

The Impact of the COVID-19 Recession on Consumer Credit

David Fieldhouse, PhD, Business Analytics
James Partridge, PhD, Risk & Accounting Solutions

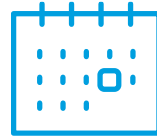
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Today's Speakers



David Fieldhouse, PhD

Director

Moody's Analytics



James Partridge, PhD

Director

Moody's Analytics

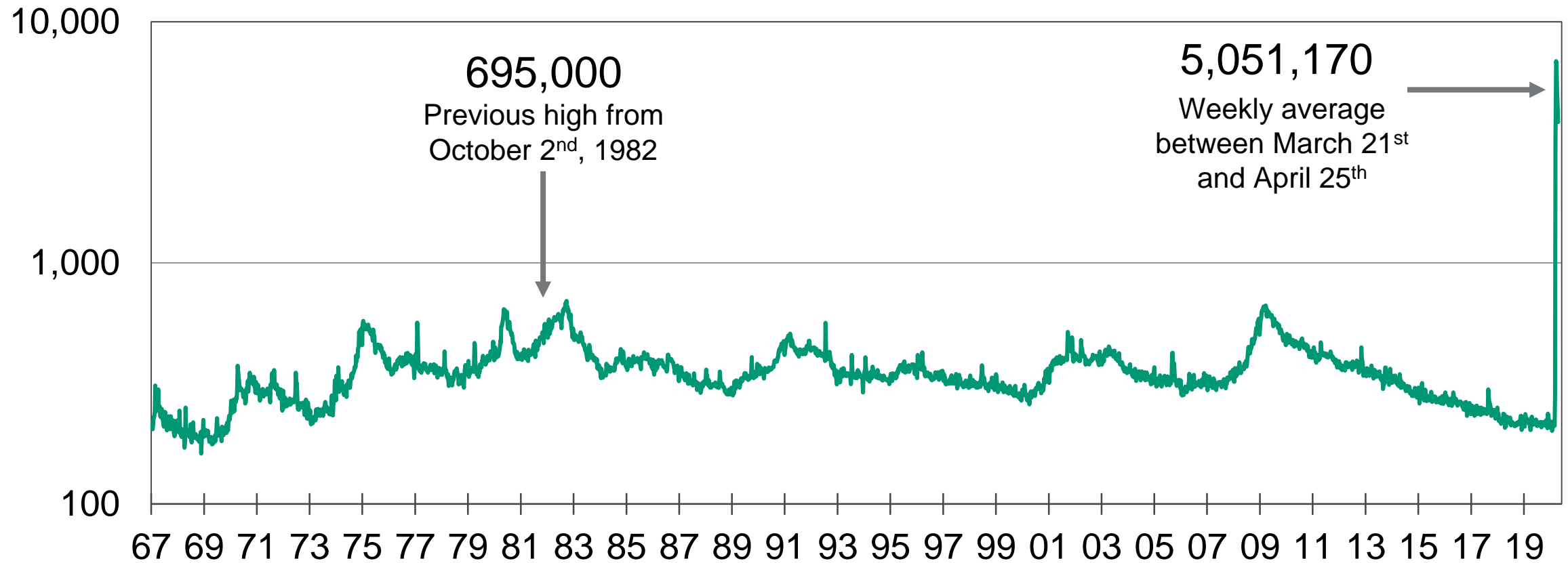
Agenda

1. Setting the Stage
2. How Will the Various Asset Classes Fare?
3. Performance Across Regions
4. Prime and Subprime Lending
5. The Effect of Lender Assistance Programs
6. Key Take-aways

Setting the Stage

Unemployment Soars

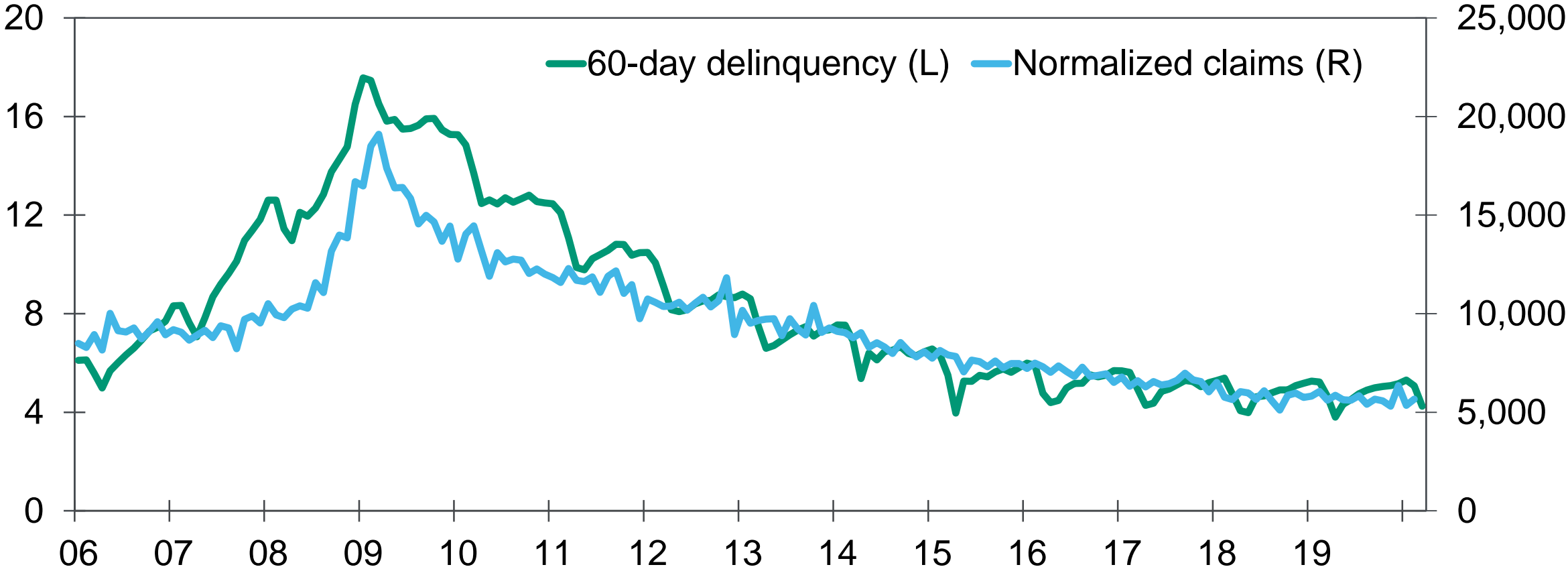
Initial unemployment insurance claims, thousands, log-scale



