
COMBATING

The Emerging COVID Credit Crisis

FINANCIAL SURVEY REPORT



Crisis Exposing the Need to Make
Credit-Decisioning Process **More
Complete, More Empowering
and More Inclusive**

For many people, as the economy opens back up, they'll go back to work and their income will return, but the hit to their credit may take years to overcome.

Few choices carry as much weight or cause as much stress for consumers as financial decisions. Applying for a loan or taking out lines of credit allows consumers to reach key milestones like homeownership, as well as financing purchases from cars and appliances to everyday needs.

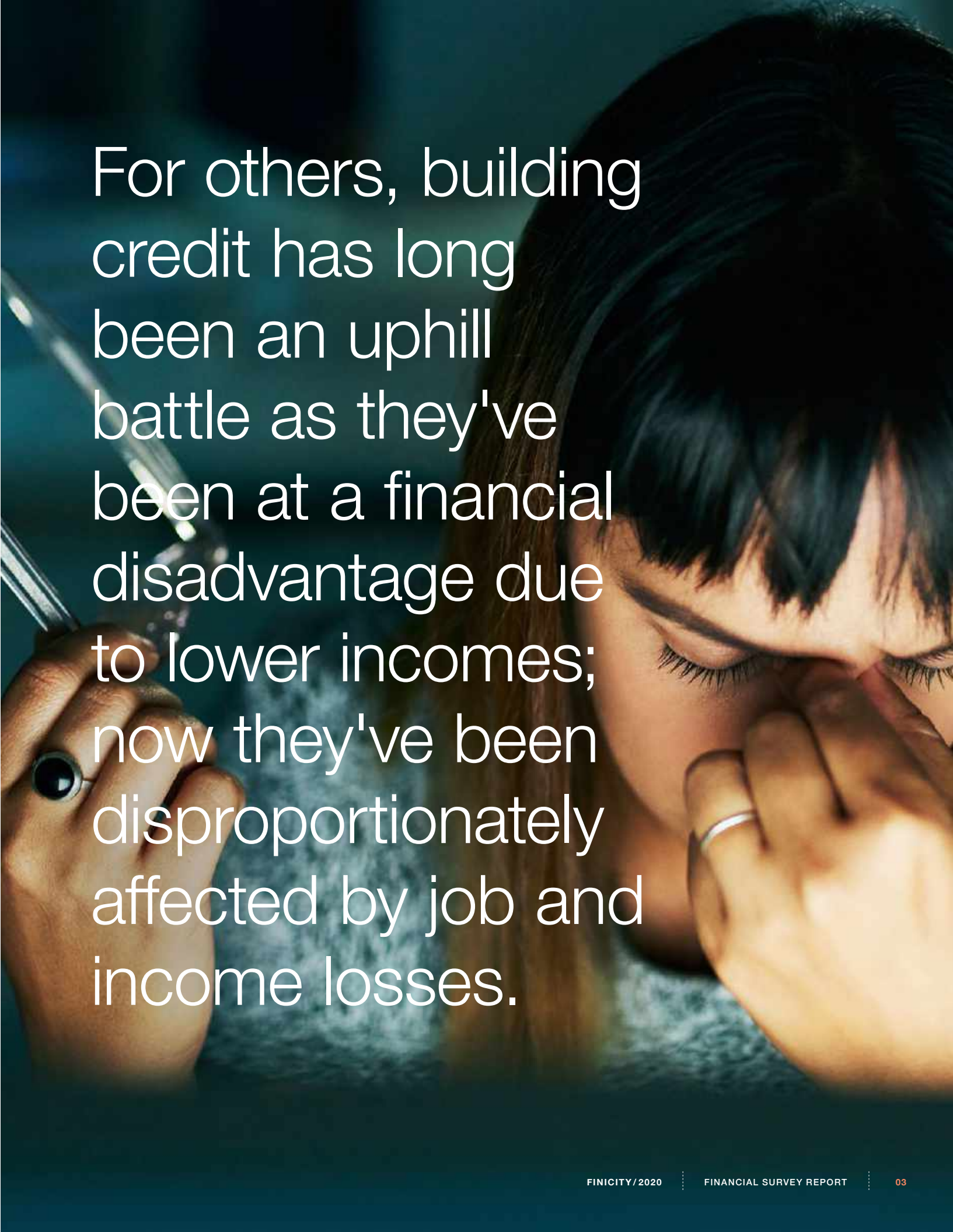
In this process, credit scores are what often stand between consumers and the major purchases they'll need to make. Consumers can control the outcome of their credit score to some extent, but what happens when the unexpected strikes — illness, job loss or another life event? A significant hit to a person's finances or income can negatively impact their credit, creating the challenge of rebuilding creditworthiness.

