2024 Q3 Credit Risk Review

Trends and Early Risk Indicators in Consumer Credit

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Executive Summary – Overall Consumer Credit

Credit Card

Delinquencies increased in subprime with other risk bands largely flat in the last few months; recent vintages showing little indication of improvement yet. Origination volumes fell and underwriting continued tightening this quarter.

Personal Loans

Delinquencies rose slightly over the last few months but remain below pre-pandemic levels due to early-pandemic tightening. Originations have not fully rebounded.

Auto Loans

This is the most concerning asset class this quarter with rising delinquencies, especially in subprime. Q4 2023 originations are performing worse than pre-pandemic level. Originations remain low and increasingly tight.

Student Loans

The student loan repayment grace period ended in September, with 30% of borrowers having missed at least one payment as of January 2024. Severe delinquencies expected on credit reports by late 2024 – early 2025.

Mortgage & HELOC

While the average mortgage rate softened this year, originations are yet to rebound. Delinquencies remain below pre-pandemic levels but recently ticked up. Rising homeowner equity over the past five years helped boost HELOC limits and utilization, providing borrowers a lower-interest option for purchases or debt consolidation.

*Note: see corresponding sections in the report for citations of content from throughout the executive summary.

Executive Summary – US Consumer Headwinds and Tailwinds

The consumer credit landscape in Q3 2024 presented a mixed picture. While the Federal Reserve's interest rate cut in September and cooling inflation brought some relief, wage growth continued to decline across income groups, and high prices for homes and autos persisted.

Headwinds

- **Inflation:** While the overall annual inflation rate cooled to 2.4% in September, annual core inflation edged up to 3.3%, reflecting ongoing pressures in underlying costs, particularly in shelter and food.
- **Wage growth decline:** While buoyant wage growth among low-income borrowers had previously countered some inflation impacts, this growth has slowed for all income bands over the last few quarters and now the average hovers around 5%.
- **Price levels:** High prices for homes and auto continue to pressure consumers. Although vehicle prices have stabilized from recent peaks, they remain elevated, impacting affordability.

Tailwinds

- **Unemployment:** The unemployment rate had been increasing slightly over the last few quarters but remains low overall. There was a modest dip in unemployment September in line with seasonal trends. Several major recent disruptors including strikes and hurricanes contributed to a drop in nonfarm employment, but the total impact remains to be seen.
- **Interest rate cuts:** The Federal Reserve cut the interest rate by 50 basis points in September and again by 25 basis points in early November.
- **Spending:** Consumer spending helped drive real GDP growth this quarter. Spend increased in both goods and services, with nondurable goods and health care services leading growth in each, respectively.

*Note: see corresponding sections in the report for citations of content from throughout the executive summary, as well as: Bureau of Economic Analysis report as of Oct. 30th, 2024 for consumer spend information; Bureau of Labor Statistics Report on inflation as of Oct. 10th, 2024.

Executive Summary - Credit Cards

Performance

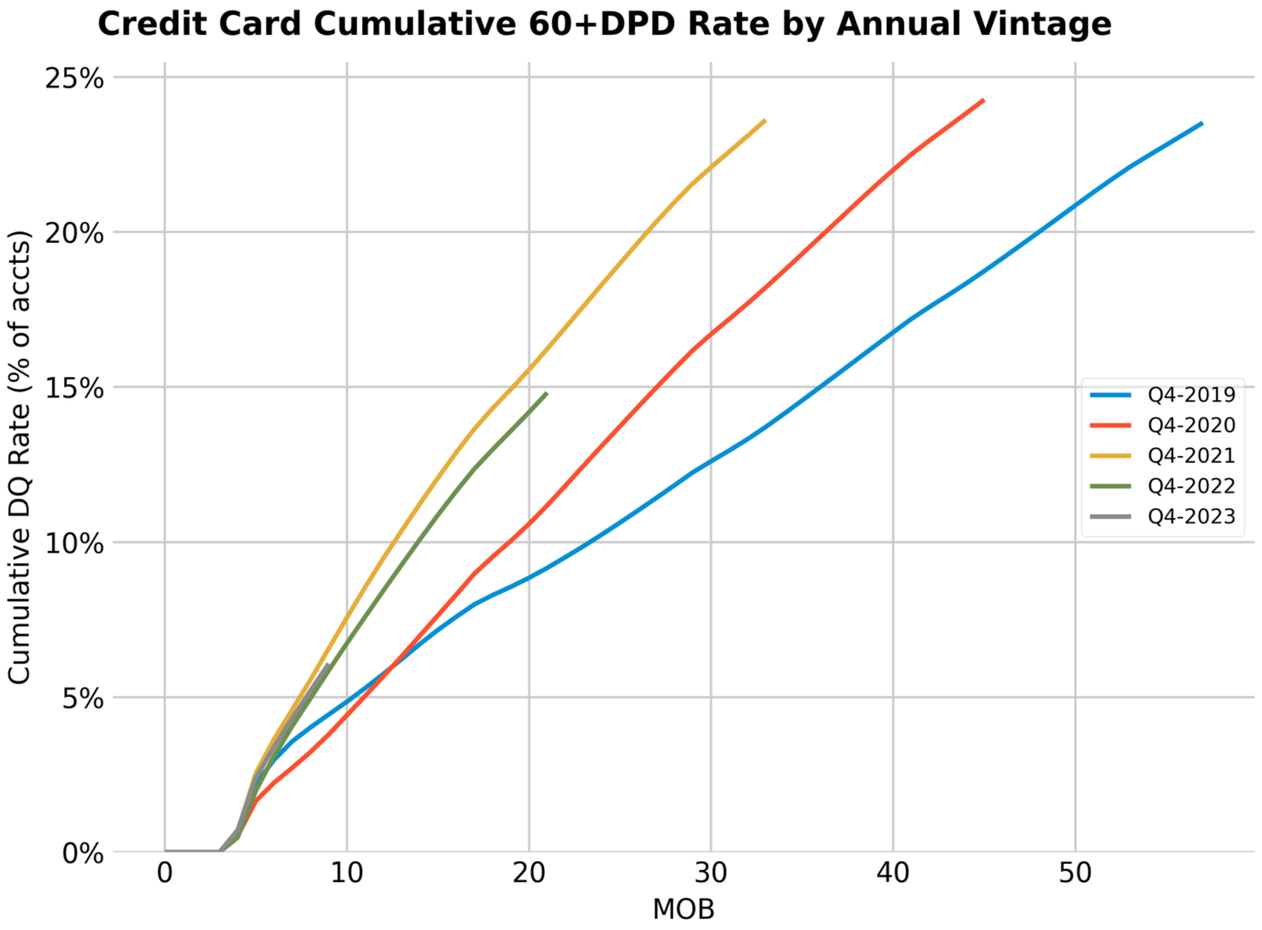
- Delinquency (DQ) rates are up for subprime borrowers over the last few months
- Delinquency rates are especially high for newer vintages
- Roll rates remain high, and the 30 to 60DPD rate is well above pre-pandemic levels
- Looser pandemic-era underwriting may have contributed to some of this worsening performance

Balance

- Credit card debt has continued growing and hovers around $1.2T
- Super prime accounts contributed more to balance growth than any other risk band

Originations

- Originations have fallen since 2023 and are stabilizing close to pre-pandemic levels
- The risk distribution among originated accounts reflects some continued tightening
- Credit limits were stable this quarter, remaining near pre-pandemic levels for all risk bands



Executive Summary – Personal Loan

Performance

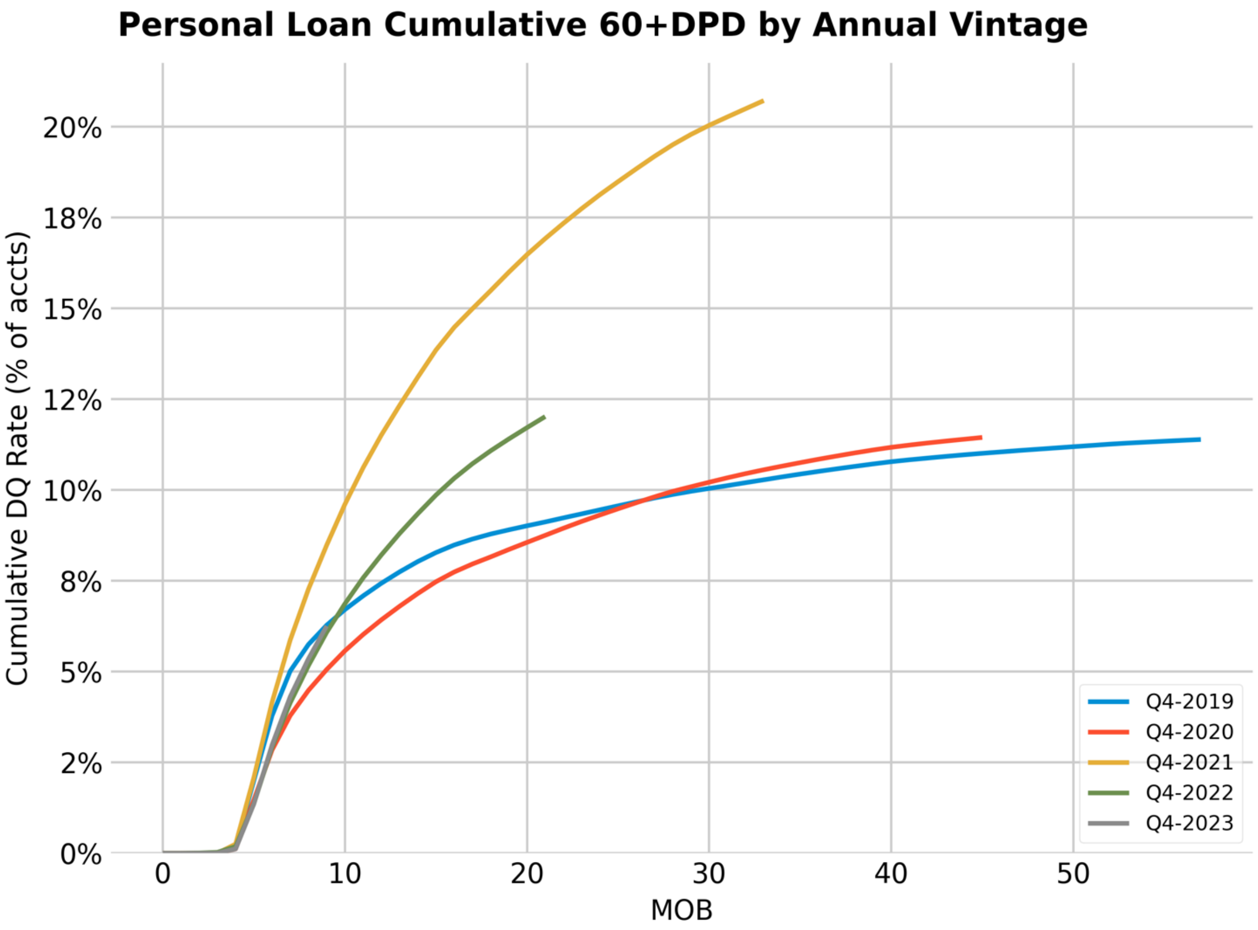
- The delinquency rate rose slightly over the last few months, but is still lower than pre-pandemic and 2022 levels overall
- Early-stage roll rates are trending up slightly
- Higher-risk borrower cohorts are seeing the most improvement in recent vintages while lower-risk borrowers in recent vintages are performing worse or equivalently relative to earlier vintages

Balance

- Total industry PL balances have been relatively steady for the last two quarters
- All risk bands had a balance decrease in the last quarter except for super prime consumers

Originations

- The significant tightening that started in mid-2022 has begun to ease
- Subprime borrowers still take out more loans than other risk bands, but fewer than they did pre-pandemic
- Average loan size has remained well above pre-pandemic levels



Executive Summary – Auto Loan

Performance

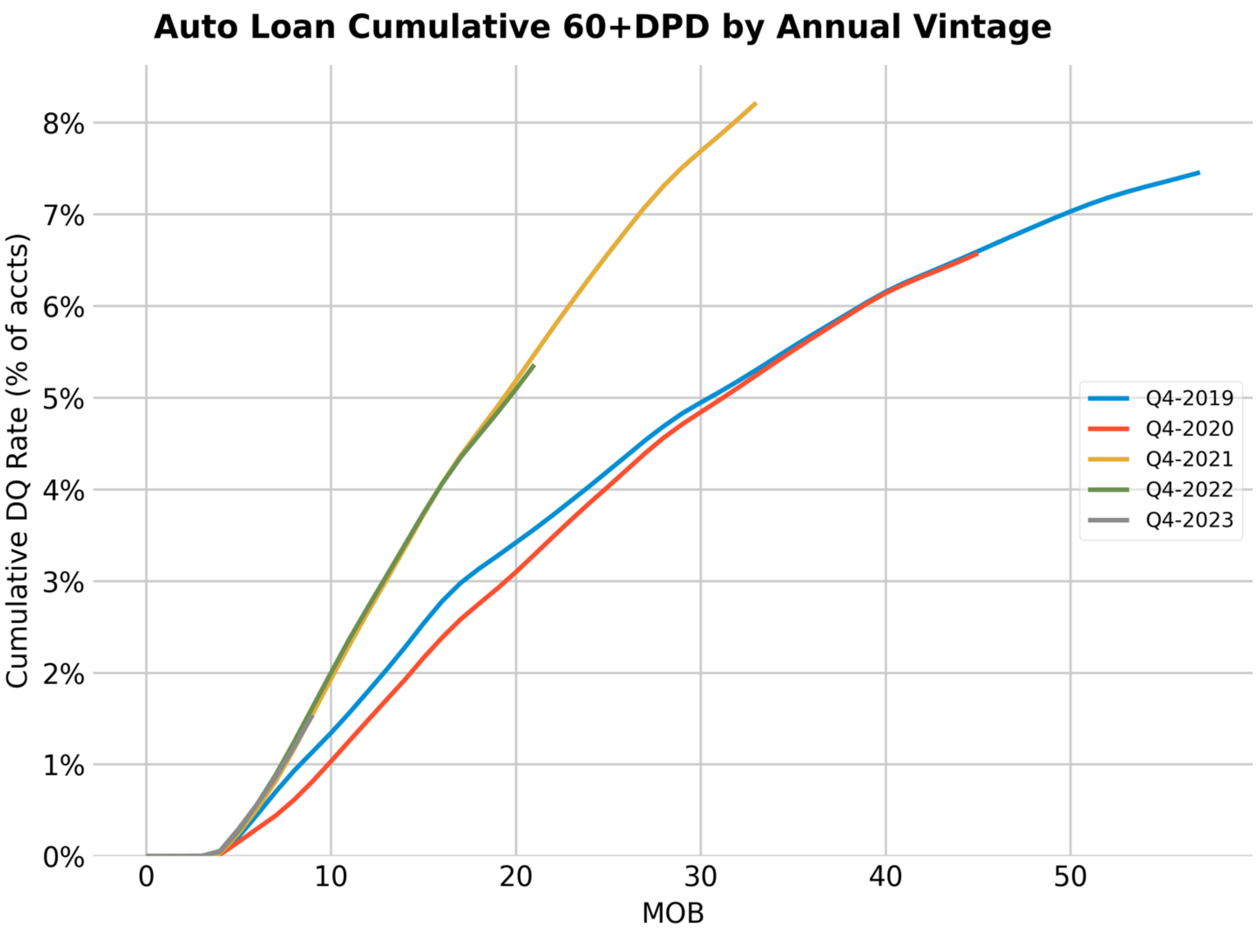
- Vehicle prices are still more than 20% above pre-pandemic and finance rates have remained above 7% for 6 quarters, leaving borrowers with high monthly payment burdens
- Account-level delinquency rates are growing overall (up 22 bps since Sept. 2023 and 68 bps since Sept. 2019) and within each risk band. Subprime delinquency rate is especially concerning with a 61 bps increase since this time last year, now hovering around 11.7%.
- Late 2023 vintages are in line with 2021 and 2022, worse than 2020 and prior

Balance

- Auto debt is mounting and reached $1.63T at the end of this quarter
- The total balance owed by super prime borrowers has grown over the last quarter

Originations

- Monthly originated accounts have been relatively stable over the last year, significantly below pre-pandemic levels
- Higher-risk borrowers continue to take out a smaller number of originated accounts, potentially due to tightening and elevated vehicle costs

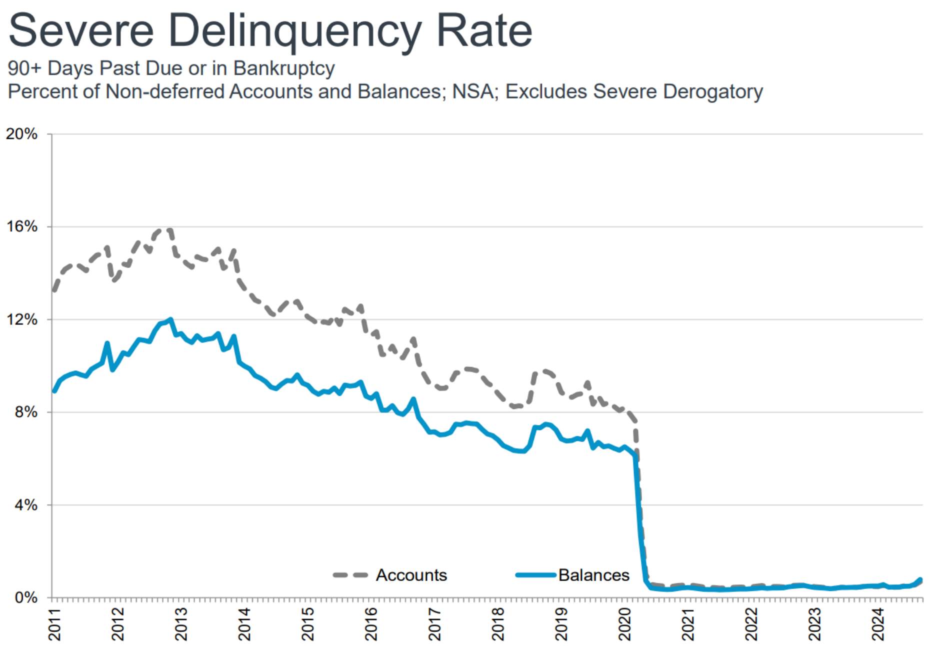


Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Executive Summary – Student Loan and Mortgage

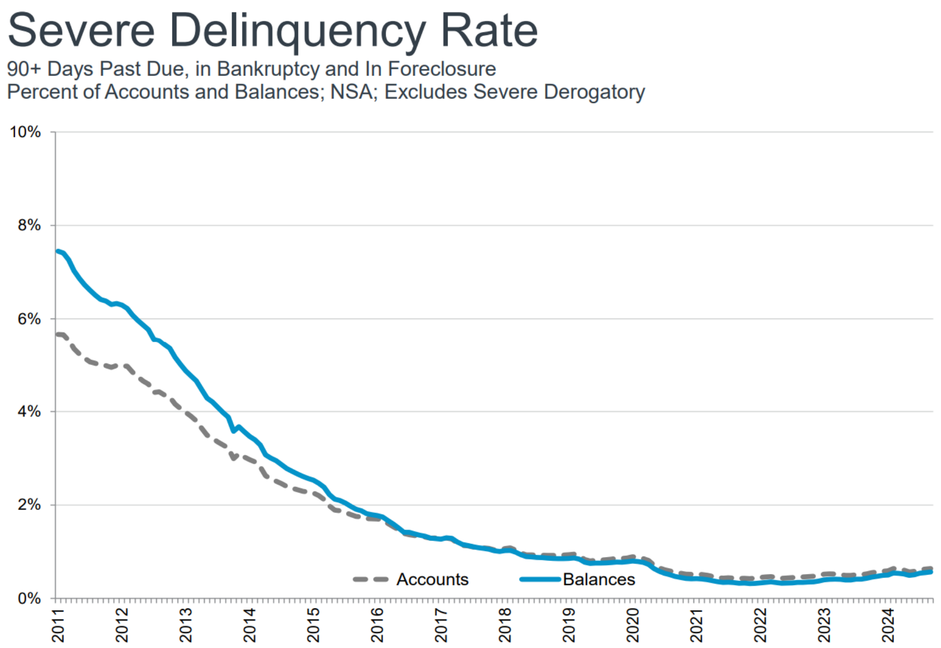
Student Loan

- Because the student loan repayment grace period ended on September 30th, 2024, delinquencies are expected to be reported to the bureaus in December or January
- For a significant number (8MM) of borrowers, loans remain in deferral due to executive action related to the SAVE plan
- Up to 30% of borrowers and 23% of federal student loan dollars were past due as of January 2024
- As detailed in 2OS's recent white paper, we expect an average 5–10-point decrease in risk score for federal student loan borrowers



Mortgage

- Mortgage delinquencies have been growing, but severe delinquencies are still lower than pre-pandemic
- Last year's mortgage originations are performing similarly to 2022's originations, which are both worse than previous years
- Mortgage originations remain lower than pre-pandemic, in line with last year's trends
- HELOC utilization and limits are up significantly, likely because increased homeowner equity has enabled HELOCs to be more accessible and valuable to borrowers



Source: Equifax. 2OS White Paper Data as of Sept. 30th, 2024

Special Topic: We will be monitoring potential post-election impacts to consumer lending

Since former President Donald Trump's re-election on November 6, 2024, reporters and regulatory experts have begun analyzing potential impacts on the consumer lending ecosystem.

Regulatory

- **Bank Mergers:** The jump in stock prices for Capital One and Discover immediately after the election indicates widespread belief that large M&A deals will face smoother roads ahead, with Republican control of both the presidency and the Senate potentially encouraging less regulatory intervention. (Wall Street Journal)
- **Basel III Endgame:** Several financial trade groups are already in discussion with the Trump transition team about curtailing or overhauling aspects of the proposed American Basel III Endgame capital requirements regulation, which had been the subject of intense scrutiny since its proposal last year. (Reuters)
- **Buy-Now-Pay-Later:** In May 2024, the CFPB issued an interpretive rule that designated BNPL lenders as credit card providers under TILA's Reg Z. The structure of the rule makes it vulnerable to be significantly reinterpreted and potentially reversed under new CFPB leadership. (Payments Dive)
- **Fees and APR:** There is uncertainty about how the Trump administration will address the CFPB cap on credit card late fees or a potential cap on interest rates, which would likely be popular with consumers. Trump mentioned a temporary 10% credit card APR cap on while on the campaign trail. (American Banker, Wall Street Journal)
- **Open Banking:** There appears to remain bipartisan support for the CFPB's Final 1033 Rule released in October. Pending the outcome of an ongoing judicial challenge, the rule may have a good chance to go into effect. (Bloomberg Law)

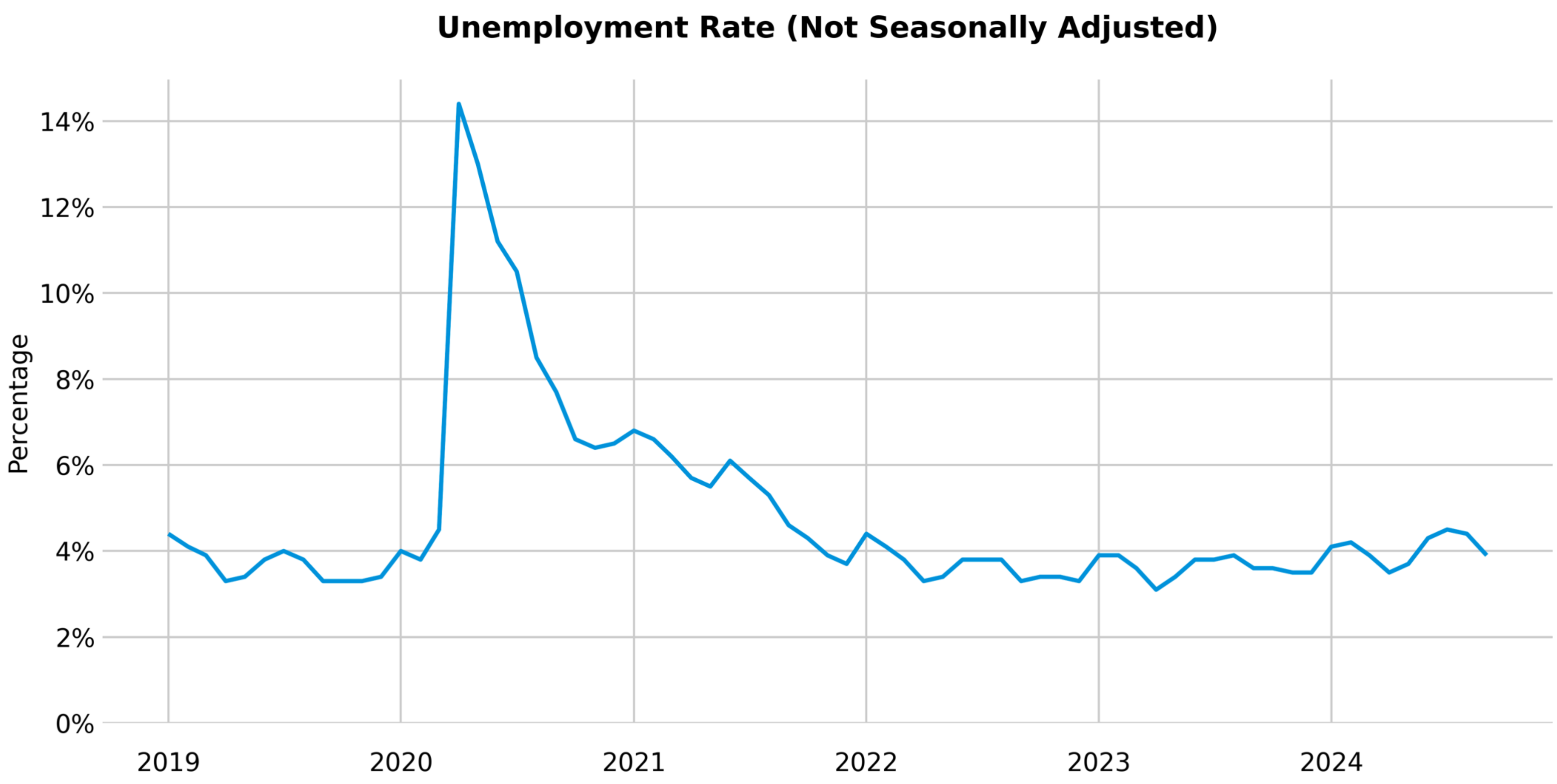
Legislative

- **Credit Card Competition Act:** Vice President-elect J.D. Vance had formerly been an advocate for the CCCA, which seeks to lower interchange fees through expanding network competition. However, reports indicate that Vance has started distancing himself from the measure which could mean dampened political momentum for the Act. (Politico)
- **Crypto:** The Trump campaign had strong support from the crypto industry, which bodes well for the Financial Innovation and Technology for the 21st Century Act. This would classify decentralized blockchain assets as commodities, to be regulated by a less stringent entity. (Payments Dive)

*Note: This presentation is for informational purposes only and does not constitute financial, legal, or regulatory advice. The insights provided are based on current industry trends and should not be interpreted as definitive predictions about regulatory or macroeconomic developments.

