Welcome to the Fintech One-on-One Podcast, Episode No.327. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

(music)

Today's episode is brought to you by LendIt Fintech LatAm, the region's leading fintech event. It's happening both online and in-person in Miami on Dec. 7th and 8th. Latin America is still the hottest region for fintech in the world and LendIt Fintech LatAm features the leading players in the region. So, join the LatAm fintech community this year where you will meet the people who matter, learn from the experts and get business done. In-person and virtual tickets are available at lendit.com/latam.

Peter Renton: Today on the show, I'm delighted to welcome Joel Rickman, he is the Senior Vice-President of Verification Services at Equifax Workforce Solutions. Basically, he's in-charge of The Work Number. Now, many of you will be aware of that, it's an employment and income and verification system that Equifax pioneered 25 years ago.

We go in-depth into The Work Number, we talk about the types of data that it has, how it's grown, the types of use cases, the types of lenders that are using it, what actually is returned from The Work Number when lenders actually use it so we do a deep dive in that. We also talk about the lending space in general and Joel's had a great view of the broad lending space and the different verticals that encompass it and he gives his perspective on what's happened in the last couple of years and where it's going. It was a fascinating episode, hope you enjoy the show.

Welcome to the podcast, Joel!

Joel Rickman: Hey, thank you, Peter, appreciate your having me today.

Peter: My pleasure. So, let's get started by giving the listeners some background. I'd love to kind of get some of the highlights of what you've done in your career to date.

Joel: Thank you for that, yes. So, I am currently responsible for The Work Number here at Equifax, responsible for verification services. I've been doing this for about five years, really having the time of my life since I started working with the organization and a great product so enjoying it. Prior to that, I spent a lot of time in financial services with some platform solution providers and had the opportunity to travel the world and worked with some financial institutions in Australia, the UK and throughout the US and Canada so it's been a longer career than I'd like to admit to these days, but a very educational one.

Peter: (laughs) Right, right. Good to hear you made it Down Under, my homeland.

Joel: Yeah. I thought I'd slip that in there.

Peter: (laughs) Yes, yes, indeed. So, let's talk about The Work Number a little bit, I'd love to kind of just lay some groundwork. I mean, I know that most people probably are aware of it, but those that aren't, just give us a bit of a description of what it is, when it started and what it's for.

Joel: So, The Work Number has been around for 25 years. Originally, it started truly as it sounds, it was a phone number that people would call and get verifications, employers would provide their payroll and work list to the number and people would call in, we had reps who would help. Now, it's been a long time since we've had the phone number work (Peter laughs), we moved into the digital age quite a while ago, but what The Work Number is now is it's the largest repository of income and employment information and we get it directly from employers and we get it directly from payroll providers.

We don't own the data, we're stewards of the data on their behalf, so that they have a secure, reputable organization that's doing the appropriate credentialing and backgrounding and monitoring to ensure that the right people are the only ones getting that data. So, the financial institutions, the government institutions, companies that are looking to hire individuals. We credential all of them and make sure that they're good actors and they should have access to the data and then we distribute it when requested upon the employers behalf and so it's really a two-sided model that's kind of fun when you see it grow. Over the last five years, we've had just a phenomenal growth rate.

When I joined the organization back in 2016, we had about 70 million records on the database and due to the great work of a lot of people and our partners grew, our employer grew partnering with large organizations, we announced breaking 125 million in our third quarter earnings call and we're well on our path to try and double that number from when I started just five years ago. So, it's been really an exciting ride and because of that growth of the database, we've similar growth in people connecting to us and accessing it. This year, we also broke the 70,000 mark of customers that are credentialed and using our data for all those different purposes that I mentioned earlier.

Peter: What is it that's really been the driving force behind the expansion since you've been involved? Are you adding more payroll providers, more employers, how are you able to grow so fast?

Joel: You kind of hit the nail on the head there, it's doing all of those things and we've got a great team here that's working directly with employers, but also with payroll providers and others partners that represent this data. We work with them to build a lot of APIs and infrastructure so that data is updated every payroll cycle as soon as it goes out for the employees, it's available for us to have that updated so that when verifiers come in, they've got the most current data available.

