

NCBA 2023 EXECUTIVE EXPERIENCE

Ojai, CA | January 11-13



An aerial photograph of a golf course with green fairways and sand traps, set against a backdrop of rolling mountains under a clear blue sky. The image is partially obscured by a dark blue rectangular overlay containing white text.

Industry Point of View

Presented by







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Senior Director of Financial Services Consulting - TransUnion

Today's Agenda

-  Macroeconomic Update and Credit Market Overview
-  Outlook for Debt Buyers
-  Bankcard
-  Unsecured Personal Loan
-  Appendix - Auto Financing
-  Appendix - Mortgage and HELOC





Macroeconomic Update



There are a few key trends impacting the economy



Q4 GDP totals are forecast to reflect growth, but many economists expect at least a mild recession in 2023

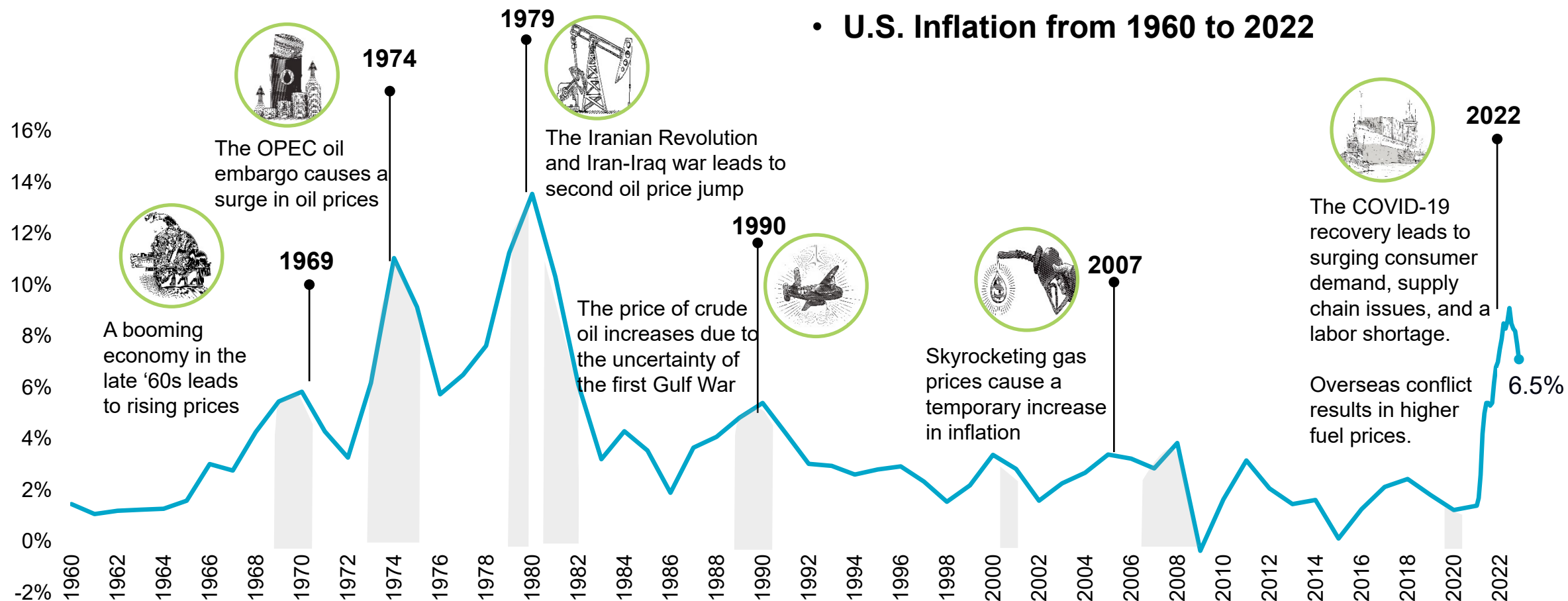


Consumers continue to be negatively impacted by inflation, which remains well-beyond Fed's target rate of 2%

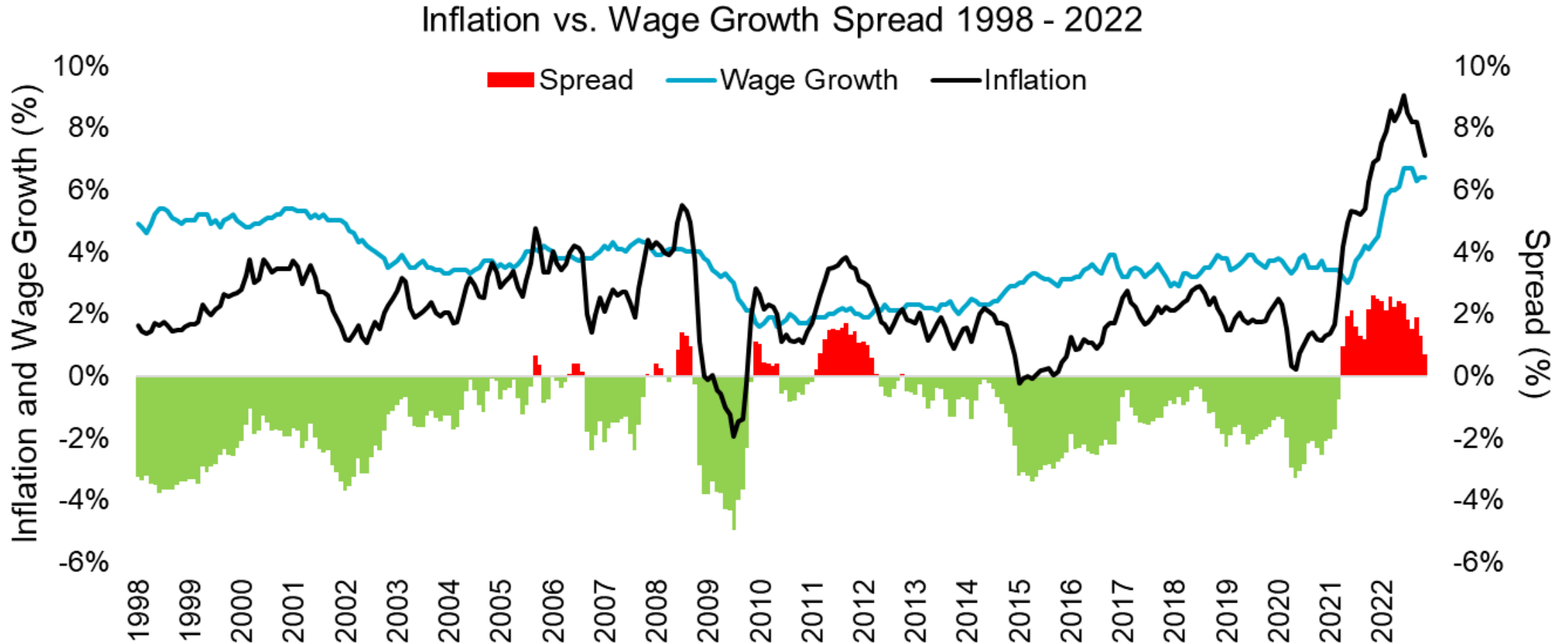


Solid job growth and low unemployment levels remain a positive

High inflation levels pose a risk to economic growth, as the Fed will likely continue raising interest rates in response