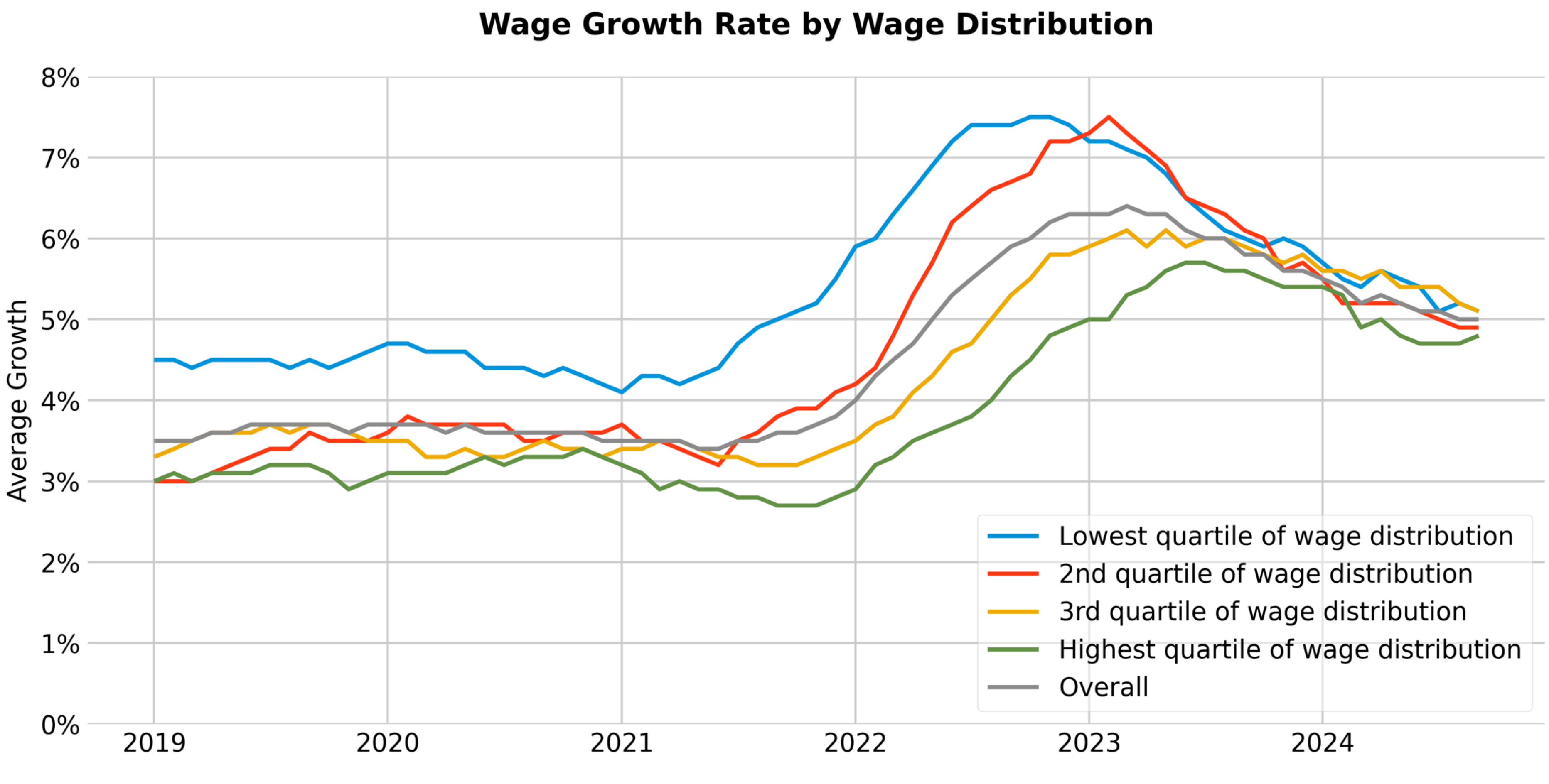
- State of the Consumer
- Credit Card
- Personal Loan
- Auto Loan
- Student Loan
- Mortgage

The unemployment rate for Q3 2024 remains low



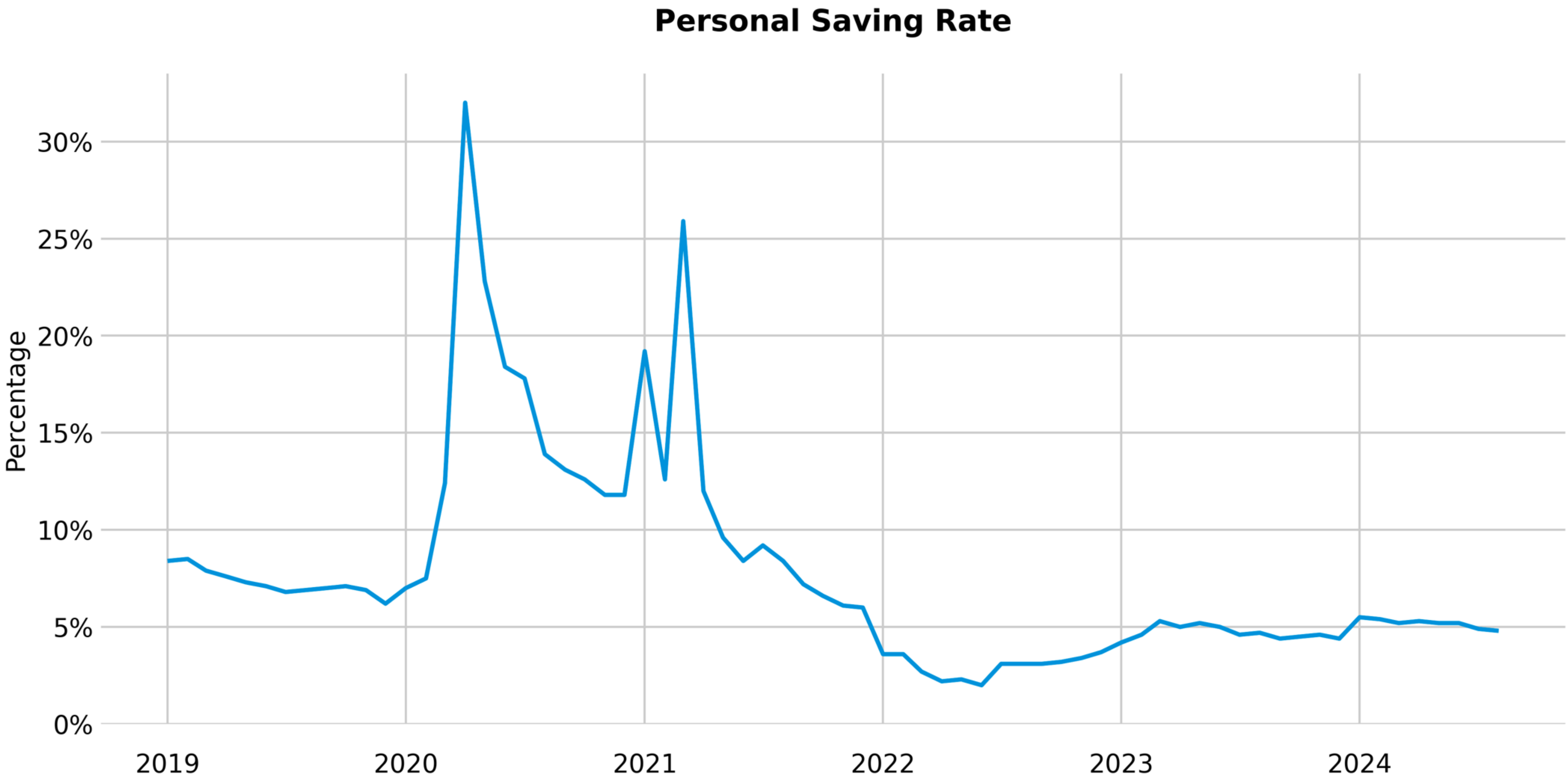
Source: 2OS, FRED. Data as of Sept. 30th, 2024

Overall wage growth continued to decelerate, with a notable reduction in disparity across wage quartiles as growth rates converge



Source: 2OS, FRED. Data as of Sept. 30th, 2024

The personal saving rate decreased modestly this quarter but remains in line with 2023 patterns, yet to return to pre-pandemic levels



Source: 2OS, FRED. Data as of Sept. 30th, 2024

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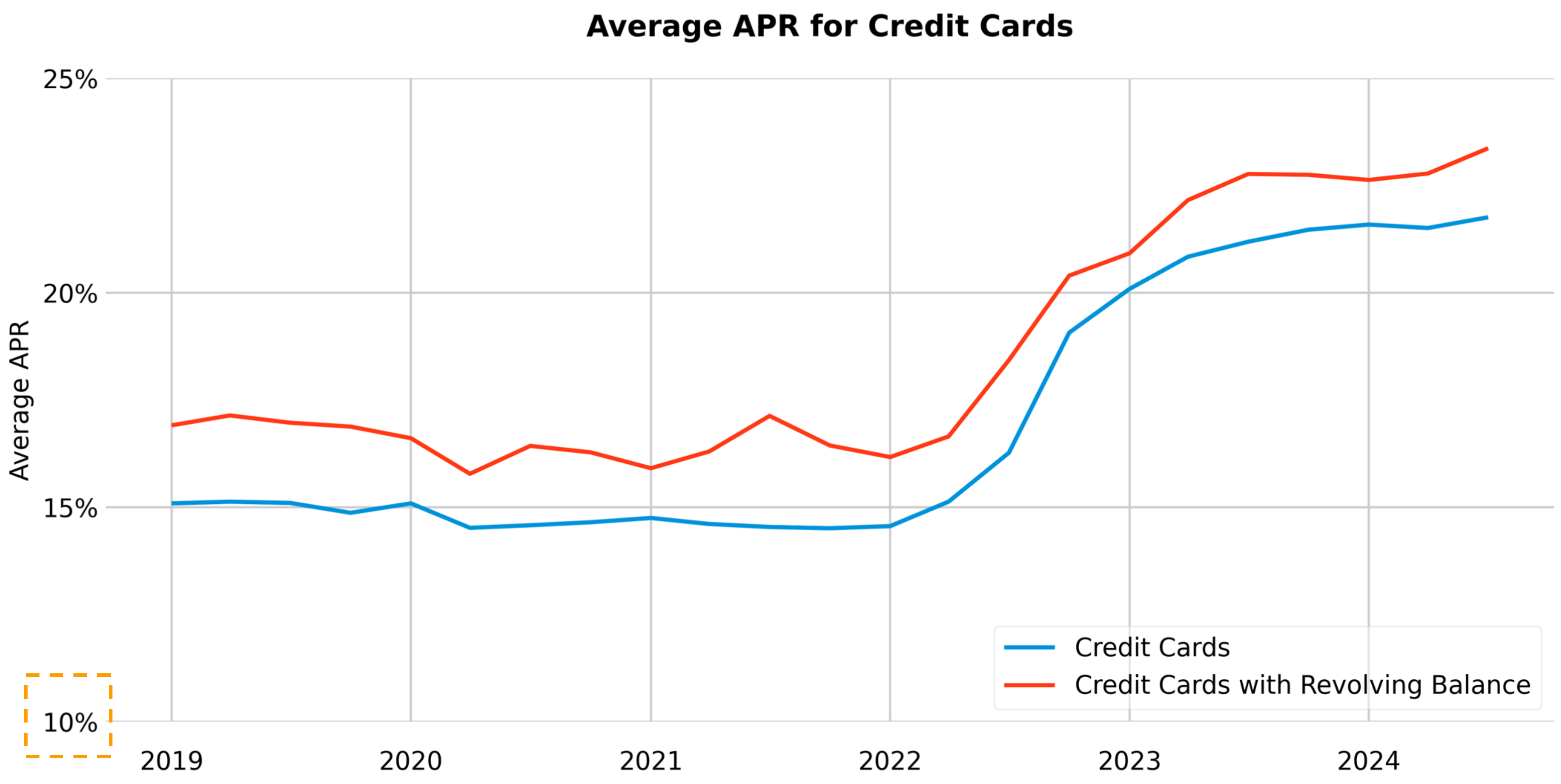
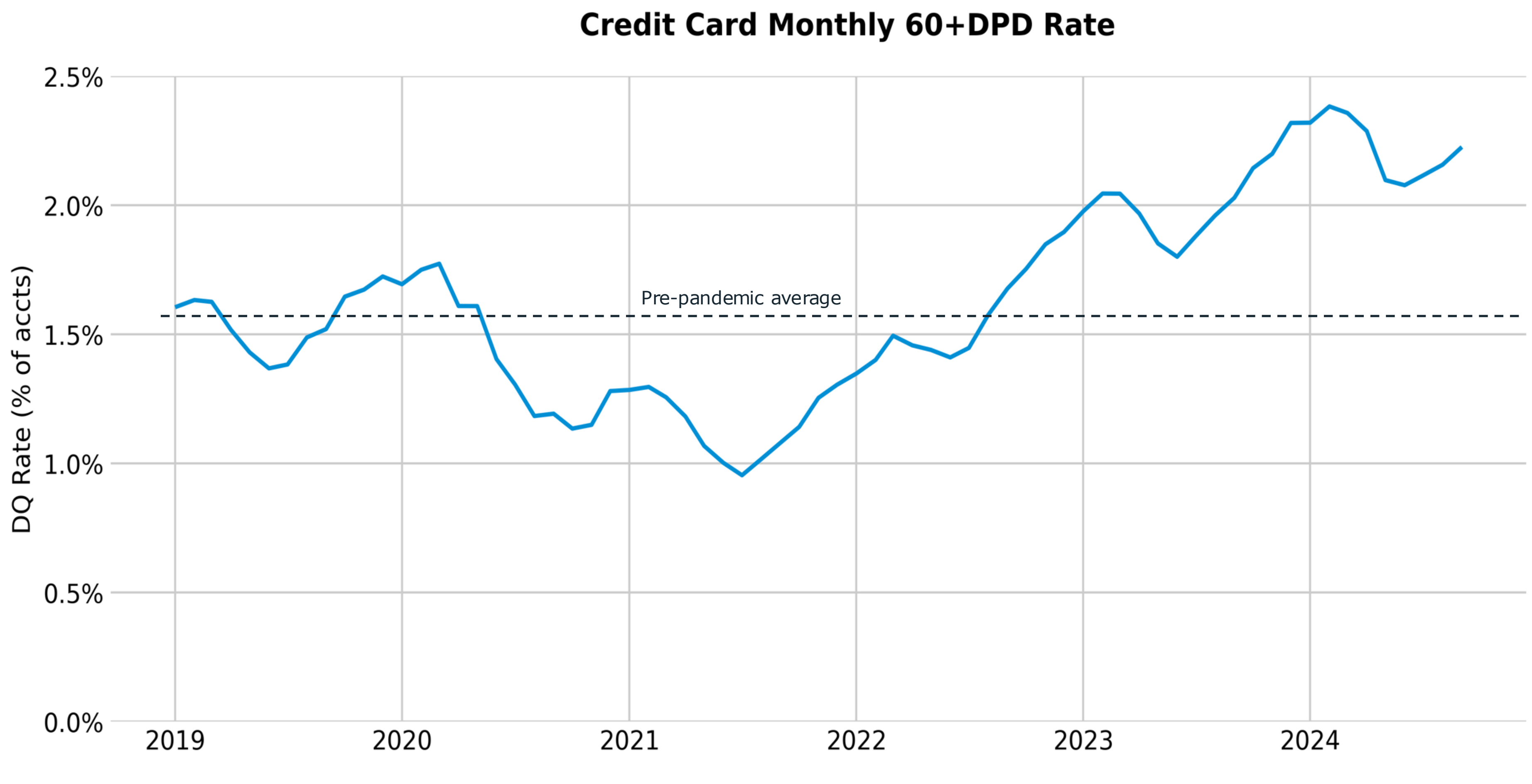
Credit card APRs increased over the past few months



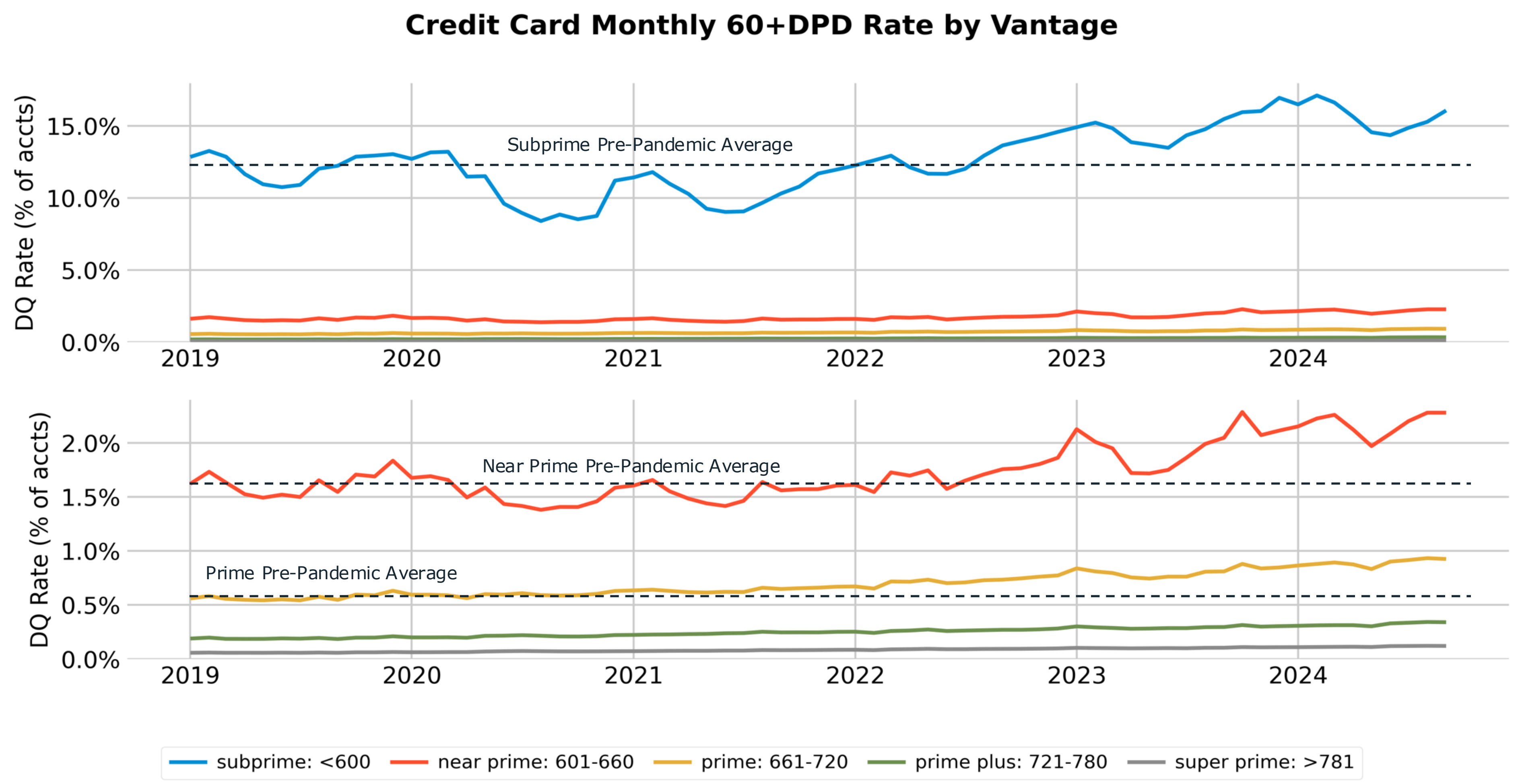
Source: 2OS, Federal Reserve G19 report. Data as of Sept. 30th, 2024

Credit card delinquencies continued to rise in recent months, remaining well above pre-pandemic levels



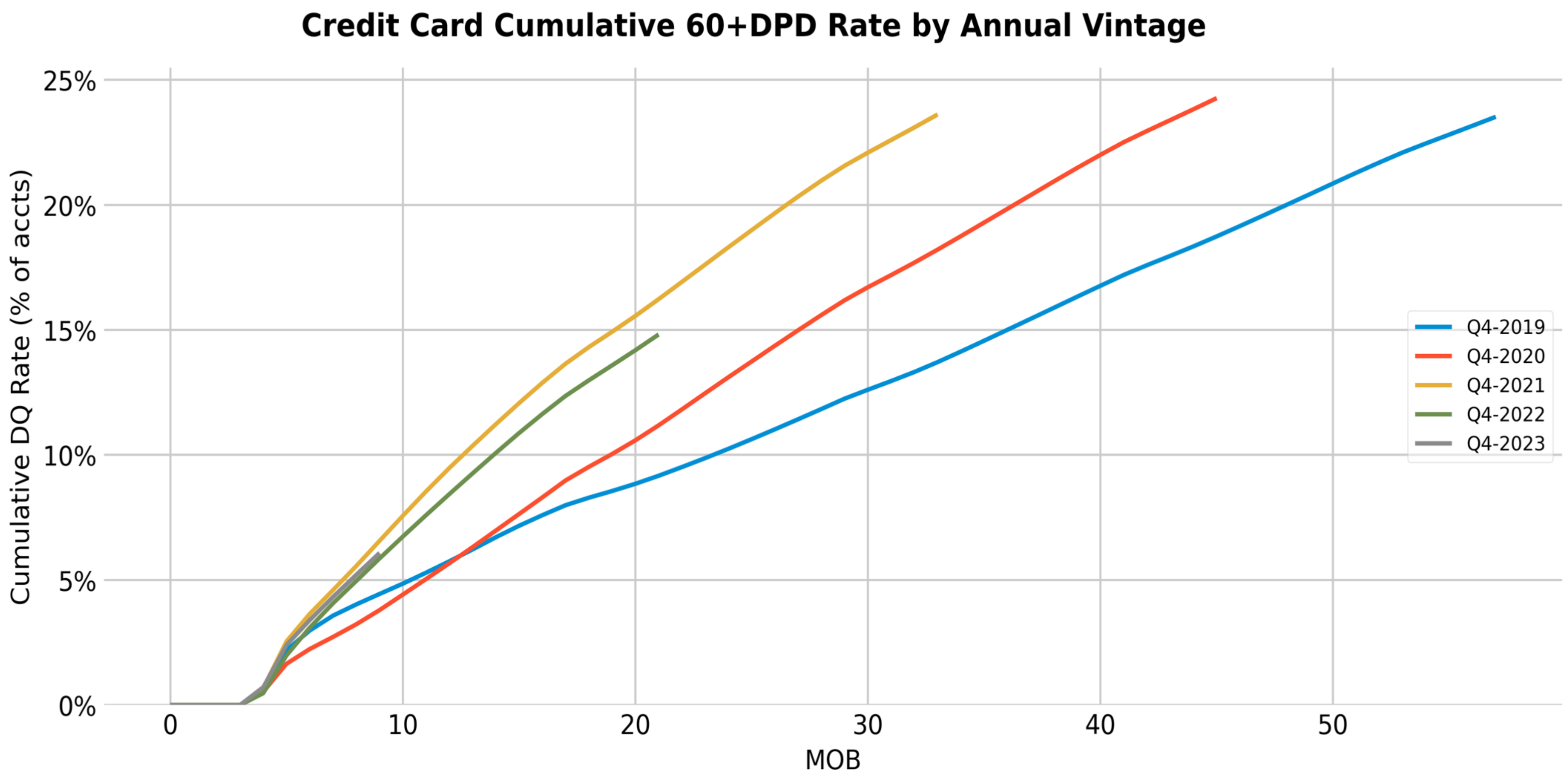
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

