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# Cash Flow Underwriting: Reshaping the Lending Landscape

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# Executive Summary

This paper examines the transformative impact of cash flow underwriting on lending, particularly in consumer lending. Drawing on extensive industry research and data from multiple sources, including surveys conducted by Datos Insights and reports from leading fintech companies, this analysis explores how cash flow underwriting is reshaping credit decisioning processes and expanding financial inclusion. The paper delves into the key drivers behind the growing adoption of this innovative approach and its potential benefits for lenders and consumers.

By leveraging real-time transaction data enabled by open banking technologies, cash flow underwriting offers holistic views of borrowers' financial health, which can improve risk assessment accuracy and credit accessibility. The analysis also considers the regulatory landscape and the perspectives of early adopters in the industry. These are the key findings:

- Cash flow underwriting is gaining significant traction in the lending industry: 88% of U.S. consumer lenders report increased confidence in using alternative credit data compared to a year ago.
- Open banking technologies are crucial enablers of cash flow underwriting, facilitating secure access to real-time financial data and enhancing the accuracy of credit assessments.
- Open banking addresses critical challenges in traditional underwriting processes. It provides a more holistic financial picture of applicants beyond traditional credit data and reduces the reliance on manual documentation.
- Cash flow underwriting can contribute to expanding credit access for the millions of underbanked consumers by providing a more complete and accurate assessment of creditworthiness, promoting financial inclusion, and growing the market for lenders.
- Cash flow insights can revolutionize fraud detection. By establishing normal transaction patterns, financial institutions can more quickly identify and respond to unusual activities, protecting consumers from financial crimes.

- Regulatory bodies, particularly the Consumer Financial Protection Bureau (CFPB), have expressed support for cash flow underwriting, recognizing its potential to promote financial inclusion and improve credit decisioning accuracy.

# Introduction

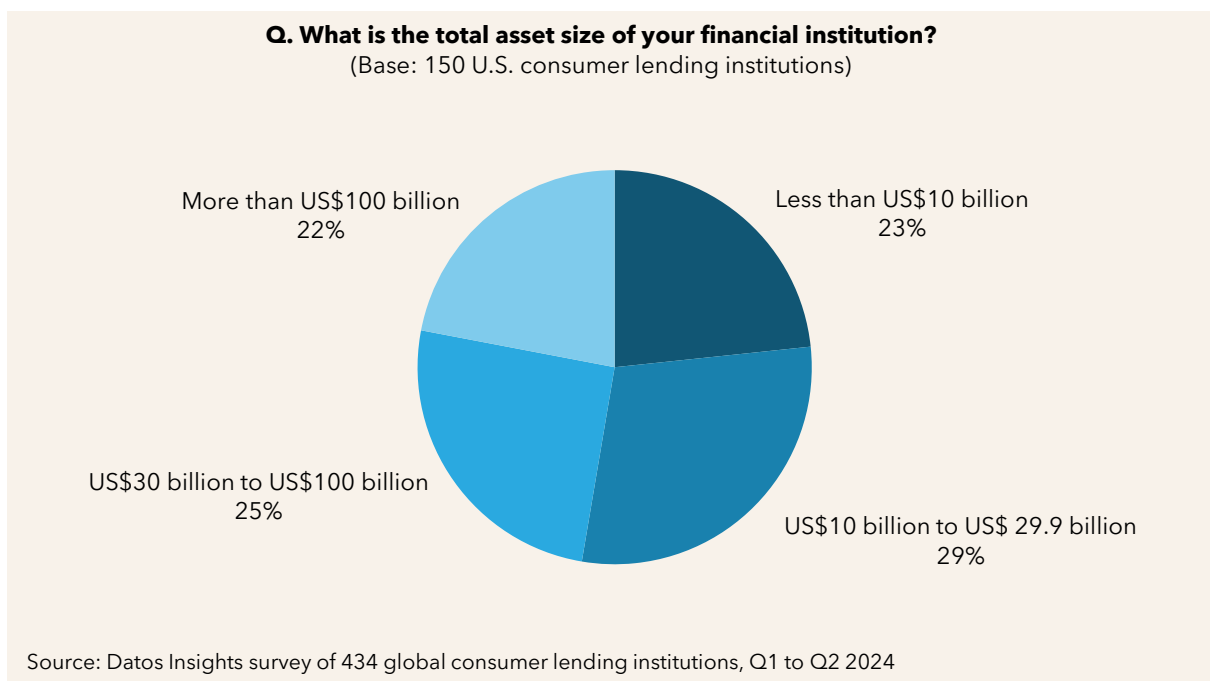
Cash flow underwriting is revolutionizing the lending landscape, offering a more holistic approach to assessing creditworthiness. This white paper explores the intricacies of cash flow underwriting, its significance in today's financial ecosystem, and its potential to reshape credit decisioning.

