

# Managing Credit Risk in the Current Economic Environment

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# Introduction

## Your presenters



Avinash Arun,  
Director of Product Management



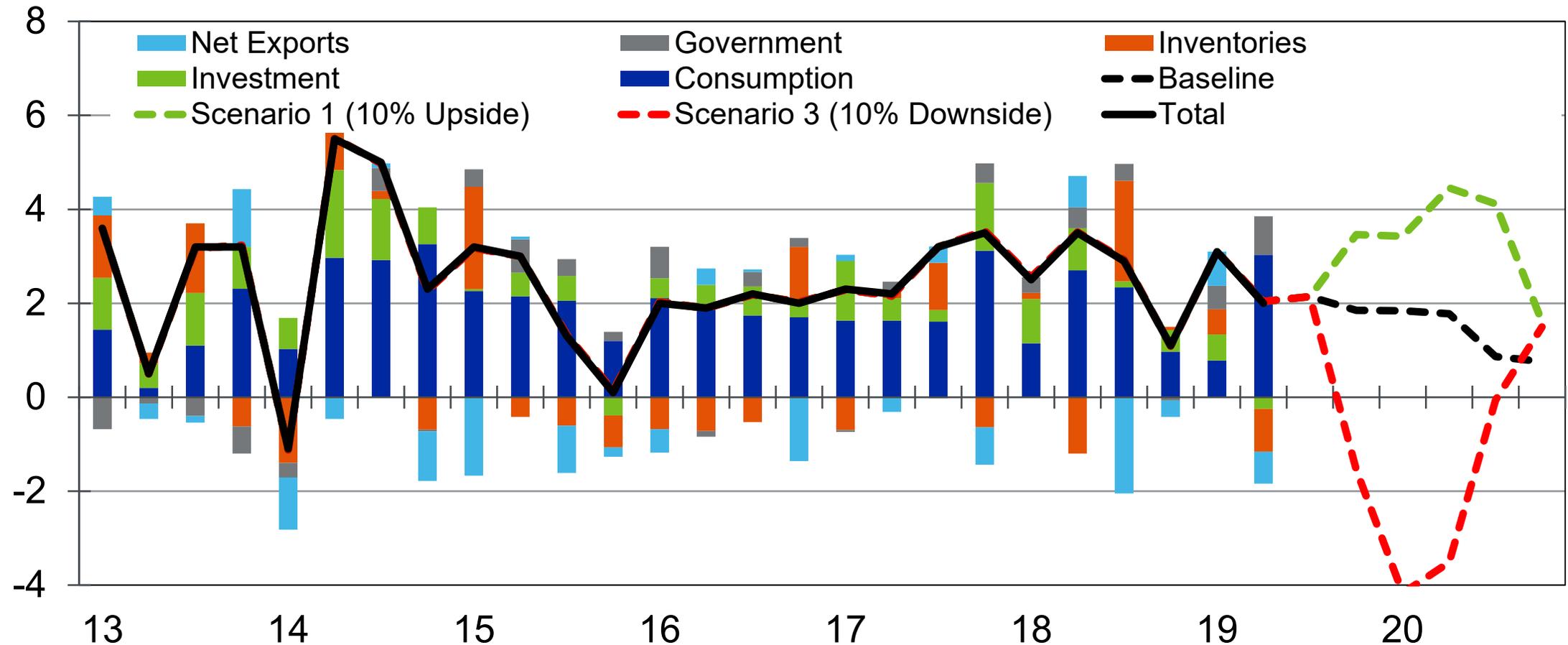
Cris deRitis PhD CBE<sup>®</sup>,  
Deputy Chief Economist

# Agenda

- » Current State of the U.S. Economy
- » Household Finances
- » Recession Risk and Severity
- » Best Practices and Tools to Manage Credit Risk

# Consumers Driving Growth As Businesses Hold Back

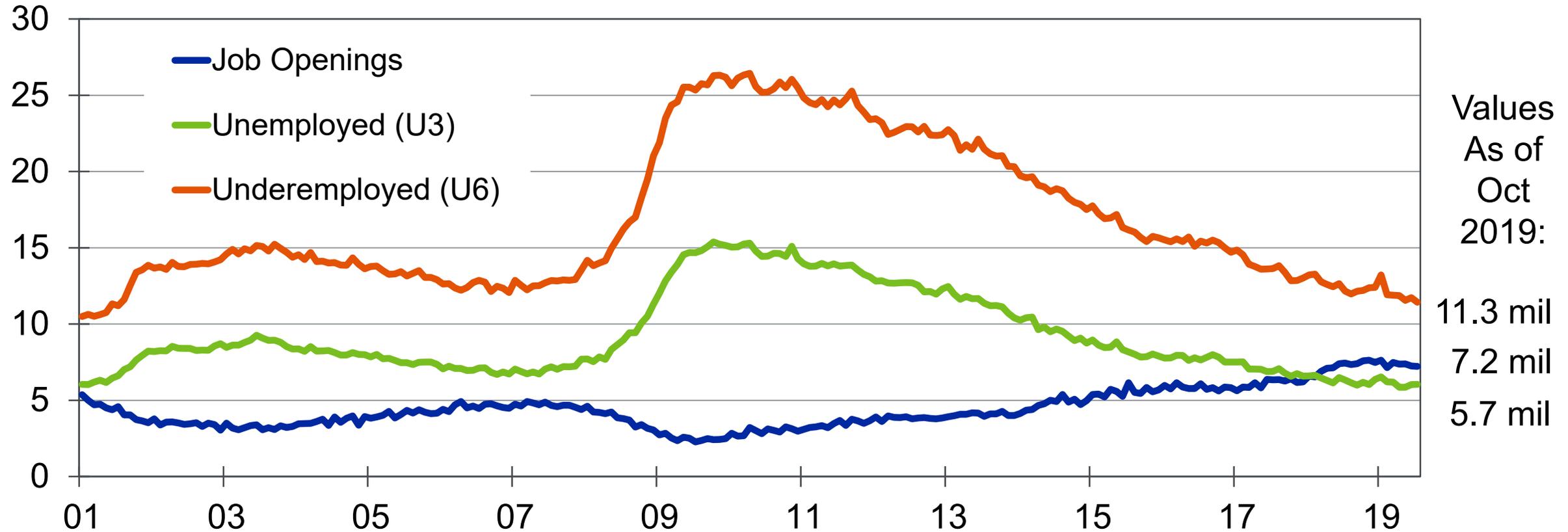
Contributions to percent change in real GDP, % qtr/qtr annualized