Sources: Employment & Training Administration, Moody's Analytics

Delinquency Rates Track Unemployment Claims

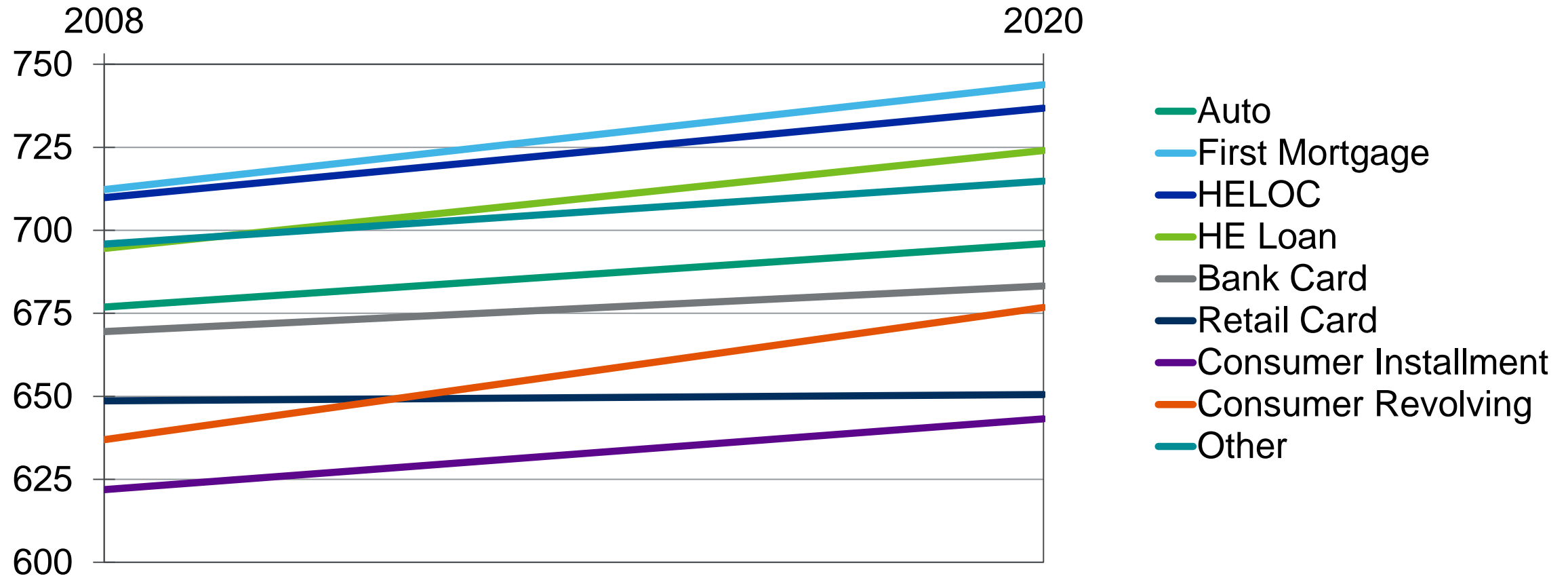
Annualized (%) 60 day dlq rate, unemployment claims/labor force (mil)



Sources: CreditForecast.com, BLS, Moody's Analytics

Credit Scores Higher Than Financial Crisis

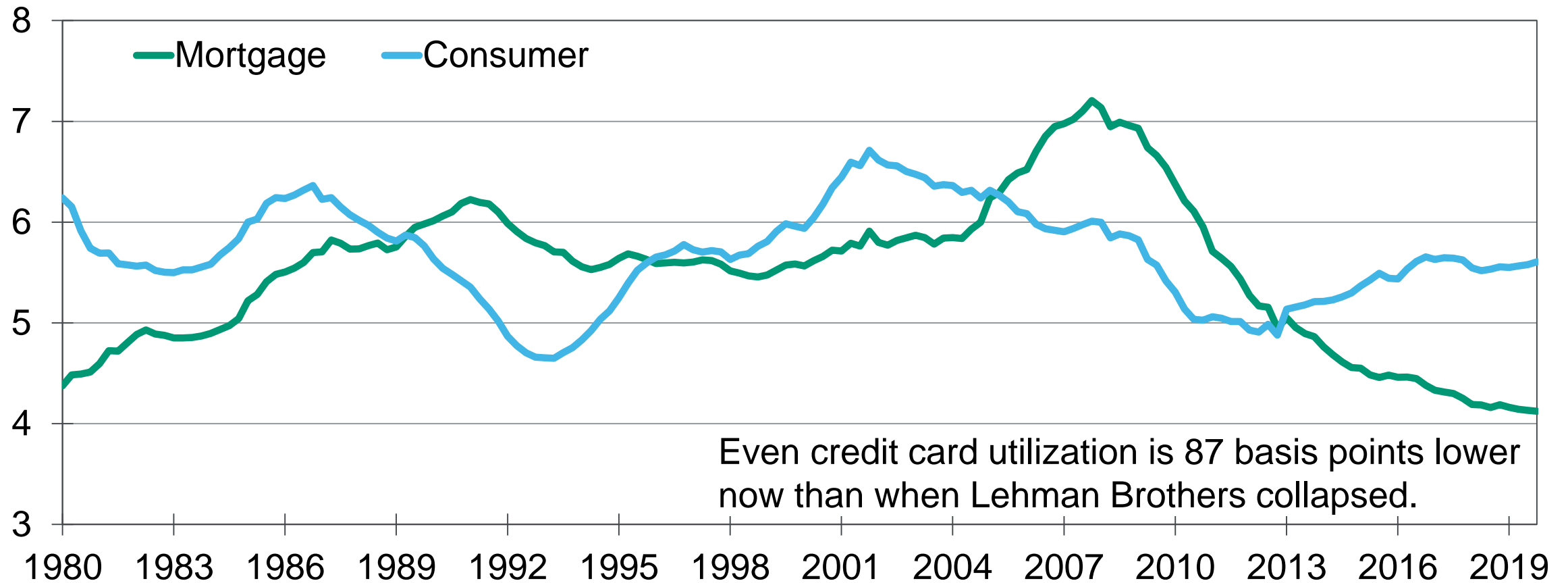
Current credit scores, Sept 08 and Jan 20, balance weighted