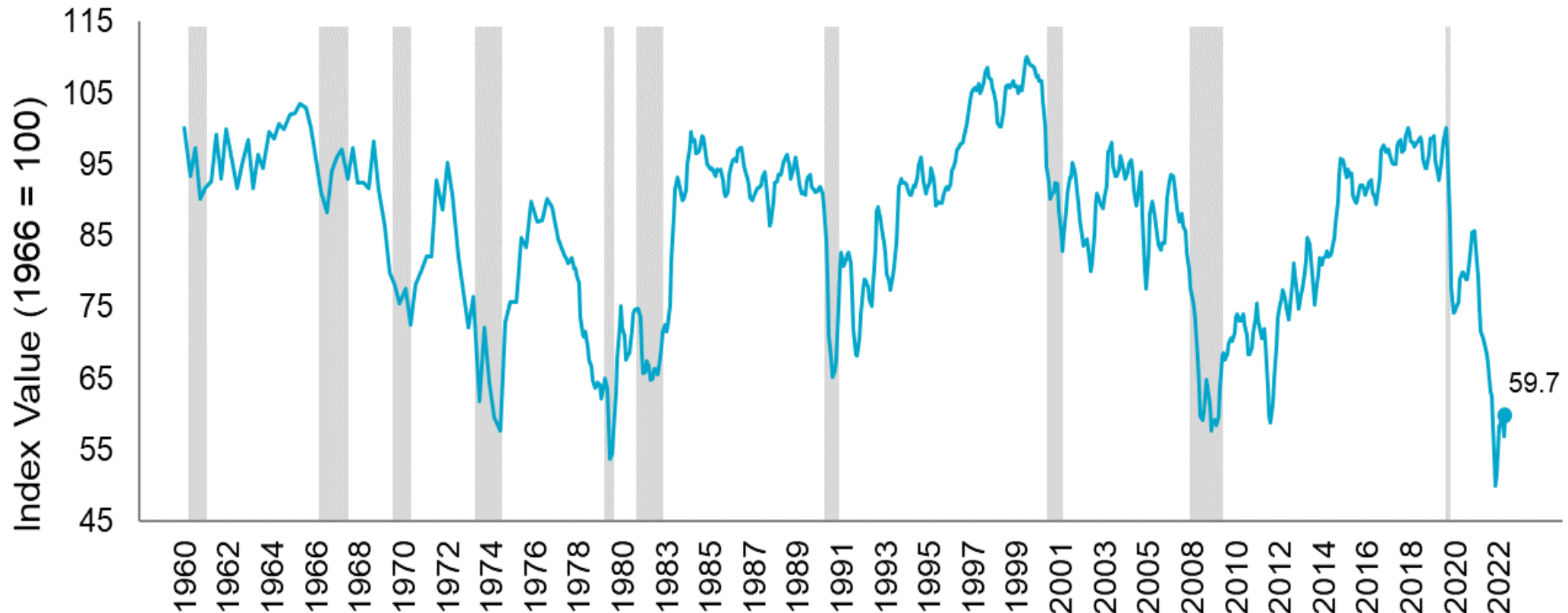


Wages have been trending higher since the pandemic, but inflation has wiped out those gains



Consumer sentiment has improved in recent months, but remains depressed due to inflation and economic concerns

The Index of Consumer Sentiment

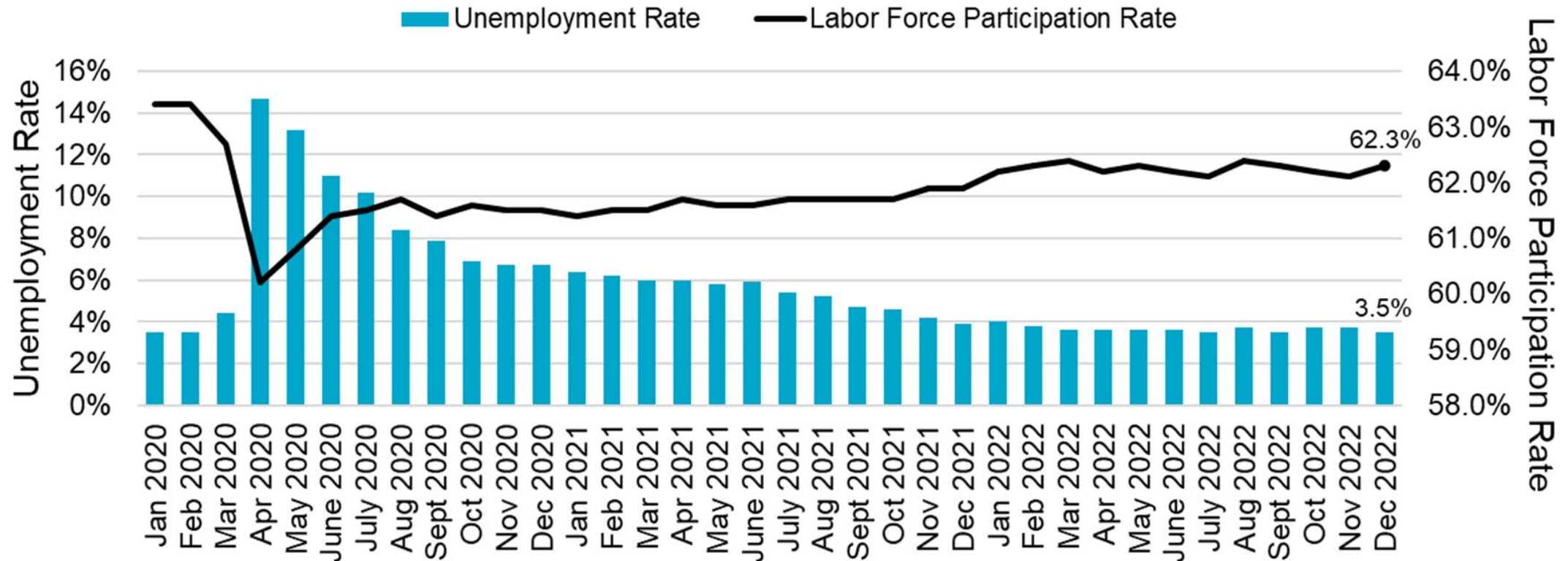


Grey areas represent recessionary periods in the US

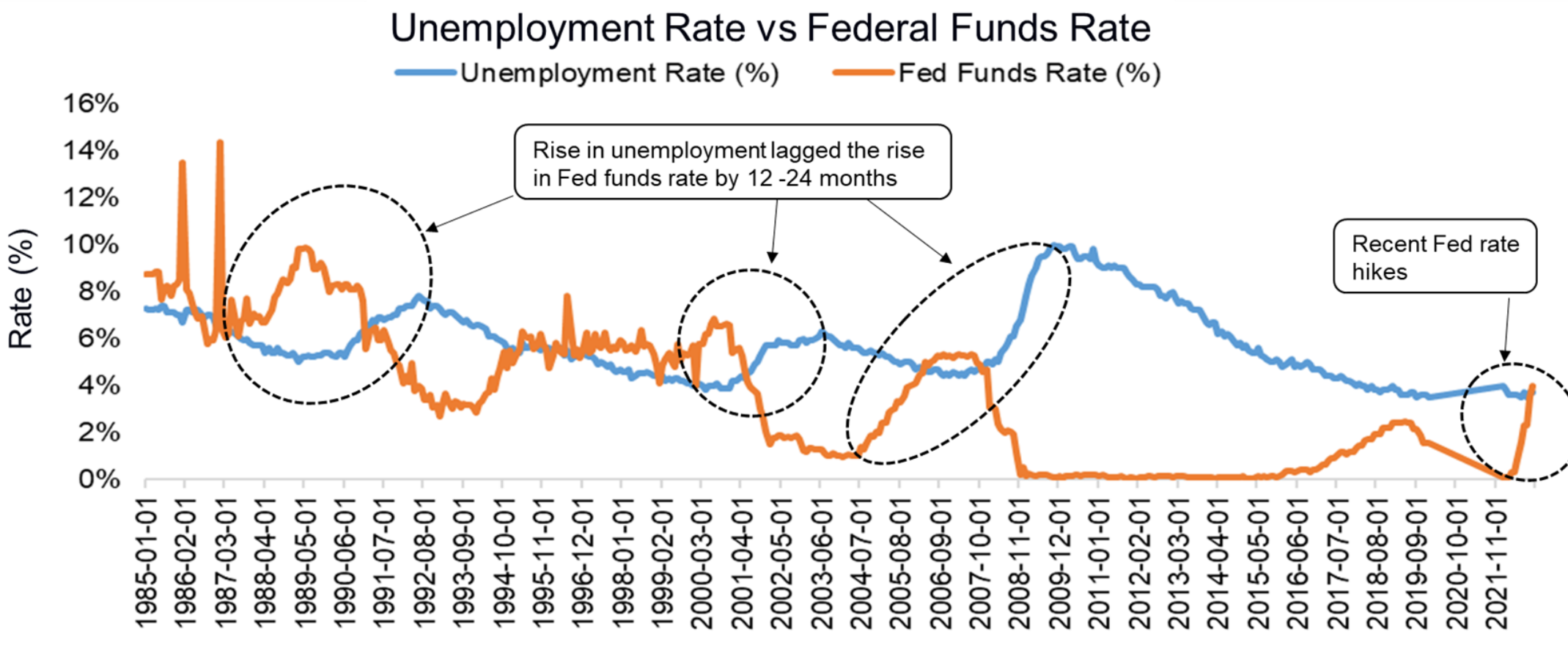
Source: University of Michigan Survey of Consumers

Despite these headwinds, the job market remains a bright spot in the economy, with the unemployment rate remaining low

Unemployment and Labor Force Participation Rates, Monthly



Rising interest rates are likely to negatively impact unemployment totals in the coming months