Source: Moody's Analytics

# The Job Market Continues to Deliver...

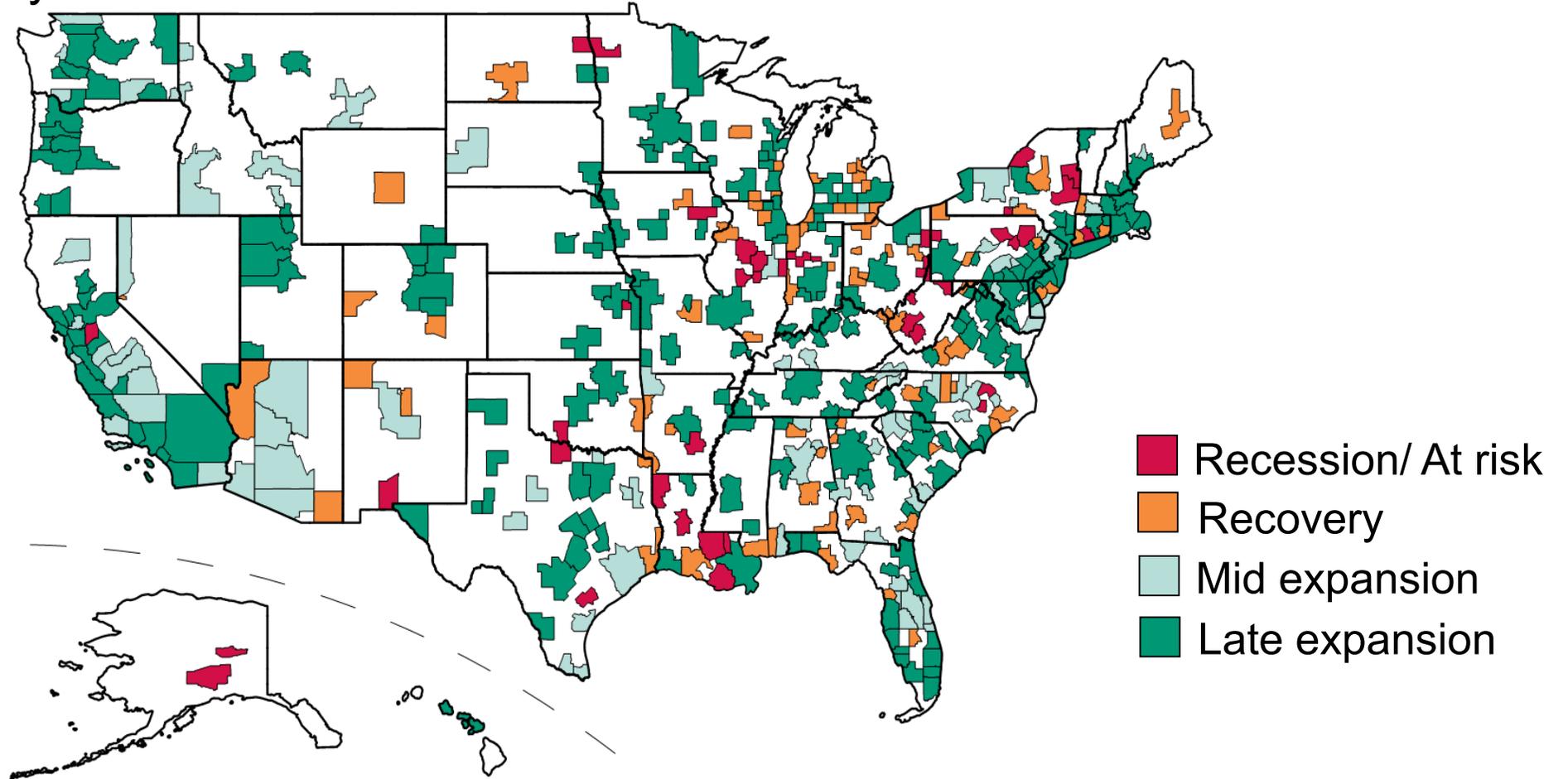
Millions



Sources: BLS, Moody's Analytics

# Regional Weaknesses Start to Emerge

Status as of July 2019

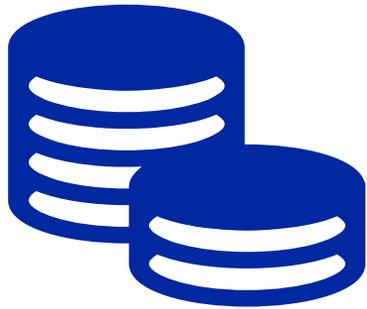


Source: Moody's Analytics

# Overall Households Look Financially Healthy

As of 2019 Q2