Sources: CreditForecast.com, Moody's Analytics

Household Finances Are Solid

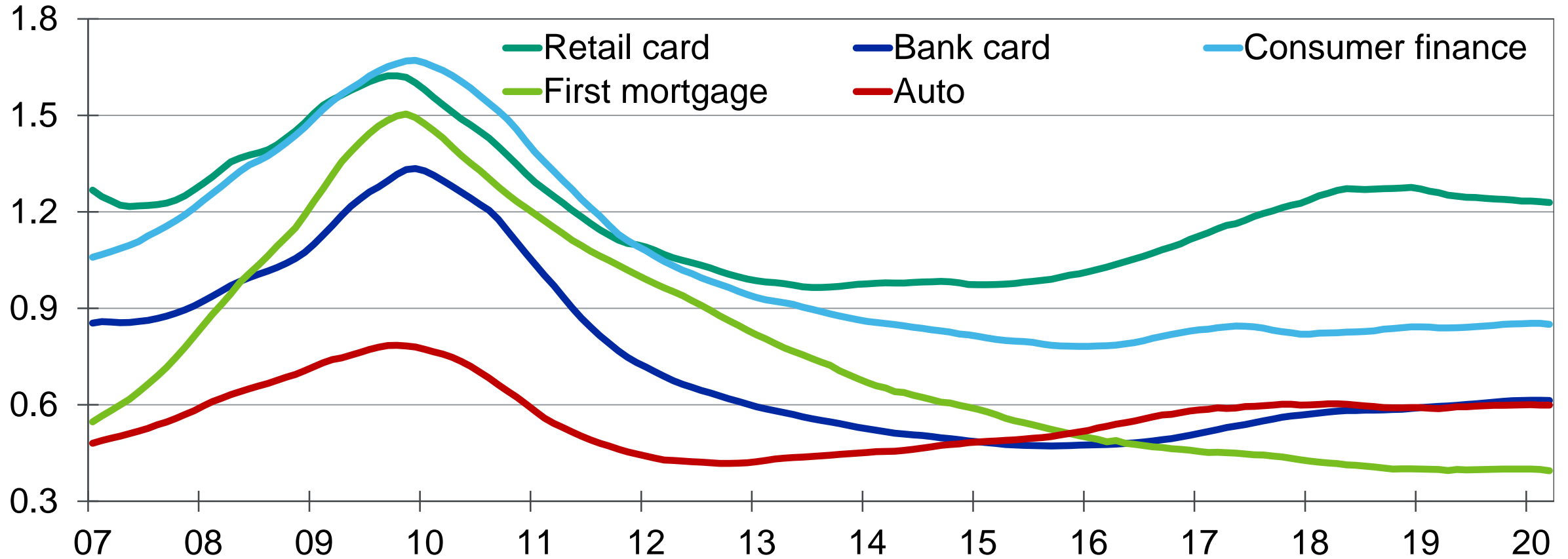
Debt service burden ratio, mortgage and consumer, percent



Sources: Federal Reserve Board, Moody's Analytics

Unsecured Lending and Auto at Risk

60 days delinquent, % of outstanding balance, 12-mo MA

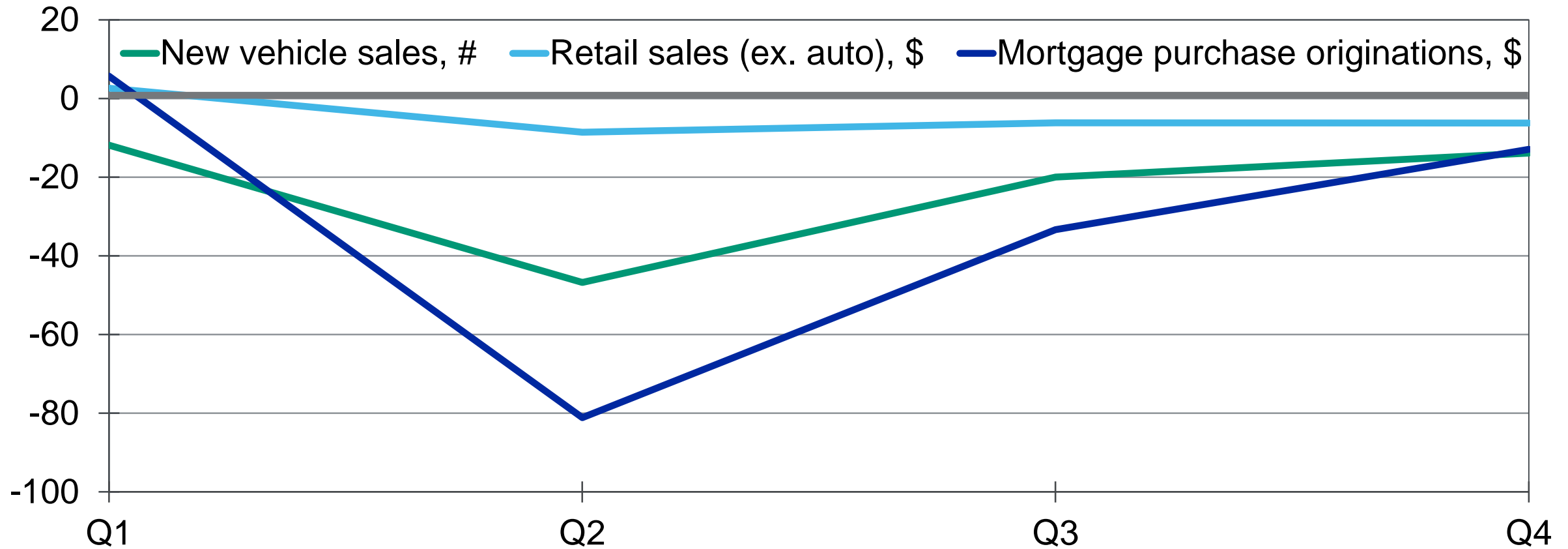


Sources: CreditForecast.com, Moody's Analytics

How Will the Various Asset Classes Fare?