Enter a global pandemic and ensuing economic crisis. It's hard to overstate the impact of the COVID-19 pandemic, shoving normalcy off the world stage

almost overnight. Among the swiftest blows was the sweeping job loss — the unexpected happened on a mass scale. Businesses were forced to close their doors. Millions faced sudden layoffs, furloughs and income reductions. Large-scale anxiety set in as due dates for mortgages, loan payments, credit card payments and bills drew closer with no means of paying these critical expenses.

Now, one crisis leaves us combating another: the economic realities of broad unemployment and the downstream implications that creates. The massive loss of income experienced by so many Americans (and countless others across the world) brings an impending credit crisis, as those impacted confront the reality of damaged credit and the difficult and potentially lengthy task of rebuilding it.

And when this crisis passes and people do go back to work, the hangover will affect the economic recovery. Returning to movie theaters and restaurants will only juice the economy so much. A critical component of economic recovery will lie in consumers' ability to secure the loans and credit needed to finance major purchases, refinance mortgages, and fuel economic growth.



For others, building credit has long been an uphill battle as they've been at a financial disadvantage due to lower incomes; now they've been disproportionately affected by job and income losses.

As Workers Return and Rebuild

Both this macro and micro view of consumer credit in the US evidences the need for a deep evaluation of credit-decisioning and how consumers can become empowered to take control of their own financial data.

INTRODUCTION CONT.

To better understand the near and longer-term financial toll that the COVID-19 pandemic has taken on consumers, and to gain greater insight into the potential solutions to the ensuing credit conditions, Finicity conducted a survey of over 2,000 US consumers in June 2020, and explored the personal financial impact they've felt in recent months and how they believe they will participate in the eventual financial recovery.

In examining the data, it became clear that people are concerned about their credit in the wake of job losses or financial impact. And respondents, whether they were impacted by COVID-19 or not, indicated that participation in the future credit markets may require changes that let responsible borrowers better prove their creditworthiness to lenders.

Overall inclusion in the financial and credit processes also emerged as a critical need as Finicity examined data specifically pertaining to the most financially vulnerable consumers, those with an annual household income of less than \$50,000. The data from this group paints a stark picture of financial loss from COVID-19, credit anxiety, and lagging financial literacy.

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IMPACT of Covid-19

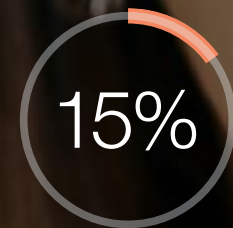


Of respondents have lost their jobs or had their income impacted because of COVID-19

Here's how the 55% breaks down:



Said they experienced a temporary job loss or income reduction



Said they experienced permanent job loss or income reduction



Said they lost commissions, bonuses or other financial resources they were relying on

Key Findings

FINANCIAL SURVEY REPORT

Job Loss From Covid-19 Brings Threat of a Credit Crisis

Over half of Americans experienced temporary or permanent job or income loss from COVID-19

In early spring 2020, businesses across the country closed their doors as the worst health crisis in a century began to surge across the nation. Americans battled job and income loss on a massive scale. These losses have imperiled consumers' ability to pay their bills and forced a greater reliance on credit to cover expenses.

For many, a looming concern that this financial hit might become a long-term hit to their credit emerged, even for those who anticipated that they'd return to their jobs or previous income levels once the pandemic eased. A picture of a long-term financial impact from a short-term circumstance emerged.

Payments and Credit Usage Negatively Impacted

Job and income losses have made it difficult for the majority of those affected to stay current on bills and are impacting credit usage. Many said they have not been offered the chance to make special arrangements to ease loan terms during the pandemic.