Source: FRED

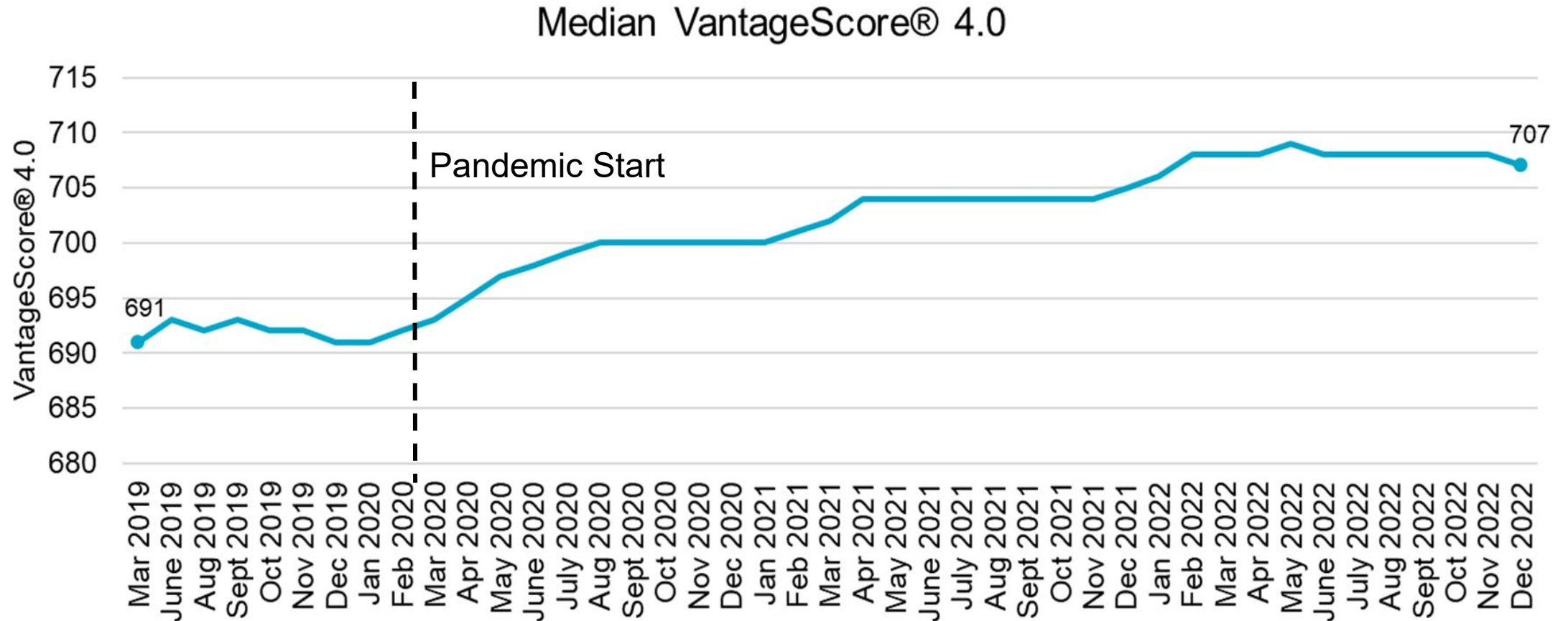


Credit Market Overview

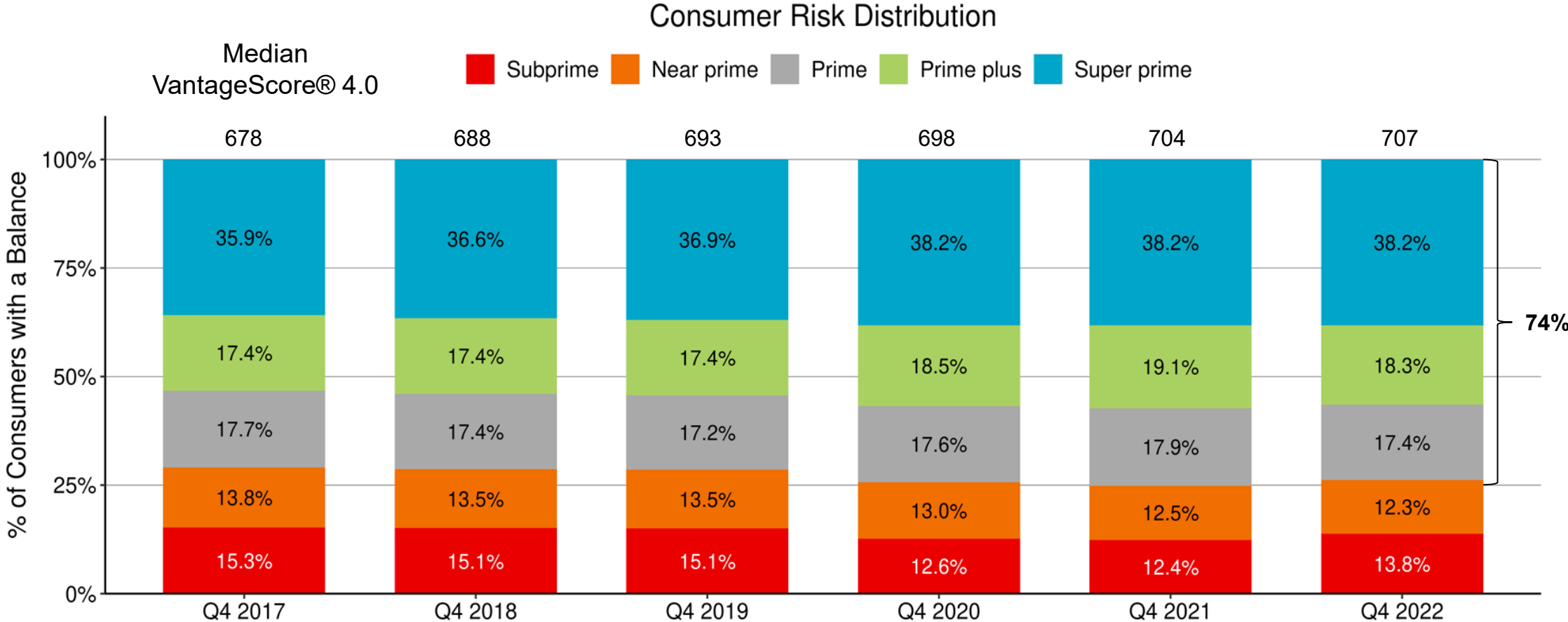
A review of consumer credit activity



Positive score migration has slowed in recent months due to rising balances, delinquency and utilization rates



Risk distributions remain weighted towards prime and above consumers, though subprime has increased

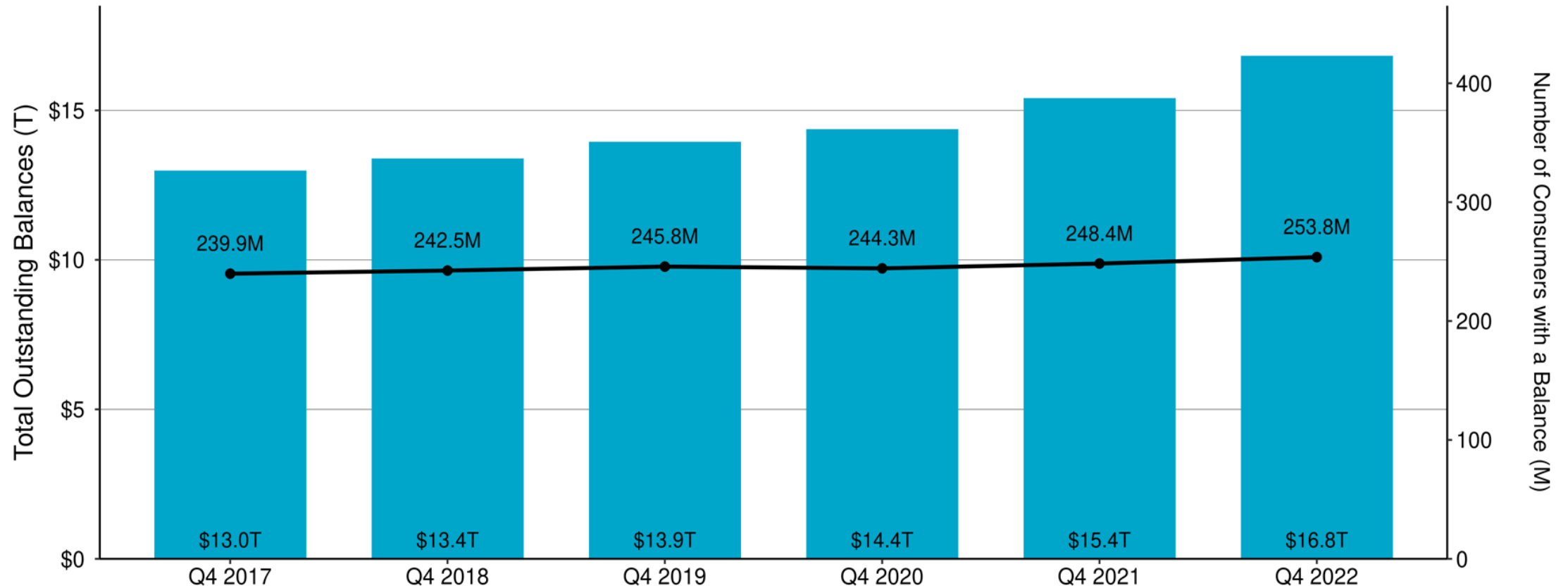


VantageScore® 4.0 risk ranges
 Subprime = 300–600, Near prime = 601–660, Prime = 661–720, Prime plus = 721–780, Super prime = 781+

Totals may not equal 100 due to rounding
 Source: TransUnion US consumer credit database

Higher inflation has contributed to an increase in consumer borrowing across all products