Consumer Will Demand Less in 2020

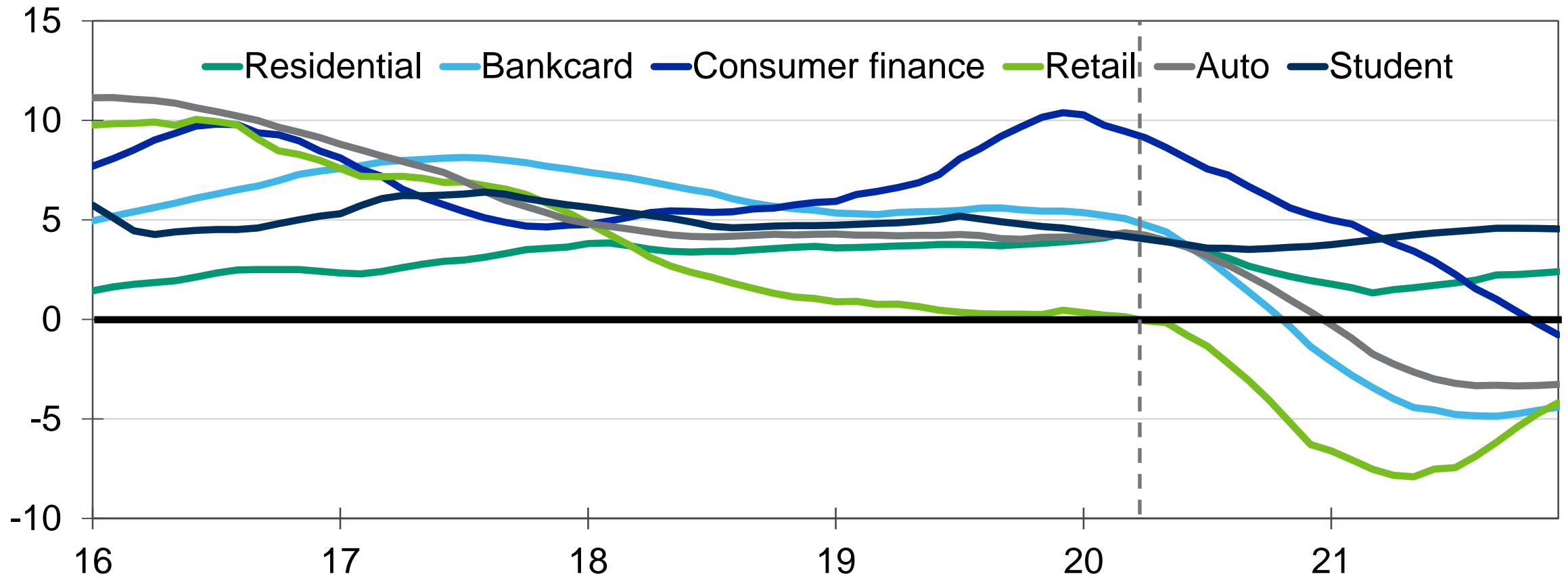
Percent change from yr ago, April Baseline



Sources: CreditForecast.com, Moody's Analytics

Household Debt Levels Forecasts to Decline

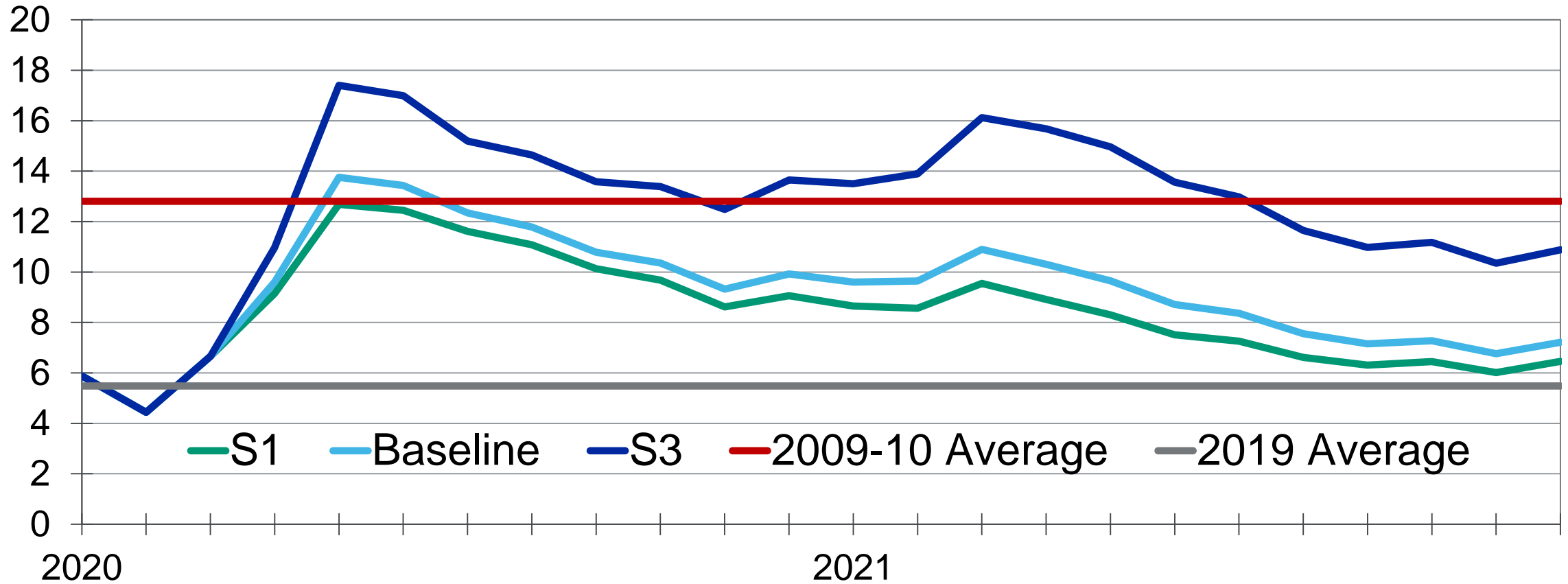
Balances of open accounts, y/y % of \$, April Baseline