The subprime band drove the growth in delinquency rate in recent months



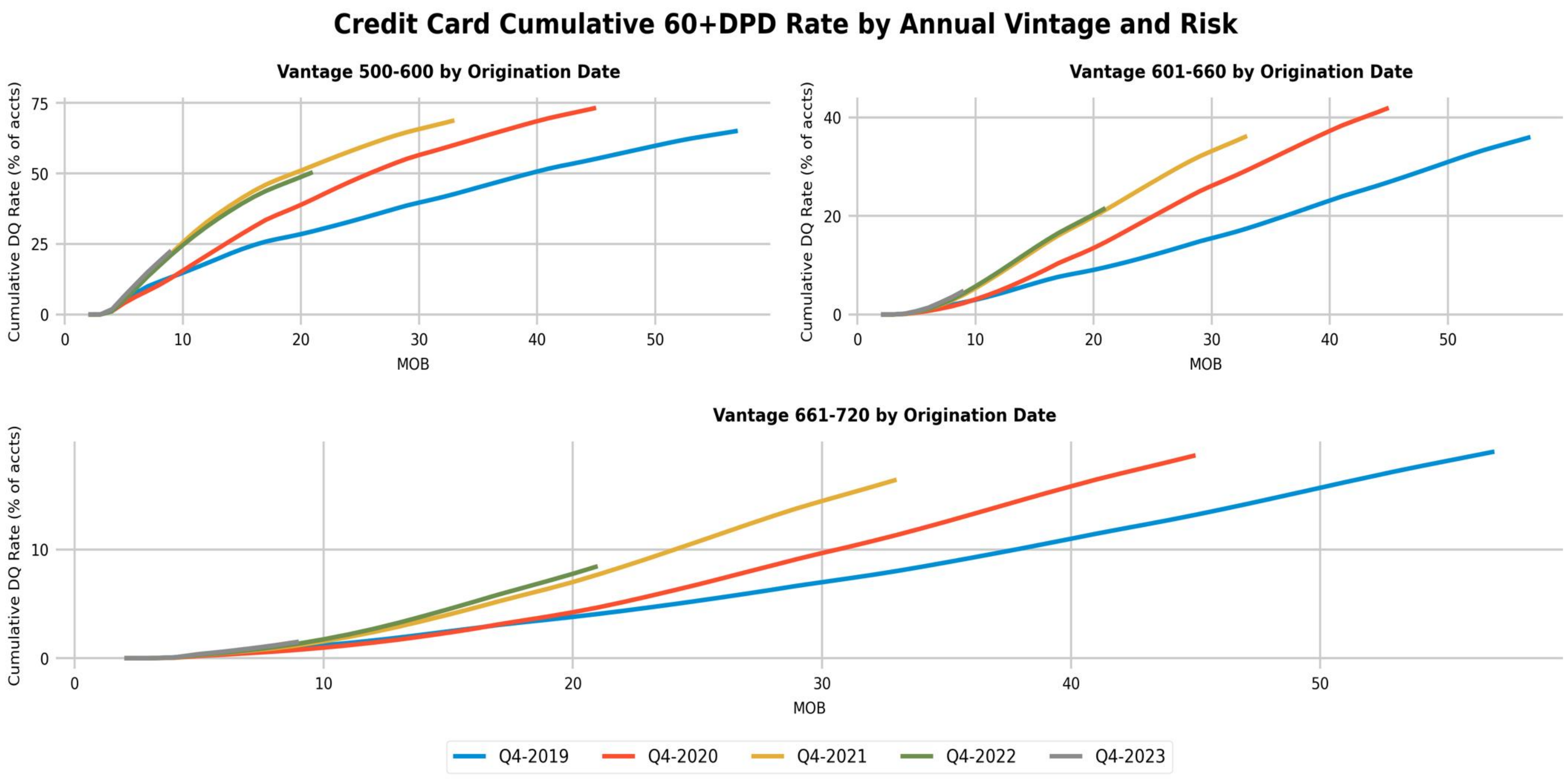
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Recent vintages' cumulative delinquency rates remain high and above 2019 and 2020 vintages



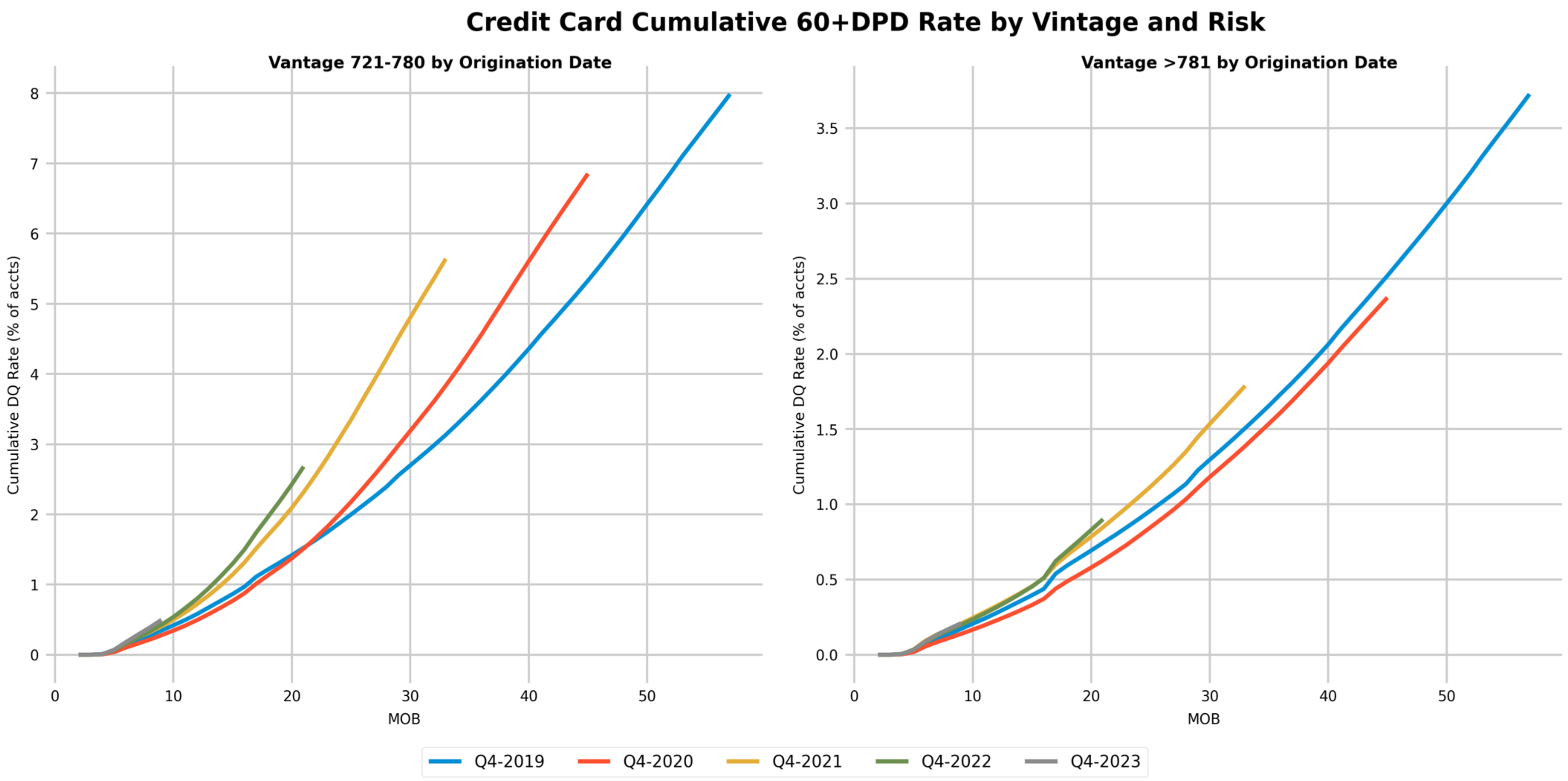
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Across all Vantage score bands, recent vintages have higher delinquency rates than pre-pandemic vintages (Slide 1 of 2)



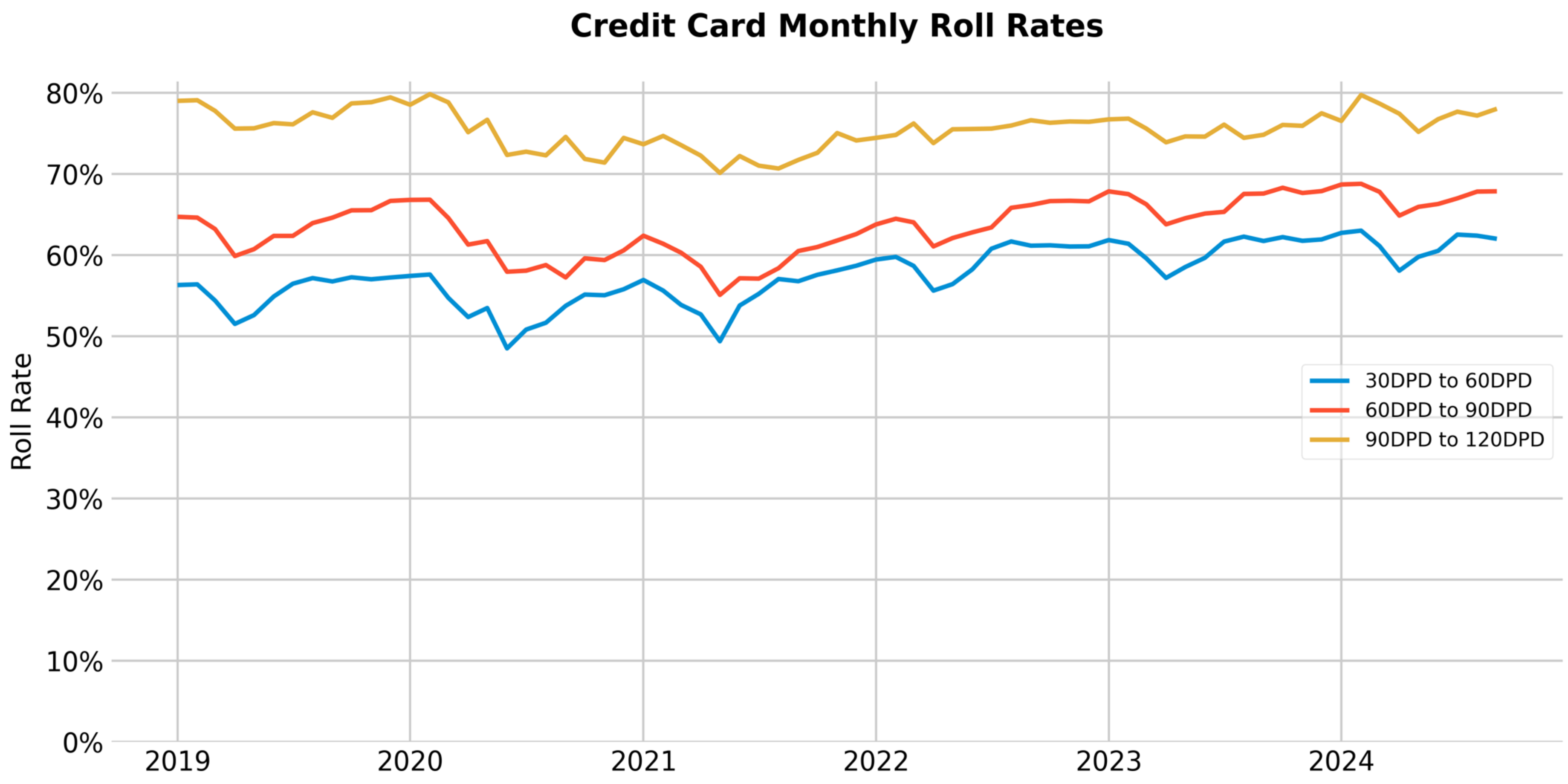
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Across all Vantage score bands, recent vintages have higher delinquency rates than pre-pandemic vintages (Slide 2 of 2)



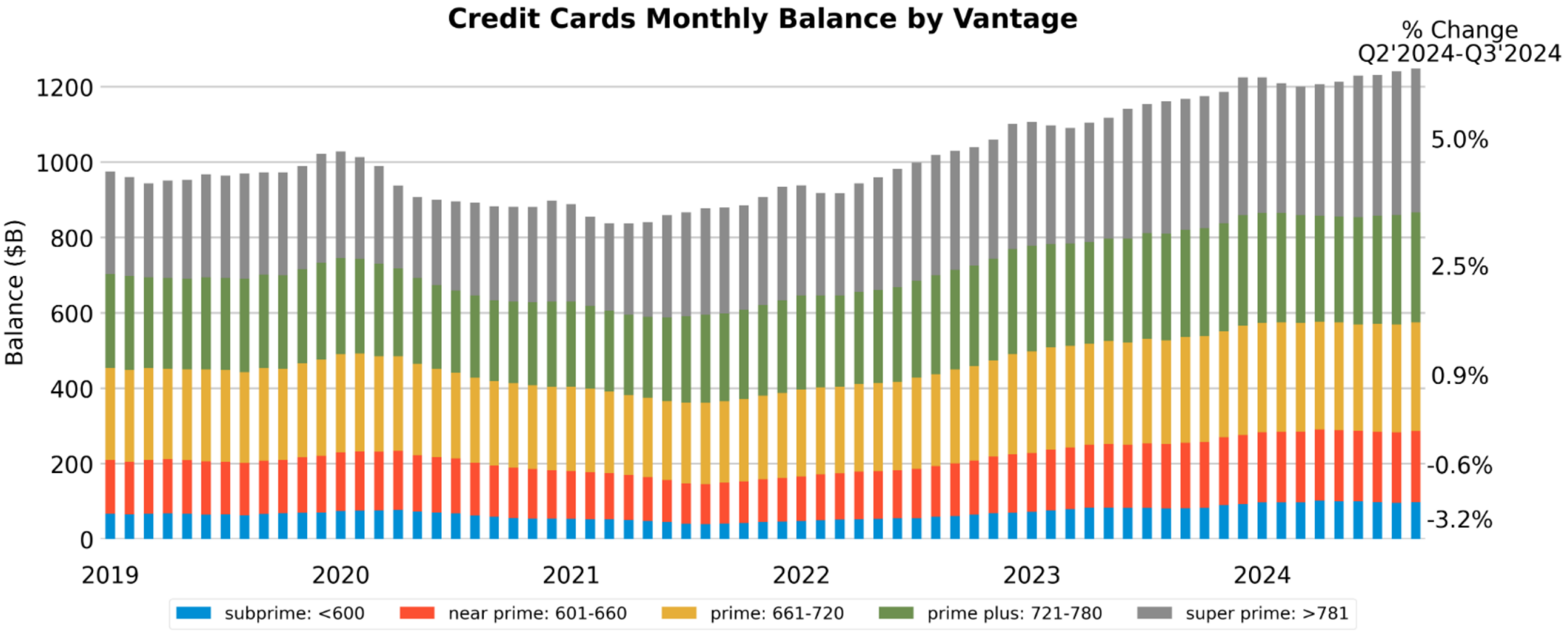
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Early- and mid-stage roll rates remain elevated above pre-pandemic trends



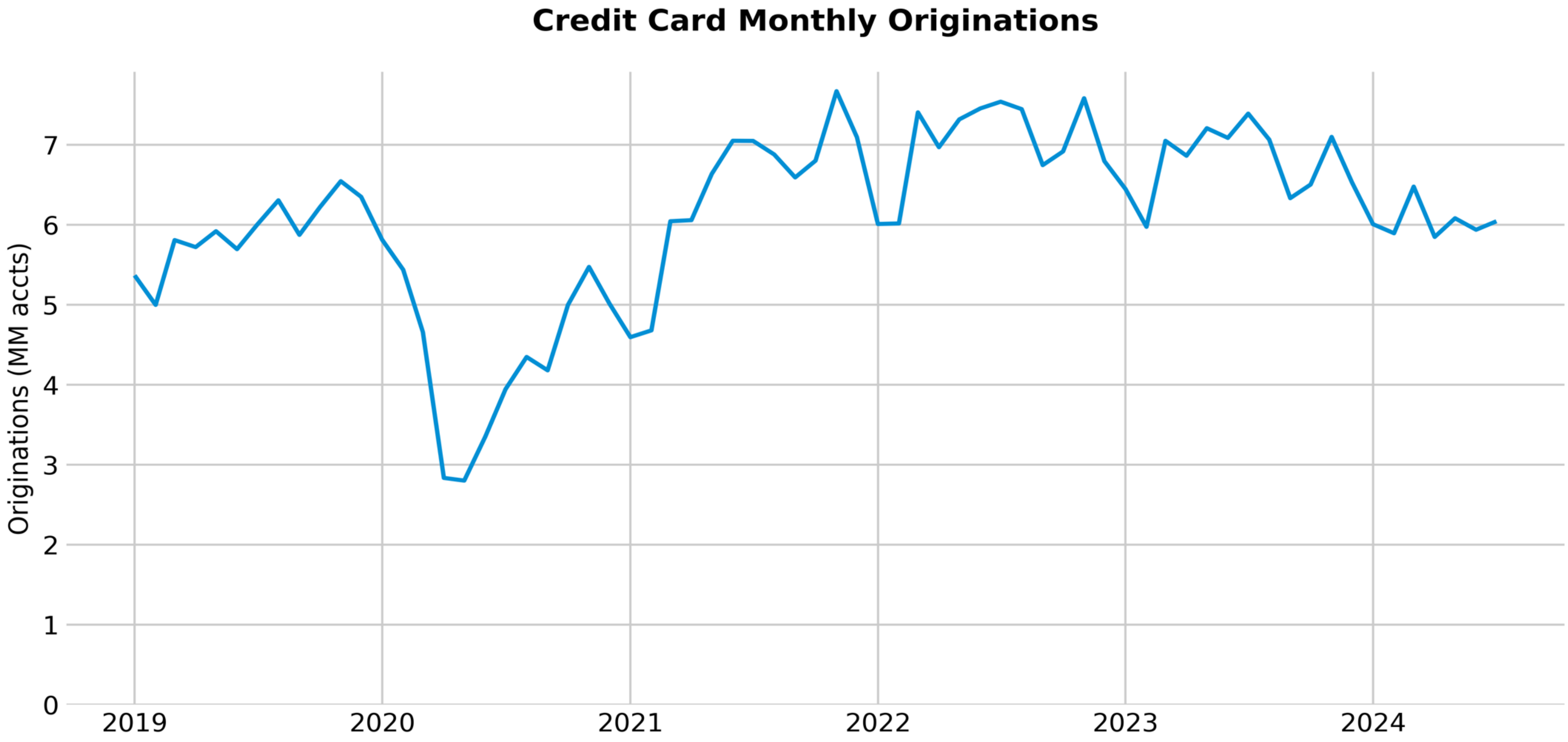
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Overall credit card debt is growing, with super prime customers' balance growing the most this quarter



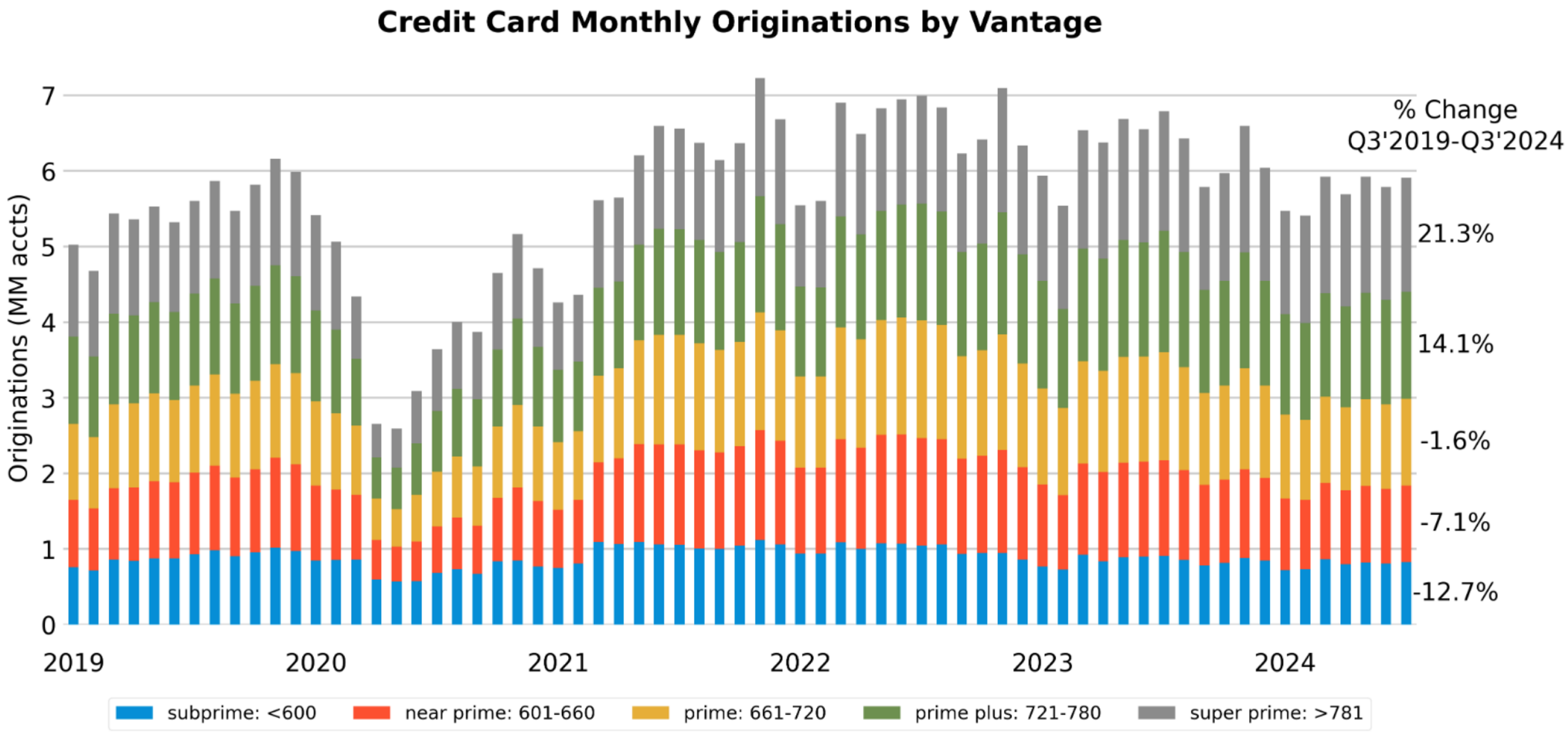
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Originations volumes have trended down over the past few years but remain close to pre-pandemic levels



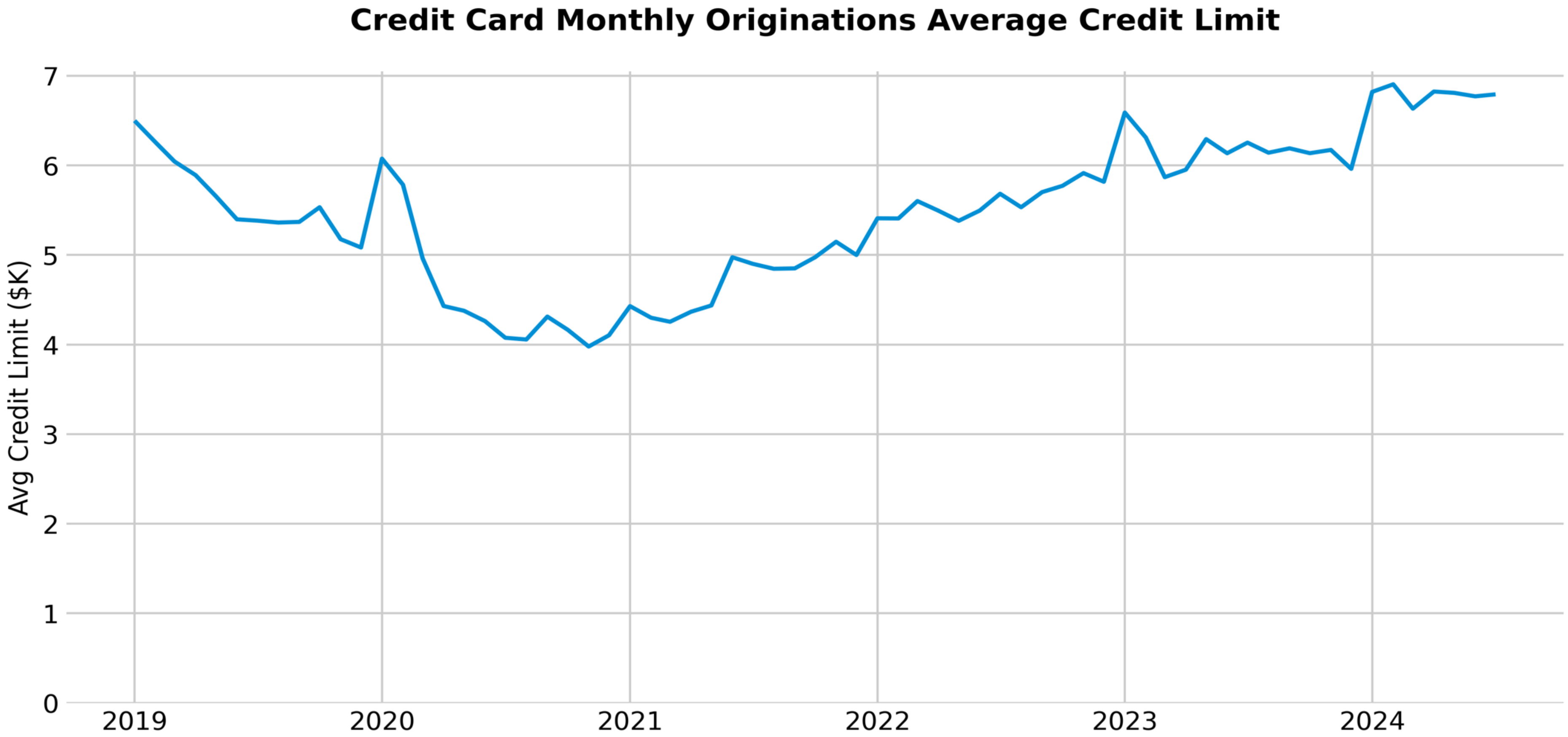
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Tightening has shifted the credit card origination distribution towards the more prime end of the spectrum since pre-pandemic