What's driven that growth, it's that critical kind of scenario where you have the verifiers pulling, pulling, asking for it and building it into their decision process. And because of that, when there wasn't a record on The Work Number, employers started getting more and more phone calls because the use of income and employment data is becoming so much more consistent across all lending products these days.

The employers were feeling the pressure to automate that and have better options to make that available so it's been a "win win" for both sides of our ecosystem where the verifiers came asking, asking, asking and employers wanted to simplify their lives and make sure that they were compliant and that their data wasn't, you know, being released to anybody what wasn't supposed to have it and so we've been a good fit for that situation.

Peter: Right. I imagine like the payroll providers have pretty good tech capabilities, but I'm just wondering about some of the...like are you on-boarding employers like say there's an employer with 500 people and they've decided, for whatever reason, to build their own payroll system, can't imagine why, but I'm sure there are some out there, how are you handling that because some of these, I imagine, are not going to have great capabilities to connect with you.

Joel: You're absolutely right. So, very few build their own payroll systems per se, some of them will use other platforms, but we have a number of direct contributors which is what you're referring to there, employers that send us their records directly and that happens in a few different ways. We've built a lot of different paths to try to simplify it for employers, but what they may do is when they send a file to their bank to have that payroll, the checks cut , we might have a copy of that file.

That's one of the more simplistic modes of how that exchange might work, but then we also have integrations to a lot of the HR systems or primary financial systems that people are using. So, even if they're sending their payroll file off to a payroll processor that we're partners with, some of our clients choose to send us that file directly and sometimes they include some additional information that they make available to verifiers for their specific unique employee needs.

Peter: What is the typical information you get and maybe give us an example of what might be additional information.

Joel: We want to help the employers as much as we can so typically, we're working to get a couple of years of total income so two, three, four years of past total income earned and then we're looking to get breakouts of the income that you're currently earning. So, similar to what you would see on a pay stub, but you have additional things now that are coming into the compensation world, Peter, where you have people that might get paid in RSUs somewhat regularly.

That's become a little more common in the Silicon Valley area where we see employers that are making stock part of the program and so we would get that information that wouldn't show up on a pay stub or go through a payroll provider, but it would show up on a total compensation statement. That's just one simple example of some of the additional data we're starting to see.

Peter: Right. And, as you mentioned, employment data has become really important over the last couple of years and the space is expanding. I mean, there are others that are entering the space, how are you addressing this sort of new competitive landscape, shall we say.

Joel: You know, new is maybe a strong word. There's been competitors in the space in all sorts of flavors, you might say. A decade ago, the primary competitor was a piece of paper (Peter laughs), but it still was a competitor, right, you had your pay stub and you could mail that in or hand it your banker and make that work. But, what's changed and brought more of the organizations that you're hearing about in the news is kind of that digital conversion of the banking world and so we have clients that refer to that. You know, our data is so important to them because they're now doing so many of their loans in a completely automated systemic process that that data is getting pulled and their desire is to be able to make a credit decision and fund that loan or that credit card while their fingers are still on the keyboard and so that instant access to data becomes very, very critical.

But, in regards to new players in the scene, we actually embrace it, it's very good for us. I'll be honest, we've actually found new clients that because of the new players coming on to the scene and talking about the value of income and employment which we do as well, you know, one company can't talk to everybody out there, but by them doing the same work and it's opening up the doors as more and more and more organizations are embracing it. We, of course, think we have a superior product on the market, we've been doing this for 25 years and we continue to learn every year so the new players in the space have that learning process that they're going through as well, but by them coming into the space, it's getting more attention to everyone wanting to use income and employment across all of their lending products and it really does make a difference.

We started doing some studies and I think you've heard some similar comments maybe from some of your other guests on the show, but we know that someone trying to get an auto loan, if they're potentially a lower credit band consumer that there's a record on The Work Number and they're in the dealer and that gets pulled, those loans close and those cars get sold 40% more than when there isn't a record available. That's pretty important to the consumer and so we always try to look at it from the perspective of how are we enabling folks. You know in some parts of our business, it's very compliance-based, you know, in the mortgage world there's a lot of rules and it's very clear what's needed. In auto, there's a lot of rules, but there is some leniency.