This paper draws on decades of industry experience and recent data, delving into the key aspects of this approach, from its foundational reliance on open banking to its diverse use cases and regulatory implications. It navigates the opportunities and challenges presented by cash flow underwriting and provides insights into how it expands financial inclusion and enhances credit assessment across all consumer segments.

## Methodology

This report combines primary and secondary research with analysis to provide a comprehensive view of cash flow underwriting. The primary source is a Datos Insights survey of 434 global consumer lending institutions conducted in early 2024. The survey sample represented a broad range of financial institutions, providing quantitative insights into industry attitudes and practices (Figure 1).

**Figure 1: Survey Institution Size**



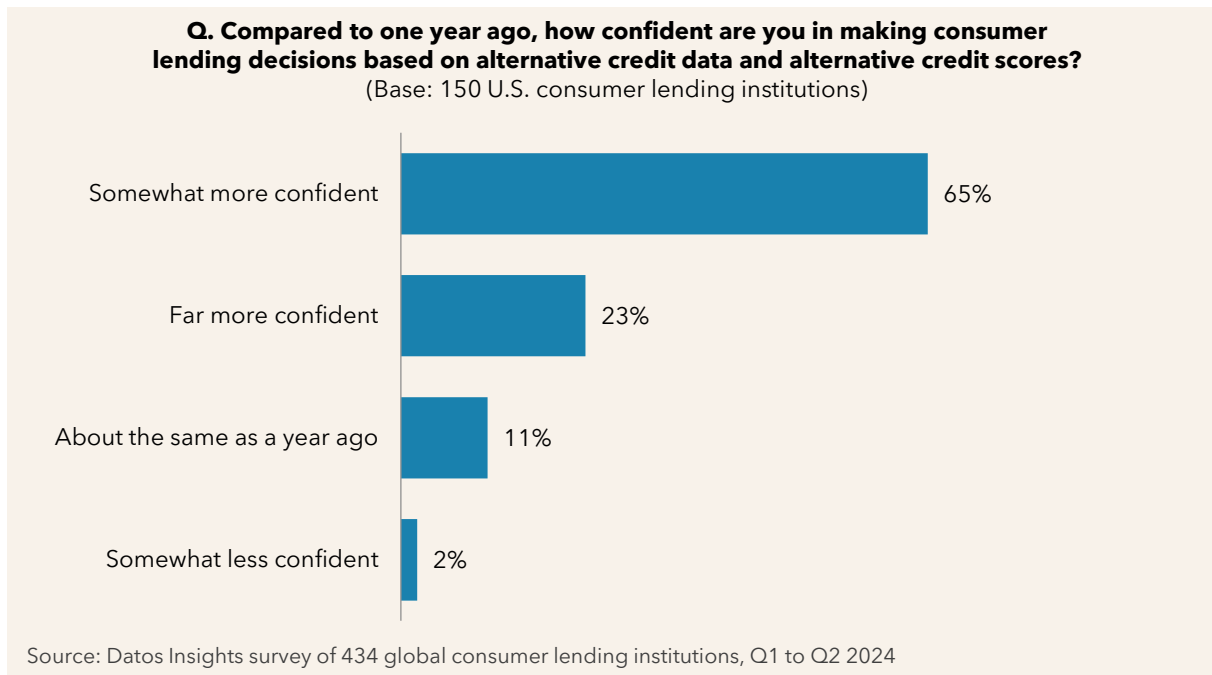
Secondary sources include statistics from reputable industry organizations. The report also incorporates regulatory analysis, mainly focusing on CFPB perspectives, to understand the evolving regulatory landscape. The data was supplemented with the experience and knowledge of Datos Insights Strategic Advisors supported by the Datos Insights knowledge base and desk research.