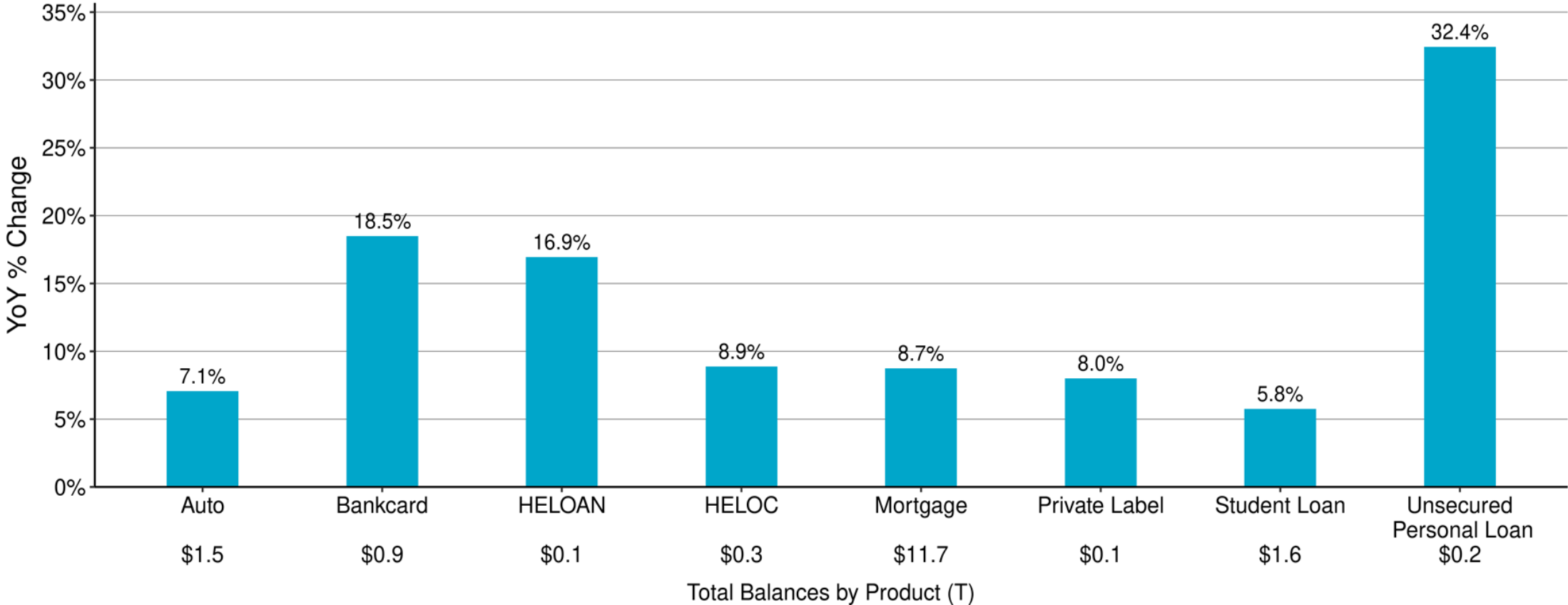
Total Consumer Balances and Participation



Source: TransUnion US consumer credit database

Bankcard and UPL balances have risen sharply, as consumers have increasingly turned to credit

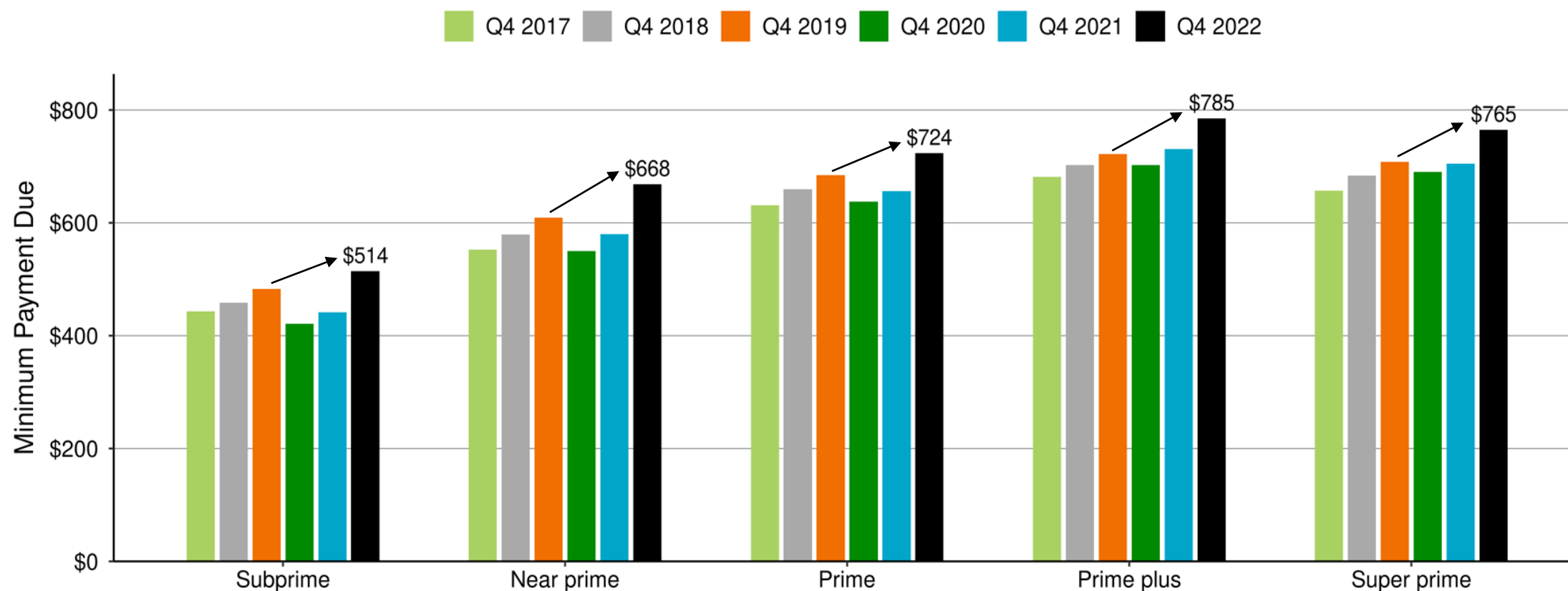
Balance Growth by Product, Q4 2022



Source: TransUnion US consumer credit database

Recent balance growth has translated into higher minimum payment due obligations for consumers, exceeding 2019 levels

Average Minimum Payment Due per Consumer with a Balance, by Risk Tier

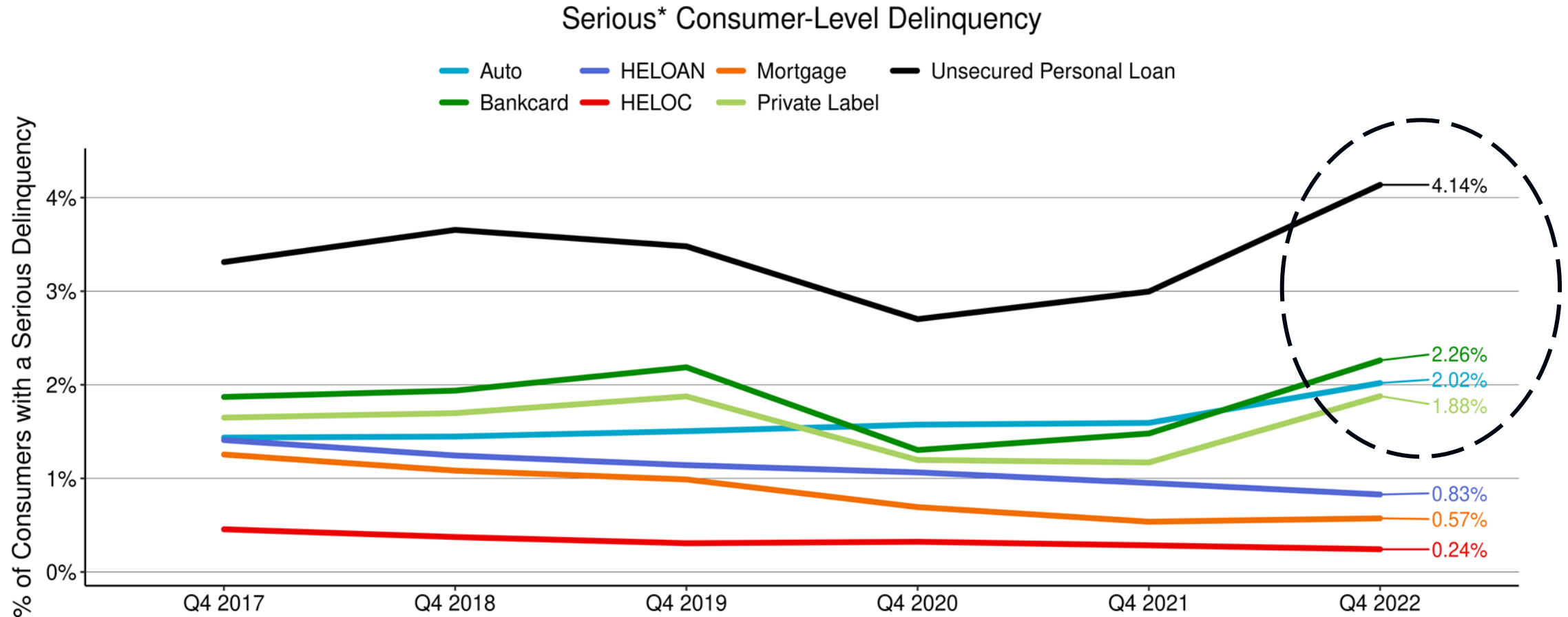


VantageScore® 4.0 risk ranges

Subprime = 300–600, Near prime = 601–660, Prime = 661–720, Prime plus = 721–780, Super prime = 781+