64%

Of those impacted said it has made it difficult for them to keep up with bills and payments

53%

Of those who were offered special arrangements said they took advantage of them

56%

Of those impacted said their ability to make credit or loan payments has been affected



Long-Term Impact

From temporary income loss

As a result of the financial hardship experienced due to COVID-19, the majority of those impacted now fear their credit will be negatively impacted.

Nearly all of those impacted are concerned about their ability to rebuild their credit and finance purchases going forward.

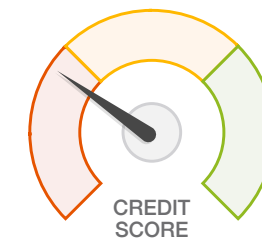
Of those impacted said they're concerned or somewhat concerned about their ability to rebuild their credit or take out a loan following this financial situation

61%

Of those impacted are concerned their credit will be negatively impacted because of their financial situation

62%

Of those impacted said they had excellent or good credit prior to the COVID-19 crisis



57%

Of those impacted say they're confident they'll be able to return to work or their previous income level once the COVID-19 pandemic eases

The most financially vulnerable are feeling the biggest impact

While reason would suggest that those with the lowest incomes will naturally present the highest lending risk, the data also shows that consumers with lower incomes exhibited an overall greater hesitance even to apply for credit. They were uncertain they'd qualify, and they had greater anxiety that the COVID-19 job and income loss would impact their credit.

These fears point to a larger disadvantage in the overall credit market for these consumers.

Biggest job and income loss coming from lowest income households. Consumers with the lowest household incomes have seen the greatest impact to their income as a result of the COVID-19 pandemic.

Payments suffering for most financially vulnerable. Lower income consumers are also experiencing the greatest difficulty staying current on bills and keeping up with payments as a result of job and income loss.

Lowest income households demonstrating highest credit anxiety. Credit anxiety also appears to be most prominent among low income consumers, as 1 in 4 showed a hesitation to rely on credit during the financial hardship, and nearly 1 in 4 also claimed they have not attempted to use credit during the hardship, as they don't believe they would qualify. This credit anxiety is compounded by a greater fear over the impact to their credit score compared to higher income households.

A deeper examination of consumers with annual household incomes below \$50,000 shows that the pandemic created even more significant job and income losses, and also reveals an imbalance in credit opportunity for these lower income consumers.

Consumer respondents with an annual household income below \$50,000 have experienced the greatest impact and are showing the greatest credit anxiety.

62%

SAID THEIR JOB OR INCOME HAD BEEN IMPACTED

Compared to 40% of those with a household income of \$100,000

73%

SAID THIS FINANCIAL SITUATION HAS MADE IT DIFFICULT FOR THEM TO KEEP UP WITH BILLS AND PAYMENTS

Compared to 57% of those with a household income between \$50,000 and \$100,000, and 54% of those with a household income over \$100,000

37%

SAID THEIR ABILITY TO MAKE CREDIT OR LOAN PAYMENTS HAS NOT BEEN AFFECTED

Compared to 48% of those with a household income over \$50,000

21%

SAID THEY HAVE HAD TO EXPAND THEIR CREDIT USE

And 23% said they have not attempted to use credit because they do not think they would qualify

68%

SAID THEY'RE CONCERNED THIS FINANCIAL SITUATION WILL HAVE A NEGATIVE IMPACT ON THEIR CREDIT

Compared to 52% of those with a household income over \$100,000 who cited the same concern

Key Findings

A New View of Credit-Decisioning for Better Lending, Better Borrowing and Better Inclusion

The large-scale loss of jobs and income as a result of the pandemic, and the mass anxiety over the impact to credit scores and the lengthy process of rebuilding credit, leaves many consumers looking for changes in the credit-decisioning process.

In many cases, consumers simply want a stronger understanding — or some

understanding at all — of the financial data being used in the process. This access to financial data also becomes critical as the focus shifts to financial inclusion and financial literacy. Currently, consumers with the lowest household incomes show the least confidence in their knowledge of their financial data and how it's being used to determine their creditworthiness.

