STRUCTURED FINANCE ASSOCIATION

# SFA Research Corner

## Trends in Consumer Credit Health Show Signs of Improvement

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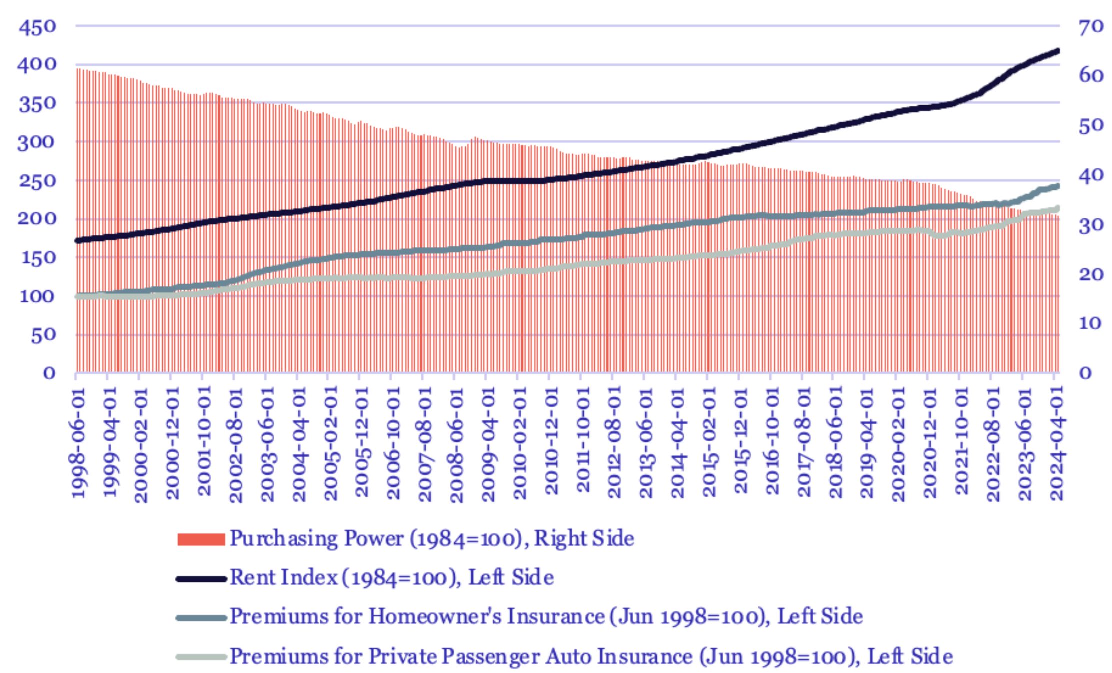
## Trends in Consumer Credit Health Show Signs of Improvement

### At an Inflection Point? Trends in Consumer Credit Health

Understanding consumer well-being is crucial when evaluating the risk and performance of approximately $10 trillion of securitized products backed by consumer loans. This affects everything from the quality of the underlying assets to investor perception and cash flow stability. Despite a seemingly strong job market, inflation has significantly eroded the consumer's purchasing power and ability to meet financial obligations, particularly through rising insurance premiums and housing rents. This erosion has led to increased delinquencies and defaults across various loan types, especially among vulnerable borrower groups. However, early signs suggest that the decline in performance may be starting to level off. Below, we explore these trends and their impact on consumer securitization trusts.