Sources: CreditForecast.com, Moody's Analytics

Card Losses Will Mimic the Great Recession

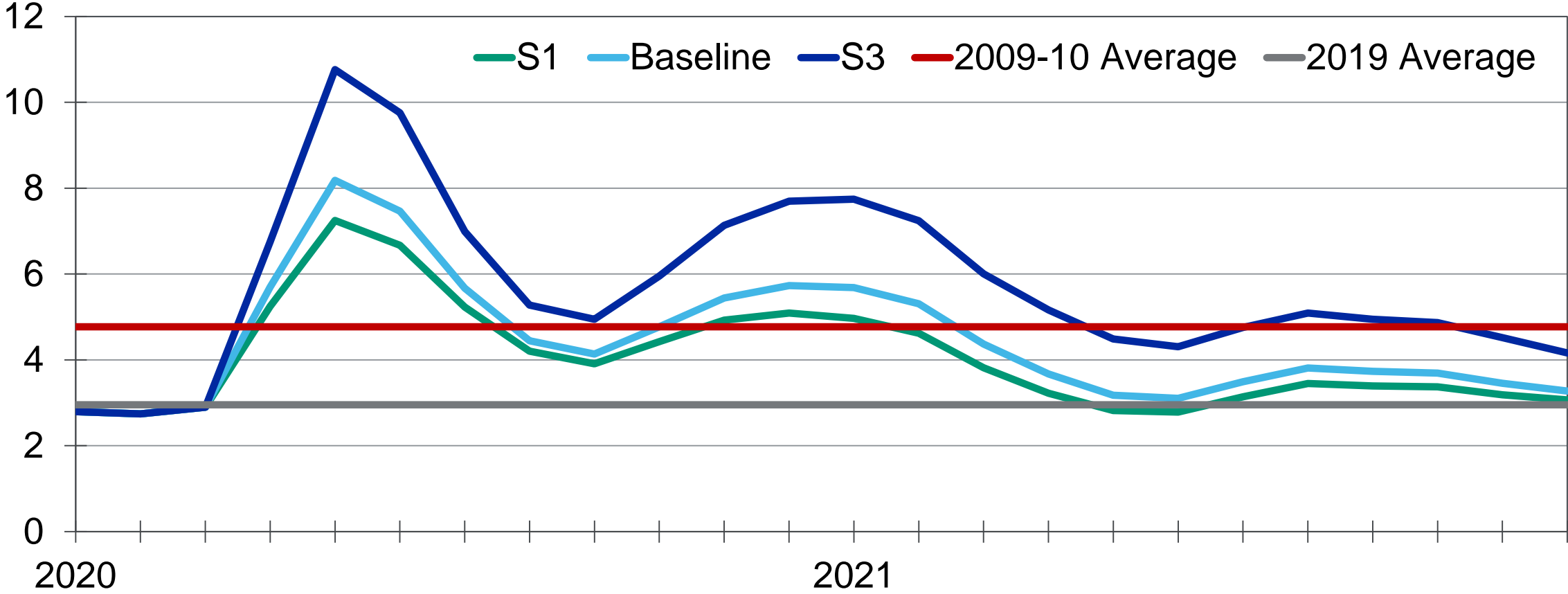
Gross loss rates, annualized, percent



Sources: CreditForecast.com, Moody's Analytics

Auto Loans Losses Could be Historically High

Gross loss rates, annualized, percent



Sources: CreditForecast.com, Moody's Analytics

Changes in Loss Rates Vary Greatly by Asset

Lifetime loss rate, Baseline, percent

PORTFOLIO	JANUARY	APRIL	GROWTH (%)
Auto Bank Lease	0.29	0.80	176
Auto Bank Loan	1.38	2.99	117
Auto Finance Lease	0.48	0.96	100
Auto Finance Loan	3.92	5.86	49
Bank Card	5.40	10.37	92
Consumer Finance Installment	5.98	7.23	21
Consumer Finance Revolving	9.66	14.95	55
First Mortgage	0.94	1.32	40
HELOAN	2.65	3.90	47
HELOC	1.66	3.62	118
Other	2.40	4.84	102
Retail Card	10.27	17.95	75
Student Loan	9.10	9.24	2