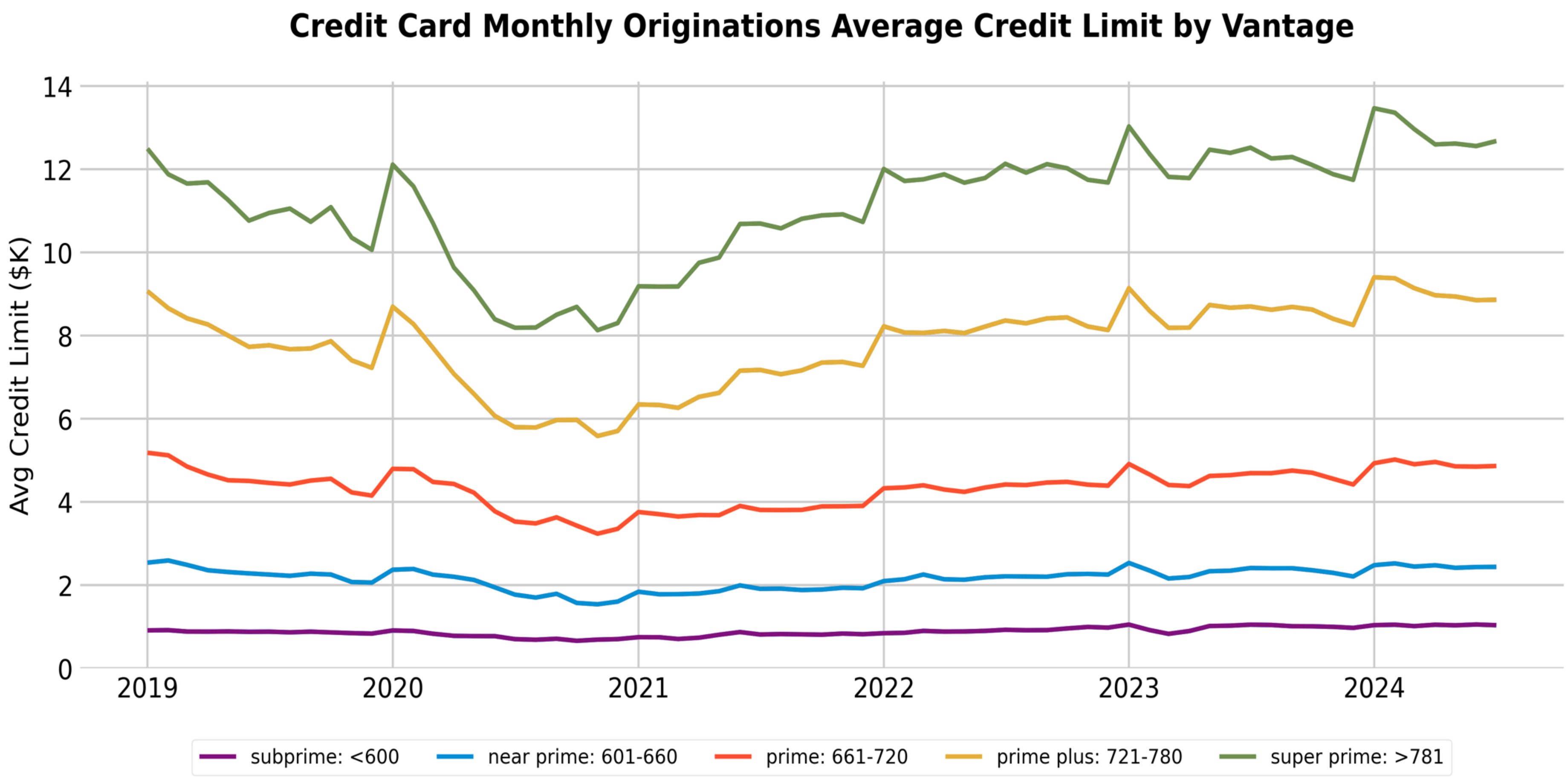
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Overall, average credit limit at origination remains above pre-pandemic levels



Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

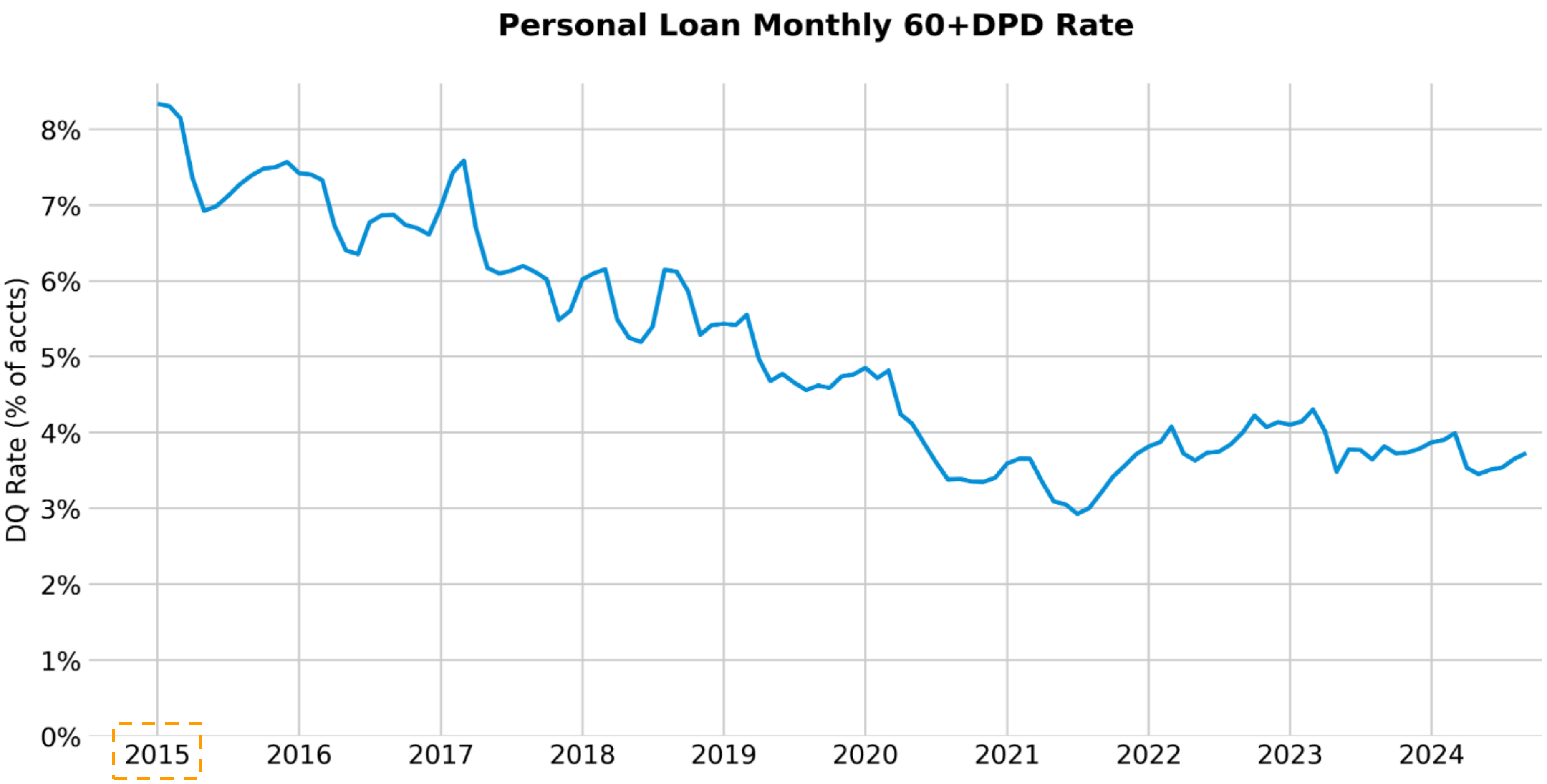
Average credit limit at origination for lower risk borrowers has fully rebounded from the pandemic-era trough



Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

- State of the Consumer
- Credit Card
- Personal Loan
- Auto Loan
- Student Loan
- Mortgage

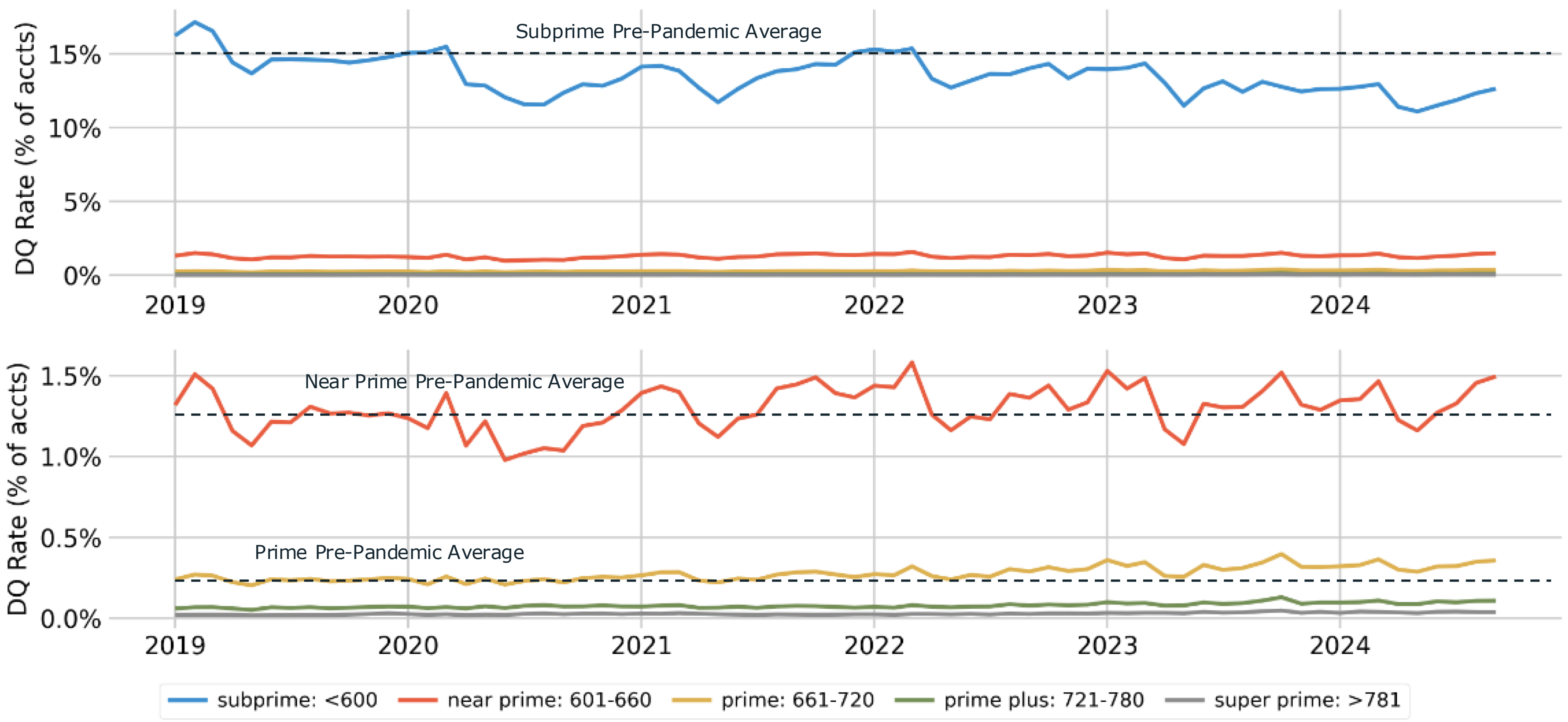
The personal loan delinquency rate had been steadily decreasing since at least 2015 and, despite a slight seasonal rise, remains low relative to pre-pandemic levels



Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

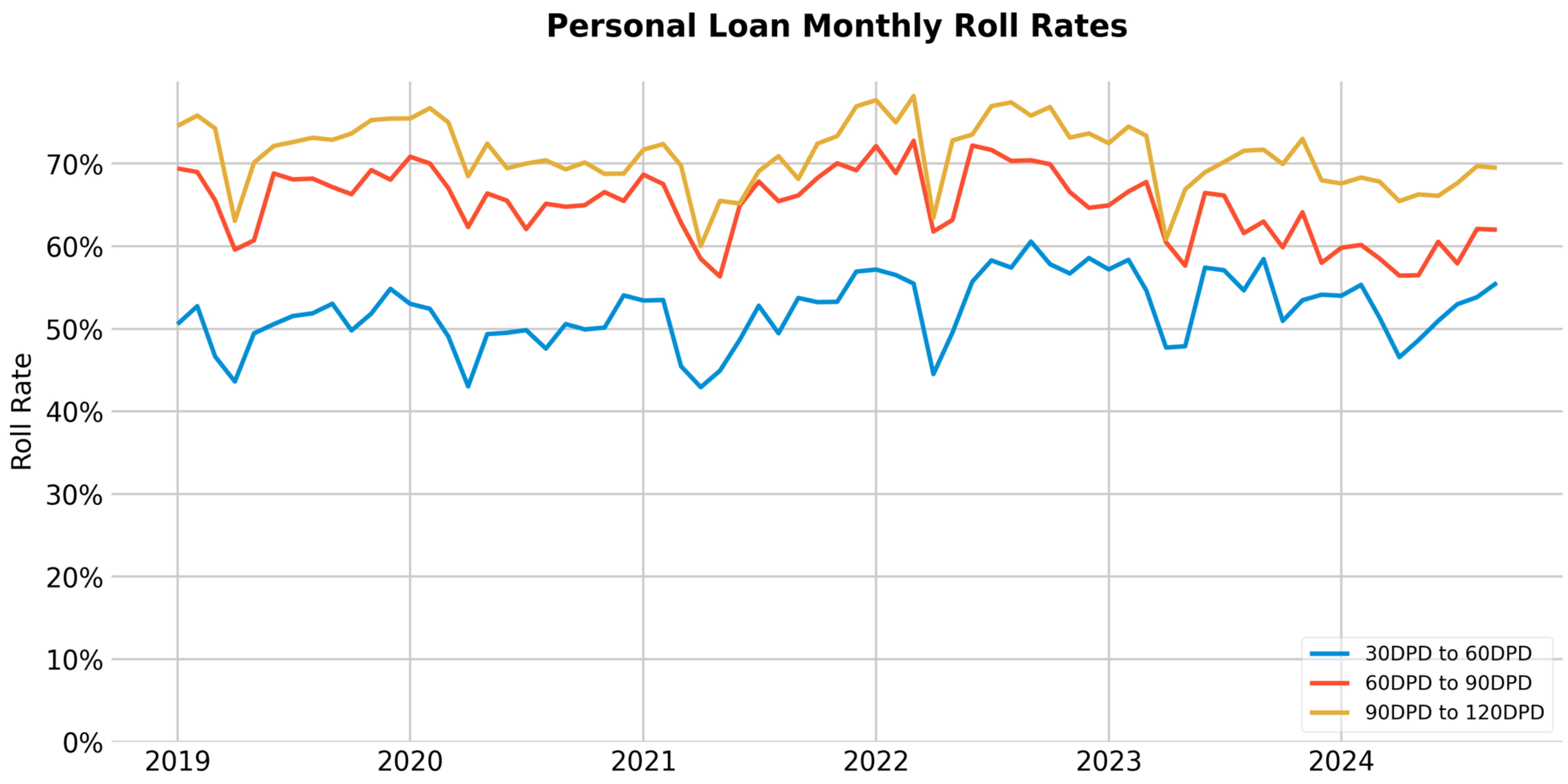
Subprime personal loans currently have lower delinquency rates than they did pre-pandemic

Personal Loan Monthly 60+DPD Rate by Vantage



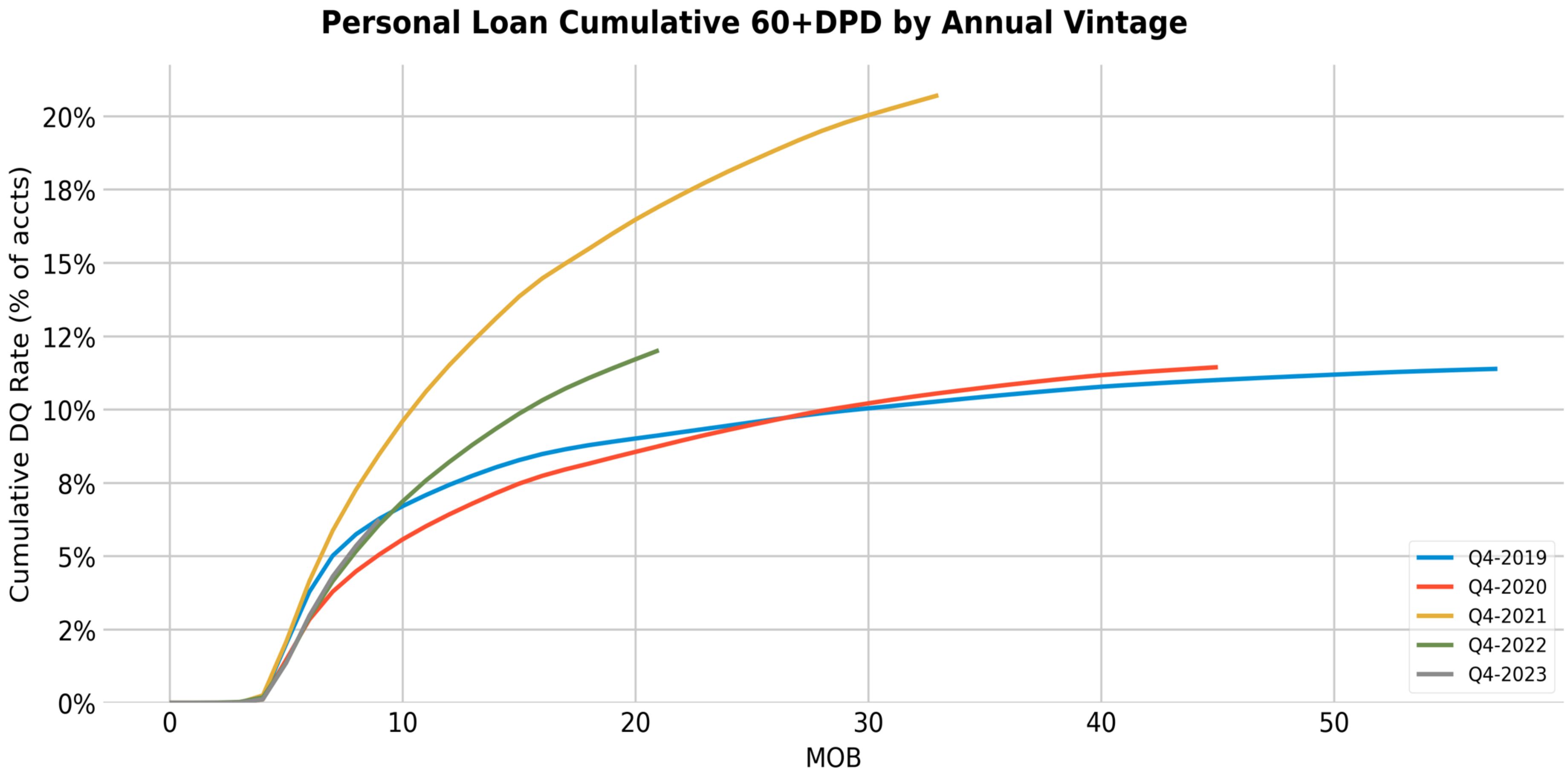
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Early-stage roll rates seem to be slowly trending up, while later-stage rates are trending down or stable



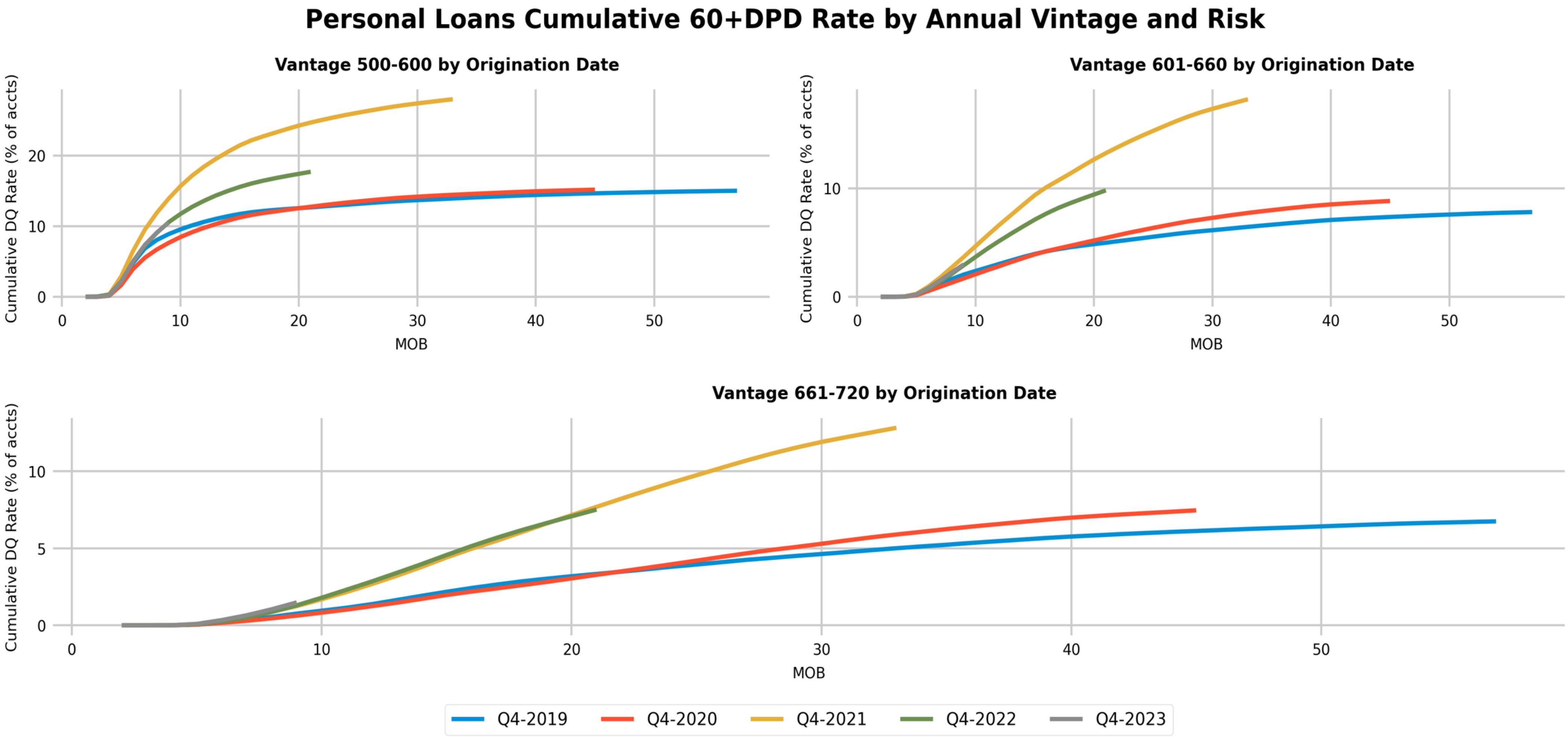
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Due to tightened underwriting, recent vintages show improved overall performance relative to Q4 2021



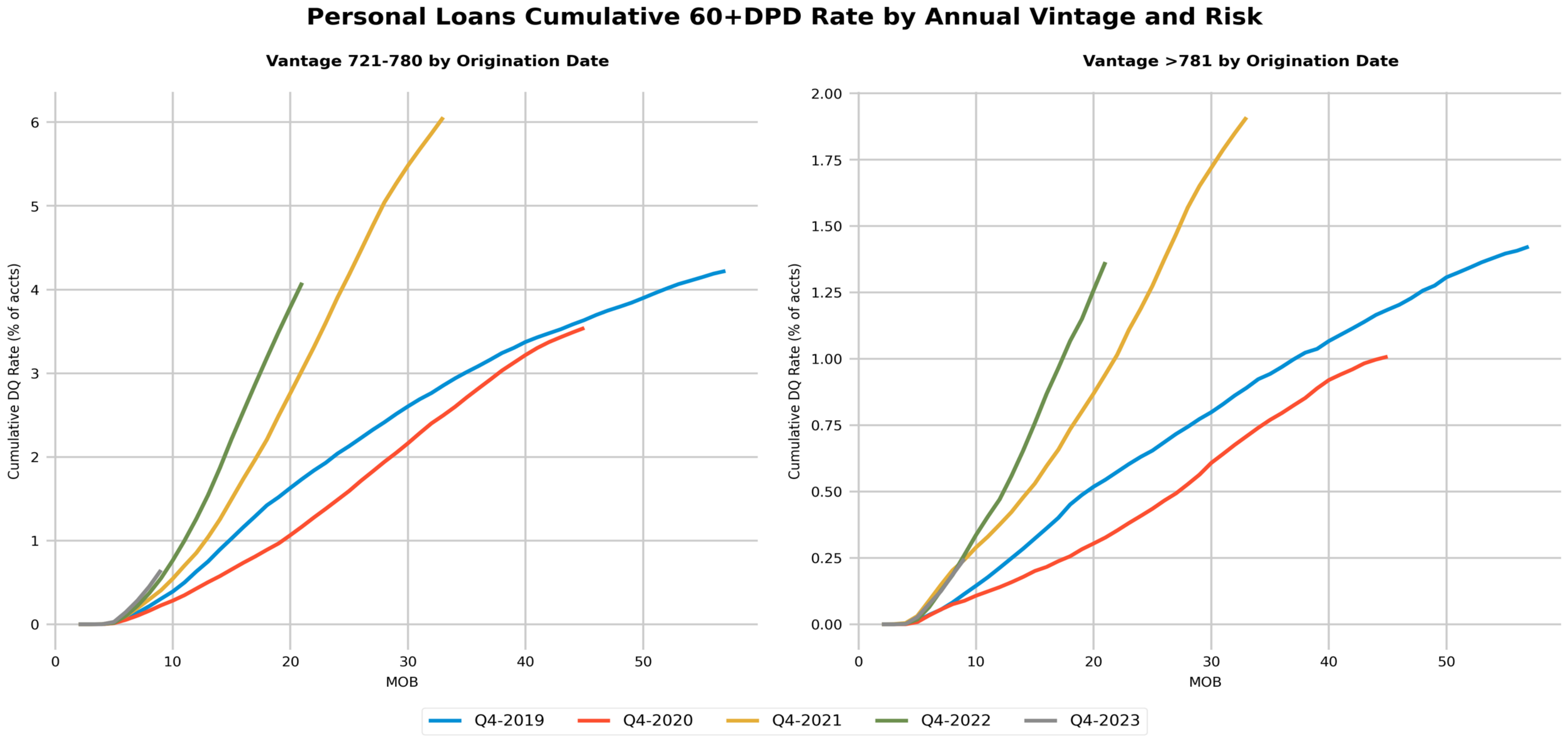
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Subprime, near prime, and prime originations from 2022 and 2023 vintages are performing better or similarly to 2021