## INCOME



**\$16.4 T**

Disposable Income

4.7% Growth Yr/Yr

## WEALTH

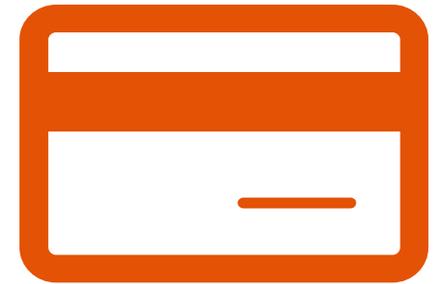


**\$107 T**

Net Worth

4.9% Growth Yr/Yr

## DEBT



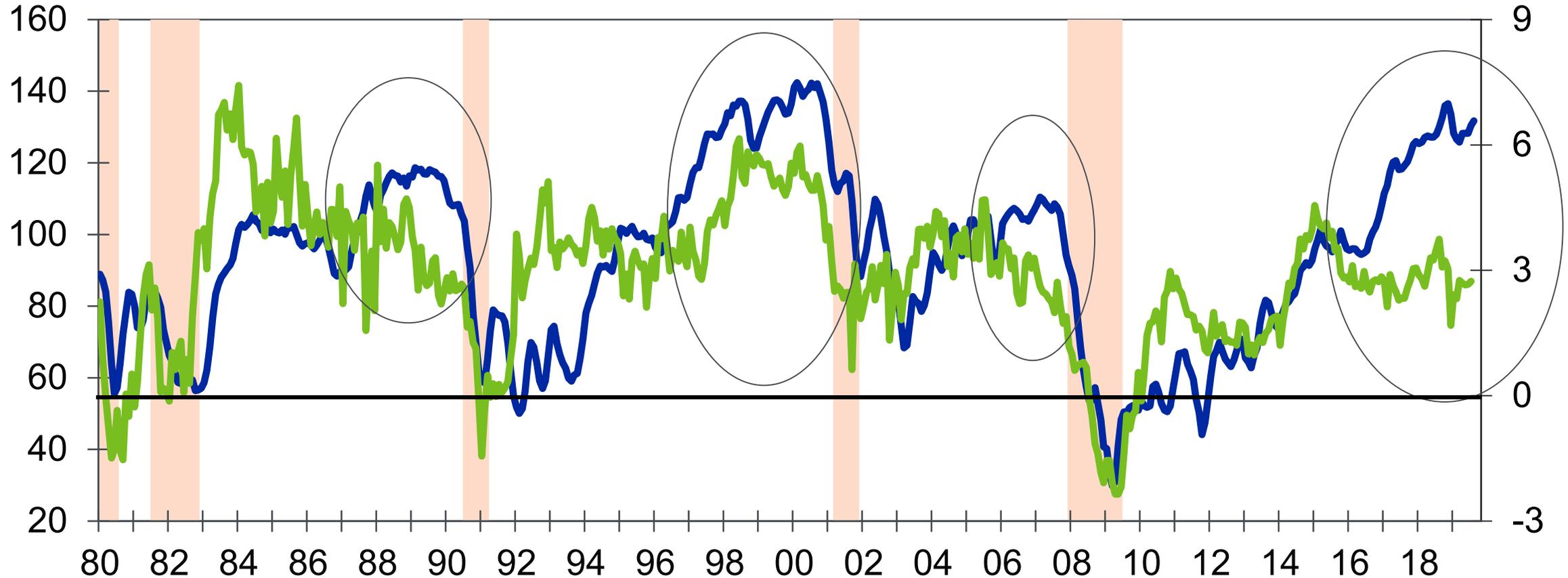
**\$13.3 T**

Outstanding Debt

3.8% Growth Yr/Yr

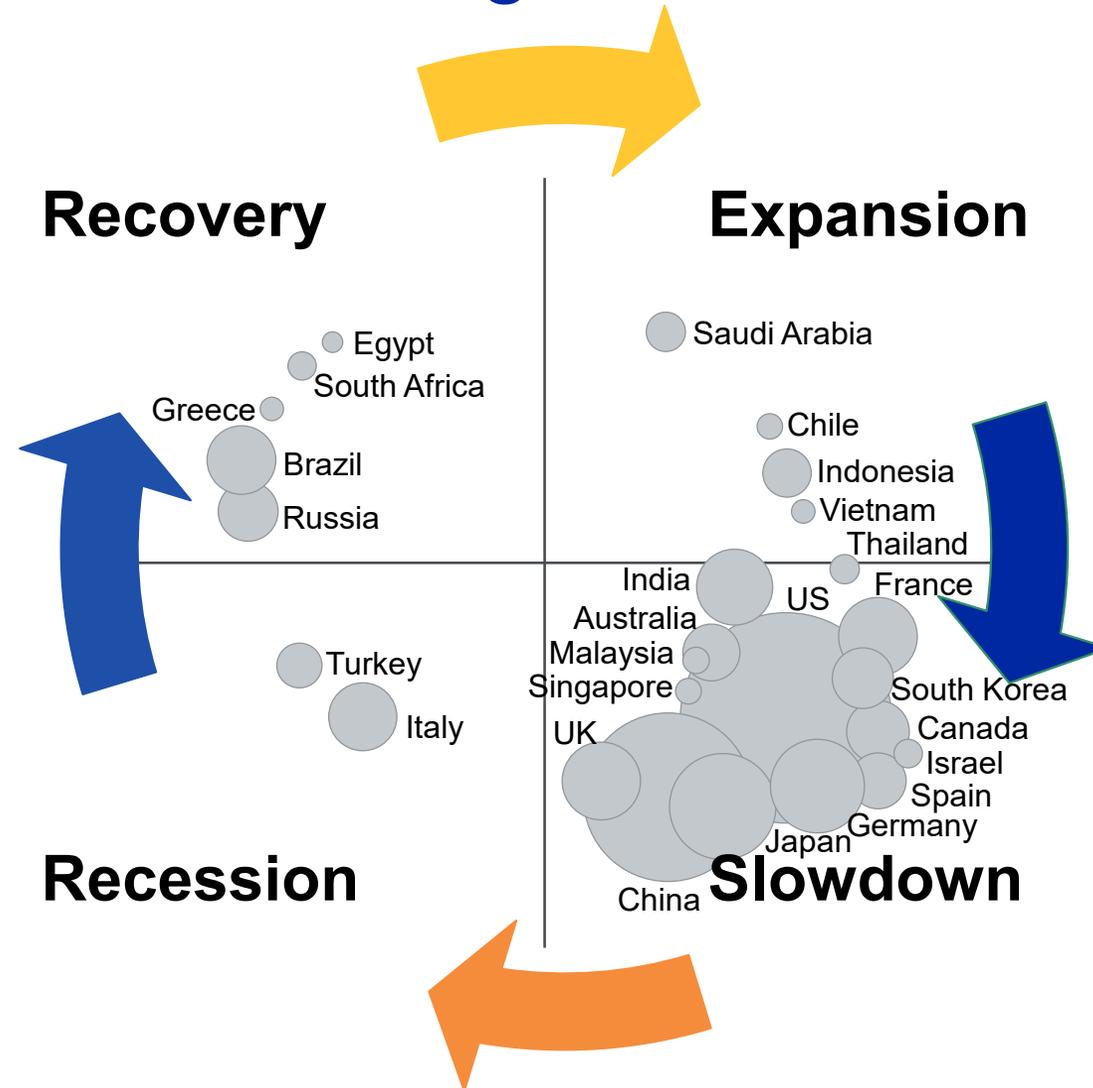
# Consumer Confidence: Actions Don't Match Words