Sources: ECCL, Moody's Analytics

Performance Across Regions

Regional Risk Factors for COVID-19

 **Virus Exposure**

 **Demographics**

 **Poverty Rate**

 **Commodities**

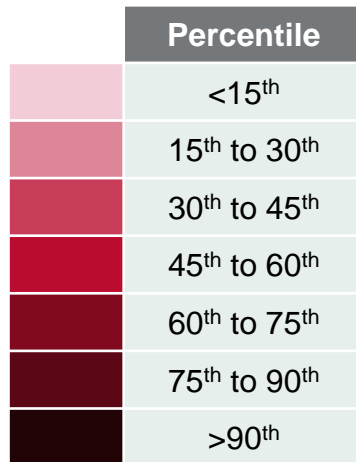
 **Small Business**

 **Tourism**

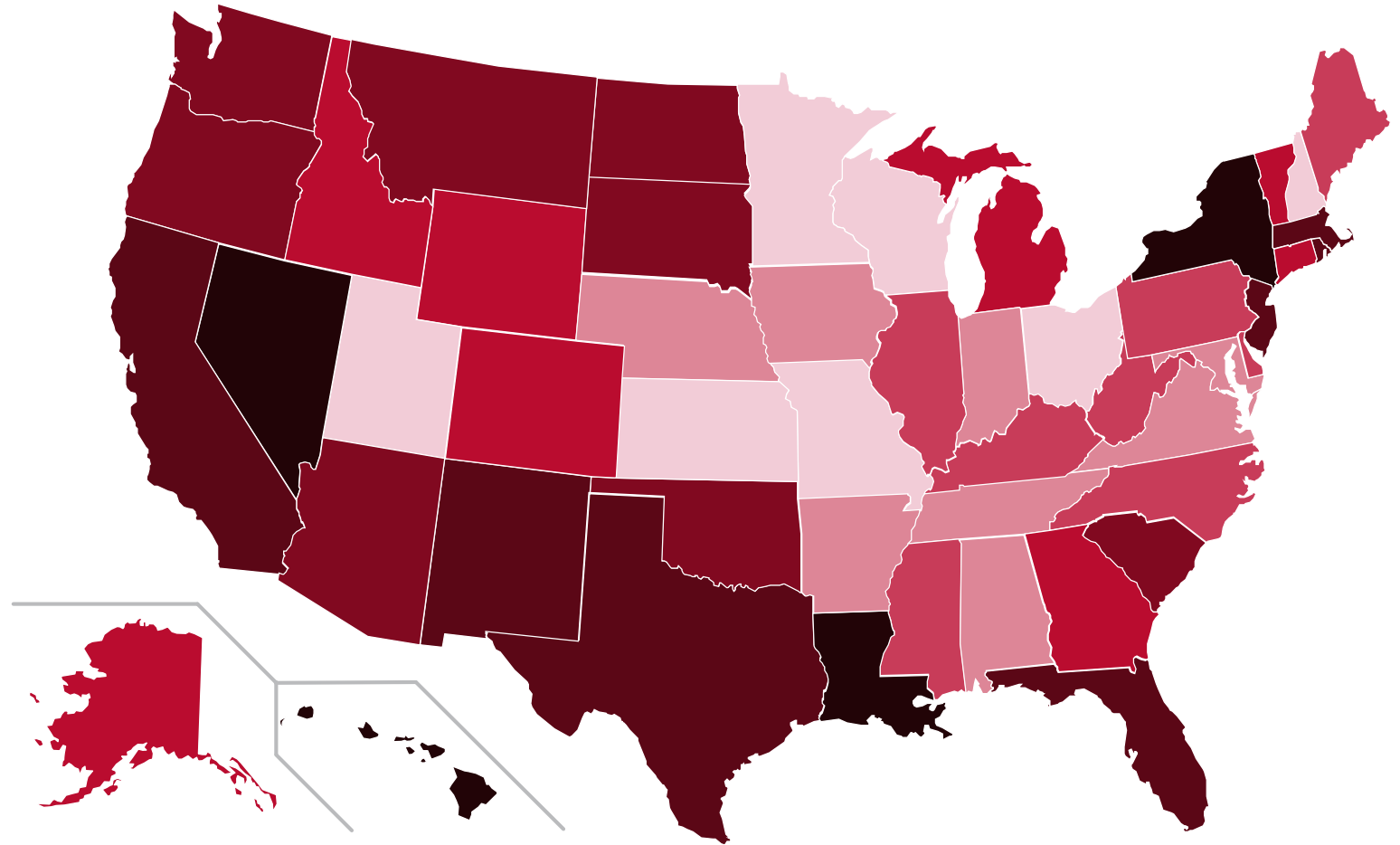
 **Trade/Travel Disruptions**

Some States Face Higher Risk

Weighted average z-score across rankings

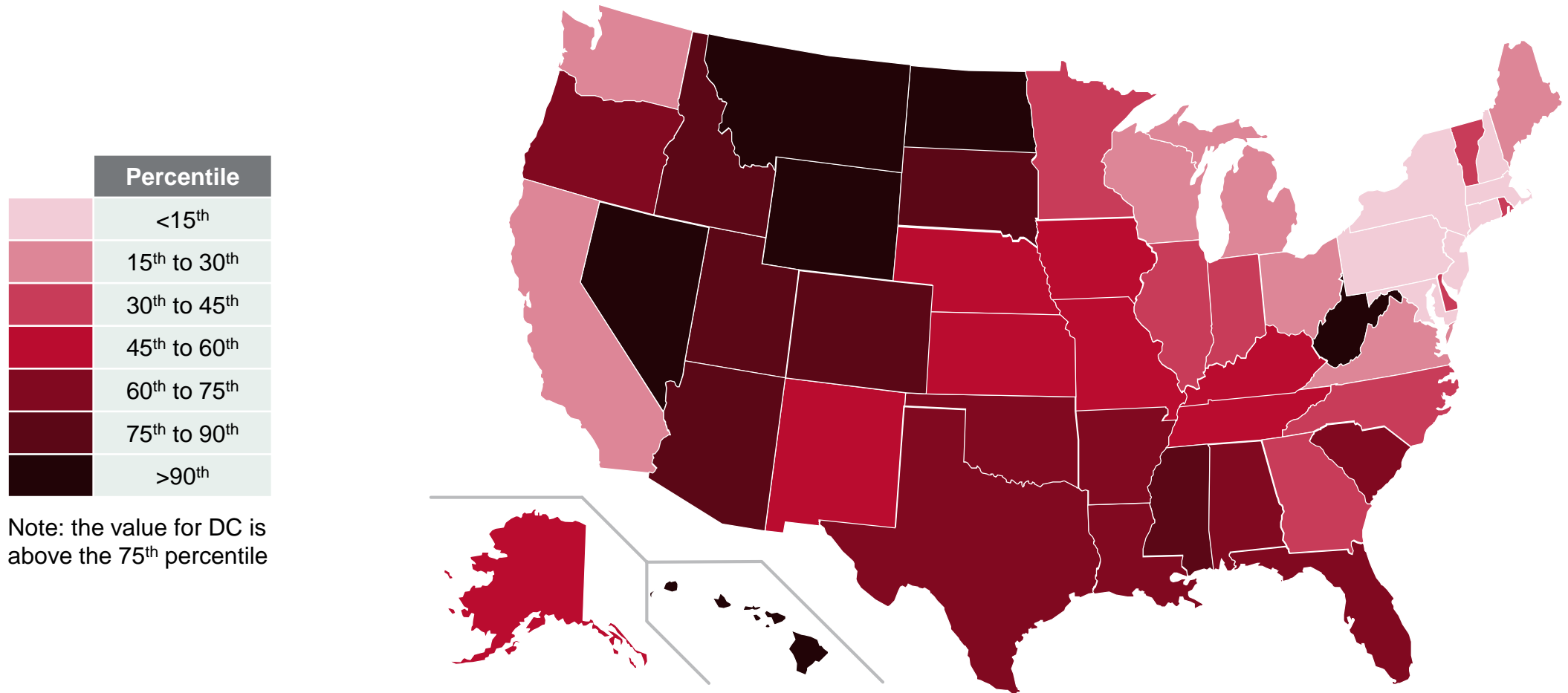


Note: the value for DC is above the 90th percentile



