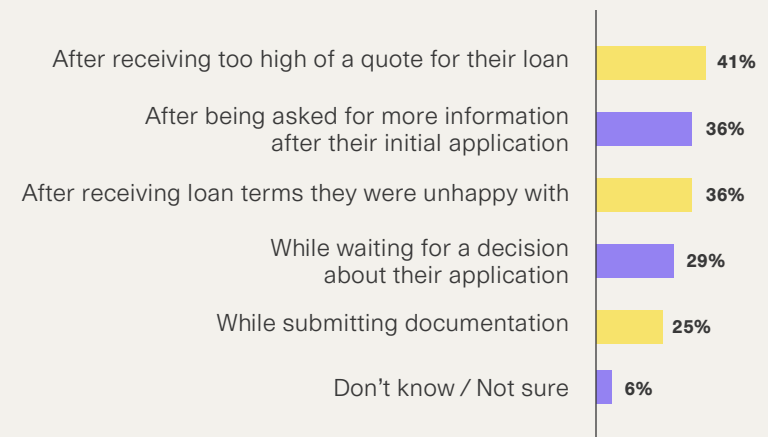


Loan applicants want competitive rates and less friction

When it comes to the application process itself, would-be borrowers spend an average of about two hours gathering information for lenders—and nearly three in five report having begun a loan application without finishing it. Tellingly, the most common point at which respondents drop out of the application process is after receiving too high of a quote. Receiving loan terms they're unhappy with and being asked for more information upon initial completion of their application are also common drop-out points.



STAGES AT WHICH LOAN APPLICANTS DROPPED OUT OF THE APPLICATION PROCESS

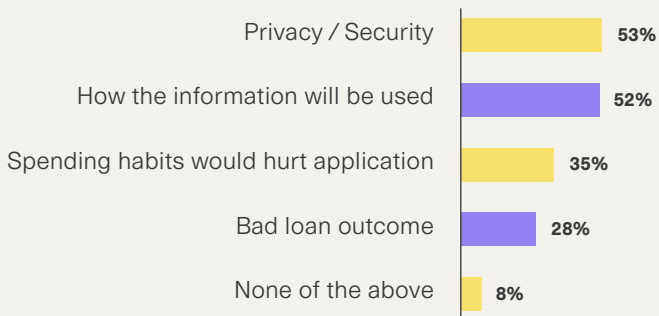


// Loan applicants want competitive rates and less friction

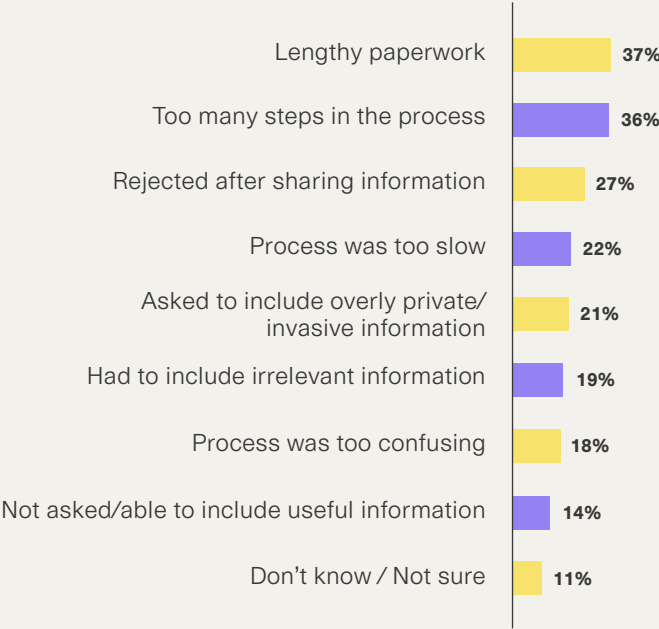
As far as pain points, applicants report lengthy paperwork and too many steps in the process as their biggest issues when filling out loan applications. They also express frustration around the amount of time it takes to obtain loan terms.

In line with their desire for both ease and speed in the loan application process, many applicants report that not having to provide a lot of documents would make them feel more comfortable sharing their bank account information with a lender, supporting the case for more digital aggregated solutions. When it comes to potential hesitation around sharing this information, applicants most frequently report concerns around privacy and security.