— Confidence, 3-mo MA (L) — Real spending, % chg yr ago, 12-mo MA (R)



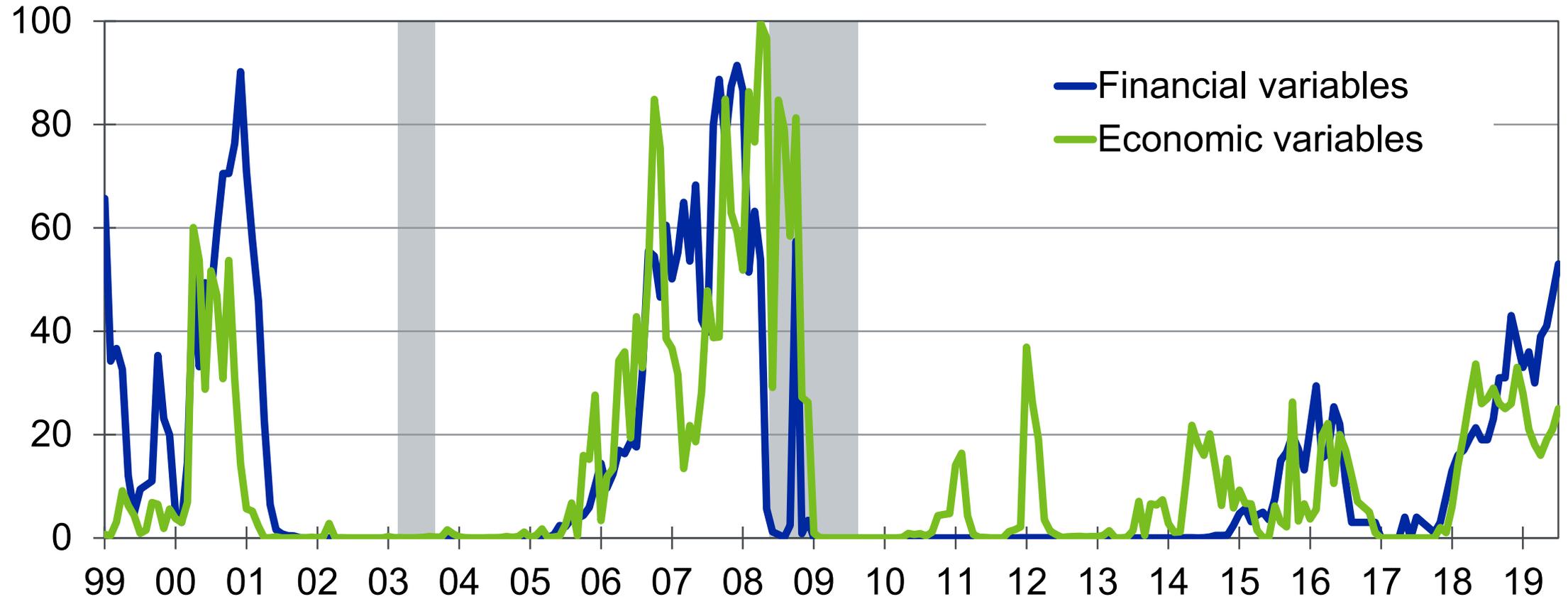
Sources: Conference Board, BEA, Moody's Analytics