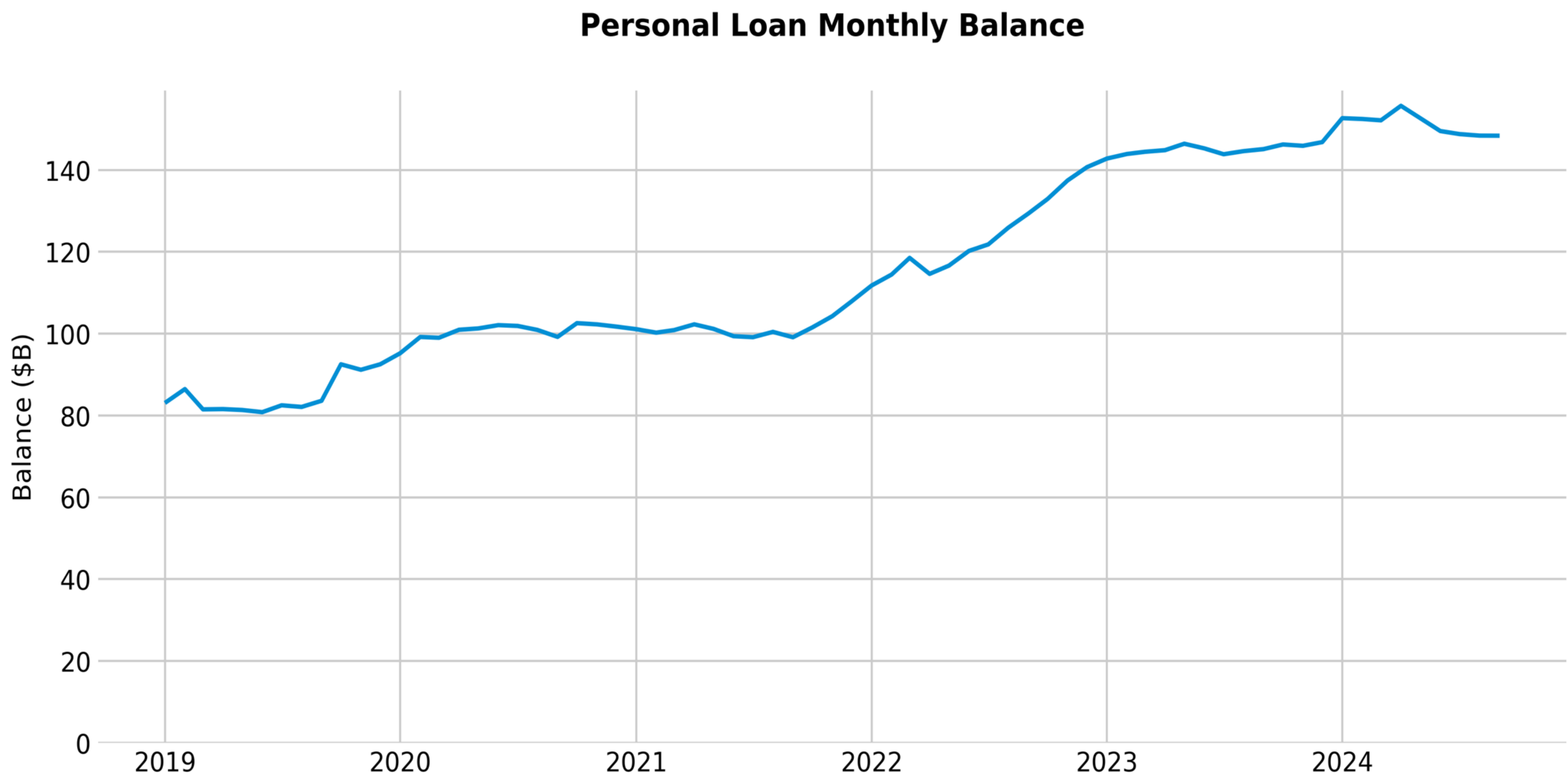
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

On the other hand, last year's prime plus and super prime originations are not seeing improved performance from earlier vintages



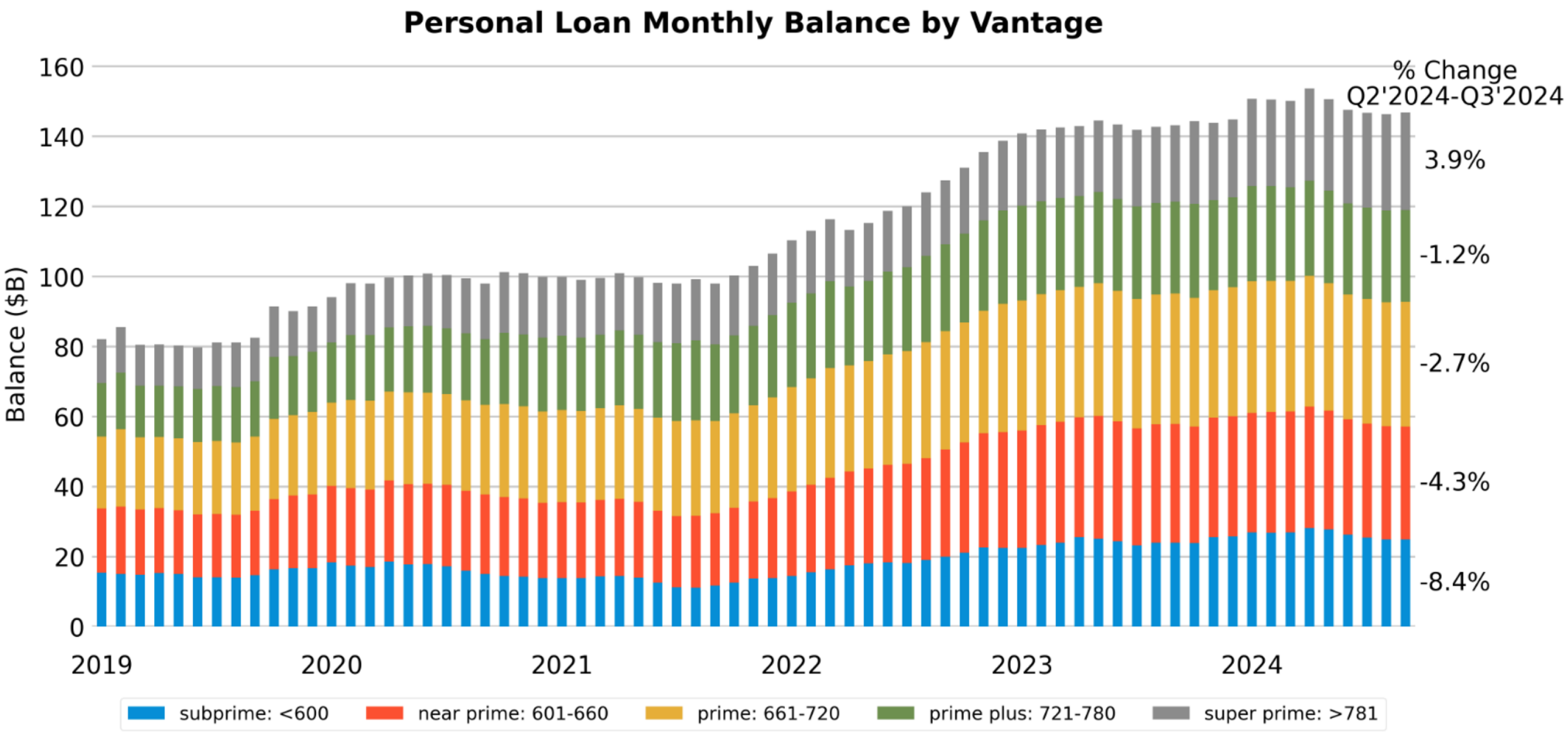
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Personal loan balance has been relatively stable in absolute terms since 2023



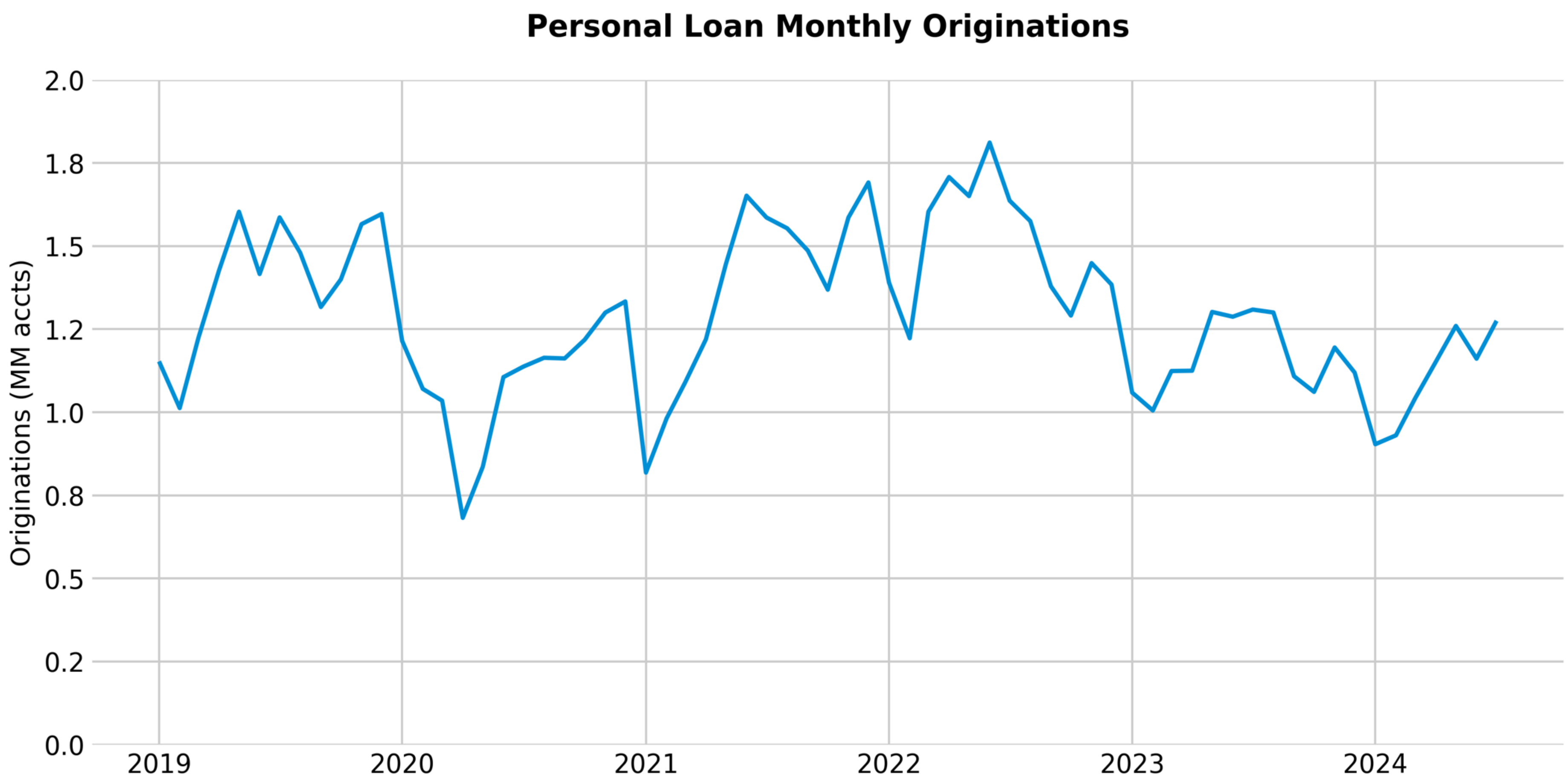
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Super prime borrowers held an increasing balance of personal loan debt while other risk bands' balances shrunk this quarter



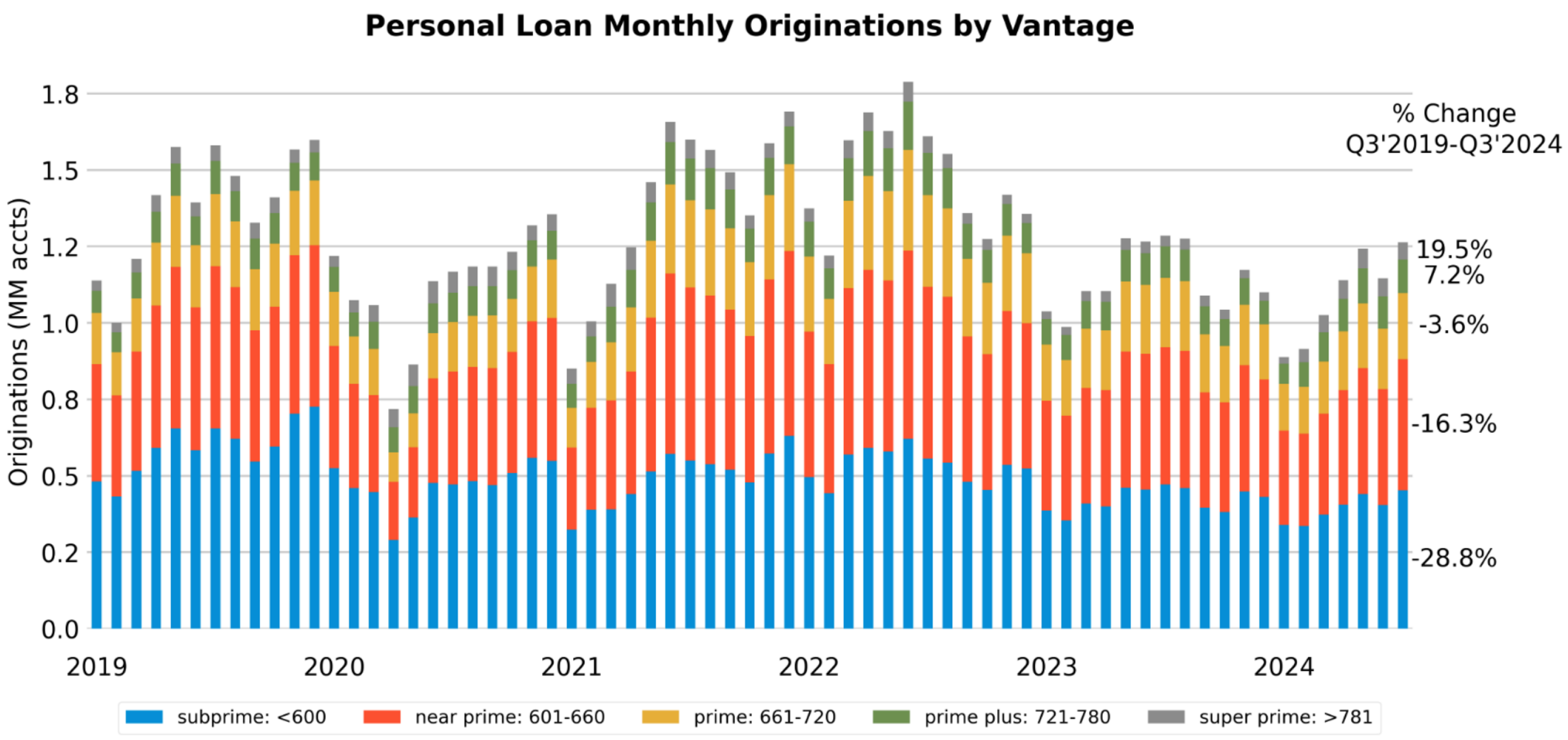
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Personal loan originations started to rebound from the last 1.5-year downturn, but are still below pre-pandemic levels



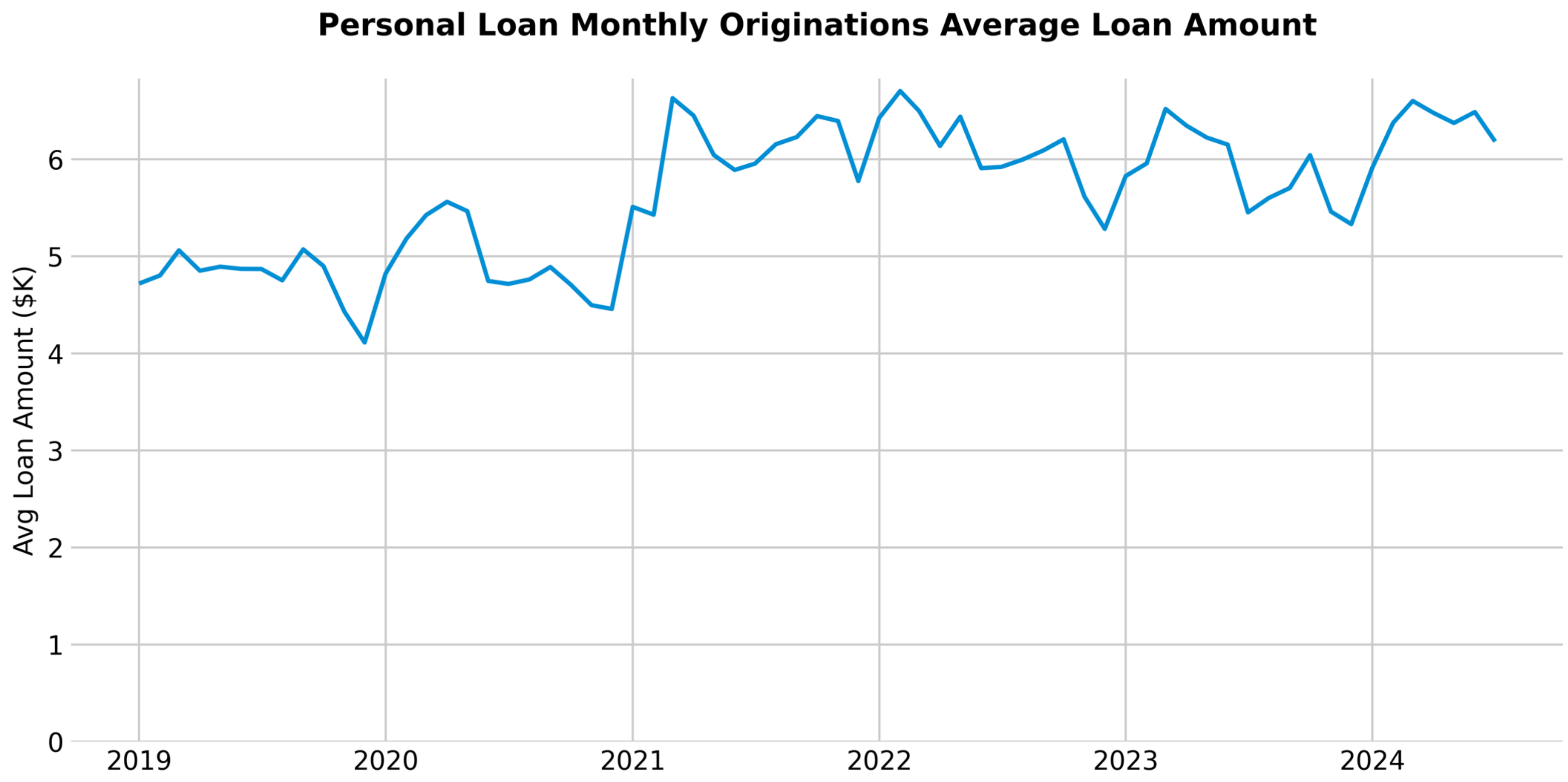
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Subprime borrowers still take out more personal loans than any other risk band, but fewer than they did pre-pandemic



Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Average loan amount remains significantly above pre-pandemic levels



Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

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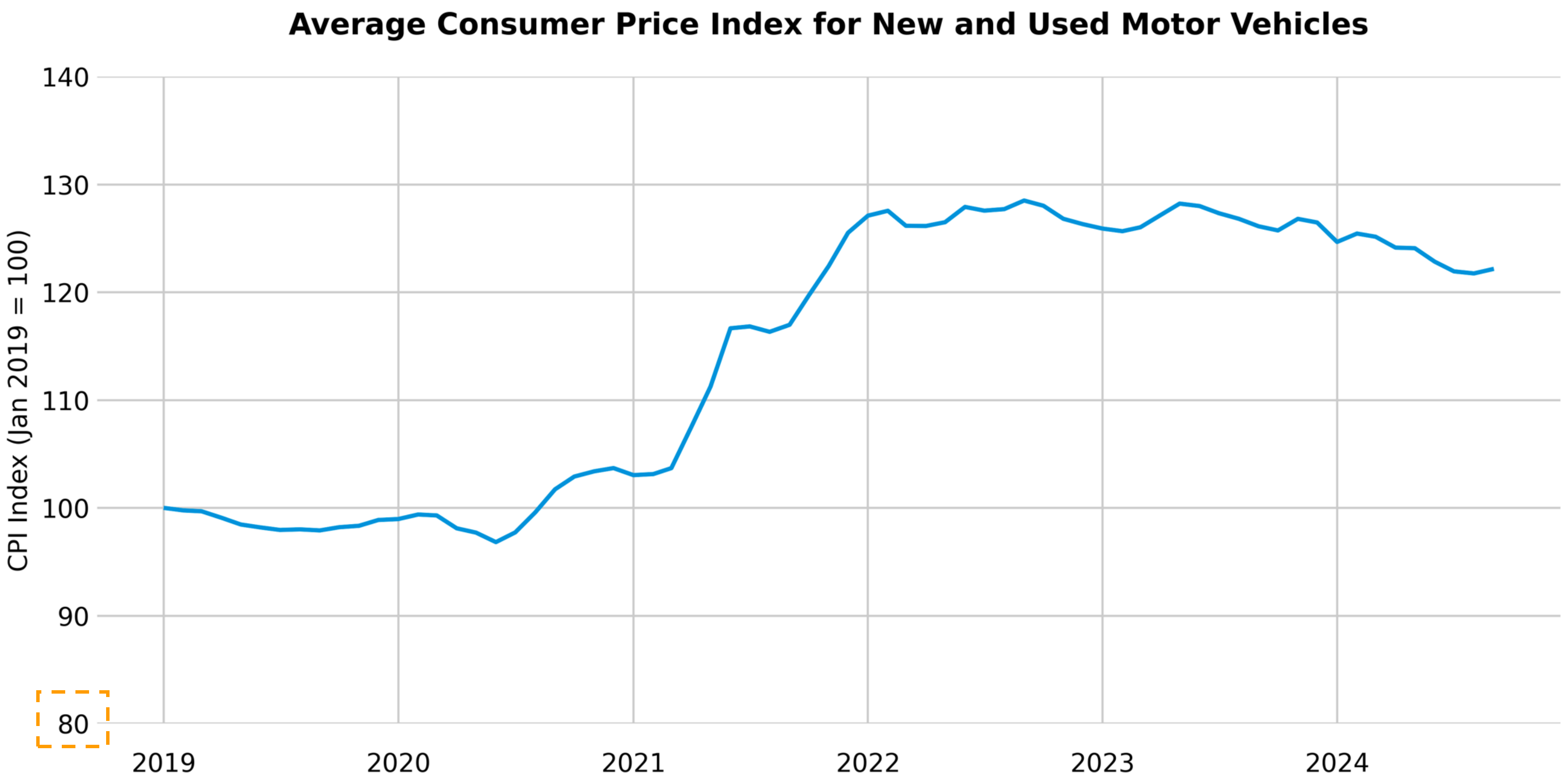
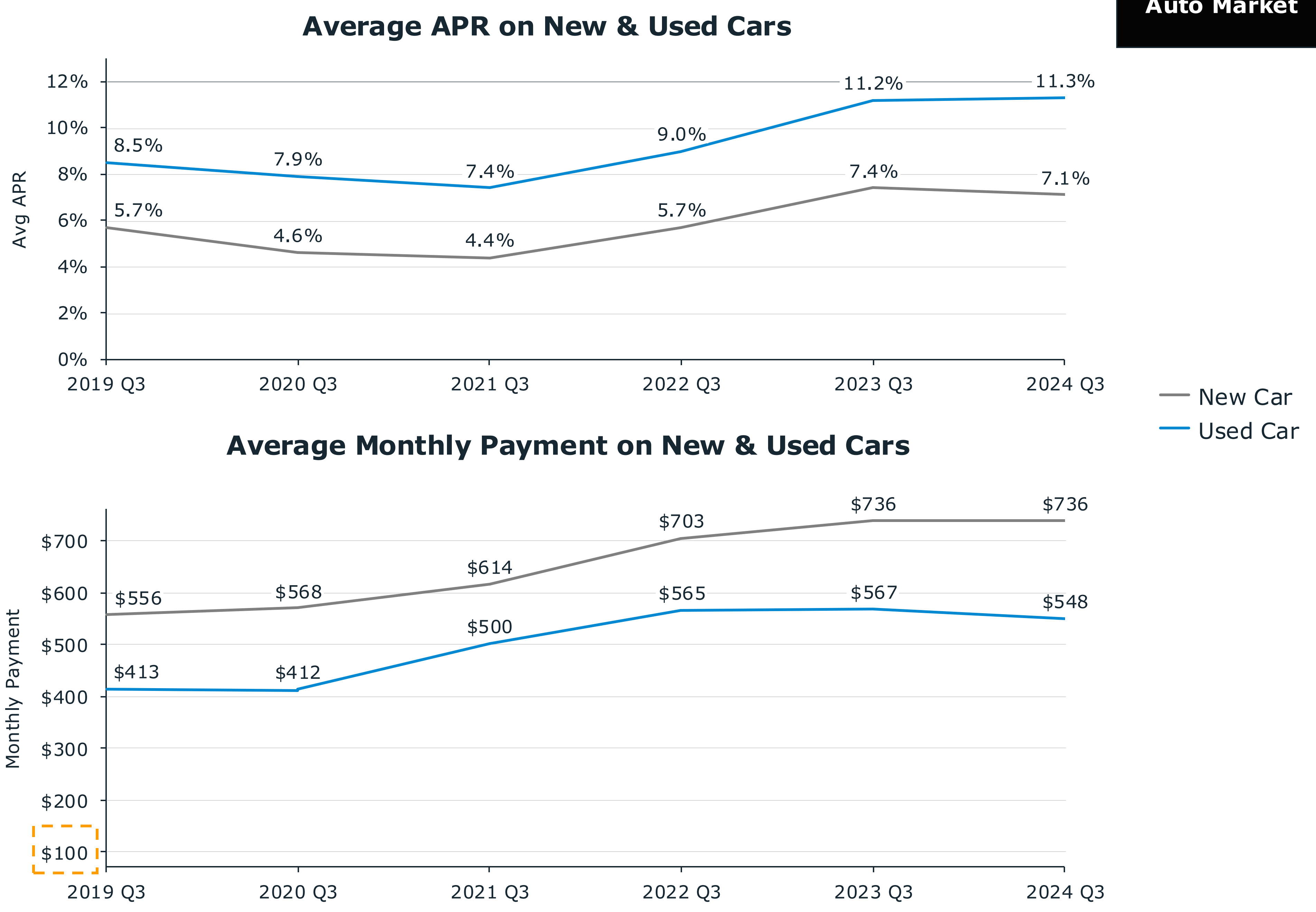
New and used vehicle prices have come down from recent peaks but are still more than 20% higher than pre-pandemic levels