Source: TransUnion US consumer credit database

Serious consumer-level delinquency has been climbing in recent months

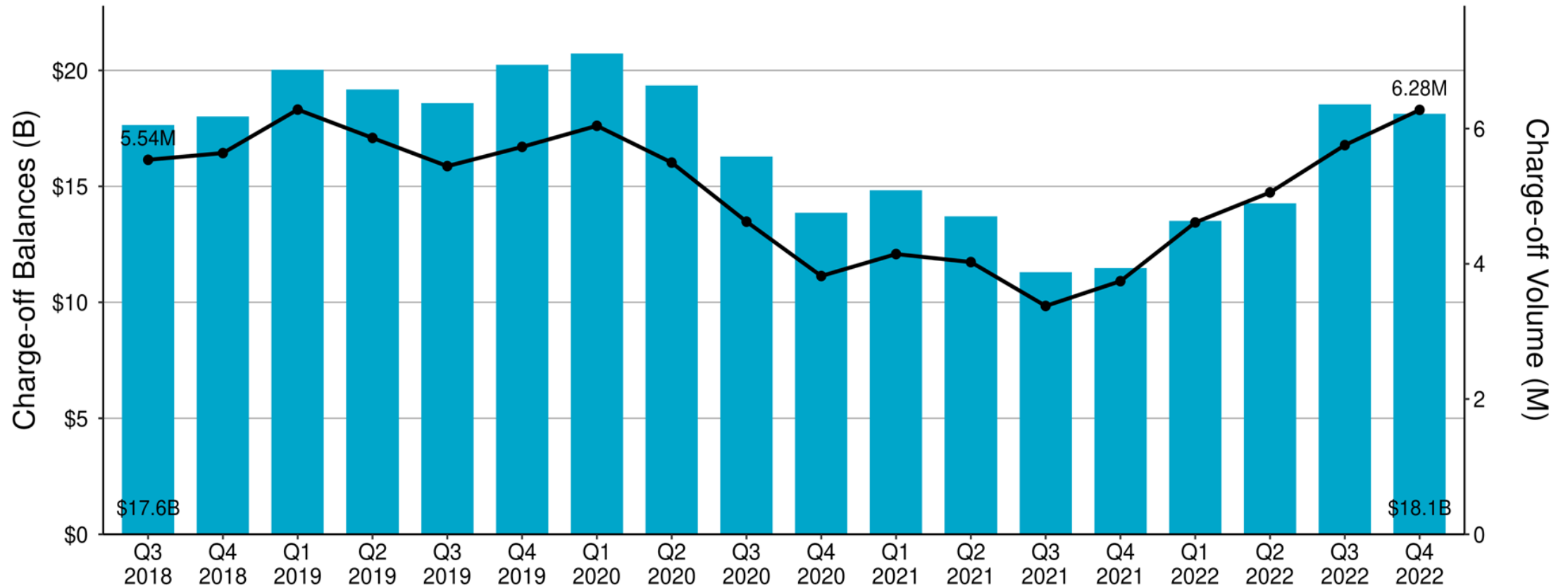


*Serious delinquency considered as 90+DPD for card, mortgage, private label, HELOAN and HELOC, 60+ DPD for all other products

Source: TransUnion US consumer credit database

Charge-off accounts and balances continue to trend towards their pre-pandemic levels

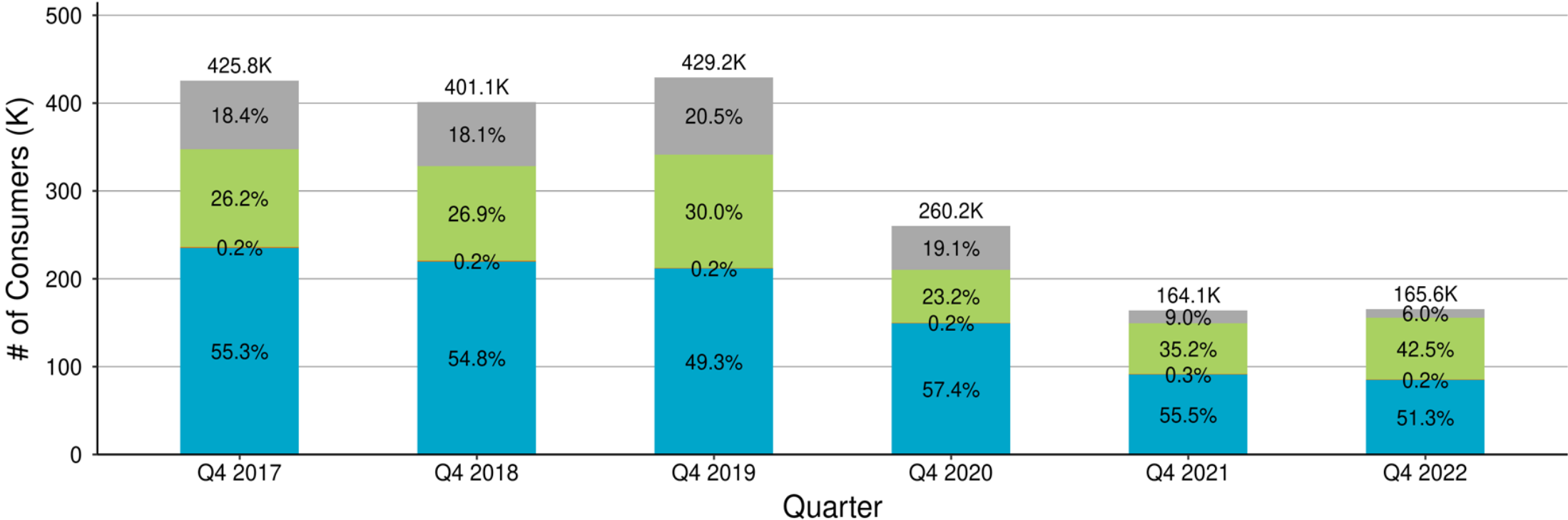
Total Volume and Balances of Accounts Entering Charge-off



Despite the rise in delinquencies, bankruptcy filings have remained steady over the past year

Consumers Declaring Bankruptcy

Chapter 7 Chapter 11 Chapter 12 & 13 Other/Unknown



Totals may not equal 100 due to rounding
 Source: TransUnion US consumer credit database

To summarize the outlook for the US economy and consumer credit:



GDP is forecast to drop in 2023, with a mild recession starting in Q2 or Q3 the most likely scenario



Unemployment and consumer spending have thus far held up well, countering further dips in economic activity



Consumers have increasingly relied on credit to prop up spending – their ability to manage higher debt levels will be key in 2023