LOAN APPLICANT CONCERNS WITH SHARING BANK ACCOUNT INFORMATION WITH A LENDER



MOST FRUSTRATING FACTORS DURING THEIR MOST RECENT LOAN APPLICATION PROCESS



Opportunities to bridge the gap

When put together, these takeaways signal a concrete shift in the lending industry and represent a clear opportunity to tackle both sides of the lending equation at once, where numerous issues are vying for attention:

On the lender side, organizations are struggling with data acquisition, aggregation, and analysis—as well as fraud management. Those wanting to serve more borrowers while managing credit risk face unique challenges, from rising interest rates to inflation and the relaunch of student loan payments. More data on applicant finances is required to navigate this environment, and traditional credit data—while useful—lacks the ability to reflect many essential indicators in real time.

On the borrower side, many applicants are grappling with one-size-fits-all rates and terms, as well as long, frustrating loan application processes. Others, such as immigrants and recent college graduates, are among the nearly 50 million Americans⁵ who lack a credit score—and are thus shut out of loans despite potentially strong borrower profiles. In fact, 63% of Americans say credit scores aren't enough to understand their full financial picture.⁶

The use of cash flow data—through digital data access—offers an actionable and scalable way to address all these concerns at once. It's no wonder that lenders, from the least tech-savvy to the most automated, are looking to further digitize in an effort to ease financial stress, speed up workflows, and reduce fraud.

That's because the use of cash flow data implies easier, more streamlined applications, addressing a major applicant pain point. It also provides a more complete picture of an applicant's financial health, meaning lenders can offer more competitive rates and personalized terms—another applicant concern. All this feeds back to the lender in the form of an expanded pool of creditworthy candidates, mitigating the risk of future default.



⁵ Oliver Wyman, 2023.

⁶ The Fintech Effect, 2023.

Plaid's privacy-forward, consumer-permissioned data connectivity products help lenders achieve just that.

Used by some of the most established players in the space—including Purpose Financial, Carvana, Mission Lane, and SoFi, among others—these solutions help lenders stand out from the competition through:

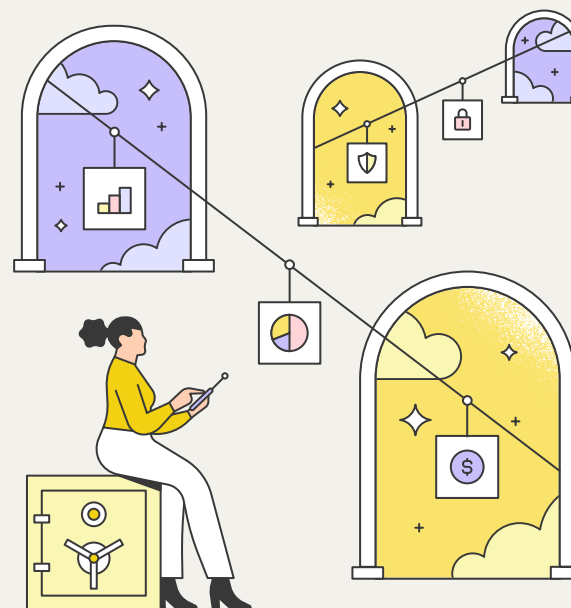
More personalized loan terms based on real-time financial data and a more holistic picture of an applicant's finances, for increased customer acquisition.

Streamlined, digital-first application processes that reduce the need for manual paperwork from borrowers and related drop-off.

A direct account connection that pulls data straight from the source, virtually eliminating the possibility of document fraud and reducing risk.

Plaid has also formed a new consumer reporting agency that will build solutions for customers in search of ready-made credit risk insights from consumer-permissioned cash flow data. While the initiative is currently in its early stages, we continue to offer our full suite of lending solutions to help organizations achieve their goals.

To learn more about integrating cash flow data and digital solutions into your loan decisioning and servicing processes, visit our [website](#).





Plaid powers the digital finance solutions that enable millions of people to live healthier financial lives. Trusted by 8,000+ of the world's leading companies and connected to 12,000+ financial institutions across the US, Canada, UK, and Europe, Plaid's mission is to unlock financial freedom for everyone.