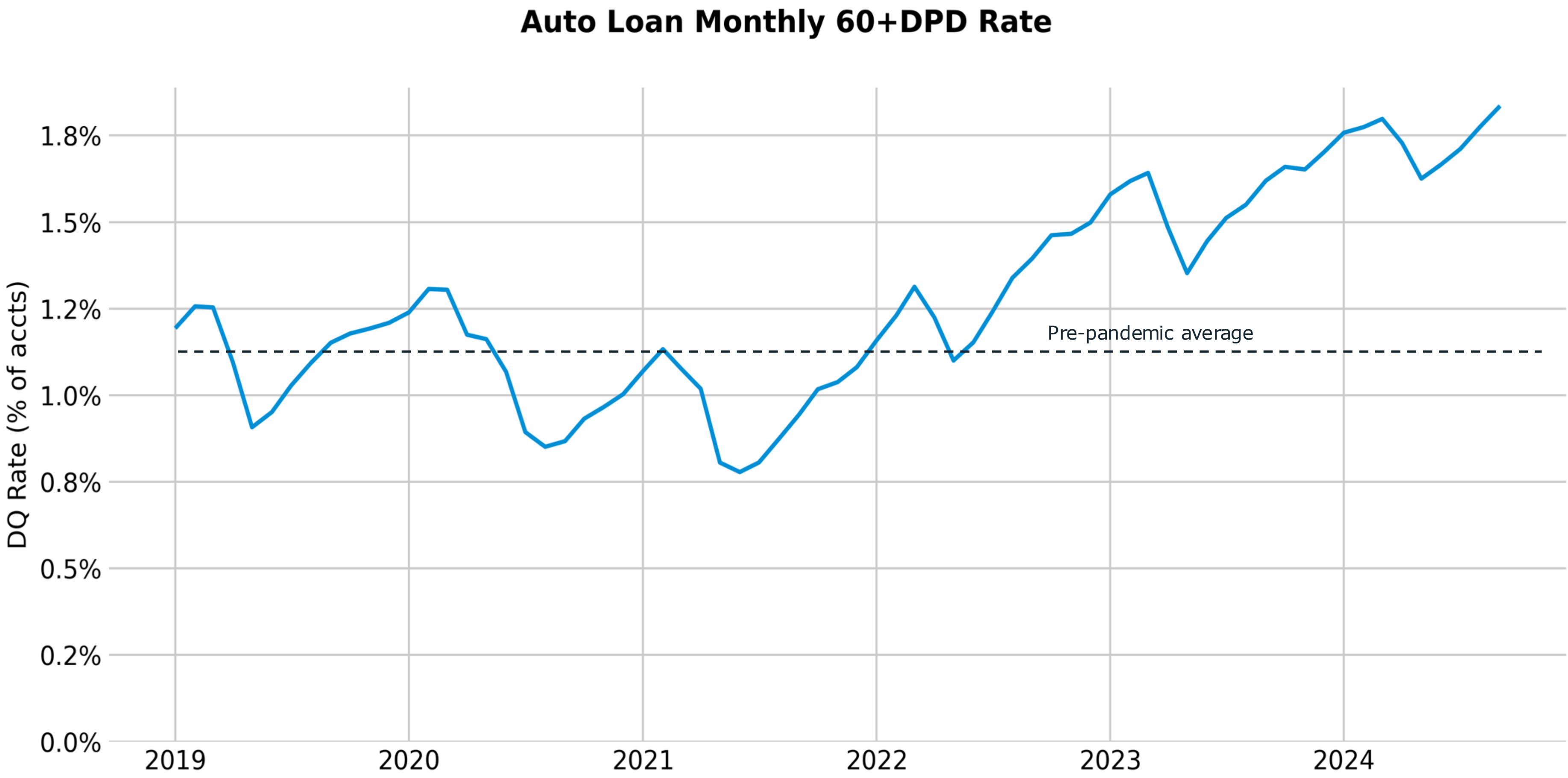
Source: 2OS, FRED. Data as of Sept. 30th, 2024

Despite vehicle prices stabilizing, APR continued to grow and average monthly payments remain high



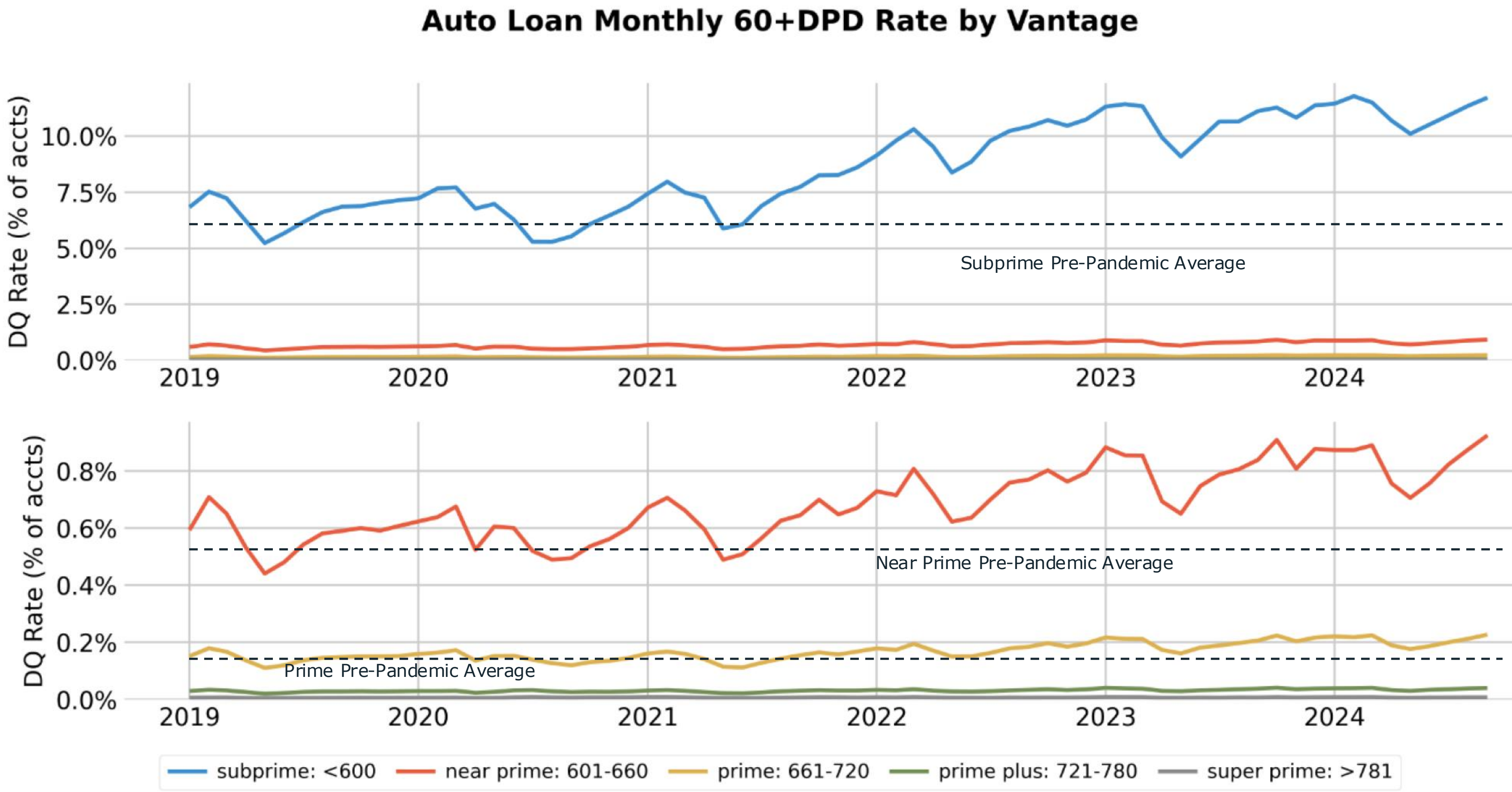
Source: Edmunds reports 2019-2024. Data as of June 30th, 2024

The auto loan delinquency rate has grown markedly since 2021



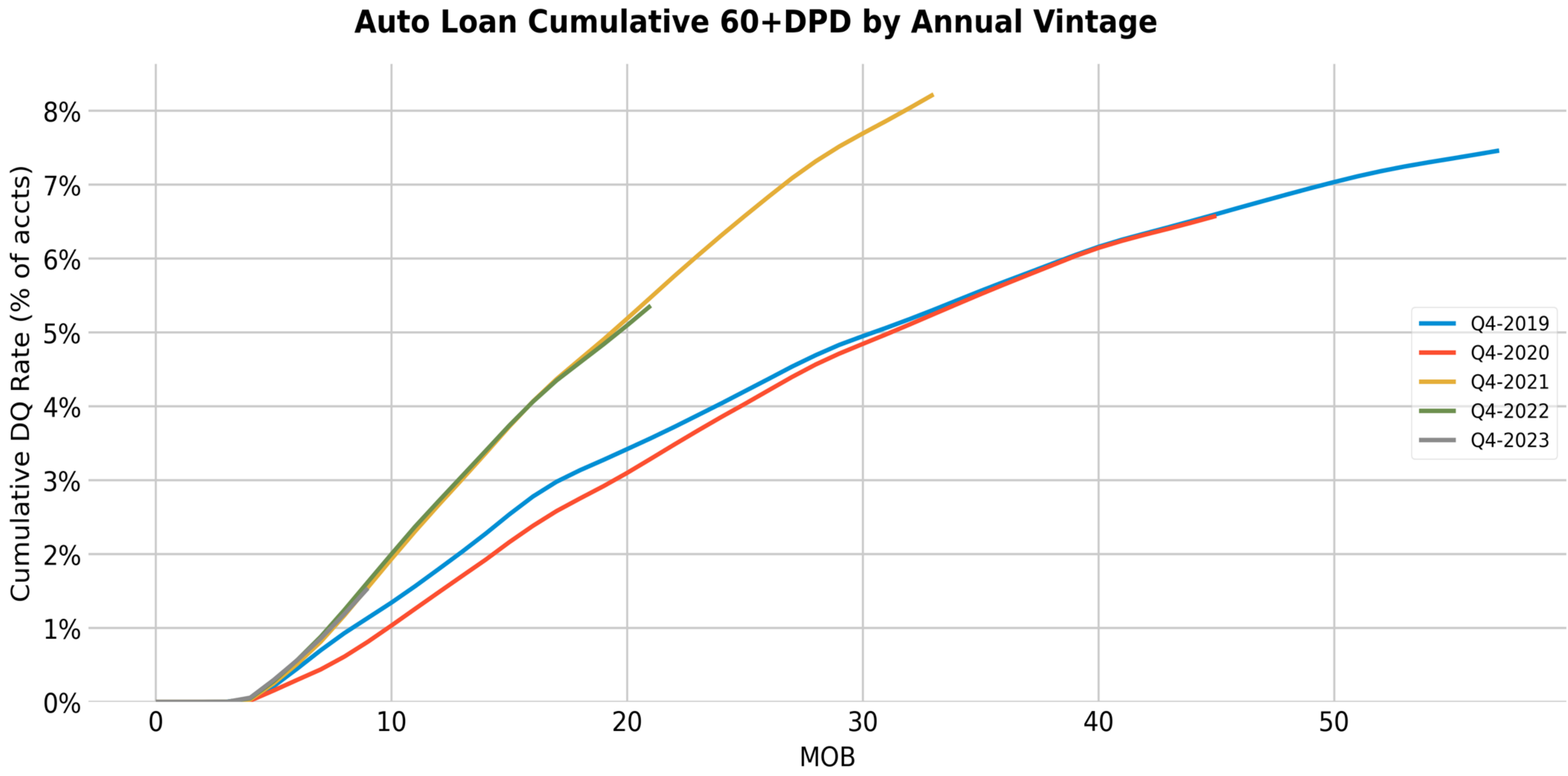
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Delinquency rate worsening has occurred across all risk bands but is most severe among near prime and subprime borrowers



Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

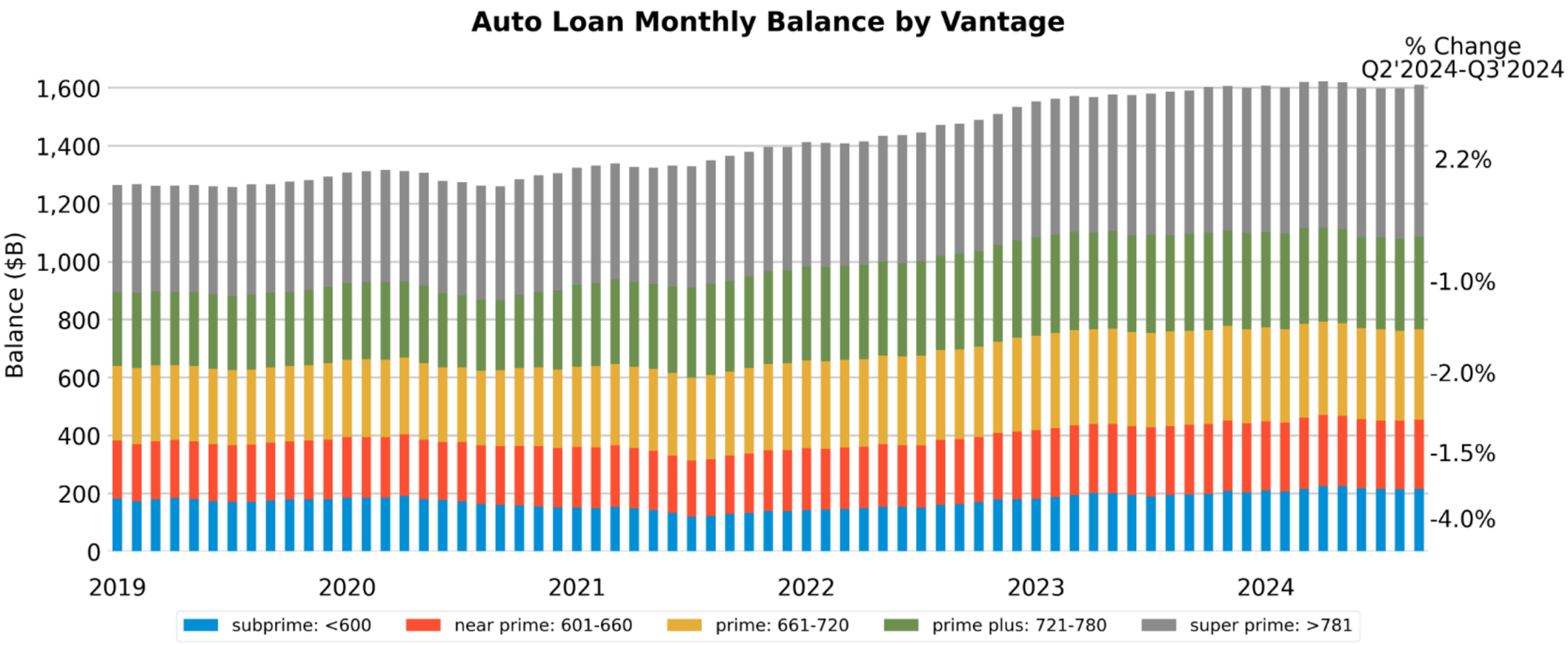
The late 2023 vintage is performing similarly to the previous two years, worse than pre- and early- pandemic vintages



Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

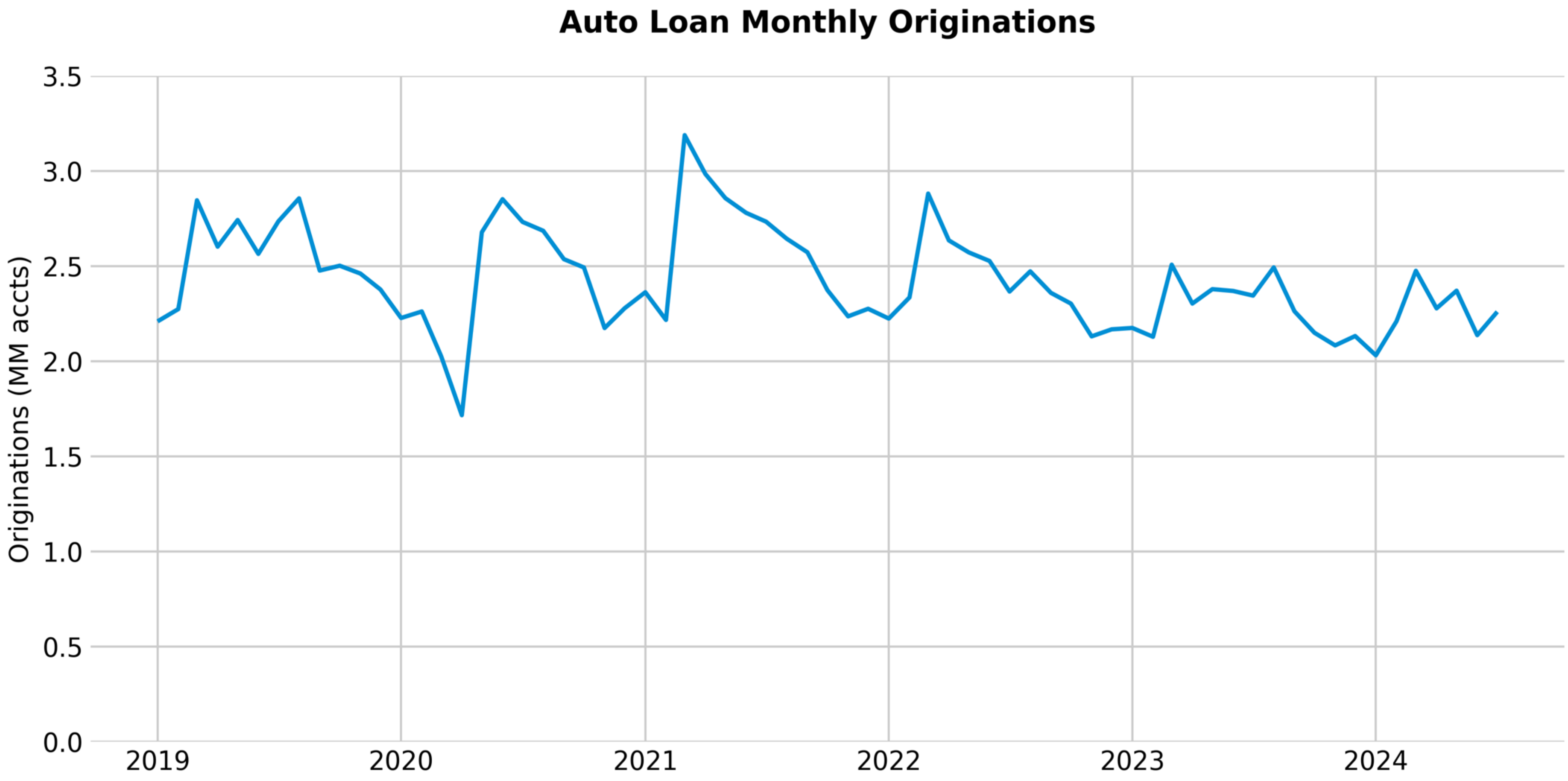
Overall auto loan balance remains elevated, primarily driven by high auto prices and elevated interest rates

Super prime was the only risk band that had balance growth this quarter



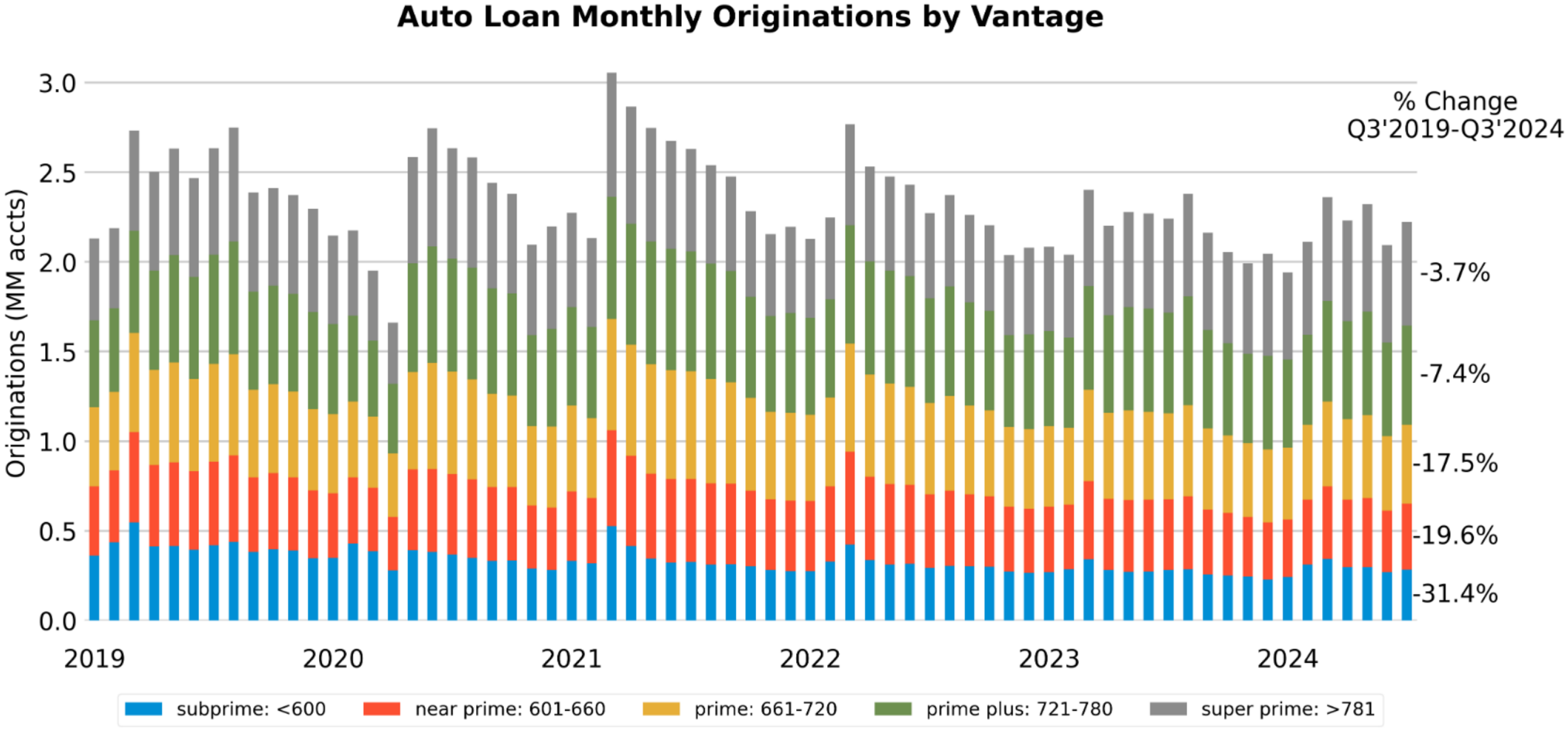
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Overall originations shrunk in 2022 and 2023 and remain below pre-pandemic levels