A Better View of Creditworthiness

An overwhelming number of consumers believe that it's unfair for personal credit ratings to be impacted by temporary circumstances or circumstances beyond consumers' control. They also believe that credit processes need to change to give lenders a more complete picture and make it easier for responsible borrowers to prove their creditworthiness.

64%

Said it is not fair for a person's credit rating to be negatively impacted long-term because of a circumstance that is temporary or beyond their control, like the COVID-19 crisis

82%

Said they believe the current credit review process and criteria need to change to make it easier for responsible borrowers to prove their creditworthiness

64%

Said they do not believe the current credit rating system gives lenders a complete picture of a person's creditworthiness

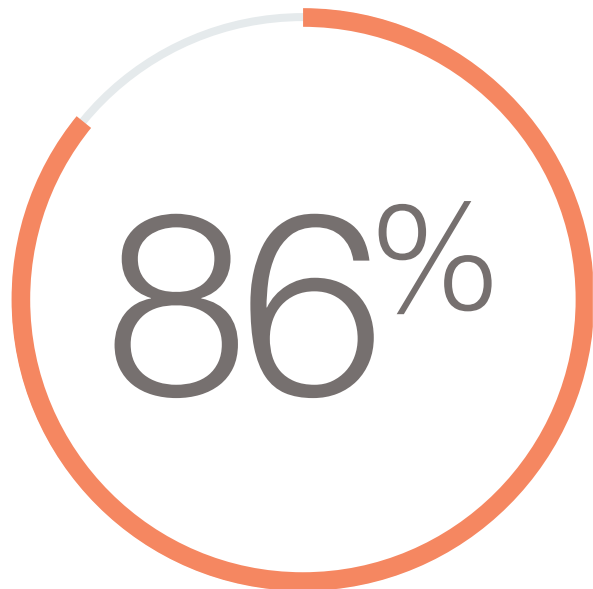


Building Credit Confidence



Most consumers want to be able to dispute information that is used to determine their creditworthiness

Consumer Control over financial data

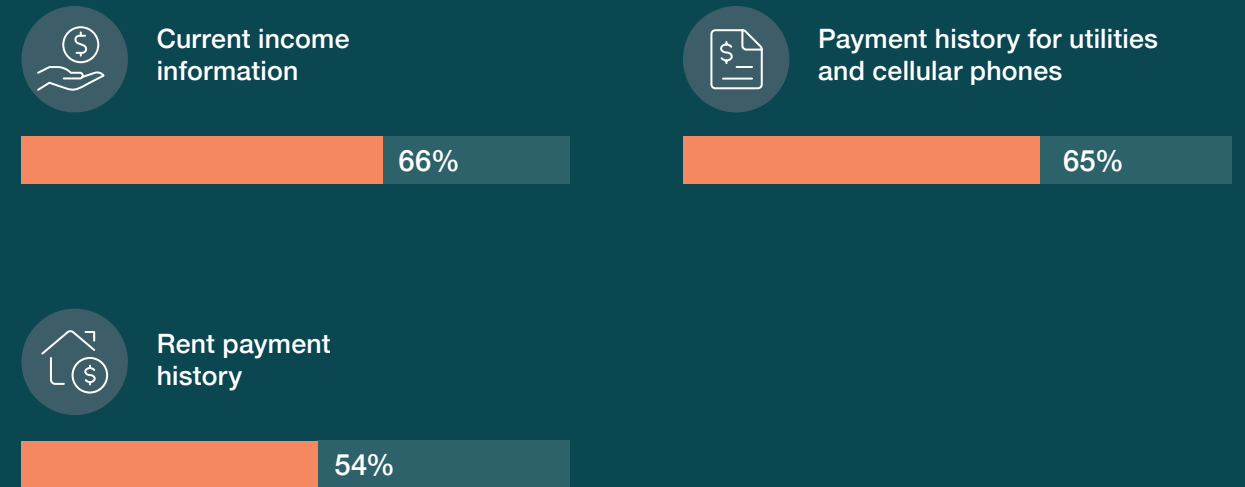


Said they should have more insight and control over the personal financial information lenders use to determine their creditworthiness when taking out new credit or a loan.

The overwhelming majority of consumers believe they should have more insight into and control over the personal financial data that's being used to determine their creditworthiness.