# Recession Risks are Rising...



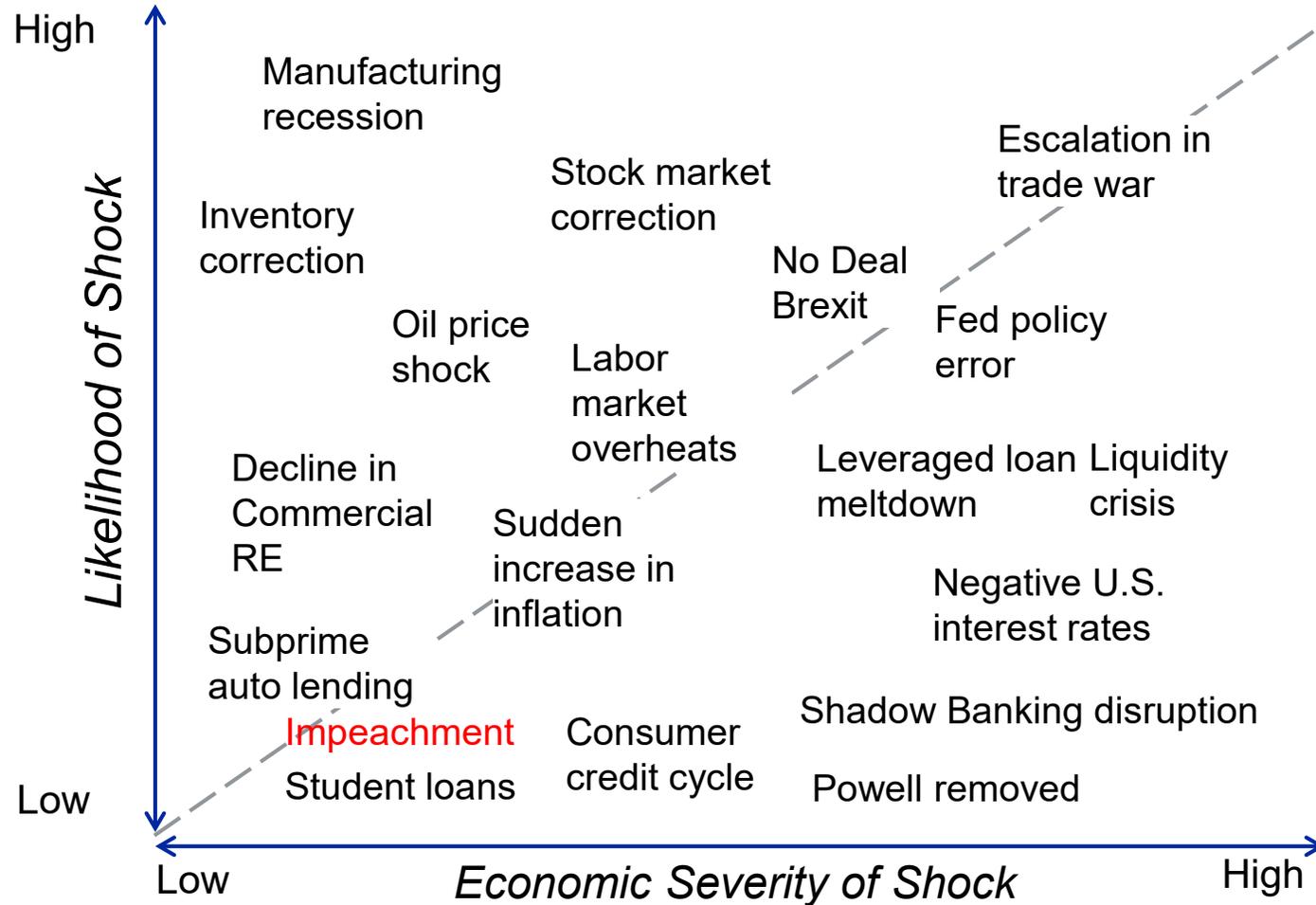
# ...and Uncomfortably High

Probability of recession in 12 mo, %, using only...



Source: Moody's Analytics

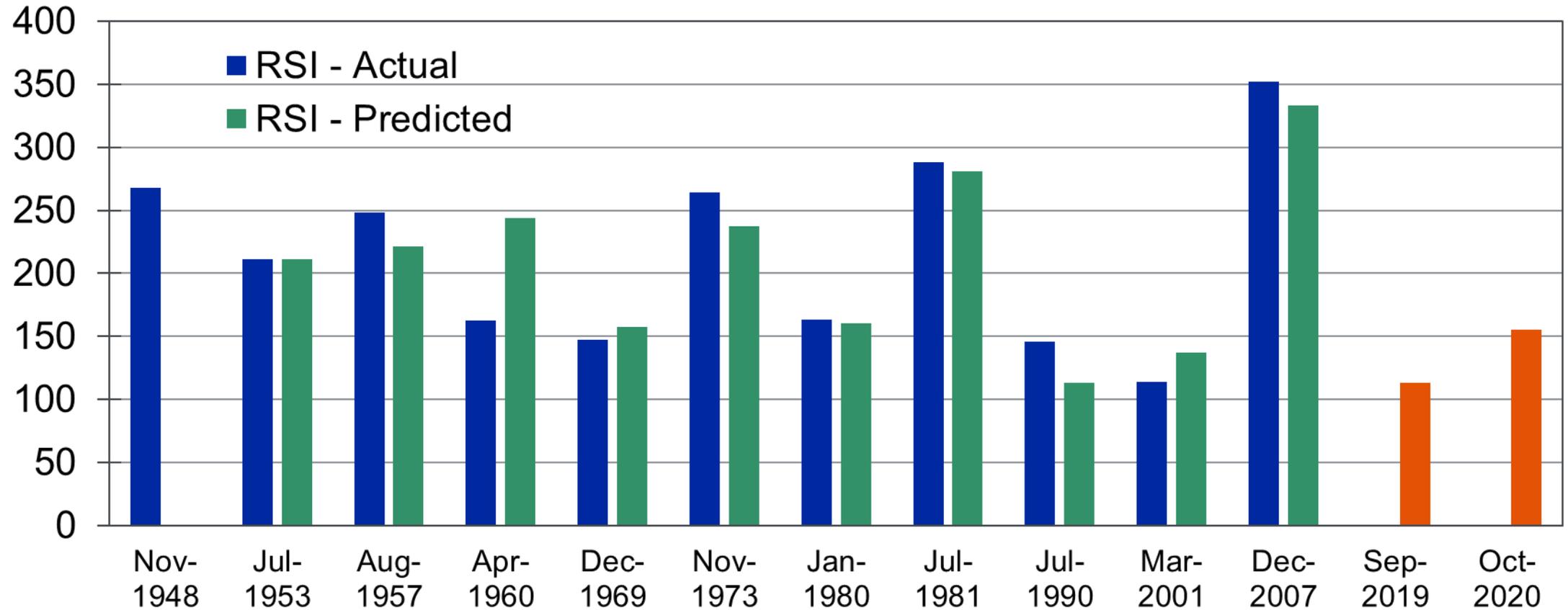
# What Could Go Wrong?