In the fintech space, what we're seeing is people want to expand who they can lend to and the traditional credit model is great, but not all consumers, especially the younger ones in our society, have that credit score that allows them to get that instant credit. But, when you overlay employment and you overlay how long somebody's been employed and see some of that history, the confidence to make these loans and grant these lines of credit, it goes up significantly for the lenders.

Peter: Right, right, that makes sense. I'm curious about the coverage, obviously not everybody has a traditional W2, a gig worker has been well documented and that's growing alot over the last few years, what are doing to address that like for 1099 workers, they're not in any payroll system.

Joel: There's a little bit of a misnomer there, they are in the payroll system or at least in the payment system and so we have access to a few million 1099 folks today and we're looking to add that on a regular basis. The biggest difference between a gig worker and a traditional worker is not necessarily as much about how they're paid which has been a lot of the focus of this conversation, they're still getting a form, it just looks different than a pay stub, it's a 1099 and they have to do their own taxes and such. But, they still tend to be paid on a cycle, they still tend to be paid on a quantity of work completed and that's similar to those in the traditional work fields today that are working hourly or whatever.

And so, we look at a 1099 and the "gig economy" as additional connections so they may not all be going through a payroll provider of traditional sorts, but they may be going through some of the new platforms where the employees are getting their work and getting paid through. It's just connecting those platforms to get that data brought in and then it's differentiating that data when you return it to a lender so they understand this isn't the traditional 40-hour a week employ.

This is a person that is working potentially the same job for ten weeks at the same point, but they need to look at a little more detail on that employee to make sure that they understand that it is a 1099. Take a look at the tenure of how long that 1099 employee has been working for that company and probably have a little more dialogue with that consumer to make sure that they understand the person's situation.

Peter: Right, right. Also, obviously, there are situations where somebody's got a W2 and they also have a 1099 because I work for Uber on the weekends or whatever, are you able to cross reference that data?

Joel: Actually, on our database with our active records, we have a pretty good amount of employees that have two active jobs on the database so it's exactly what you're talking about. They may be driving on the weekends or they may be working at a department store a few nights a week and working somewhere else full time, that's very common for us. I will say that we've seen that increase some over the last few years, especially with the 1099 situation and as add-in some of those to the database, and also just part of economics in general. Our database has grown, you catch more of those jobs and you catch more people that are having two jobs.

Peter: Right, right. So, let's talk about the lenders for a bit here, I want to be clear about....what are you actually sending to the lenders, I presume this is all done bia API. When a lender is connected with a work number, they're saying, okay, I've got a borrower here and I want to find out about their employment, what are you sending back?

Joel: Well, it depends on the use case. So, in mortgage, again, that's a pretty rich file, a use file which means a lot of data elements. To be backed by Fannie or Freddie, there's a long list, you have 30 plus data elements that have to be included around the name of the employer, how long they've been employed, the pay dates, last pay date, what was their annual last year, what was their annual this year, what's their base, what's their commissions. All of those data elements are captured and provided back, that's a lot of data and that's great for a mortgage.

We have a lot of clients though that we work with and they've decided, hey, what we really just need to know is what is Joel's annual income, is he employed, how long's he been employed and what's his annual income. And we have clients that take just those four data elements and are able to make a solid lending decision for a personal loan or a credit card with that reduced data set, allows them to make a quicker decision and allows them to have a little more consistency in their process.

Peter: You've been doing this for a while so I'd be really curious to sort of see how this is ramped off. I mean, lenders, obviously, they might get a super prime borrower coming in, they're really comfortable, this guy’s 820 credit score, maybe they don't need the employment data, but are you finding that lenders are using this data more than they were like three or four years ago?

Joel: Absolutely, and we're seeing it in different ways so, again, part of it is the digital experience. It's a little different when somebody's face-to-face and you get some documents handed to you. When you never get to meet the person, we're finding people use our data higher and higher in private banks. I think your example, Peter, was perfect. If you're an 820 credit score and you're applying for a $5,000 purchase on loan, there's a lot of lenders out there that are ready to grant that to you as long as they know you are who you say you are and that is your credit score.