# What Is Cash Flow Underwriting?

Cash flow underwriting complements traditional credit bureau data to evaluate a borrower's financial health based on real-time transaction data. This method analyzes the inflows and outflows in a consumer's bank accounts, providing a dynamic and comprehensive view of their financial behavior. Cash flow underwriting captures the nuances of an individual's financial management, including that individual's ability to pay, by considering income stability, spending patterns, and savings habits. Cash flow data also provides a real-time view of outstanding debt.

Recent data underscores the general acceptance of this method. According to a recent Datos Insights survey, 88% of U.S. consumer lenders are somewhat more or far more confident using alternative credit data now compared to a year ago (Figure 2).

**Figure 2: Lender's Growing Confidence in Alternative Credit Data**



This data reflects a growing recognition of the value of alternative data in addressing traditional credit data limitations and enhancing lending decisions. Furthermore, 74% of

consumers express comfort in sharing their cash flow data with lenders, indicating a growing acceptance of this approach.<sup>1</sup>

Cash flow underwriting is not just about expanding credit access; it's about enhancing the accuracy of credit decisions across all consumer segments. Providing a more current and detailed financial picture allows lenders to make more informed decisions, potentially reducing risk while increasing approval rates for creditworthy borrowers.

## Key to Cash Flow Underwriting: Open Banking

In October 2024, the CFPB finalized a rule to advance open banking and strengthen consumer financial data rights. Implementing Section 1033 of the Consumer Financial Protection Act would require most financial institutions to provide consumers access to their financial data through secure APIs.

This marks a significant shift in financial services. It will change how consumers use their financial data and how institutions innovate. It promises increased transparency and personalization for consumers but presents technical and security challenges for financial firms. The rule aligns with global trends and will spur financial services innovation.

Open banking is the cornerstone of effective cash flow underwriting, facilitating secure and efficient access to real-time financial data. This technological framework enables consumers to securely share their banking information with authorized third parties, paving the way for more accurate and timely credit assessments. With the release of the Section 1033 rule, true open banking has become a reality. It will create more space for innovation and utilization of banking data across different use cases.

The symbiosis between open banking and cash flow underwriting is transforming the lending landscape. Lenders can access a wealth of consumer-permissioned transactional data by leveraging standardized APIs, offering unprecedented insights into a borrower's financial behavior. This real-time data flow allows for more dynamic risk assessment, moving beyond the limitations of periodic credit reports.

Importantly, open banking addresses critical challenges in traditional underwriting processes. It reduces the reliance on manual documentation, streamlines verification

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<sup>1</sup> "Experian Finds 89 Percent of Lenders Believe Alternative Credit Data Improves Financial Access for Consumers Seeking Credit During Covid-19 Pandemic," Experian, September 17, 2020, accessed November 19, 2024, <https://www.experianplc.com/newsroom/press-releases/2020/experian-finds-89-percent-of-lenders-believe-alternative-credit-data-improves-financial-access-for-consumers-seeking-credit-during-covid-19-pandemic>.



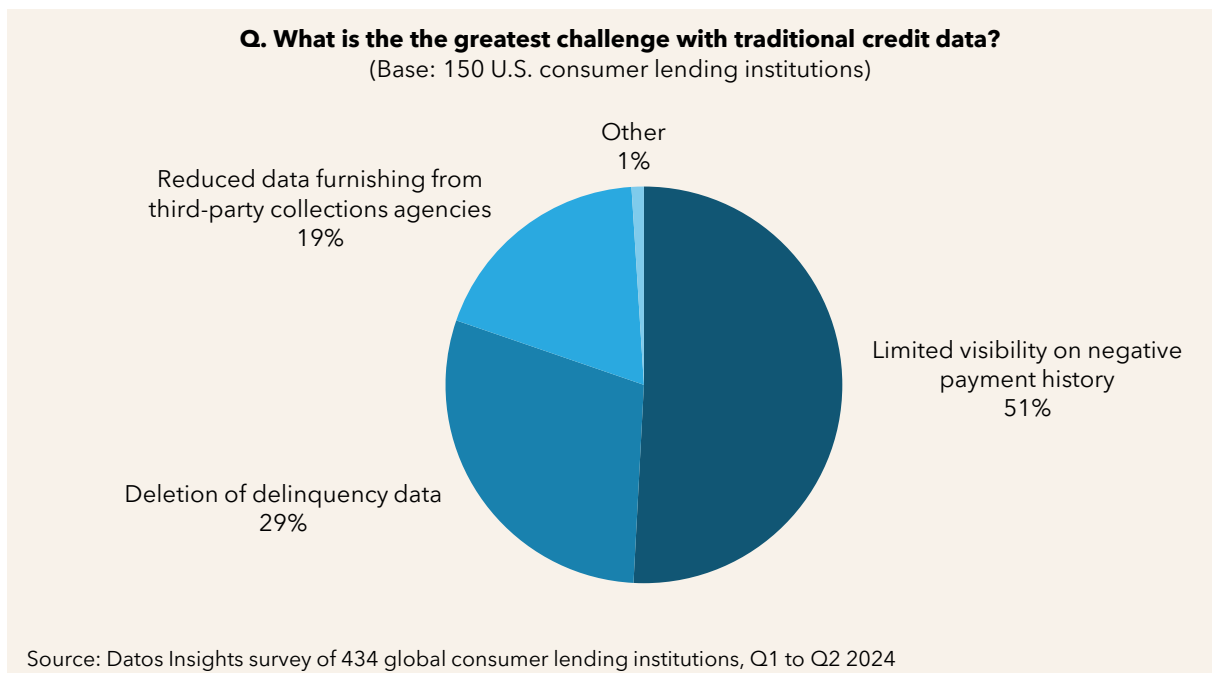
procedures, and minimizes the risk of fraud. A study by Experian reveals that 89% of lenders believe open banking data enhances their credit decisioning process.<sup>2</sup>