Source: Moody's Analytics

# Next Recession Shouldn't Be So Severe

Recession Severity Index, composite of key indicators

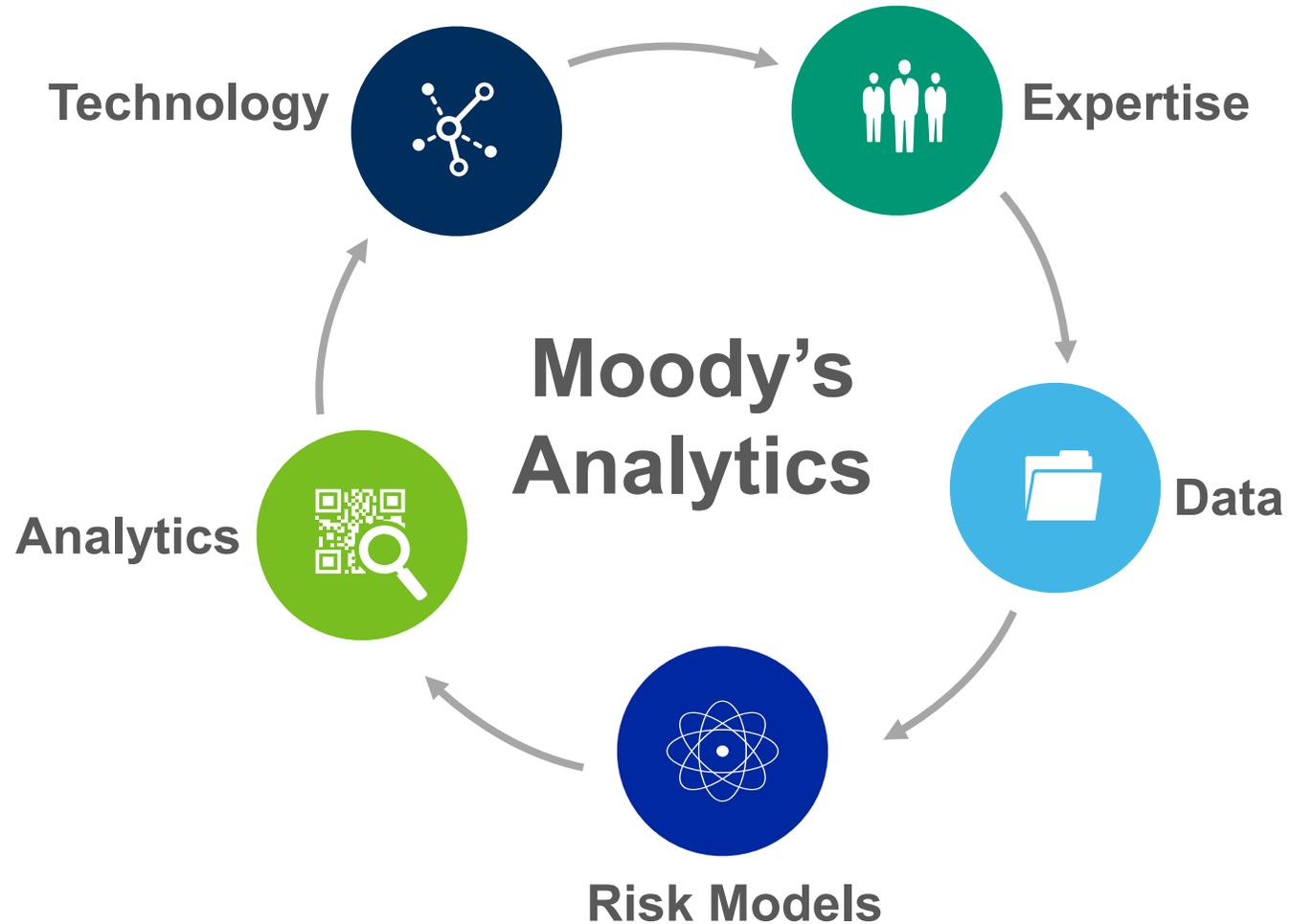


Sources: Moody's Analytics

# What to Watch? Recession Tracker @ [www.economy.com](http://www.economy.com)

Indicator	Type	Months to Recession	Threshold	Risk
Unemployment rate - NAIRU	Leading	30 to 36	0	High
Financial stress index	Leading	11 to 15	>1	Low
Housing permits	Leading	10 to 12	Yr/Yr decline	Moderate
Yield curve 10-yr minus 3 mo	Leading	8 to 15	0	High
Yield curve 10-yr minus 2-yr	Leading	8 to 14	0	High
TED spread	Leading	7 to 8	>100 basis points	Low
Consumer Confidence	Leading	5 to 10	30 point decline from peak	Low
Jobless claims	Leading	4 to 5	>253k	Low
S&P 500	Leading	3 to 9	20% correction	Low
ISM Manufacturing index	Leading	3 to 6	43.2	Low
Net % of banks tightening lending standards on C&I Loans	Leading	1 to 5	>20%	Low
Hours worked for production workers	Leading	1 to 10	Yr/Yr decline	Moderate
Unemployment rate	Coincident	0	Increase of 0.25%	Low
Core capital goods orders	Coincident	0	Yr/Yr decline	Low
Industrial production	Coincident	0	Yr/Yr decline	Low
ISM nonmanufacturing index	Lagging	1	49	Low
Employment	Lagging	2 to 4	Yr/Yr decline	Low
Real GDP	Lagging	3 to 6	< potential growth	Moderate