But as you start to move down, we're starting to see customers even in the mid to low 700s now pull The Work Number just as a secondary check to make sure even on that $5,000 loan or $3,000 loan, to make sure it is Joel and that the income is current because the other thing that sometimes the lenders want to know if you are really a high credit score and you come in and ask for a $3,000 loan and they really have never seen you before, they start to wonder if something changed in your life and you need cash.

And so, it serves both purposes there, to not only help you qualify, but also sometimes just get you to know the customer a little bit better. And so, that's a change that we have seen as people are buying on a much wider spectrum not just to qualify the person in, but to know their customer a little bit better and they have more consistency across their entire lending cycle.

The other thing that we've seen that's really been a change in the last two years, Peter, is size kind of matters in some cases and so if you're a large financial institution, you have to prove your lending models out to the CFPB or the OCC and show them that you're being fair, you need to know the data element you're using are available on enough applications in a consistent enough manner that that is a viable tool in your decision process.

As we have grown, we've tipped over that break-even point for most lenders that we have coverage to a point where they can easily put us into their model and defend the fairness of it and use it across a wider spectrum of their borrowers. So, that's another trend that we have seen change this year. The last one was, again honestly, was COVID and the fact that people were remote. It goes back to the digital story I was saying before. You know, after that first month when the country shut down, we actually saw a really steep uptake right after that when things started to come back because people still weren't going face-to-face, they were doing everything online.

Peter: Right. I just want to be clear about something. Are lenders using this higher in the funnel like for an approval, particularly when you get down to the lower credit scores or the thinner files, can you use income as a way to reject a loan applicant? I don't really know if that fits into one of the reason codes to deny a loan, but tell us about the compliance angle here.

Joel: Peter, that is a great question. You're getting me in-depth into FCRA rules. I feel a little bit like I need to go get my lawyer and have her sit behind me (Peter laughs) so I don't get myself into too much trouble here, but to your point, the way that we structure it is that we do not want income to be ruling somebody out of a loan. However, what that basically means, Peter, is that the lender needs to set the stipulations of that loan before they evaluate it.

Let's put in an example of an auto loan, to your point, you're asking the question about the competition and some others getting together, another thing that we're seeing in auto is in sub-prime it's very common that you hear about okay, we're going to approve you for the loan, but there's a list of stipulations. The vast majority of time, one of those stipulations, you've got to prove your income. And so, on your application you put down I make $45,000, if the data comes back and doesn't show that you make $45,000 your loan may get disqualified because you couldn't prove what you stated on the application. Most lenders we know would give someone a second chance, but that is an example that it might work like you were talking about.

But, what we've seen is actually lenders moving into the very proactive approach so that same example of me going into a dealership and wanting to buy a car, when you go back to the finance department and the dealer puts your application in the computer, they put that out on the network, they have multiple banks come back and say, we want to provide it to you.

So, when you're asking about do you use it earlier, we've seen a number of folks in the sub-prime auto space that are using that application because if they pull it and it says, hey, you make $65,000 not 45,000, we're not sure why you said 45,000, but we know you make 65,000, you absolutely qualify. They'll provide that loan approval back to the finance office with no stipulations so what happens is they're now winning that loan, they're winning that business because they had the information to make a hard firm offer of credit without any stipulations which is more appealing to the dealer as well as the borrower and the car buyer.

Peter: Right. So, you obviously work for a credit reporting agency, I'm curious about like expanding this sort of pool of potential borrowers here, are you seeing use cases from lenders where, you know, a thin file borrower may end up getting approved or may get a lower rate because their income is better than expected or, at least, it's provable. What's going on there?

Joel: Another great question and observation from the industry, but to start with part of your first observation, I do want to say on The Work Number, we have 12 million plus people on The Work Number, they have a thin file so we know, based on comparing those, these folks, we know about their income, we know how long they've been employed and we can help you make a credit decision based on those attributes where they haven't been credit active enough to have a file that would allow that decision to be made.

Those are real numbers like you're talking about there in regards to being able to help people get credit products, but you're absolutely right, our data and analytics teams has done a lot of work looking over performance of loans, especially in the auto space, and they can show you that, you know, a 550 with a three-year tenure making $70,000 is really going to perform like a 680 a vast majority of the time. I'm throwing numbers around, they're a little bit loose so I hope nobody's quoting and writing that exact model off for their lending decision. (Peter laughs) but my data and analytics folks can explain it to you and give you the exact chart when they map it up. But, it's exactly what you're talking about.