Moreover, open banking empowers consumers by giving them control over who they share their financial data with and how it can be used. This increases transparency and control. As open banking adoption grows, it will play an increasingly vital role in shaping the future of credit underwriting.

## Why This Matters Now

Traditional credit scoring models do not fully capture the complete financial picture of modern consumers. This gap is particularly evident after economic uncertainties and shifting employment patterns brought about by global events like the COVID-19 pandemic. U.S. lending executives feel that the value of traditional credit reporting is eroding (Figure 3).

**Figure 3: Challenges With Traditional Credit Data**

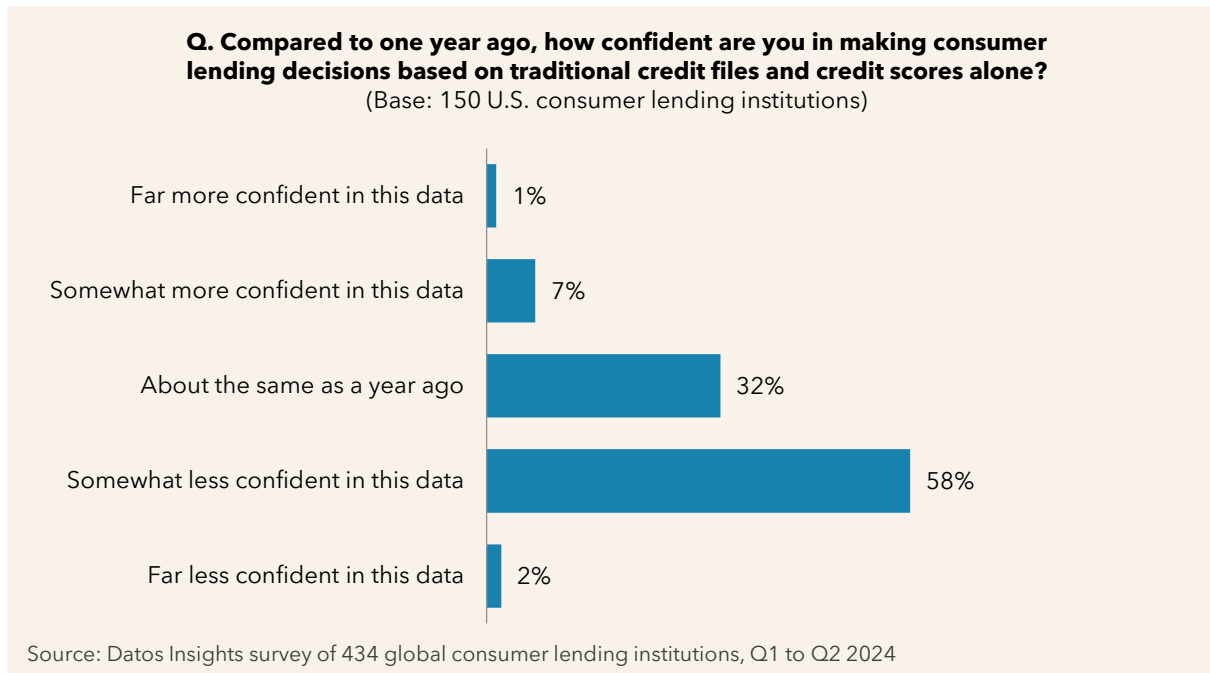


Recent data underscores this pressing need. According to a survey conducted by Datos Insights, 58% of U.S. consumer lending institutions report feeling somewhat less confident in making lending decisions based solely on traditional credit files and scores compared