**Impact of Inflation on Consumers' Purchasing Power**

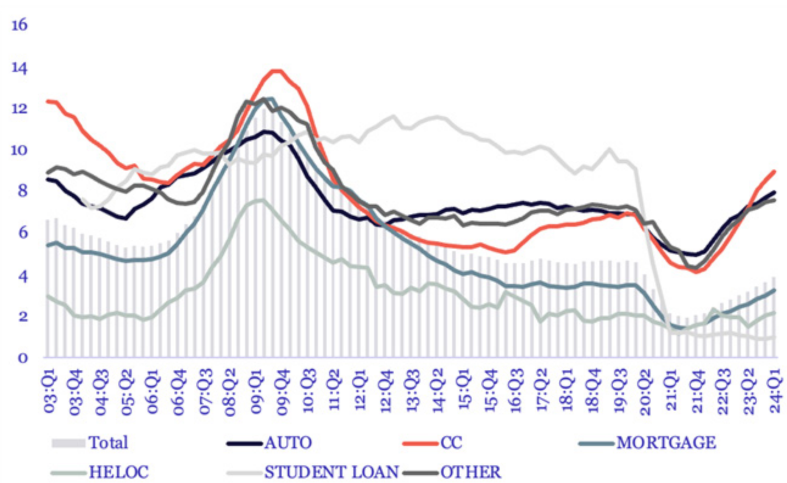



***Source: U.S. Bureau of Labor Statistics retrieved from FRED, Federal Reserve Bank of St. Louis***

*Notes: Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average, Index 1982-1984=100, Monthly, Seasonally Adjusted, Consumer Price Index for All Urban Consumers: Purchasing Power of the Consumer Dollar in U.S. City Average, Index 1982-1984=100, Monthly, Not Seasonally Adjusted, Producer Price Index by Industry: Premiums for Property and Casualty Insurance: Premiums for Homeowner's Insurance, Index Jun 1998=100, Monthly, Not Seasonally Adjusted, Producer Price Index by Industry: Premiums for Property and Casualty Insurance: Premiums for Private Passenger Auto Insurance, Index Jun 1998=100, Monthly, Not Seasonally Adjusted*

According to the latest Quarterly Report on Household Debit and Credit from the Federal Reserve Bank of New York, the number of borrowers falling delinquent for the first time increased by 24 basis points, to 3.88% across all loan types in Q1 2024 compared to Q4 2023. This metric has risen by 88 basis points over the past year and by 176 basis points since two years ago when the upward trend first became noticeable. The deterioration has been most pronounced in credit card loans, which, along with unsecured consumer loans, are seen as key indicators of consumer health as they may highlight underlying financial vulnerabilities, debt burdens, and income strains more quickly than secured forms of credit such as auto loans and mortgages. Credit card loans have seen the most significant deterioration, more than doubling since two years ago and currently sitting at 8.93%, the highest level since Q1 2011.

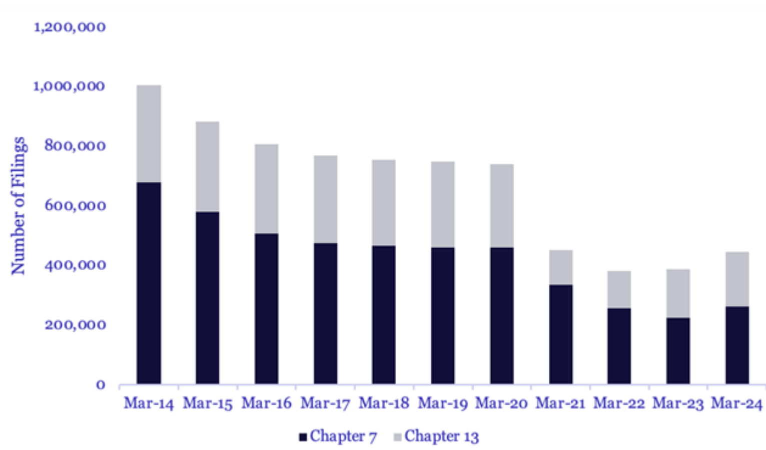
## Early-Stage Delinquencies Continued to Climb in Q1 2024




*Source: Quarterly Report on Household Debt and Credit from the Federal Reserve Bank of New York*

Additionally, more borrowers are also remaining in financial trouble, as evidenced by the rise in personal bankruptcy filings. The U.S. Bankruptcy Courts reported over 447,000 filings in the 12 months leading up to March 31, 2024, marking a 15% increase from the previous year. Around 58% of these filings were under chapter 7, involving the liquidation of nonexempt assets to pay debts, which rose by 17% over the year. The remaining 42% were under chapter 13, where individuals with regular income make scheduled payments to creditors under court-approved plans, which increased by 13%.