Outlook for Debt Buyers



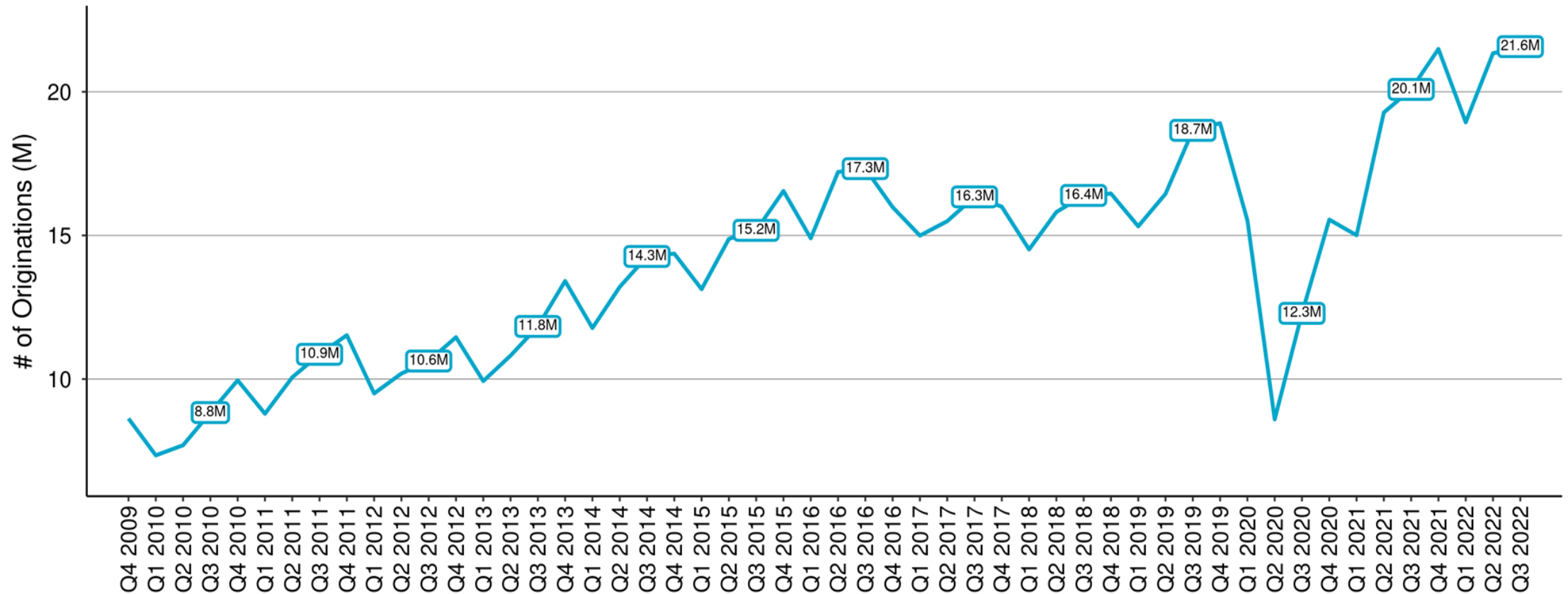
TransUnion^{tu}

Bankcard



Bankcard originations remain elevated, recording their highest total on record at 21.6M

Total Volume of Bankcard Originations

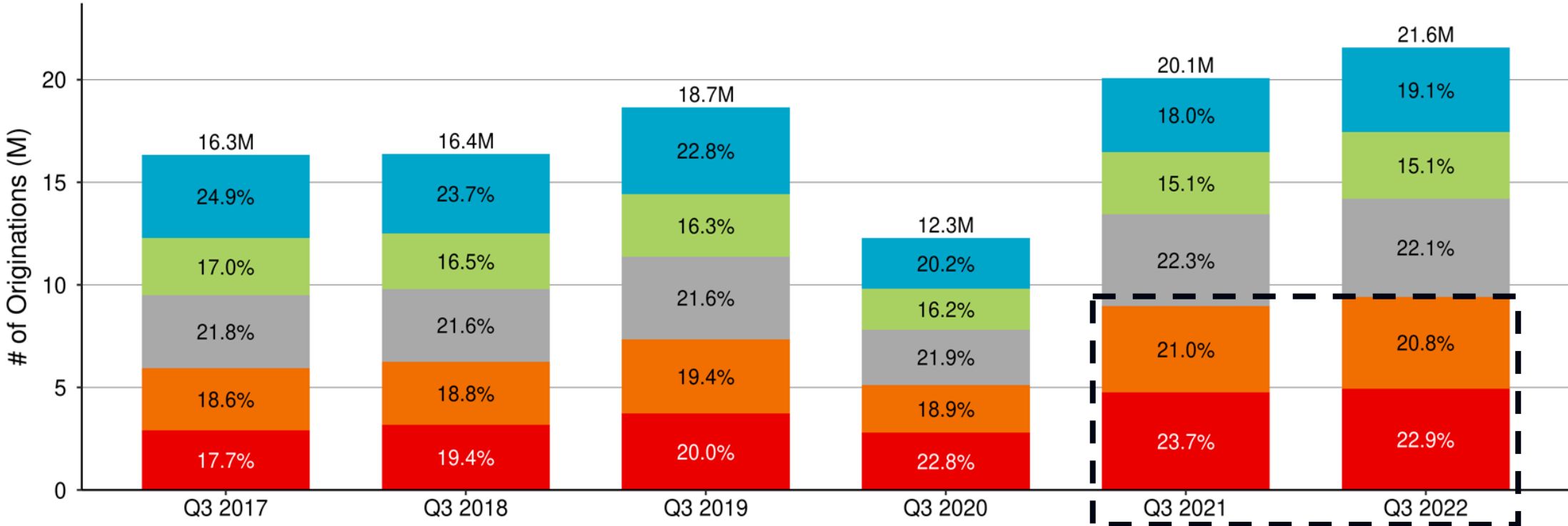


Source: TransUnion US consumer credit database

The distribution of bankcard originations to below prime tiers has increased as compared to pre-pandemic

Total Number of Bankcard Originations, by Risk Tier

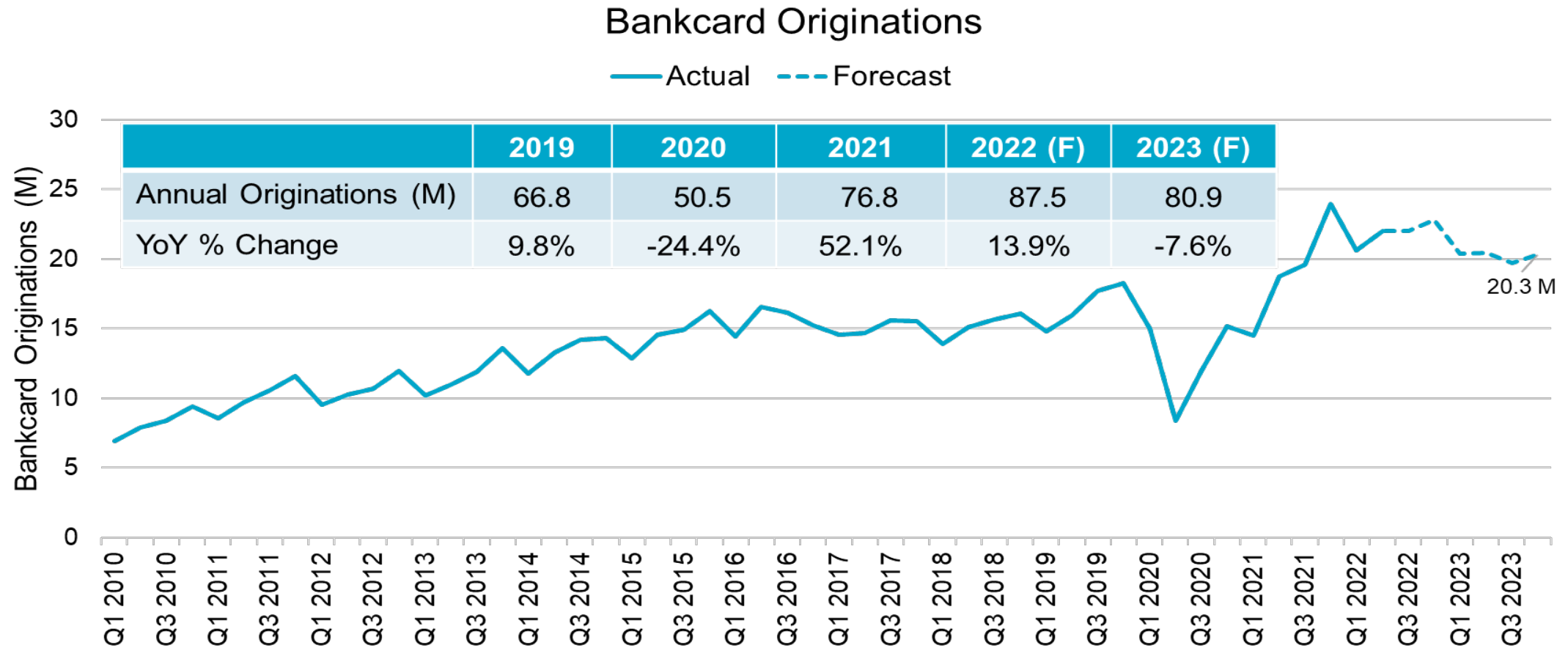
■ Subprime
 ■ Near prime
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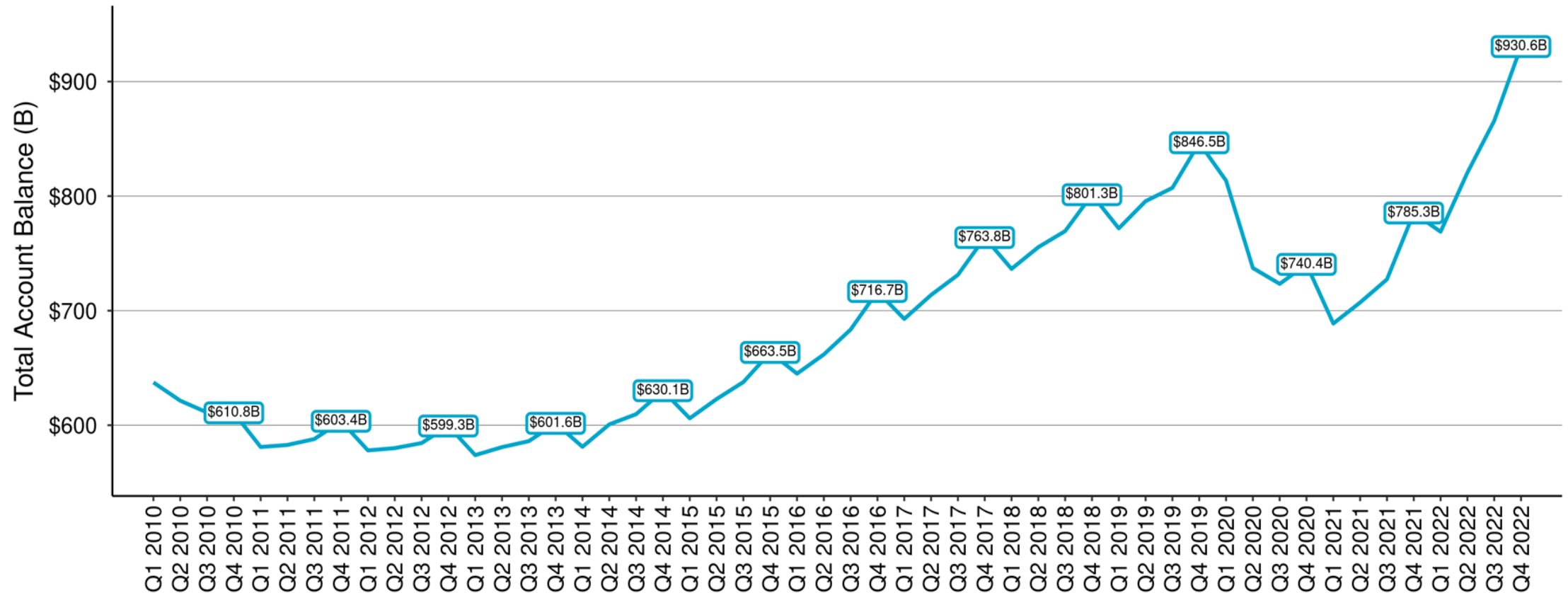
Totals may not equal 100 due to rounding
 Source: TransUnion US consumer credit database