<sup>2</sup> "Experian Finds 89 Percent of Lenders Believe Alternative Credit Data Improves Financial Access for Consumers Seeking Credit During Covid-19 Pandemic," accessed November 19, 2024.

to a year ago (Figure 4). This statistic reflects a growing recognition of the limitations inherent in conventional credit assessment methods.

**Figure 4: Lender's Confidence in Traditional Credit Data**



Credit risk managers attribute their concerns partially to the increasing adoption of buy now, pay later programs and other quasi-credit products, which are not typically reported to traditional credit bureaus. They feel that this has impacted credit scores in some cases. With cash flow data, a lender can see payments against these quasi-credit products and better incorporate analysis into an individual's ability to pay.

Furthermore, the rise of the gig economy and nontraditional income sources has created a significant segment of consumers who may have stable finances but not the credit history typically required by traditional underwriting models. Young people and recent immigrants have had difficulty obtaining credit due to inadequate credit experiences and payment histories. In each of these cases, cash flow underwriting can contribute to expanding credit access for the over 45 million underbanked consumers who lack credit history, have "unscorable" credit files, or have insufficient credit history.<sup>3</sup> This is a result of

<sup>3</sup> "Credit Scoring Alternatives for Those Without Credit," U.S. Government Accountability Office, January 5, 2022, accessed November 19, 2024, <https://www.gao.gov/blog/credit-scoring-alternatives-those-without-credit#>.

providing a more complete and accurate assessment of the creditworthiness of these individuals, promoting financial inclusion, and expanding market opportunities for lenders.

As an indirect benefit, cash flow insights can revolutionize fraud detection. By establishing normal transaction patterns, financial institutions can more quickly identify and respond to unusual activities, protecting consumers from financial crimes. According to a recent study, 42% of fraud attempts now use artificial intelligence, making sophisticated detection methods increasingly crucial.

The timeliness of this shift is further emphasized by regulatory support. The CFPB has expressed favorable views on using cash flow data in credit decisioning, recognizing its potential to enhance accuracy and expand credit access. This regulatory endorsement provides a conducive environment for lenders to innovate and adopt more comprehensive underwriting practices.

## Use Cases of Cash Flow Data

Integrating cash flow data into a lender's origination process is not new. Income verification and asset verification have been around for decades, albeit with paper statements, and open banking use cases emerged roughly a decade ago.

### Income Verification

Cash flow data analysis enables real-time income verification, eliminating manual documentation requirements while providing deeper insights into earnings patterns across diverse income sources. This automation enhances both risk assessment accuracy and customer experience.

### Asset Verification

Cash flow data simplifies asset verification by providing a comprehensive view of a borrower's financial holdings. Lenders can confirm the existence and value of assets through transaction histories, reducing reliance on manual documentation. This streamlined process enhances efficiency in loan underwriting.

### Calculating Debt-to-Income (DTI) Ratio

Cash flow data enables lenders to calculate DTI ratios more accurately and automatically. Lenders can verify income and expenses by accessing up-to-date financial information directly from bank accounts. This streamlines the process, reduces errors, and provides a more current picture of the borrower's financial situation.

## Expanded Cash Flow Data Uses

With standardization, an increasing number of participants, and the consistent availability of real-time cash flow data, new use cases have been developed that improve efficiency, reduce risk, and increase access to credit.

### Second-Look Underwriting

Second-look underwriting employs alternative data sources to reevaluate applications that would have otherwise been declined (they are not declined in this scenario). Analysis of cash flow data and payment behaviors reveals creditworthy consumers overlooked by traditional credit evaluation methods, enabling financial institutions to expand their lending portfolio while maintaining risk parameters.