# Managing the Credit Lifecycle



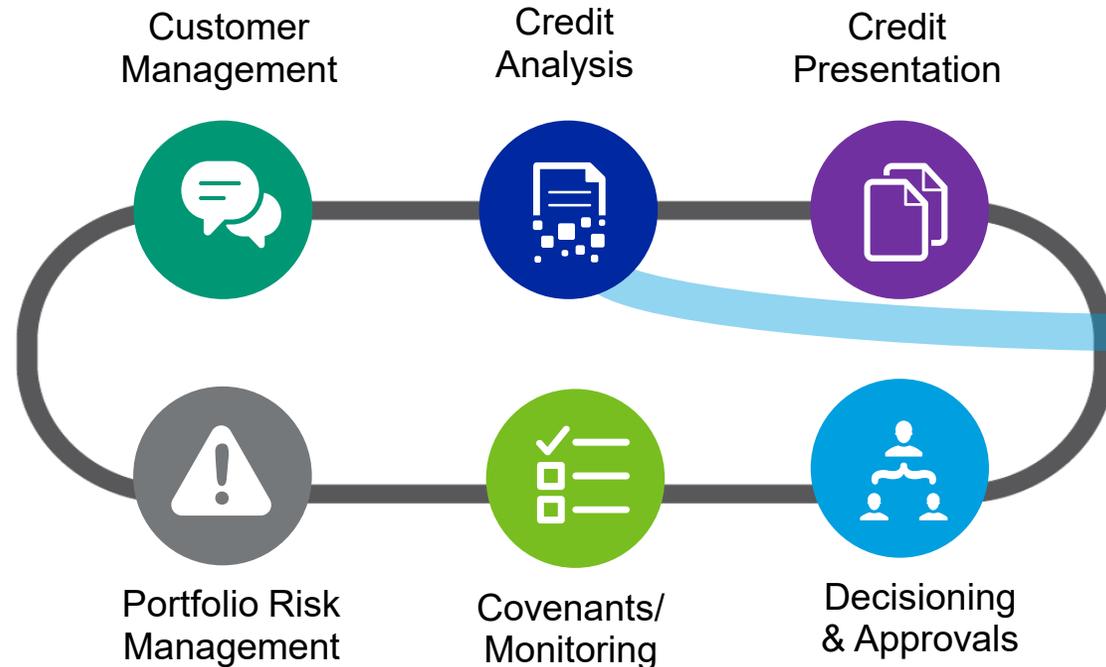
# The CreditLens Solution™: Credit Lifecycle Management Platform

## Data Automation



- Integration to client specific sources
- Bureau van Dijk, a Moody's Analytics company
- Tax Return Reader
- Customer Portal
- AI & Machine Learning