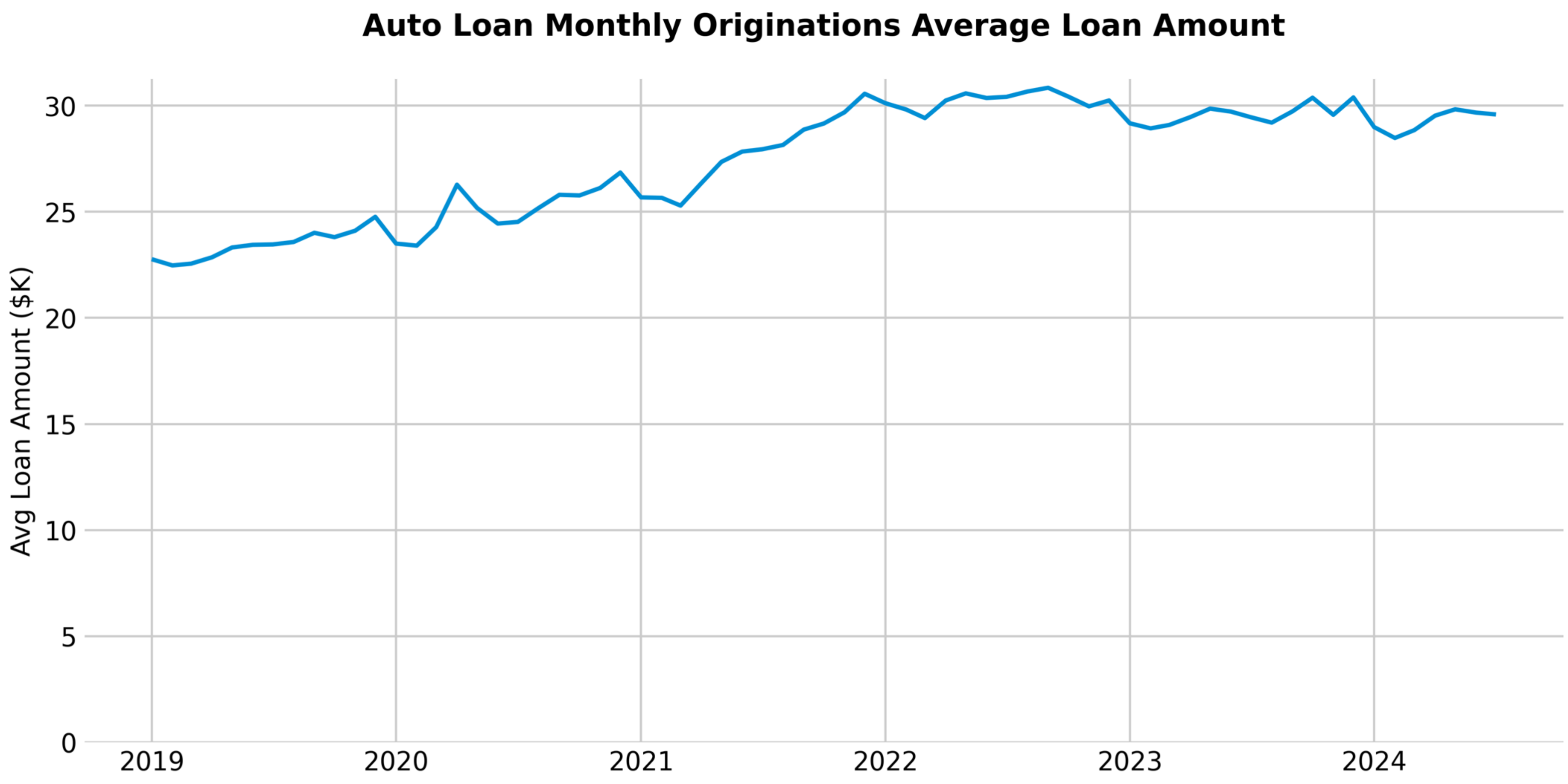
Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

Subprime borrowers account for significantly fewer originations than they did pre-pandemic, potentially due to tightening and elevated costs



Source: 2OS, Equifax Ignite. Data as of Sept. 30th, 2024

The origination distribution shift towards low-risk bands combined with persistently high vehicle cost keep auto loan amounts elevated



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- Student Loan
- Mortgage

Because the student loan repayment on-ramp* ended in September 2024, large numbers of delinquencies should begin appearing in December 2024/Jan 2025

Key Stats on Repayment

Repayment On-Ramp Ending

- **Up to 30% of borrowers** and 23% of SL dollars **were past due** as of January 2023

SAVE Plan Forbearance

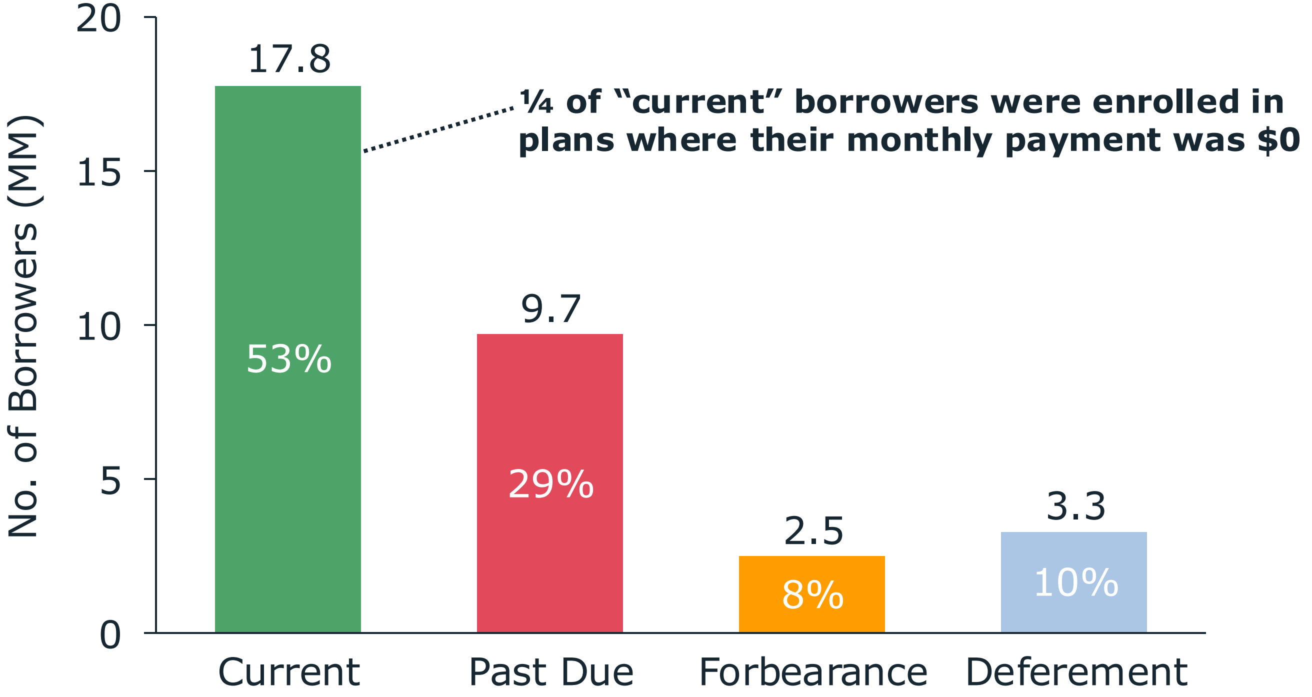
- **8 million people** enrolled in the SAVE† Plan will be **placed into forbearance** for another 6 months

Ability to Pay Concerns

Survey of SL borrowers finds that…

- **20%** say they **have not yet made any payments**
- 55% say they cannot afford their SL payments
- 40% of SL borrowers say they earn too much to qualify for SAVE, but not enough to afford their debt

Federal SL Borrowers in Repayment by Status



Total = 33.3M borrowers

*Note: During the year-long federal student loan repayment on-ramp, delinquencies were not reported to the bureaus. †The Saving on a Valuable Education (SAVE) Plan is an income-driven repayment plan for federal student loans. Sources: Department of Education press release, Oct. 25, 2024. GAO report GAO-24-107150, data as of Jan. 31st, 2024; Credit Karma press release, survey included 1,995 adults with student loans, data as of Sept. 5th, 2024

As described in our recent report about the conclusion of the on-ramp, we expect an average score decline of 5-10 points for student loan borrowers

Deferred Delinquencies

During the on-ramp period, delinquencies were not recorded, which may have inflated credit scores. As of Oct. 2024, missed payments will accumulate. **The first 90+DPD reports will appear in Dec. and Jan.**

Uneven Financial Resilience

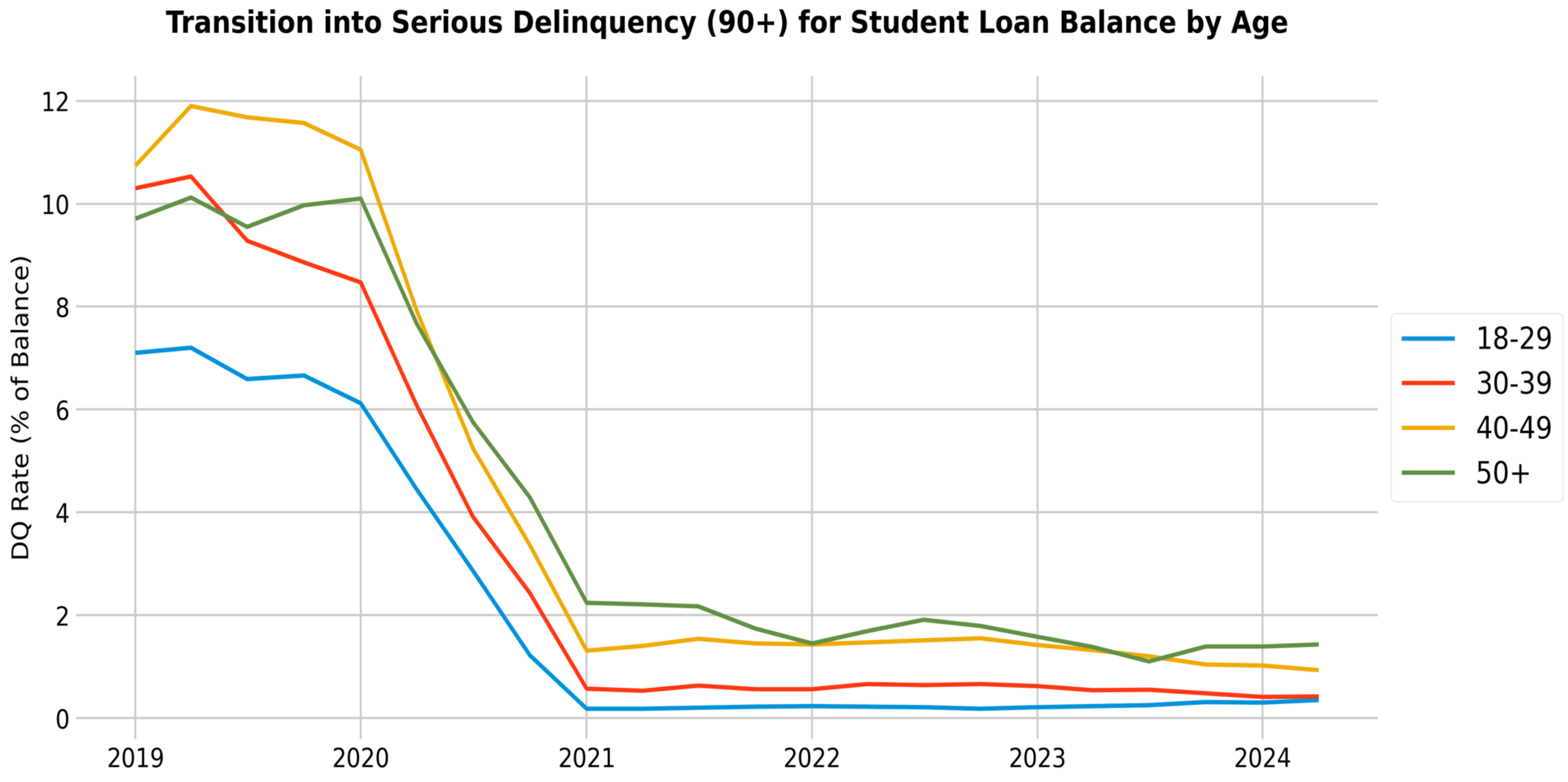
High-Risk Borrowers (28%) in immediate danger of delinquency, facing sharp score drops.
Stable Borrowers (48%) face minimal to no score impact, with stronger financial fundamentals.

Interest Continues Accumulating

Interest resumed accumulation in late 2023 after years of forbearance. For some borrowers who did not make payments during the on-ramp, their **monthly payment burden may now be higher than pre-pandemic**.

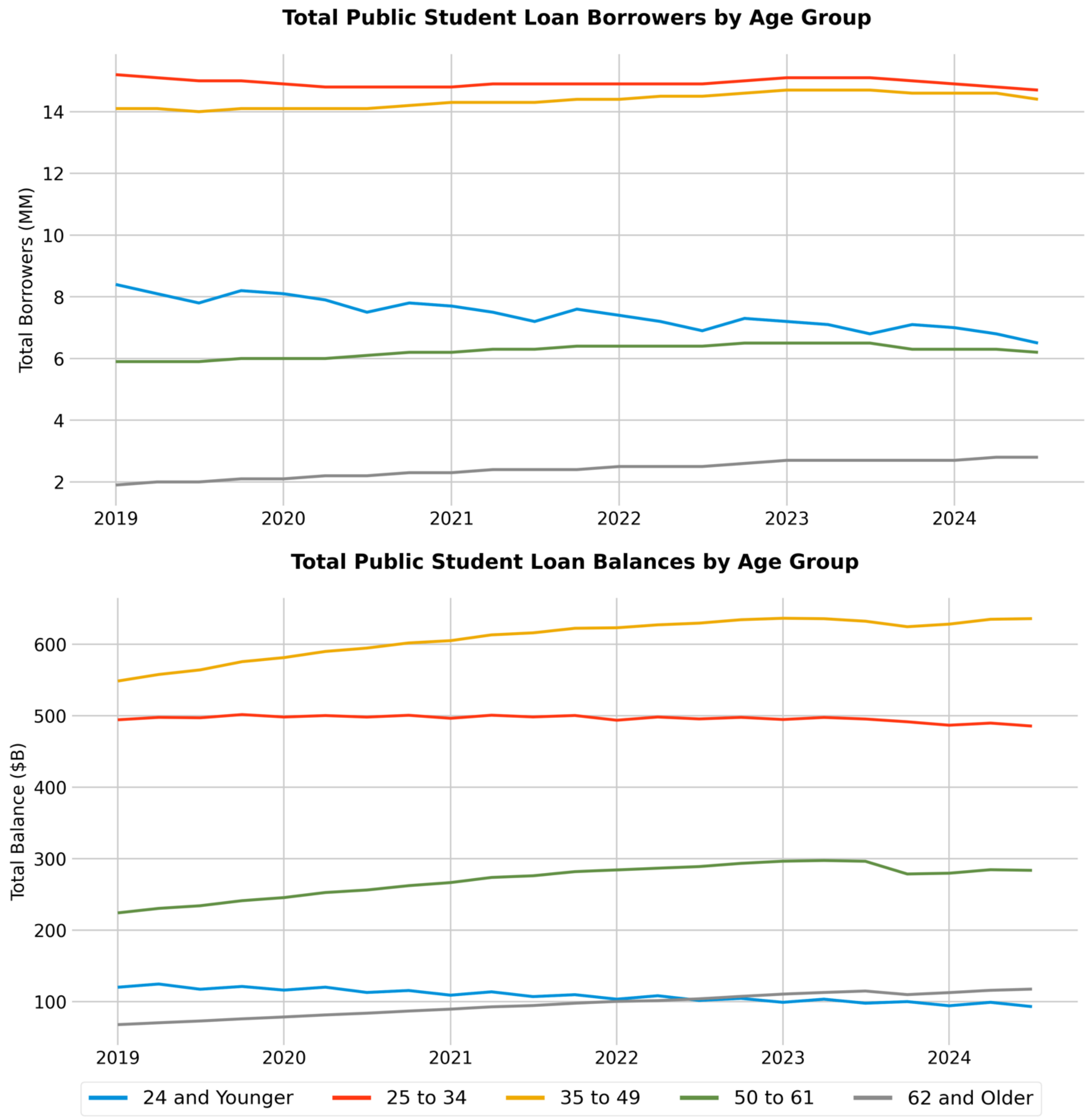
Source: 2OS Student Loan Whitepaper, Oct. 22nd, 2024

Transitions into serious delinquency for student loans remained stable as we are still within 90 days of the on-ramp ending



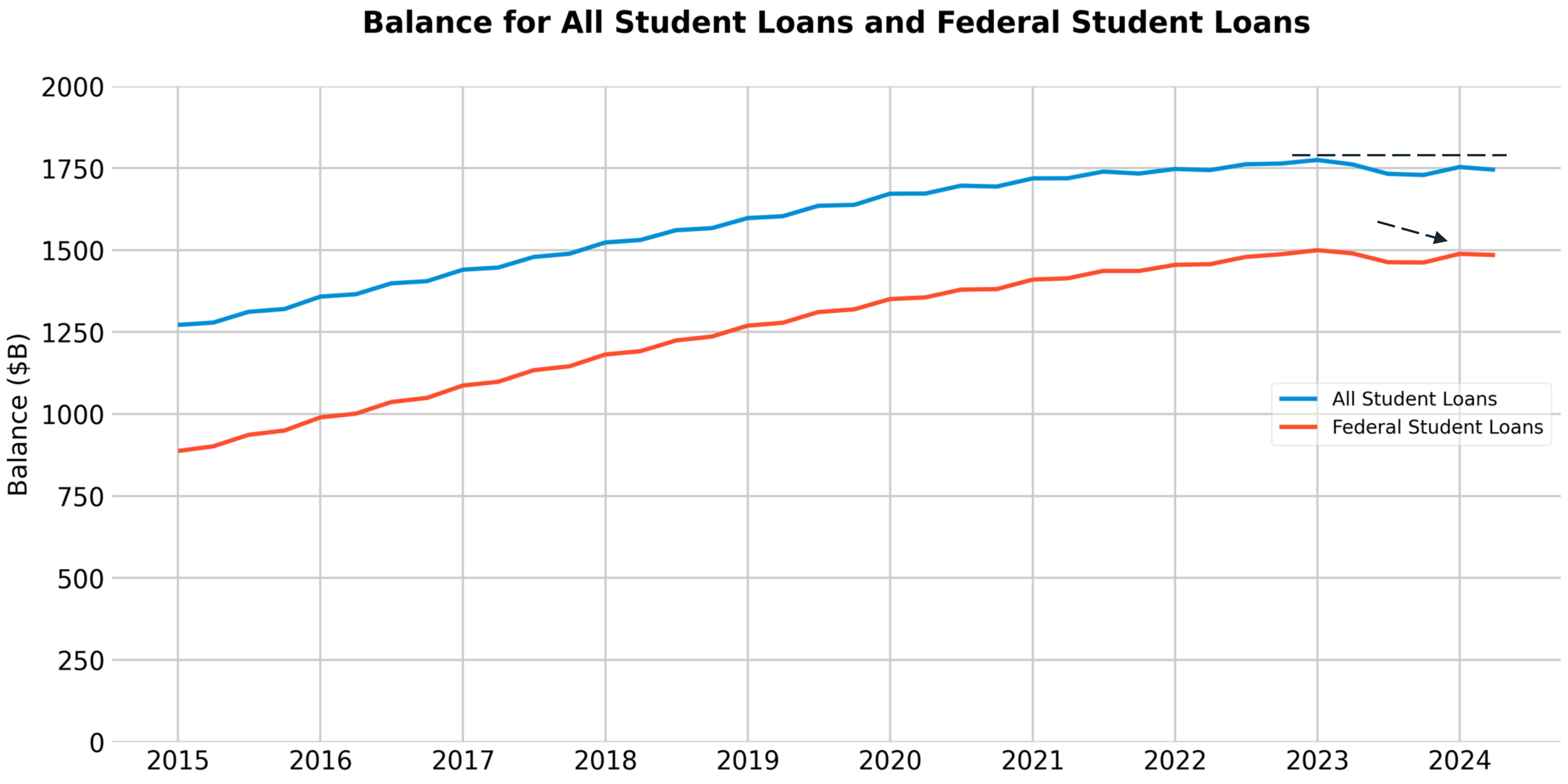
Source: NY Fed Data. Data as of Sept. 30th, 2024

The number of older student loan borrowers is growing while the number of younger borrowers is decreasing, indicating that borrowers may be carrying debt later into life



Source: 2OS, FSA Data. Data as of Sept. 30th, 2024

Following a mid-2023 dip likely related to federal student loan forgiveness initiatives, the total student loan balance* rose modestly

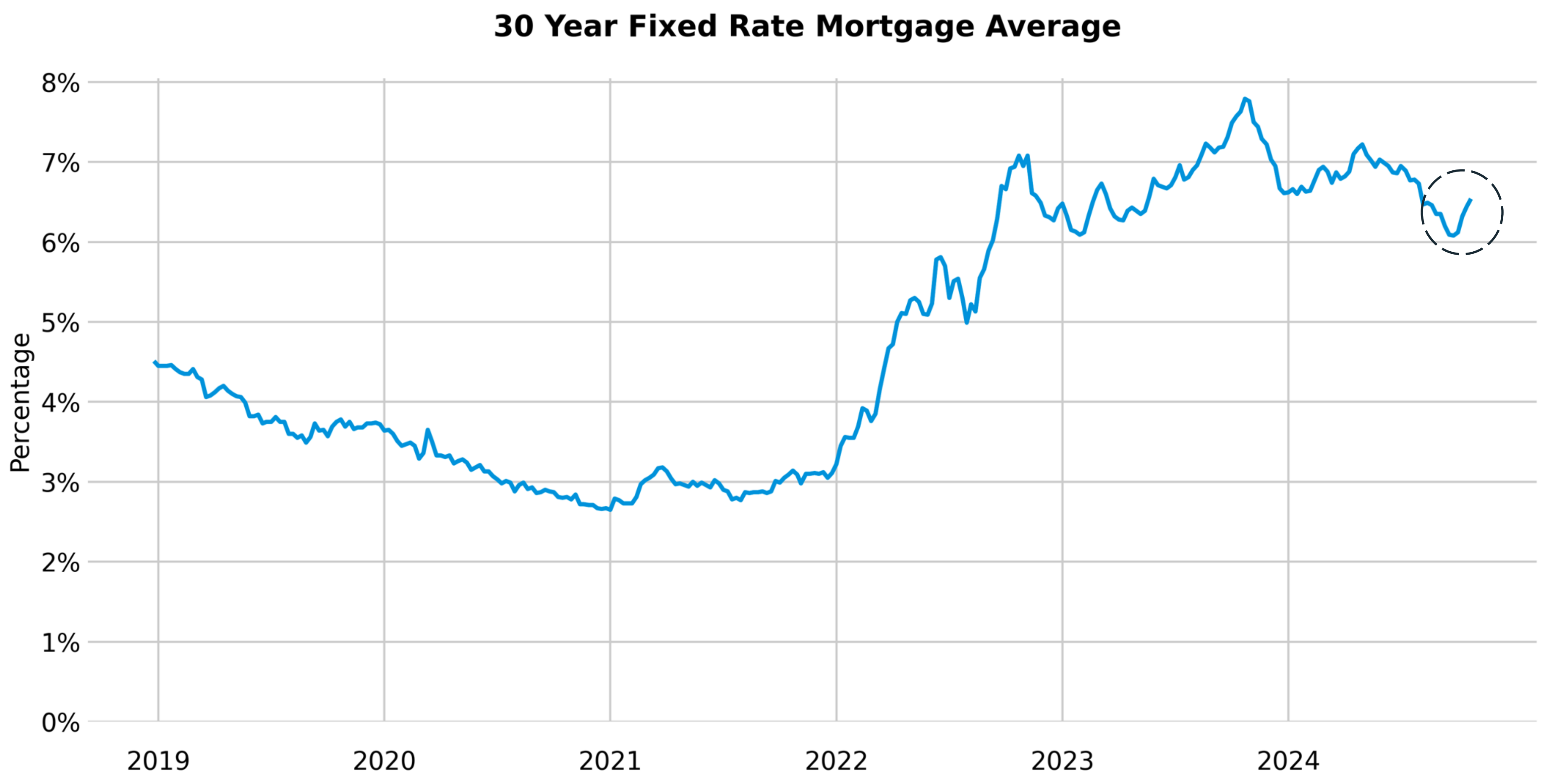


Source: 2OS, Total SL, Federal SL Data as of Sept. 30th, 2024.