### Personalized Loan Offers

Cash flow data enables lenders to refine and personalize loan offers. By analyzing spending patterns, savings habits, and income stability, lenders can offer more competitive rates, higher credit limits, or tailored repayment terms. This data-driven approach leads to more attractive offers for consumers and potentially higher conversion rates for lenders. In a recent Harris Poll, 74% of consumers across generations want more personalized banking experiences.<sup>4</sup>

### Expanding Access to Credit

By incorporating cash flow data, lenders can potentially approve more borrowers who may not meet traditional underwriting criteria. This can help expand access to personal loans and lines of credit, particularly for underserved communities.

### Portfolio Risk Management

Real-time cash flow data enhances credit portfolio risk monitoring effectiveness by providing lenders with up-to-date insights into borrowers' financial health. This enables early detection of potential defaults, more accurate risk assessments, and timely interventions. Lenders can proactively manage their portfolios, reducing risk exposure and improving performance.

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<sup>4</sup> "2024 Q2-Harris Poll: Key Insights From Consumer Study on Cross-generational Banking Preferences," Q2, August 7, 2024, accessed November 21, 2024, <https://hub.q2.com/analyst-overview/the-personal-bank-2024-q2-harris-poll-report-2-2#main-content>.

## Regulator's Perspective

Regulatory bodies have shown increasing support for cash flow underwriting, recognizing its potential to enhance financial inclusion and improve credit decisioning accuracy. The CFPB, in particular, has expressed favorable views on the use of cash flow data in credit underwriting.

*"Cash flow data may provide lenders with more information about how applicants manage current obligations than they could learn from applicants' credit repayment histories alone."<sup>5</sup>*

*Alexei Alexandrov, Alyssa Brown, and Samyak Jain  
CFPB*

### More on Regulation

Regulators appreciate that cash flow underwriting can provide a more comprehensive and current picture of a borrower's financial health. This aligns with their mandate to ensure fair and accurate credit assessments. The CFPB has noted that cash flow data can be particularly beneficial for consumers with thin or no credit files, potentially expanding credit access to millions of Americans.

However, this support comes with expectations of responsible implementation. Regulators emphasize the need for transparent processes and robust data protection measures—both are addressed within CFPB's Section 1033 and adherence to fair lending laws. They are particularly focused on ensuring that the use of cash flow data does not inadvertently introduce new forms of discrimination or unfair practices.

## Challenges to Widespread Adoption

Adopting cash flow underwriting represents a significant leap forward in our ability to accurately and inclusively assess creditworthiness. Most financial institutions will need to address data access and standardization, privacy and security, integration with existing systems, model validation, and consumer education. However, these challenges are typical of any transformative technology in the financial sector.

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<sup>5</sup> Alexei Alexandrov, Alyssa Brown, and Samyak Jain, "Looking at Credit Scores Only Tells Part of the Story—Cashflow Data May Tell Another Part," CFPB, July 26, 2023, accessed November 19, 2024, <https://www.consumerfinance.gov/about-us/blog/credit-scores-only-tells-part-of-the-story-cashflow-data/>.

Standardized APIs are essential for enhancing interoperability and efficiency, particularly in the financial sector. The Financial Data Exchange (FDX) is leading efforts to establish a standardized API for open banking to create a common framework for data sharing that fosters innovation and security. Standardized APIs reduce costs and complexity by streamlining communication between financial institutions and third-party developers while simplifying regulatory compliance. Ultimately, FDX's initiative represents a significant advancement toward a more transparent and efficient financial ecosystem, improving services and consumer experiences in an increasingly digital landscape.

Integration with existing systems is achievable with proper planning and investment. Model validation and bias prevention are ongoing processes that the industry is well-equipped to handle, given its experience with traditional credit models. Consumer education, while challenging, presents an opportunity to engage with customers and demonstrate the benefits of this progressive solution.

These challenges are not barriers but rather stepping stones toward a more inclusive and accurate credit assessment landscape. Many financial institutions are already successfully implementing cash flow underwriting, proving its viability and potential. As the industry continues to evolve, Datos Insights expects these challenges will be addressed systematically, leading to the widespread adoption of this approach to credit decisioning.

## Industry Adoption of Cash Flow Underwriting

Several innovative companies are leading the charge in cash flow underwriting, demonstrating its potential to transform lending practices.

*"Many companies are now exploring new underwriting models that return to core principles—assessing ability to repay without attempting to use outside information to model a consumer's presumed ability to repay. Transaction data will be especially useful for these purposes."*

*Rohit Chopra, Director, CFPB  
Remarks at Money 20/20, October 2024*

### Rocket Companies

Rocket Companies (NYSE: RKT) is a fintech platform that includes mortgages, personal loans, and other financial service businesses. It provides consumers with the ability to share their financial data for cash flow underwriting and streamlined loan applications.