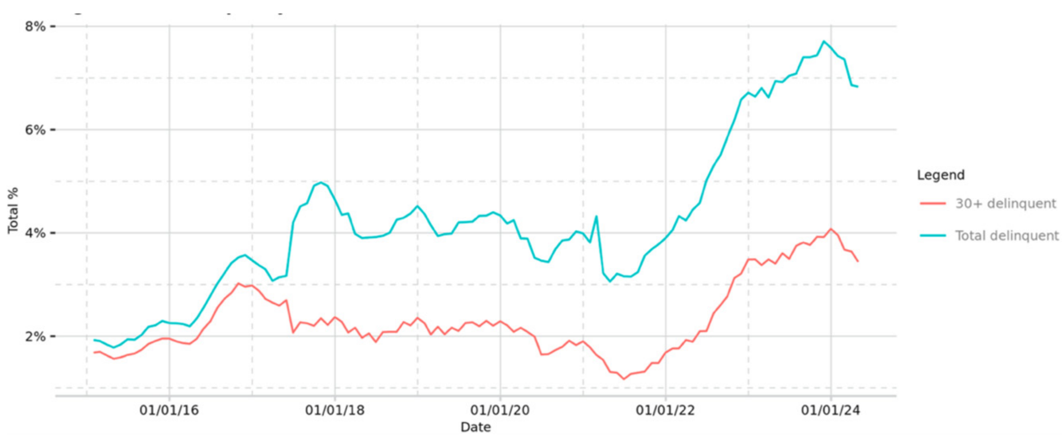
## Personal Bankruptcy Cases by Chapter, During the 12-Mo. Periods Ending March 31




*Source: U.S. Bankruptcy Courts*

However, there are positive signs emerging. Recent data from dv01, a FitchSolutions company, indicates a notable improvement in unsecured consumer loans. April marked the fifth consecutive month of strong performance, with three of those months exceeding seasonal norms. In their May 28 report, dv01 notes that April's performance is nearly on par with the best month in the sector's history, excluding the COVID/stimulus adjustment months. This indicates a significant recovery in unsecured consumer credit performance. The analysis covered over 4.9 million active loans held in securitization trusts and on lender balance sheets, amounting to a total outstanding balance of $49 billion.

**Delinquencies in Unsecured Consumer Loans Fell for the Fifth Straight Month in April**




*Source: dv01, a FitchSolutions Company, Consumer Unsecured, Auto Performance, April 2024 data period*

ABS trusts backed by credit card and unsecured consumer loans generally reflect overall performance trends. However, the extent of deterioration is notably lower for credit card ABS. This is because the loans in credit card ABS are generally well-seasoned and of higher credit quality than those in the broader credit card market. FitchRatings' Credit Card Index, established over 25 years ago, currently monitors around $130 billion of prime general-purpose credit card loans originated by institutions such as Bank of America, Citibank, Chase, Capital One, and Discover. The index reported that the 60+ day delinquency rate decreased for the second consecutive month to 1.04%.

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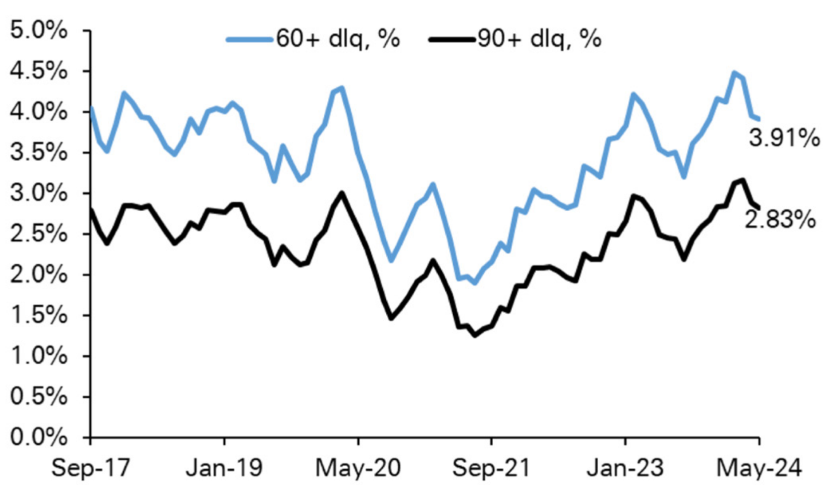
**Fitch: 60+ Delinquency Rates Improve for Prime Credit Card ABS**


*Source: FitchRatings ABS Credit Card Indice, Delinquency Index*

**60+ and 90+ Delinquency Rates Improve for Unsecured Consumer Loan ABS**




*Source: Intex, Deutsche Bank Research*