Bankcard originations are expected to remain above the 20M level throughout 2023



Bankcard balances achieved a new record of \$930.6B on increased spending and account growth

Total Bankcard Account Balance

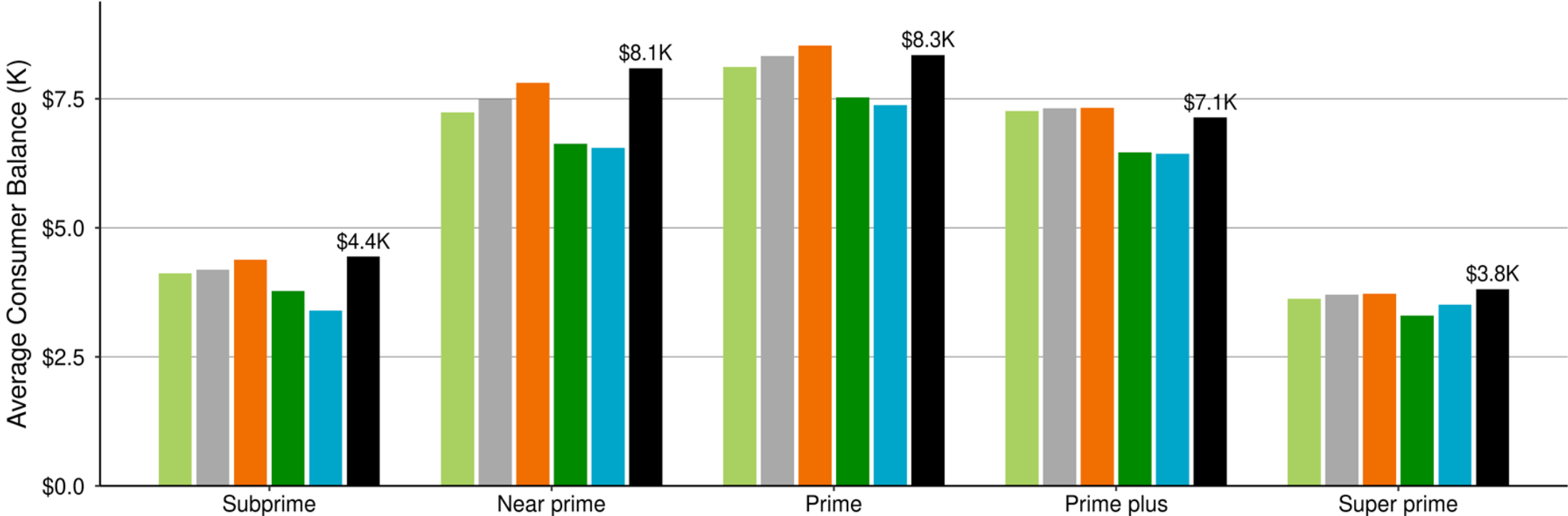


Source: TransUnion US consumer credit database

Despite total balance acceleration, the average balance per consumer remains near 2019 levels for each tier

Average Bankcard Balance per Consumer, by Risk Tier

Q4 2017 Q4 2018 Q4 2019 Q4 2020 Q4 2021 Q4 2022

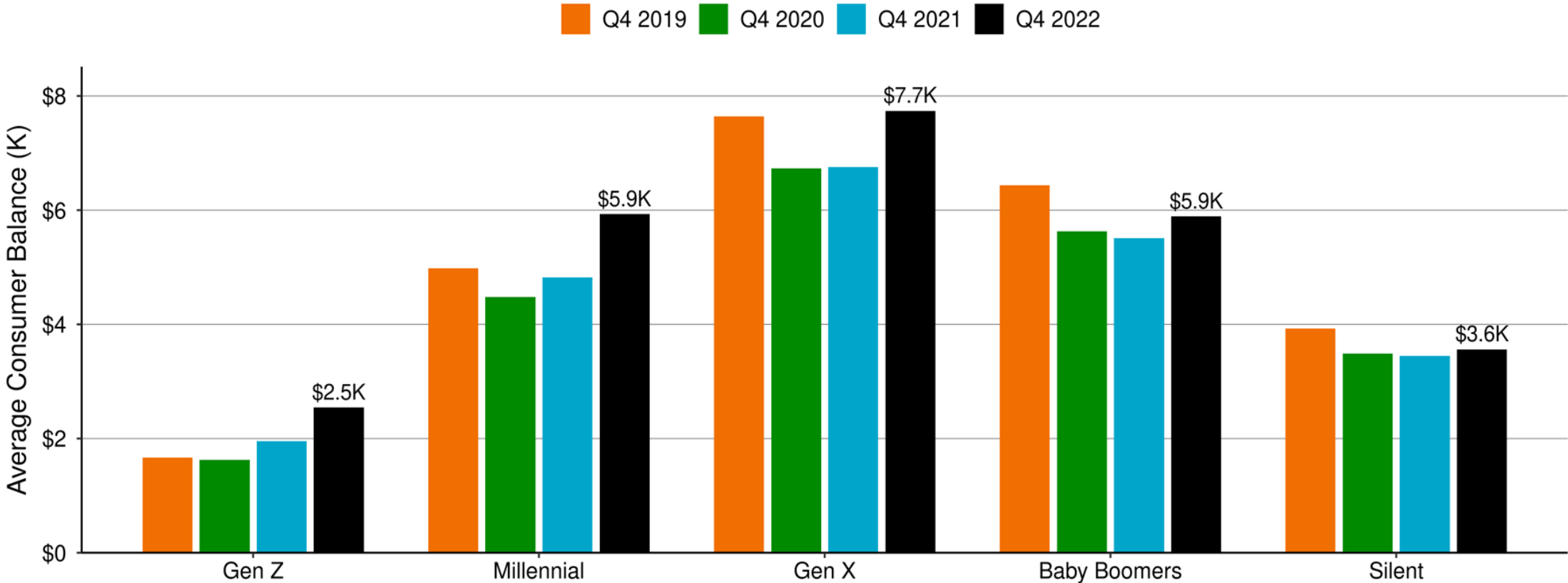


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Source: TransUnion US consumer credit database