"By working with Plaid to streamline how our clients share their financial information with us, we can focus on what Rocket does best—creating our AI-driven processes to help everyone home."

*Shawn Malhotra, Chief Technology Officer  
Rocket Companies*

## H&R Block

H&R Block, Inc. (NYSE: HRB) provides global tax preparation services, financial products, and small-business solutions. The company offers consumers a short-term, small-dollar loan product called the Emerald Advance Loan.

"Augmenting our traditional credit models with cash flow underwriting will help us reach more consumers, including people we're unable to lend to today."

*Les Whiting, Chief Financial Services Officer  
H&R Block*

## Upstart

Upstart (NASDAQ: UPST) is a lending marketplace connecting consumers to banks and credit unions. Upstart's platform includes personal loans, automotive retail and refinance loans, home equity lines of credit, and small-dollar "relief" loans.

"In a first for Upstart, we began using cash flow data as part of the risk model for small-dollar loans. This incremental data has led to increased approval rates and will eventually become available for all our loan products."

*Dave Girouard, CEO  
Upstart*

## MoneyLion

MoneyLion (NYSE: ML) is a financial technology business providing personalized products, content, and marketplace technology. MoneyLion is integrating real-time cash flow data into the loan application and prequalification journey via their Engine marketplace platform.

"At MoneyLion, our mission has always been to empower consumers with the tools and resources they need to make informed financial decisions. By partnering with Plaid, we're advancing that mission by integrating real-time cash flow data into our hosted decisioning engine and credit marketplace, streamlining access to credit and enabling smarter, data-driven lending decisioning."

*Tim Hong, Chief Product Officer  
MoneyLion*

### OneMain

OneMain Financial (NYSE: OMF) provides nonprime consumers with personal loans and credit cards available online and in 1,300 locations.

"A couple of years ago, we started collecting bank account data as a way of doing income verification, which is now part of our credit models for our lending business."

*Micah Conrad, EVP and CFO  
OneMain*

### Oportun

Oportun (Nasdaq: OPRT) is a mission-driven financial services company offering personal loans and savings products that are available online and via retail locations.

"We are also expanding the use of the bank transaction model we launched earlier this year by giving more applicants the opportunity to share their data, providing a more complete snapshot of their current financial situation."

*Raul Vazquez, CEO  
Oportun*



## Conclusion

Cash flow underwriting represents a significant leap forward in credit assessment, offering a more comprehensive and dynamic approach to evaluating creditworthiness. This white paper has shown the impact it can have on financial inclusion, enhancing credit decisions across all consumer segments and opening up new possibilities in financial services.

Integrating open banking technology is crucial in making cash flow underwriting available to more financial institutions, providing secure and efficient access to real-time financial data. Much work has been done, particularly in technology integration and regulatory compliance.

As regulatory support is codified and more lenders recognize the value of cash flow data, adoption of this approach will grow. There are data providers in this space who are already demonstrating impressive results, setting the stage for a transformation in understanding credit and financial health.

Ultimately, cash flow underwriting is not just a trend but a fundamental shift in credit assessment that aligns with the evolving financial landscape. It promises to create a more inclusive, accurate, and responsive credit system that benefits lenders and consumers.

## About Plaid

Plaid is a global data network that powers the tools millions of people rely on to live a healthier financial life. Their ambition is to facilitate a more inclusive, competitive, and mutually beneficial financial system by simplifying payments, powering cash flow lending, and leading the fight against fraud. Plaid works with thousands of companies, including fintechs like Venmo and SoFi, several Fortune 500, and many of the largest banks, to empower people with more choice and control over how they manage their money. Headquartered in San Francisco, Plaid's network spans over 12,000 institutions across the U.S., Canada, the U.K., and Europe.

Plaid offers a range of solutions to help lenders incorporate cash flow data and insights into their underwriting processes. Plaid's Layer platform enables borrowers to instantly link their financial accounts and provide their cash flow data as part of credit applications. Further, Plaid's Consumer Report solution, powered by our Consumer Reporting Agency, brings businesses real-time, actionable cash flow data along with credit risk insights built on top of the leading open banking network.

## About Datos Insights

Datos Insights is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

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