Key Findings

Respondents cited the following financial information they'd be willing to share — to give lenders an accurate view of their ability to repay or get a lower interest rate:



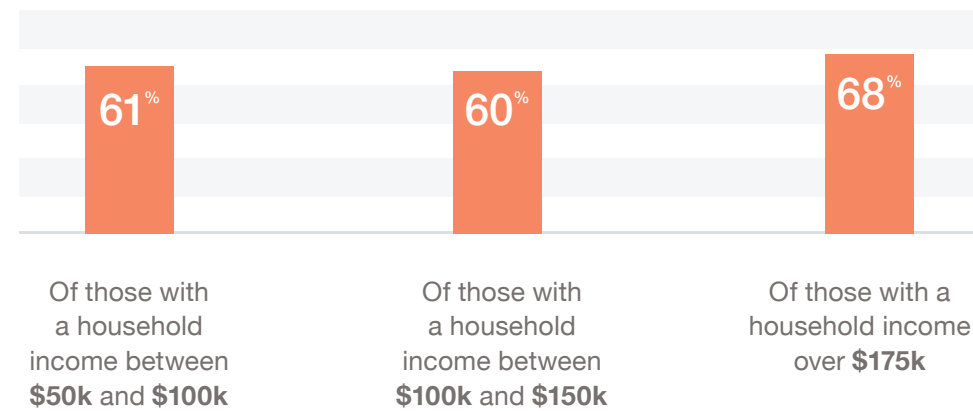
Key Findings

Financial Literacy Key to Financial Inclusion



Of those with a household income under \$50,000, only 51% said they know what financial information lenders are using to determine their creditworthiness.

Compared to other Household Incomes



Consumers with the lowest household incomes show the least confidence in their knowledge of their financial data.

THE PATH TO GREATER FINANCIAL HEALTH AND GREATER FINANCIAL INCLUSION

The need to improve the credit-decisioning process is not a new issue, but the pure number of people affected at one time as a result of COVID-19 shines a light on what individuals have been dealing with for years.

And the risk to the economic recovery creates an urgency to revamp how we think about credit decisioning. As our economy rebuilds, consumers' ability to finance purchases like homes, cars, appliances and other critical needs will play a large part in that rebuilding.

As many as 62 million Americans also have what is known as a "thin credit file", meaning they have very few credit accounts listed on their credit reports. Additionally, about 26 million Americans are known as 'invisibles', meaning they have no credit accounts on their report.


For lenders to accurately assess risk and creditworthiness, they need access to financial data that expands the picture they get from credit scores and that offers a more complete and future-looking view of a person's ability to repay.

For consumers to better assess and control their financial future and not be left in the dark over their own credit, they need greater transparency into and control over the data being used to determine their credit worthiness.

The credit review process has also left the most financially vulnerable at the greatest disadvantage, severely limiting their ability to participate in the credit market. Better insight and access to financial data will improve financial inclusion and greater equality in the credit market.

In order to improve the credit-decisioning process and include more people in the traditional financial system, there's an opportunity for the emerging open banking platform. This platform, when combined with traditional credit score, will give lenders a more robust pictures of creditworthiness for borrowers.

Just as importantly, open banking will give consumers more control over their financial data, who has access to their financial data, and the ability to benefit from the use of their data. This will help lay the groundwork for better financial literacy, more financial inclusion, and greater equality in the credit market. And ultimately, improved financial health that will benefit the broader economy as a whole.



Ultimately resulting in better financial outcomes.



Finicity’s mission is to help individuals, families and organizations make smarter financial decisions through safe and secure access to fast, high-quality data.

The company provides a proven and trusted open banking platform that puts consumers in control of their financial data, transforming the way we experience money — everything from budgeting, payments, investing and lending.

Finicity partners with influential banks and fintech providers alike to give consumers a leg up in a complicated world helping to improve financial literacy, expanding financial inclusion, and ultimately leading to better outcomes. Finicity is headquartered in Salt Lake City, UT.

To learn more or test drive its API, visit www.finicity.com.

Methodology

Finicity surveyed 2,000 consumers in June 2020. This blind survey was completed online and responses were random, voluntary and anonymous.

Helping individuals, families and organizations.