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**Board of Governors of the Federal Reserve System  
Consumer Financial Protection Bureau  
Federal Deposit Insurance Corporation  
National Credit Union Administration  
Office of the Comptroller of the Currency**

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Interagency Statement on the Use of Alternative Data in Credit Underwriting

The Board of Governors of the Federal Reserve System, the Consumer Financial Protection Bureau, the Federal Deposit Insurance Corporation, the National Credit Union Administration and the Office of the Comptroller of the Currency (collectively “the agencies”) are aware of a broad range of alternative data<sup>1</sup> that bank and non-bank financial firms (collectively “firms”) are either using or contemplating for use in credit underwriting, as well as in fraud detection, marketing, pricing, servicing, and account management.<sup>2</sup> This statement is focused on the consumer protection implications of the use of alternative data in underwriting, highlighting potential benefits and risks.

The agencies recognize that use of alternative data may improve the speed and accuracy of credit decisions and may help firms evaluate the creditworthiness of consumers who currently may not obtain credit in the mainstream credit system.<sup>3</sup> Using alternative data may enable consumers to obtain additional products and/or more favorable pricing/terms based on enhanced assessments of repayment capacity.<sup>4</sup> These innovations reflect the continuing evolution of automated underwriting and credit score modeling, offering the potential to lower the cost of credit and increase access to credit.

As with prior developments in the evolution of credit underwriting, including the advent of credit scoring, the use of alternative data and analytical methods also raises questions regarding how to effectively leverage new technological developments that are consistent with applicable consumer protection laws. Applicable consumer protection laws, include, as appropriate, fair lending laws, prohibitions against unfair, deceptive, or abusive acts or practices, and the Fair Credit Reporting Act.

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<sup>1</sup> For the purposes of this statement, alternative data means information not typically found in the consumer’s credit files of the nationwide consumer reporting agencies or customarily provided by consumers as part of applications for credit. See CFPB, Request for Information Regarding Use of Alternative Data and Modeling Techniques in the Credit Process, 82 Fed. Reg. 11,184 (Feb. 21, 2017). This statement applies to the use of consumer data in the credit process rather than the furnishing, compilation, or transfer of such data.

<sup>2</sup> Banks should ensure that alternative data usage comports with safe and sound operations. Appropriate data controls include, among other things, rigorous assessment of the quality and suitability of data to support prudent banking operations. Additionally, the federal banking agencies’ model risk management guidance contains principles for managing risk related to models, including those that may leverage alternative data. See SR 11-7: Federal Reserve Guidance on Model Risk Management (April 2011); OCC Bulletin 2011-12: Sound Practices for Model Risk Management: Supervisory Guidance on Model Risk Management (April 2011); FDIC: Supervisory Guidance on Model Risk Management (FIL-22-2017).

<sup>3</sup> See CFPB, Data Point: Credit Invisibles (May 2015) at 6.

<sup>4</sup> In addition, alternative data may improve the speed, cost, and accuracy of small business underwriting, facilitating access to credit that may be critical to the growth of small businesses.

The agencies recognize alternative data's potential to expand access to credit and produce benefits for consumers. To the extent firms are using or contemplating using alternative data, the agencies encourage responsible use of such data. In addition, the agencies are aware that the use of certain alternative data may present no greater risks than data traditionally used in the credit evaluation process. For example, the agencies are aware that some firms are automating the use of cash flow data to better evaluate borrowers' ability to repay loans. While this is a rapidly developing area of innovation, analysis of cash flow data generally focuses on assessing whether a borrower is able to meet new or existing recurring obligations by evaluating income and expense activity over time.<sup>5</sup> The evaluation of a borrower's income and expenses to help determine repayment capacity is a well-established part of the underwriting process. Improving the measurement of income and expenses through cash flow evaluation may be particularly beneficial for consumers who demonstrate reliable income patterns over time from a variety of sources rather than a single job. Cash flow data are specific to the borrower and generally derived from reliable sources, such as bank account records, which may help ensure the data's accuracy. Consumers can expressly permission access to their cash flow data, which enhances transparency and consumers' control over the data. Additionally, creditors' use of cash flow data can generally be explained and disclosed to the borrower, as may be required under the Equal Credit Opportunity Act and the Fair Credit Reporting Act.<sup>6</sup>

The manner in which alternative data are used in relation to traditional data also can provide benefits. For example, some firms may choose to use alternative data only for those applicants who would otherwise be denied credit, often called a "Second Look" program. Used in this fashion, Second Look programs may improve credit opportunities. Second Look approaches must also comply with applicable consumer protection laws.

Many factors associated with the use of alternative data, including those discussed for cash flow data, may increase or decrease consumer protection risks. For example, using alternative data, such as cash flow data, that are directly related to consumers' finances and how consumers manage their financial commitments may present lower risks than other data.

A well-designed compliance management program provides for a thorough analysis of relevant consumer protection laws and regulations to ensure firms understand the opportunities, risks and compliance requirements before using alternative data. Based on that analysis, data that present greater consumer protection risks warrant more robust compliance management. Robust compliance management includes appropriate testing, monitoring and controls to ensure consumer protection risks are understood and addressed.<sup>7</sup>

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<sup>5</sup> Cash flow data may include a range of metrics that examine categories of income and expenses (e.g., fixed expenses such as housing, amount of variable expenses, etc.) and how a consumer or small business has managed an account over time (e.g., residual balances).

<sup>6</sup> Firms should consider adverse action notice requirements under the Equal Credit Opportunity Act (Regulation B), and the Fair Credit Reporting Act. *See* 15 U.S.C. § 1681m(a)-(b); 12 C.F.R. § 1002.9; *see also* 12 C.F.R. pt. 1002, Supp. I, § 1002.9, ¶ 9(b)(2).

<sup>7</sup> As recognized by the Uniform Interagency Consumer Compliance Rating System ("CC Ratings System"), expectations for compliance management programs vary based on risk, among other factors. The CC Ratings System incents institutions to promote consumer protection by preventing, self-identifying and addressing compliance issues in a proactive manner.

As the agencies gain a deeper understanding of alternative data usages, they may offer further information on the appropriate use of alternative data. Firms may choose to consult with appropriate regulators when planning for the use of alternative data.

*The agencies welcome feedback on this statement. Those wishing to share such feedback in writing may do so by sending their submission electronically to:*

*Board of Governors of the Federal Reserve System: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)*

*Consumer Financial Protection Bureau: [altdatastatement@cfpb.gov](mailto:altdatastatement@cfpb.gov)*

*Federal Deposit Insurance Corporation: [Comments@fdic.gov](mailto:Comments@fdic.gov)*

*National Credit Union Administration: [ComplianceMail@ncua.gov](mailto:ComplianceMail@ncua.gov)*

*Office of the Comptroller of the Currency: [altdatastatement@occ.treas.gov](mailto:altdatastatement@occ.treas.gov)*