Every credit source, every data source, you know, even employment and income, it varies based on things that have happened in your life so if you had a divorce or you had a health emergency that messed up your finances and that impacted you. That doesn't mean that you don't want to pay your bills, but you may have a short term impact on your credit report when that's been knocked down because of what happened to you in that situation.

However, when you overlay credit and say, wait a second, Joel's had the same job for four years, he's making $80,000 a year, let's think about this a little bit more, he should be able to pay this loan, let's give him a chance. That's what we see changing and that's where we're opening up new doors for folks that really need the help in some of the products that are out there. But, to your point, we are seeing people start to price those loans from an interest perspective based on what they think it's going to perform on by combining those credit and employment & income information.

Peter: Interesting, that's really interesting. So, I want to like take a step back and look at the sort of broader consumer lending industry that has had an interesting last couple of years, you know, we had a time obviously when the pandemic hit, a lot of lending got shut down completely and then suddenly, mortgages took off. But, when you're looking at the consumer lending industry I'd love to get your take, are we back to a more normal place now or are things still kind of fractured by the pandemic economy we're in?

Joel: You know, I would still say I think mortgage is running pretty hot from the basis of normal. If you look at history, we're still having the second best year in the history of mortgage so that's fun and exciting, but that is something that we're going to see taper off. It's not going to sustain quite at this level although I think it'll stay strong for a while.

Auto, the biggest challenge in auto is inventory to be perfectly honest, right now, in regards to applications that we're seeing come through and desire to try to buy a car or get pre-qualified. I'd say, we're back to about 85 to 90% and I believe that the impact, right now is just more from an inventory perspective of people not seeing that car on the lot they want to go try to buy and that's slowing it down. What we're seeing in the fintech space is it's hotter, fintech for us has grown a decent amount over where it was in 2019, we're seeing those transactions quite a bit more, we're seeing the competitive nature of that quite a bit more.

Amazon is such an amazing company that has changed our expectations forever, we all expect things to happen instantly and find whatever we want through one website and we're starting to see people behave the same way in finance. If they have to wait for an answer, they're moving on to the next site. What's interesting to me is we can see different behaviors where people who are doing that based on what we know about those different lenders so if those lenders don't automatically look at income and employment, we can see that they'll pull through right on the credit side of the house is not as strong as someone that's doing it real-time and giving that real-time influence and feedback to the consumer that's applying for the loan. From that perspective, we're seeing those markets grow.

The other markets we're seeing grow is during COVID a lot of people became really nervous about the job status of folks. Are they being displaced and so we've seen even in the traditional credit card market that used a very thin data set and was trying to make decisions with, you know, the least amount of investment possible, they're actually changing that model more and they're starting to use income and employment annually, you know, to check the health of their consumer and provide them credit line increases if that's appropriate for that consumer or during the origination process just to make sure that everything's good and that they're giving the right size of credit line to that consumer. And that is probably a newer use case that we've seen in the last 18 months that was not as common before COVID and before some of that financial impact we felt last year.

Peter: Right, right. So, I refinanced my mortgage earlier this year and it was a very smooth process, I did it with a fintech lender and never had to verify my income. I don't know whether they pulled that from you guys or they just didn't bother, but do you think we're leaving the days of having to send your W2 or your last pay stub to a lender just by email or what have you, do you think those days are numbered?

Joel: Well, Peter, I can tell you those records are on The Work Number, the 130 million of us that have our records on The Work Number, those days are gone, depending on the lender. So, in the mortgage space, Fannie and Freddie have done a phenomenal job of building their systems and working with their lending networks to do everything digital and capture that and so you don't have to provide a pay stub anymore if you're getting a loan with a traditional income-based backing.

Now, if you own your own business or do other things, you're still going to have to provide your tax forms, but if you're employed, working a traditional job and that data is available in real-time, we are seeing lenders across-the-board eliminate the need for getting that paper and friction that it requires to have the consumer get that information.