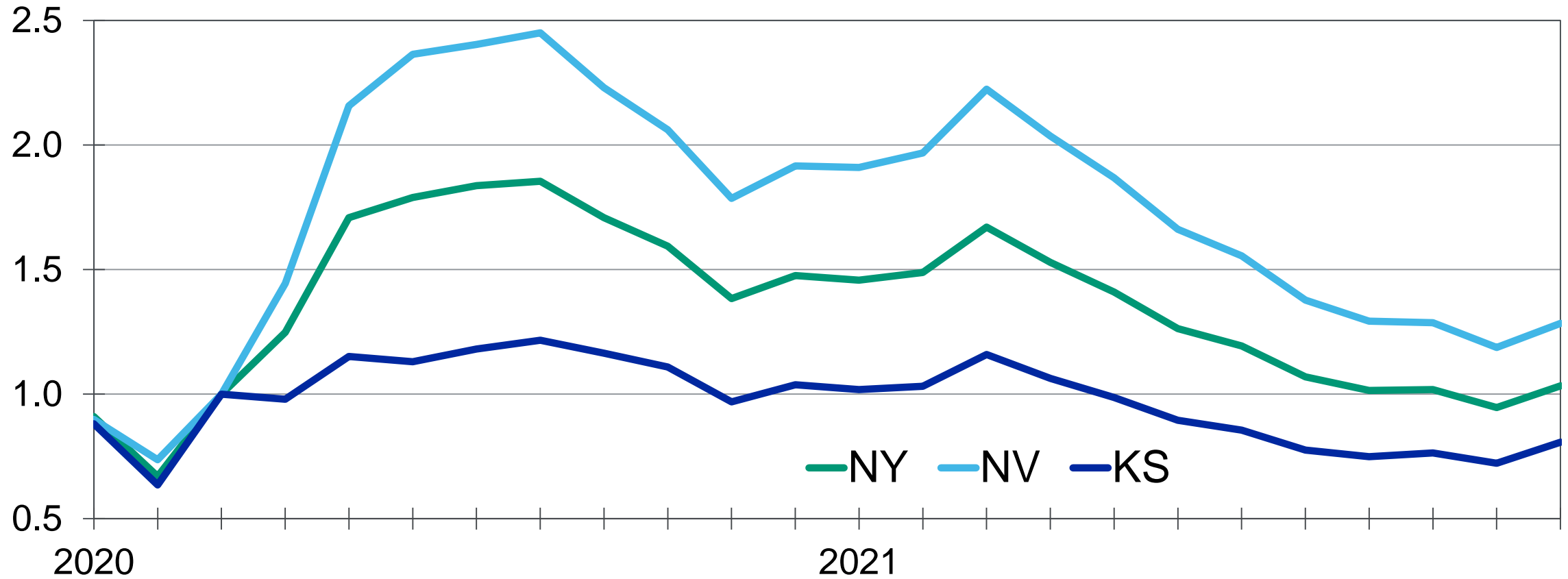
Housing Markets Matter

Default rate, yoy percent difference, April 2020-2021, first mortgage



Highly Exposed States Vulnerable

Gross loss rates, bank card, percent, April Baseline relative to March

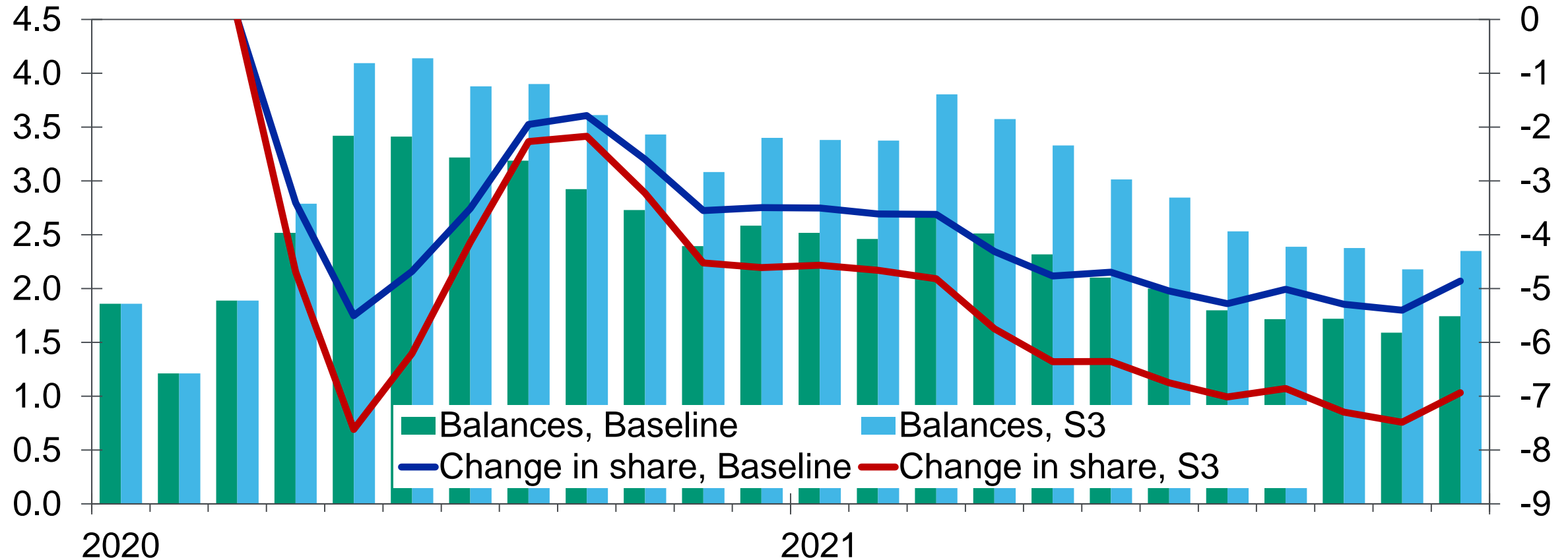


Sources: CreditForecast.com, Moody's Analytics

Prime and Subprime Lending

Subprime Default Share Trends Down

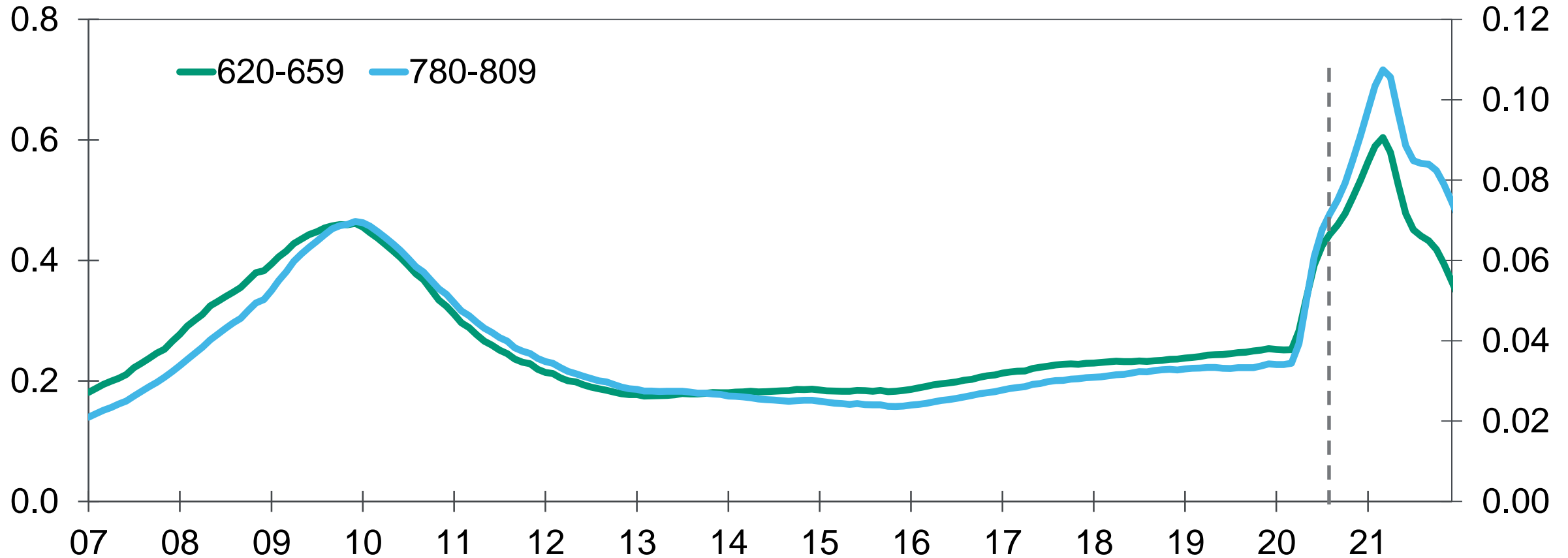
Default balances (left, bil), change in share (right, pp), bank card