*Note: Slight discrepancies may be found in student loan balance totals depending on the government source used

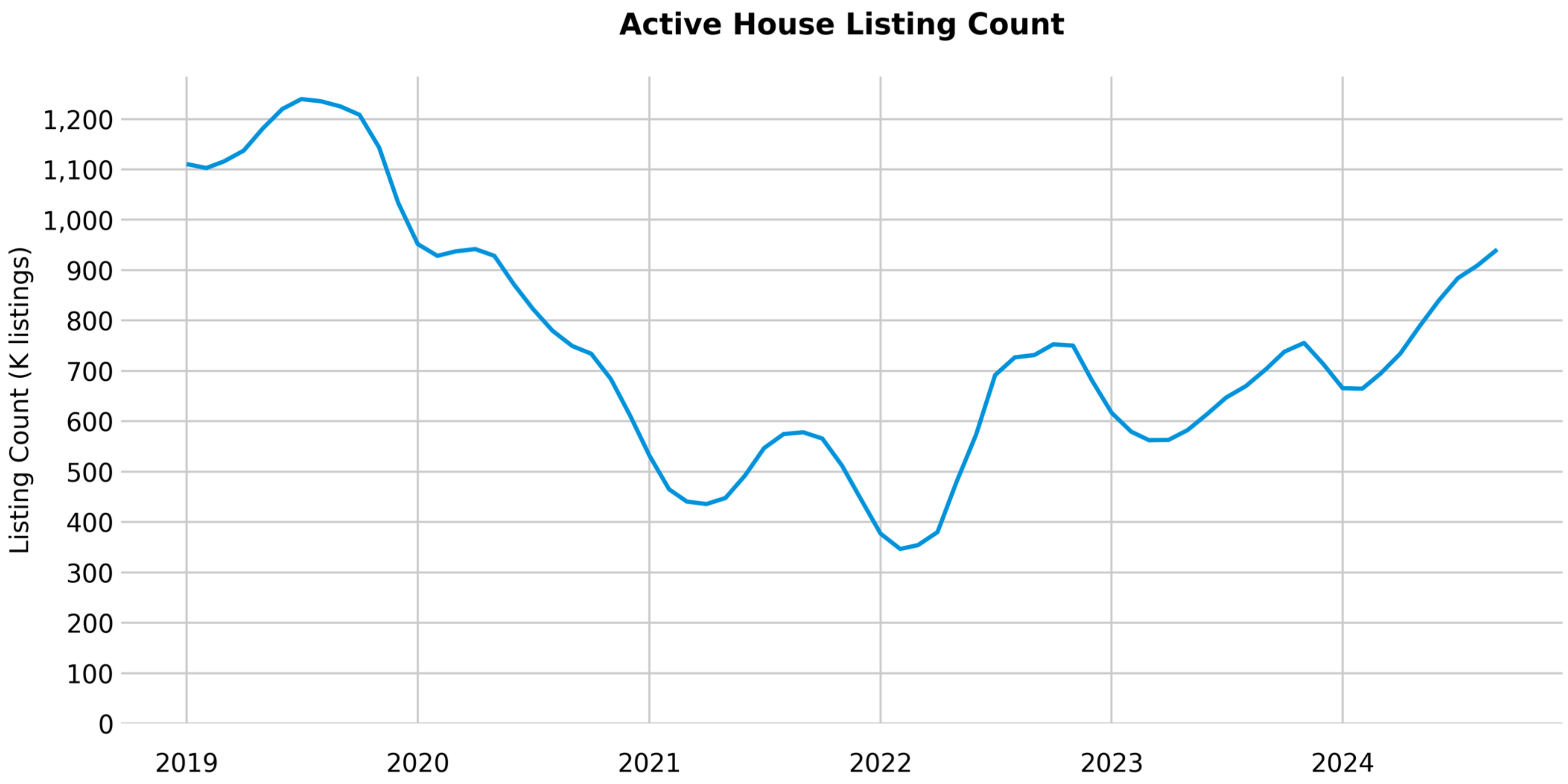
- State of the Consumer
- Credit Card
- Personal Loan
- Auto Loan
- Student Loan
- Mortgage

The average mortgage rate had been softening since Q1 2024 but saw an uptick in recent weeks



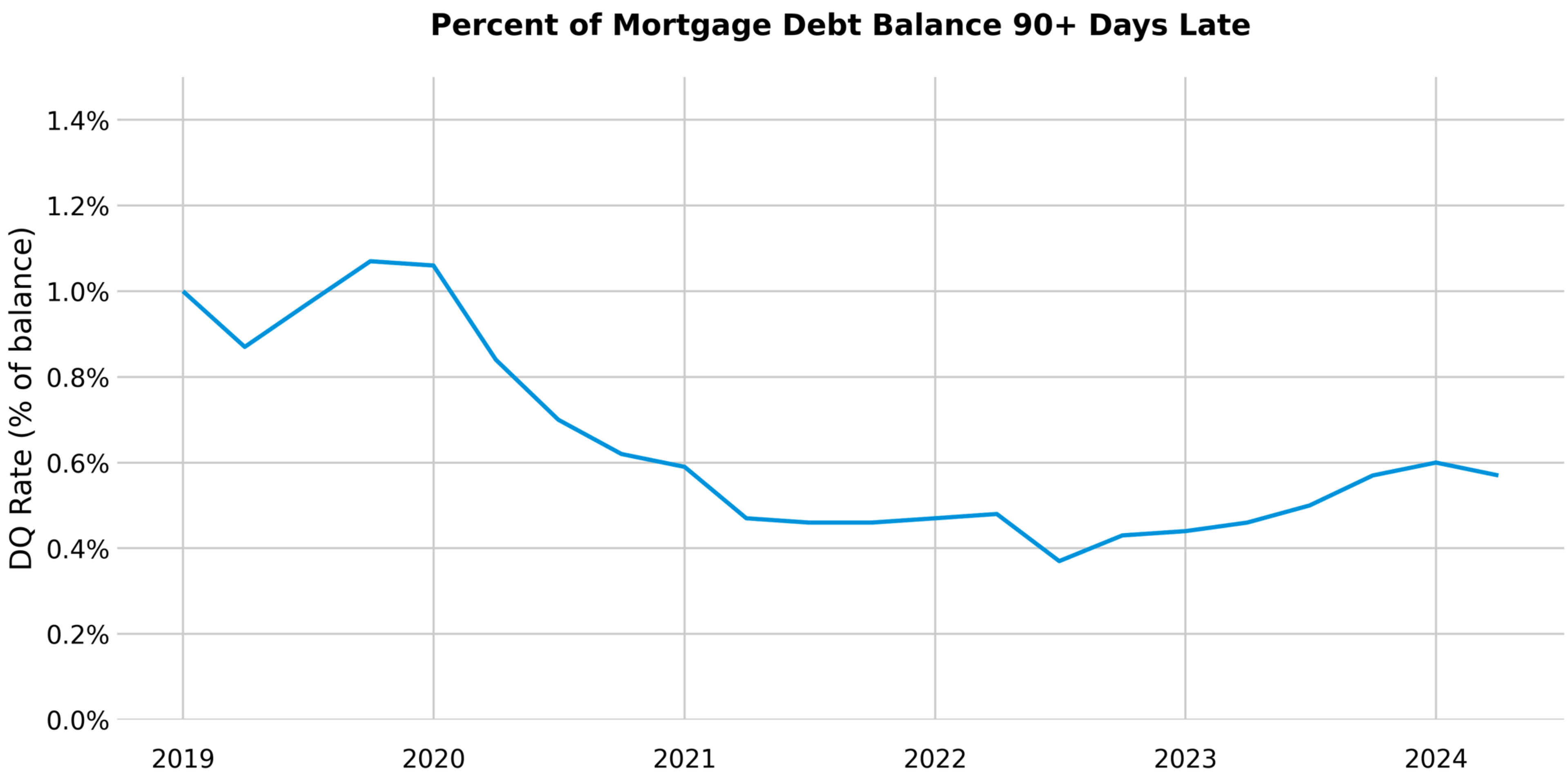
Source: 2OS, FRED. Data as of Sept. 30th, 2024

The number of houses listed has been trending upward, though it remains below pre-pandemic levels



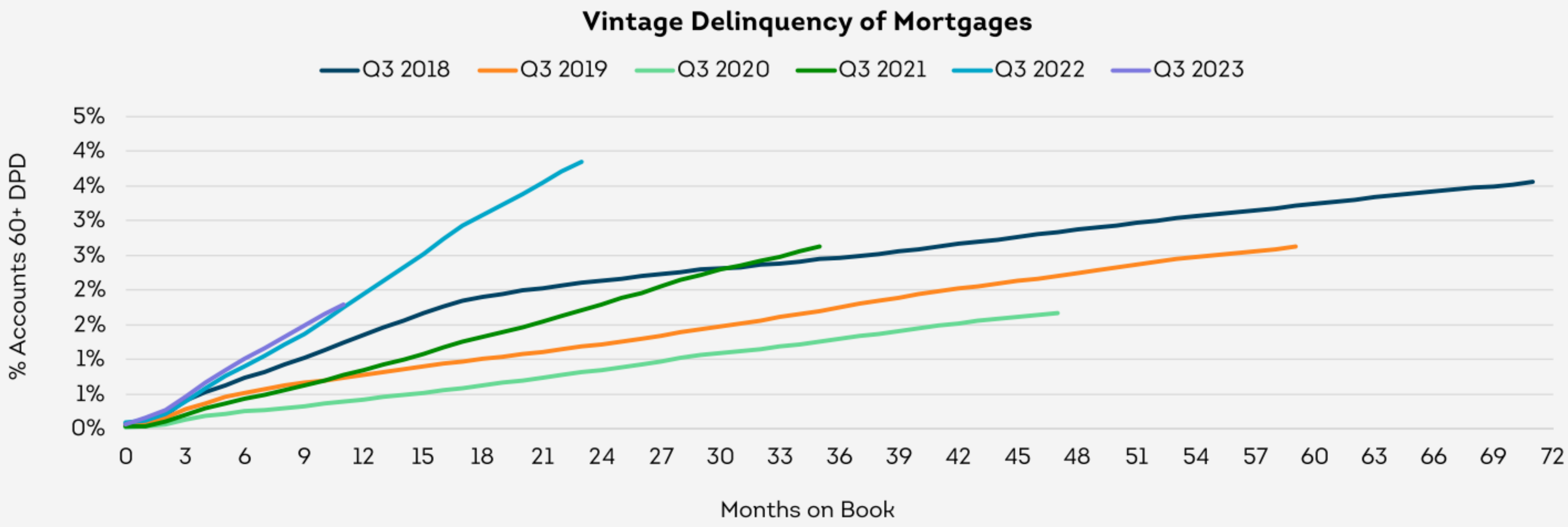
Source: 2OS, FRED. Data as of Apr. 30th, 2024

The percentage of severely delinquent mortgage debt has gradually increased but is still below pre-pandemic levels



Source: NY Fed. Data as of Sept. 30th, 2024.

Last year's mortgage origination vintage is in line with 2022 performance and worse than previous years

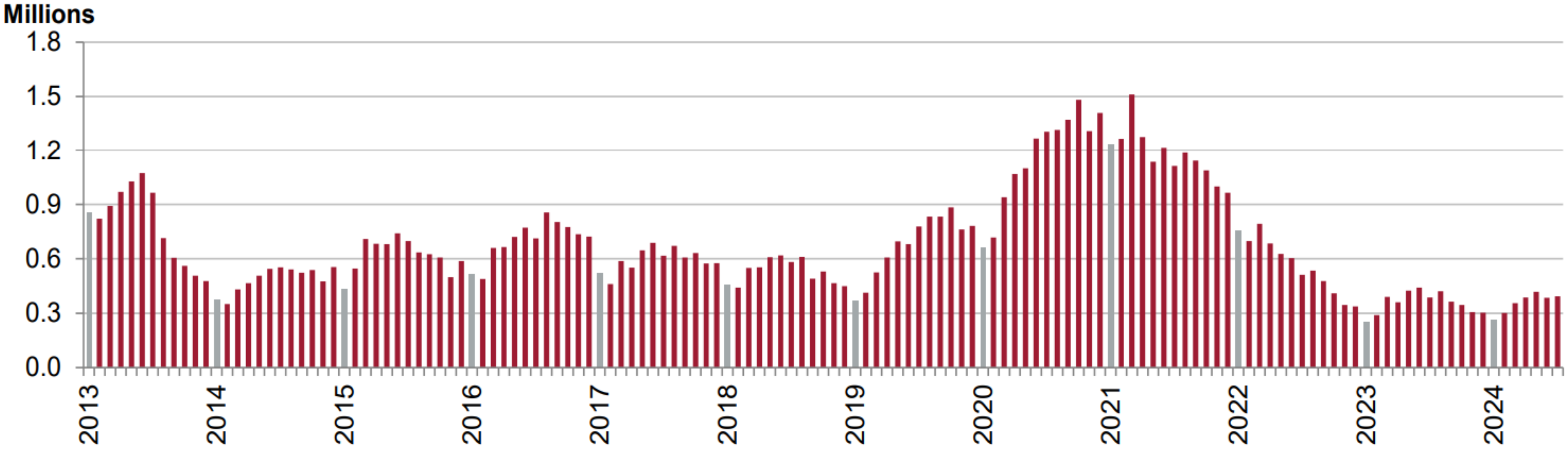


Source: Transunion. Data as of Sept. 30th, 2024. DQ rates are cumulative

Mortgage account originations in early 2024 mirror 2023 levels yet remain below pre-pandemic levels

First Mortgage Originations: Accounts

Number of Accounts in Millions; NSA

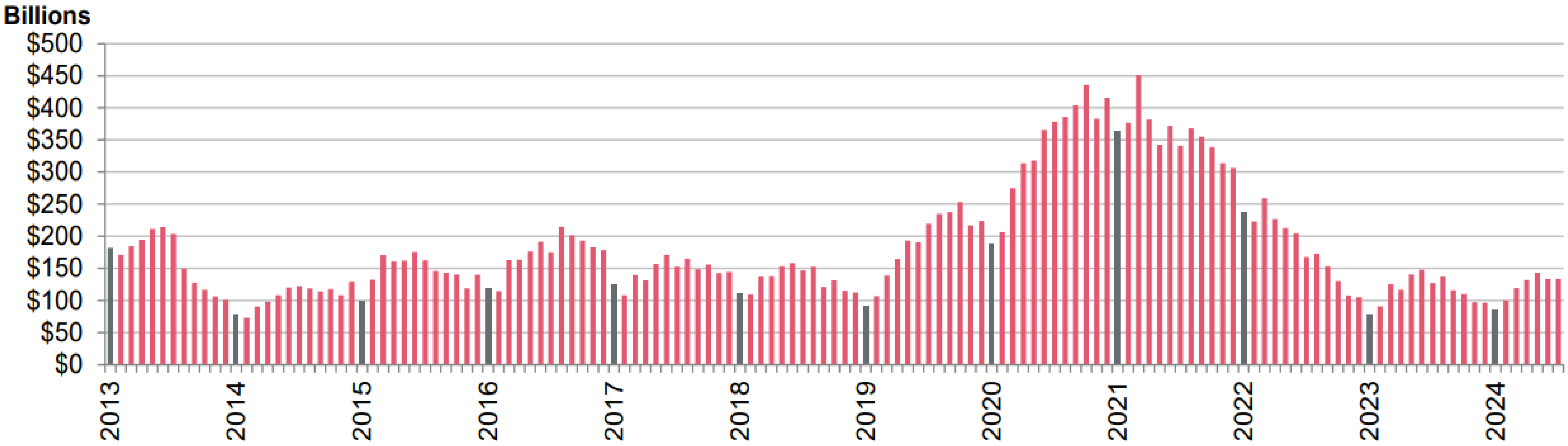


Source: Equifax. Data as of Sept. 30th, 2024

Origination balance in early 2024 aligns with 2023 levels yet remains significantly lower than the 2019 levels

First Mortgage Originations: Balances

$ Balances in Billions; NSA

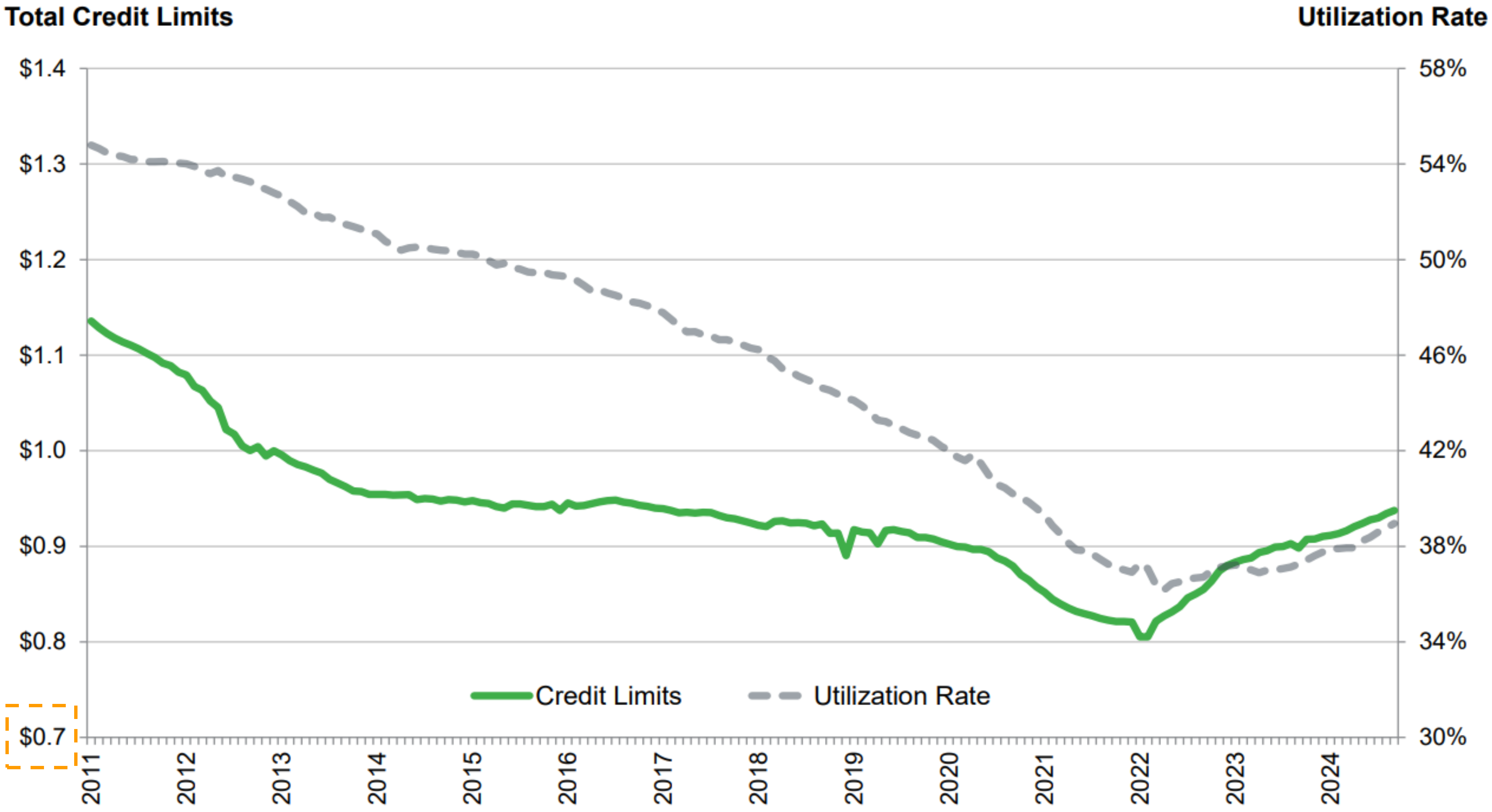


Source: Equifax. Data as of Sept. 30th, 2024

HELOC utilization and credit limit continued rebounding steadily in Q3 2024, with credit limit level now above its immediate pre-pandemic level

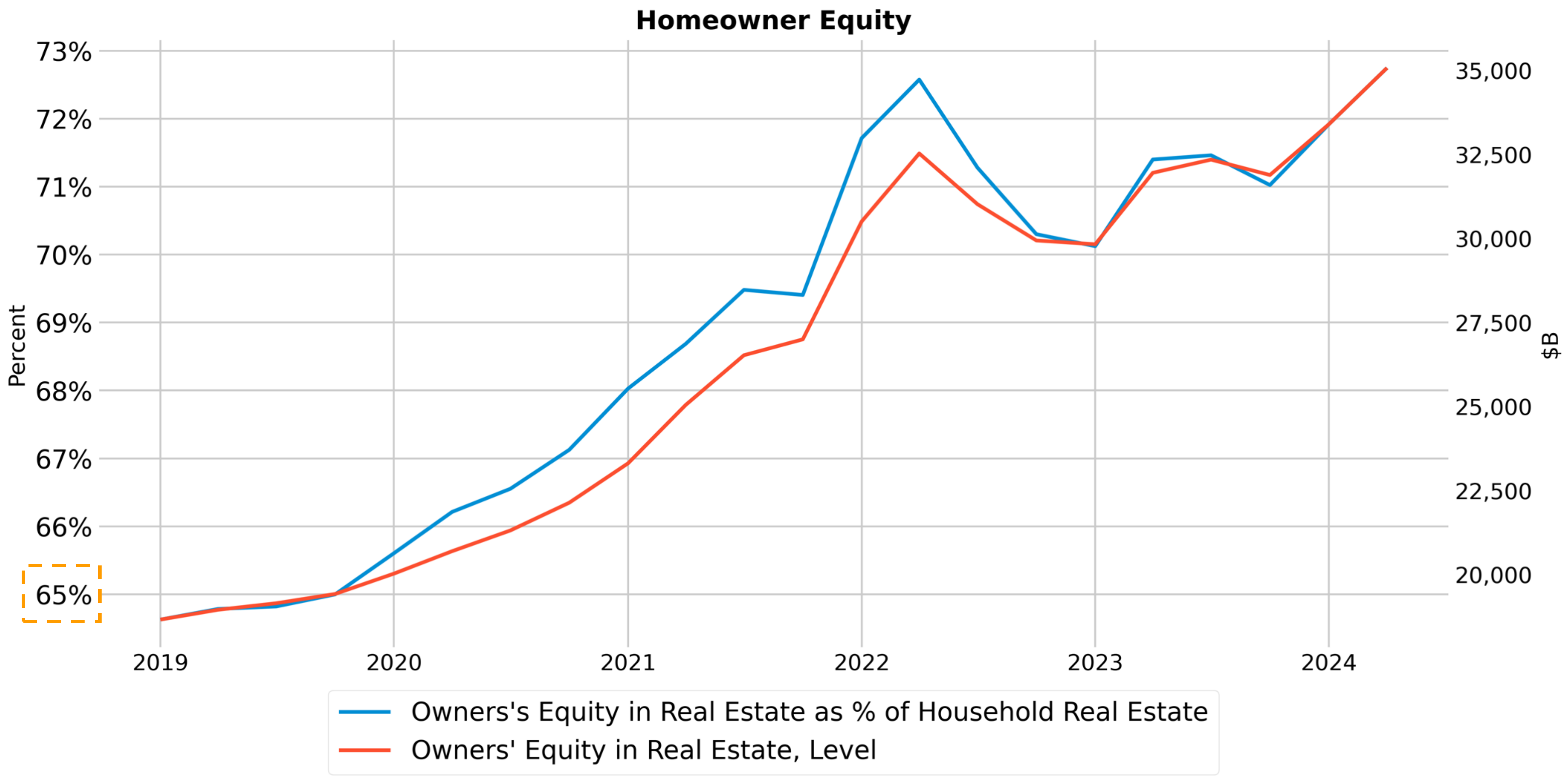
Utilization and Credit Limit

Utilization Rate in %; NSA
Credit Limit in $Trillions; NSA



Source: Equifax. Data as of Sept. 30th, 2024

The growth in HELOCs is likely connected to the growth in homeowner equity over the last few years



Source: 2OS, FRED (blue line, red line). Data as of Sept. 30th, 2024

Acknowledgments

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About 2OS

2nd Order Solutions (2OS) is a boutique credit risk advisory firm that specializes in solving the world's most challenging credit problems. 2OS was founded 12 years ago and consults to a wide range of banks, card issuers, fintechs, and specialty finance companies in the US and abroad.

2OS has deep experience with lending businesses across Card, Auto, Small Business, and Personal Loans, at all points in the credit lifecycle. 2OS partners have vast expertise in all aspects of Collections, both as operating executives and as consultants.

For more insights and commentary on the lending industry, visit us at https://2os.com/insights/

Equifax Ignite Definitions

Active Accounts: This includes all accounts that have a reported status in the most recent three months. Accounts categorized as closed are included in the month in which that status was first reported and are excluded from active accounts thereafter.

Credit Cards: Our credit card cohort is limited to what Equifax Ignite categorizes at general purpose bankcards, which excludes Private Label Credit Cards.

Definition of delinquency: For credit car, auto loans, and personal loans, accounts are classified as delinquent at 60+ days past due. Specifically, they are included in 60-90 DPD, 90-120 DPD, and 120+ DPD buckets; charged off/severe derogatory and bankrupt accounts are excluded. For student loans, accounts are classified as delinquent at 90+ DPD. These accounts are included in 90-120 DPD, 120+ DPD and bankruptcy buckets; charged off accounts are excluded. Vintage performance views are cumulative. Due to reporting lags, slight variations in DQ rate may occur between quarterly reports as data is updated.

Definition of Personal Loans: Personal finance installment trades that are non-revolving, non-HELOC, and non-mortgage related are classified as personal loans.

Origination timing: Originations are lagged by 2 months from the current archive date. Hence, the most recent origination datapoint is from July 31st, 2024.

Pre-pandemic average: Where specified on charts, pre-pandemic average is the average from January to December 2019.

Vantage bucket: In any charts where borrowers are split out by Vantage bucket, borrowers without a Vantage score are excluded. They are included in overall views. We did not observe any notable correlation between missing Vantage score and performance.

Vantage bucket timing: To better observe movements within Vantage buckets (and reduce the effect of re-classification of accounts across buckets), the vantage score is observed at a 3-month lag from the current archive date.

Vantage 4.0 Overview

Starting from Q3 2024, 2OS quarterly reports will be using Vantage 4.0 instead of Vantage 3.0 as the consumer credit score metric. Despite of the score shift between Vantage 4.0 and Vantage 3.0, the credit tiers and their corresponding scores were not changed. We did not observe significant changes to our analysis using Vantage 4.0.

The official statistics on score shift between Vantage 3.0 and Vantage 4.0 is as follows:

Score Range	VantageScore 4.0								
VantageScore 3.0	300-450	451-500	501-550	551-600	601-650	651-700	701-750	751-800	801-850
300-450	51.5%	38.4%	8.9%	1.1%	0.1%	0.0%	0.0%	0.0%	0.0%
451-500	7.5%	41.1%	41.8%	8.8%	0.7%	0.0%	0.0%	0.0%	0.0%
501-550	0.7%	11.7%	45.6%	36.0%	5.7%	0.3%	0.0%	0.0%	0.0%
551-600	0.0%	1.1%	14.6%	48.0%	32.1%	4.1%	0.1%	0.0%	0.0%
601-650	0.0%	0.0%	0.9%	13.6%	48.4%	31.5%	5.3%	0.2%	0.0%
651-700	0.0%	0.0%	0.1%	1.7%	16.2%	47.1%	30.7%	4.0%	0.1%
701-750	0.0%	0.0%	0.0%	0.0%	1.0%	16.6%	52.4%	26.3%	3.7%
751-800	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	15.5%	51.5%	32.0%
801-850	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	23.1%	76.6%

For more information regarding vantage 4.0, please visit VantageScore 4.0 Model

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