So, we see that already gone for a lot of people and, you know, our mission and goal is to help make that easier for everyone and get that available to all. I will tell you this, since you don't know I would encourage you, anybody who's on The Work Number has the ability, and it's not just the 130 million active we were talking about, it's also…..we have historical records. So, if you were to go and want to get a new job tomorrow and someone needed to do a background check, you could give them authority on the form and they could pull all of your past history and validate everywhere you worked. So, with that, we have hundreds of millions of records on the database and have those available.

If you want at anytime, you can go to theworknumber.com and click in as the employee and you can pull up and see anybody that's ever looked at your employment information. We track all of that just like a credit bureau because we are a consumer reporting agency, we are regulated by the FCRA so you have that ability to go look at any time who you've given permission to look at your data and you can take a look at that and know exactly what they saw.

Peter: I'm going to do that after we hang up here (both laugh), I've never done that before. Okay, so last question then, I mean, as you look out to the future, what's the focus for The Work Number? I mean, obviously, I'm sure that getting to 100% of the workforce is probably going to be unrealistic, but what is the goal and what are you looking at in the future of The Work Number?

Joel: We're working on a few things. You're absolutely right, our forever vision and mission is going to get as many people as we can and enable as many people as we can on the platform and the environment so that we can simplify it because, again, it's not just the lenders. We did 223 million verifications in 2019, we did more than that in 2020, I just don't remember the exact number so I'm going to hold off on quoting it, but that includes government verification.

So, think about if you're someone that is employed on minimum wage and you have a family to feed and you need help with food stamps, you can go into a government agency and that data gets pulled instantly and they qualify you immediately where you walk out with that assistance where if it's not on there, you have to provide the documentations and the help to get that approved. So, that's another use case that's kind of unique, but is very helpful to people and our goal is to try to be able to help as many people as we can get that mortgage, get the credit line increase, get the credit card, all of that. And so, that is always going to be our first priority.

Our next priority in the things that we're looking at is making sure that we're enabling the verifiers to be able to connect and get that information as consistent repetitively and securely as we can. I'm sure you potentially heard, if you know anything about Equifax, we've invested about $1.5 Billion in upgrading all of our systems to ensure that we have the safest, most secure network around to secure all of this information and we're continuing to move down that journey and make that protection available to both our contributors and our verifiers to ensure that they know that it's a safe environment they're working in.

But, the last piece that we're looking at is there's a lot of times when people are coming to us, they're looking for additional information as well. So, it's not just the employment and income that you need, but there may be reasons that….take for example, maybe you're getting a student loan or maybe you're doing the background check for a job example I talked about earlier, you may to pull in your college information or your degree information so we're working on partnerships with other data providers so that our reports can be more holistic and provide additional data elements about the individual that help solve the entire lending or the entire decision process with one report.

Another thing that we're working on is the value of history, there is a lot of value in the history of your employment and so we're looking at building similar to...if you think about a credit report and trend on how you make it through from five years ago to three years ago to a year ago, how did you look from a credit perspective, the credit bureaus now have that trended report. We're working on those similar mindsets to show, hey, here's what Joel's looks like across his career, here's been some of his growth from a job perspective or an income perspective and that's giving a better idea in a comfort bubble about granting those credit products.

Peter: Really interesting stuff, Joel, thank you very much, we'll have to leave it there. Appreciate you coming on the show today, Joel.

Joel: Thank you, Peter, this was a lot of fun, I appreciate you giving me the time today, thank you. I hope you have a great afternoon.

Peter: Right, you too. Bye.

Joel: Bye.

Peter: As we move to a world where lending will be done instantly and on demand, clearly we're on that trajectory, it's things like this that The Work Number provides this instant feedback, instant information on employment and income which is just such a critical piece to a lending decision. You know, we would have no chance of getting towards an automated lending future without that kind of data so the work that Equifax has done there has been really important and I think is setting up the lending space and the multiple verticals within it for a bright future.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

(music)

Today's episode was brought to you by LendIt Fintech LatAm, the region's leading fintech event. It's happening both online and in-person in Miami on Dec. 7th and 8th. Latin America is still the hottest region for fintech in the world and LendIt Fintech LatAm features the leading players in the region. So, join the LatAm fintech community this year where you will meet the people who matter, learn from the experts and get business done. In-person and virtual tickets are available at lendit.com/latam