Sources: CreditForecast.com, Moody's Analytics

Prime Loans More Sensitive in Auto

Default rate, % of outstanding balance, 12-mo MA, April Baseline



Sources: CreditForecast.com, Moody's Analytics

The Effect of Payment Assistance Programs

Can take various forms:

interest relief, balance forgiveness,
deferred payments, modifications

Assistance provides **liquidity relief** for borrowers

If this stress is **temporary**, losses may be **avoided**

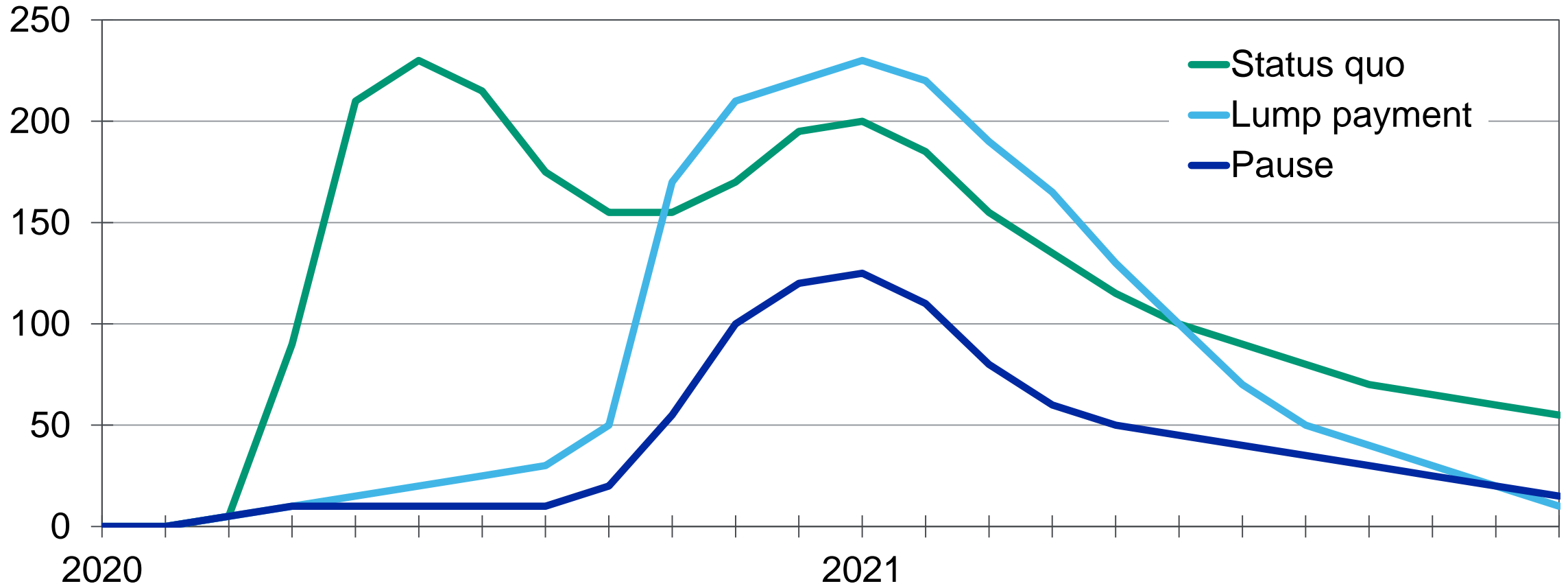
Otherwise, losses are simply **delayed**



When does it make sense to offer additional relief?

How Might Lender Assistance Affect Loss Rates?

Hypothetical paths for loss rates



Forbearance Has Started to Pick Up

Share of accounts reported as affected on April 21st

Sources: Equifax, Moody's Analytics

Forbearance Has Started to Pick Up

Share of accounts reported as affected on April 21st

PORTFOLIO	DISASTER	FORBEARANCE	TOTAL
Auto	2.5	0	2.5
Bank Card	0.1	0	0.1
Consumer Finance Installment	1.0	0.1	1.1
First Mortgage	2.3	0.5	2.8
HELOC	0.8	0	0.8
HE Loans	1.2	0.3	1.5
Retail Card	0.1	0	0.1
Student Loan	4.7	3.4	8.1
Total	1.1	0.5	1.6

Sources: Equifax, Moody's Analytics

Key Take-aways

Key Take-aways

- 🎯 Losses will not be proportional to the Q2 unemployment rate
- 🎯 Low demand and tight supply in 2020
- 🎯 Unsecured and Auto are at risk
- 🎯 Regions matter
- 🎯 Scope and impact of payment assistance remains uncertain

Questions & Answers

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A microscopic view of a petri dish with a pipette tip. The background is a vibrant mix of red and blue light, creating a futuristic and scientific atmosphere. The petri dish is in the foreground, and the pipette tip is positioned in the center, pointing towards the viewer. The overall image has a high-tech, analytical feel.

MOODY'S
ANALYTICS

David Fieldhouse, PhD
Director
Business Analytics
david.fieldhouse@moodys.com

James Partridge, PhD
Director
Risk & Financial Accounting
james.partridge@moodys.com

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