## CreditLens: Loan Origination & Lifecycle Management Solution



## Credit Risk Solutions



**PD & LGD  
Profitability  
Calculations**



**Deal Analytics**



**Peer Analysis**

# Leveraging New Technologies

Automate Spreading and Improve the User and Customer Experience



**Bank Focus & Orbis**

Financials for private and public companies



**Customer Portal**

Automated data extraction from accounting software



**Tax Reader**

Automated data extraction from tax forms



**Machine Learning & AI**

Automated spreading of PDF documents



**45+ %  
Cost saving**



**50% Reduction in  
origination time**



**Higher  
accuracy**

# Providing Consistent Risk Measures and Deal Analytics



## Expected Default Frequency (EDF)

Provides probability of default for private firms and public firms



## Loss Default (LGD)

Provides analysis of the EL, EAD, and LGD of the proposed deal



## CRE Analysis

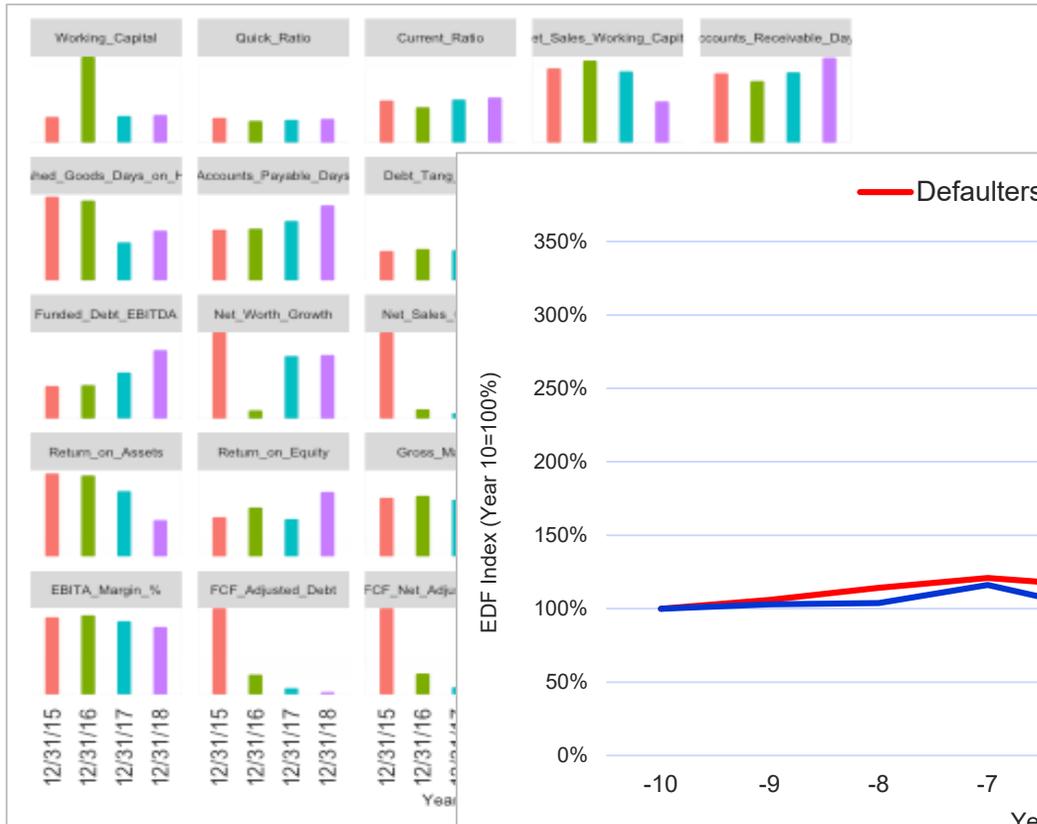
Effectively structure your CRE deals



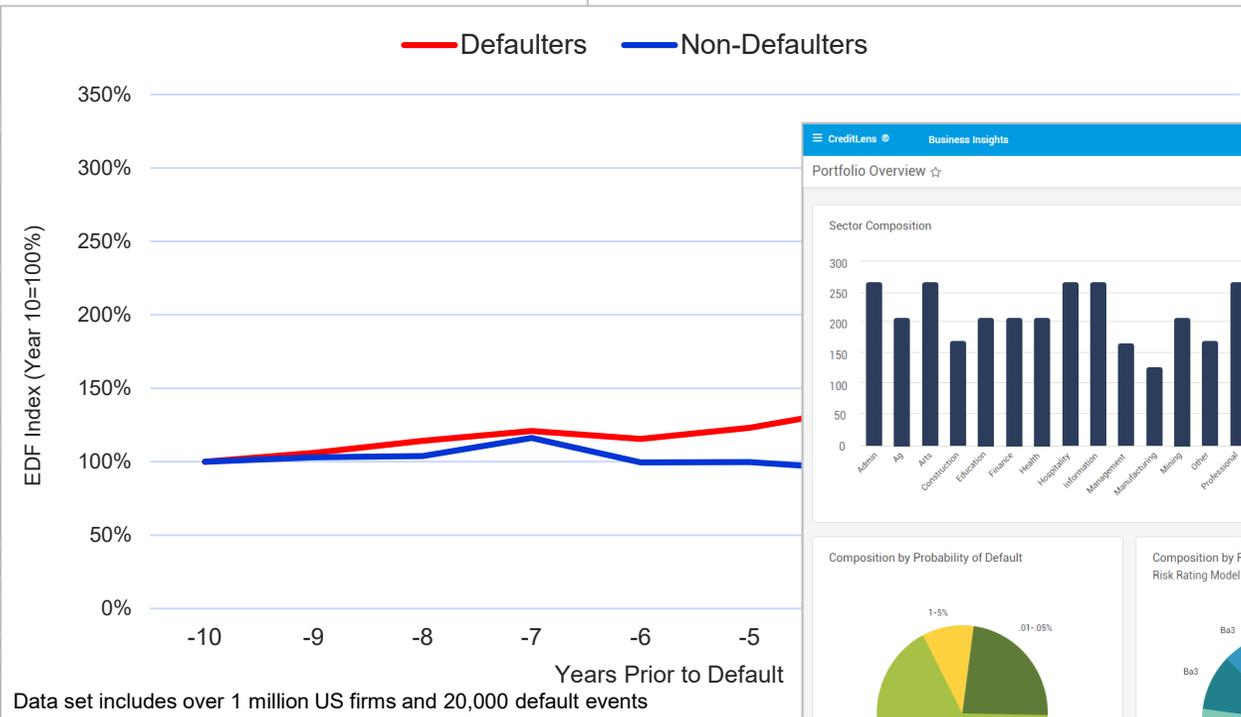
## Risk Return

Profitability and pricing tool of the deal

# Early Warning Strategies for Tracking and Monitoring

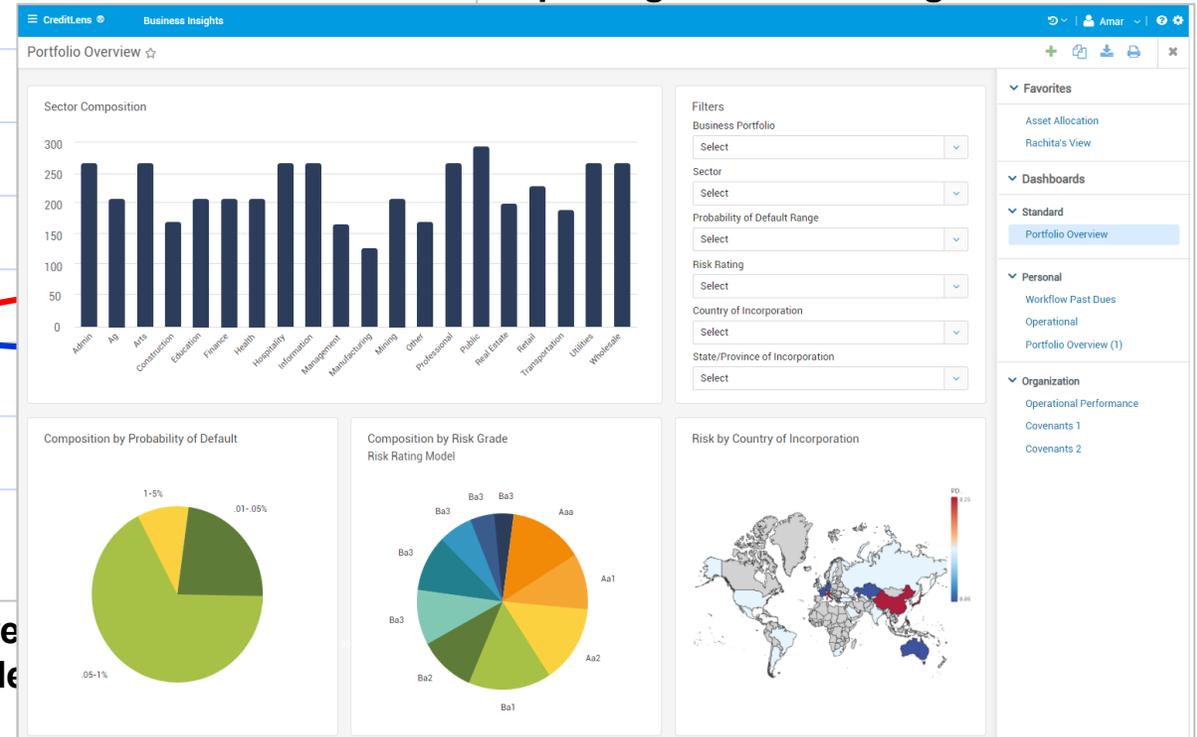


Financial ratios provide early warning indicators



**CCA RiskCalc™ EDFs begin showing differences between non-defaulters as early as 6 years prior to default**

Business Insights for portfolio reporting and monitoring



# CreditLens

Unique Amalgamation of:

- Various products histories
- Technical expertise
- Risk & Analytics expertise
- Practical experiences



## Modern



Modern user interface, Dashboard, and Work anywhere with multi-device support

## Economical



Transform your business by increasing operational efficiency and self-service

## Configurable



Put you in the driver seat with change management - faster

## Connectable



Improved API framework and expandable to other portfolios and engines

Please fill out our post-webinar survey

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