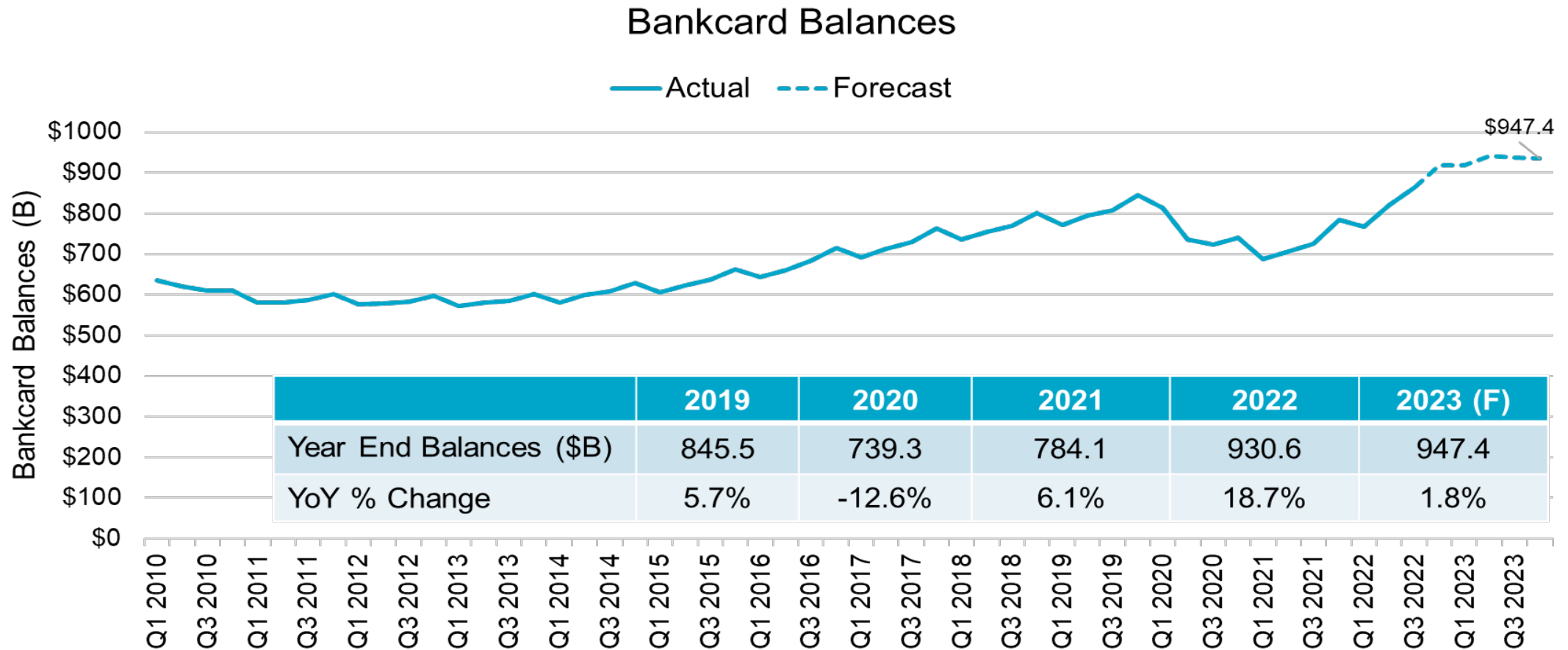
The average balance per consumer for Generation Z and Millennials far exceed their pre-pandemic levels

Average Bankcard Balance per Consumer, by Generation

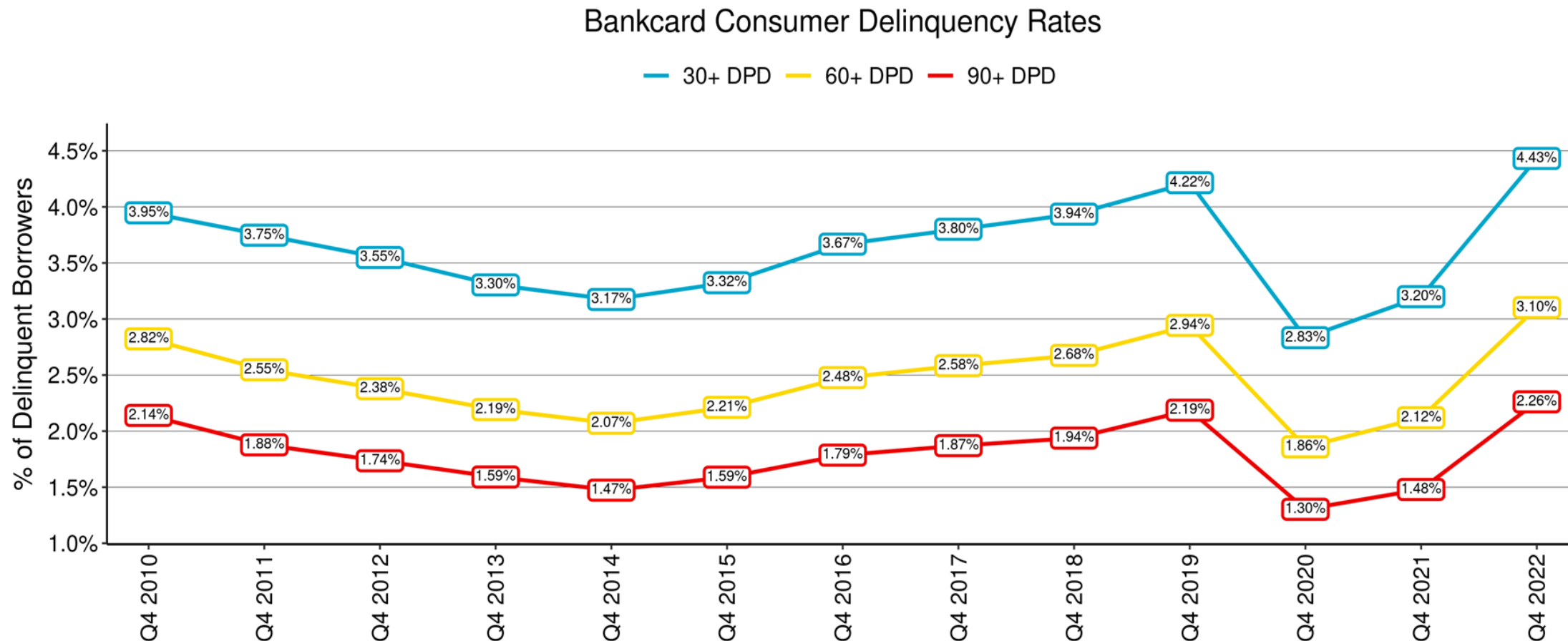


Source: TransUnion US consumer credit database

Bankcard balances are forecast to climb higher in 2023 due to elevated levels of inflation and lower liquidity



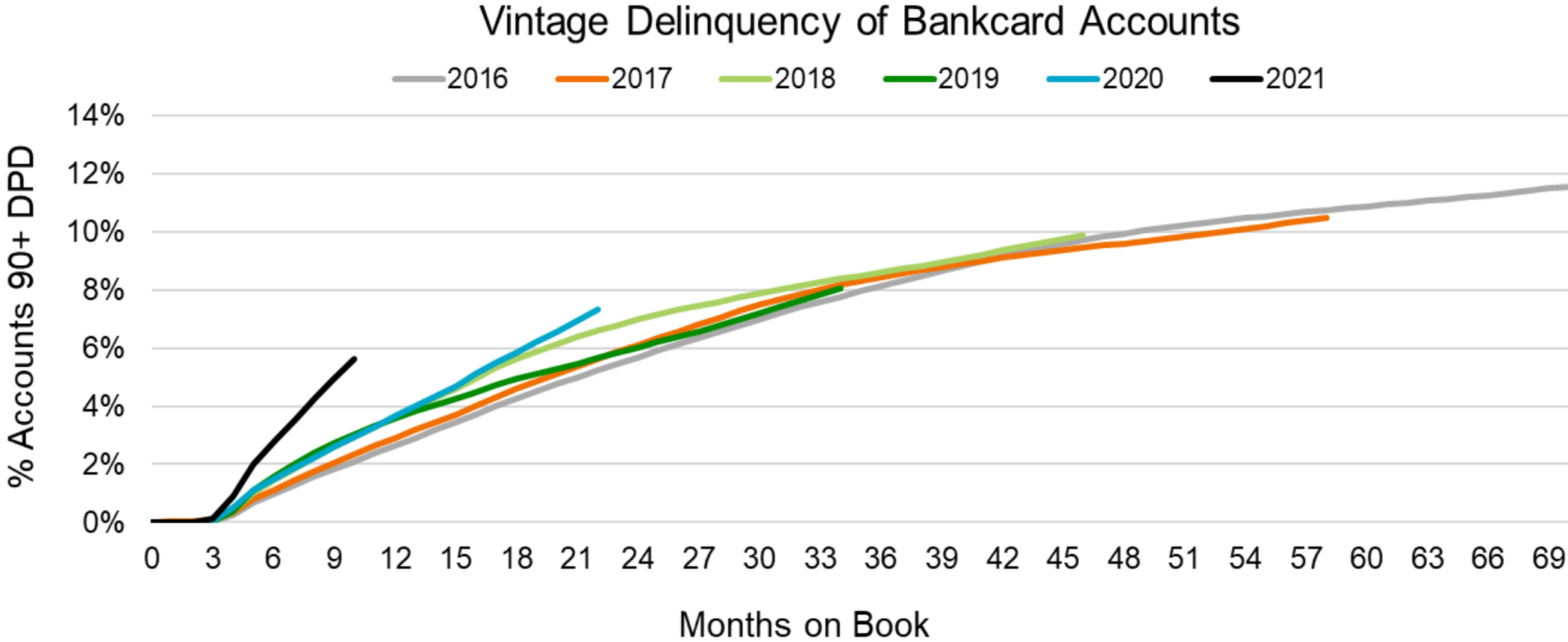
Bankcard delinquencies have been increasing, due primarily to lower liquidity in the market and additional risk in the portfolio



*Serious delinquency considered as 90+DPD for card, mortgage, private label, HELOAN and HELOC, 60+ DPD for all other products

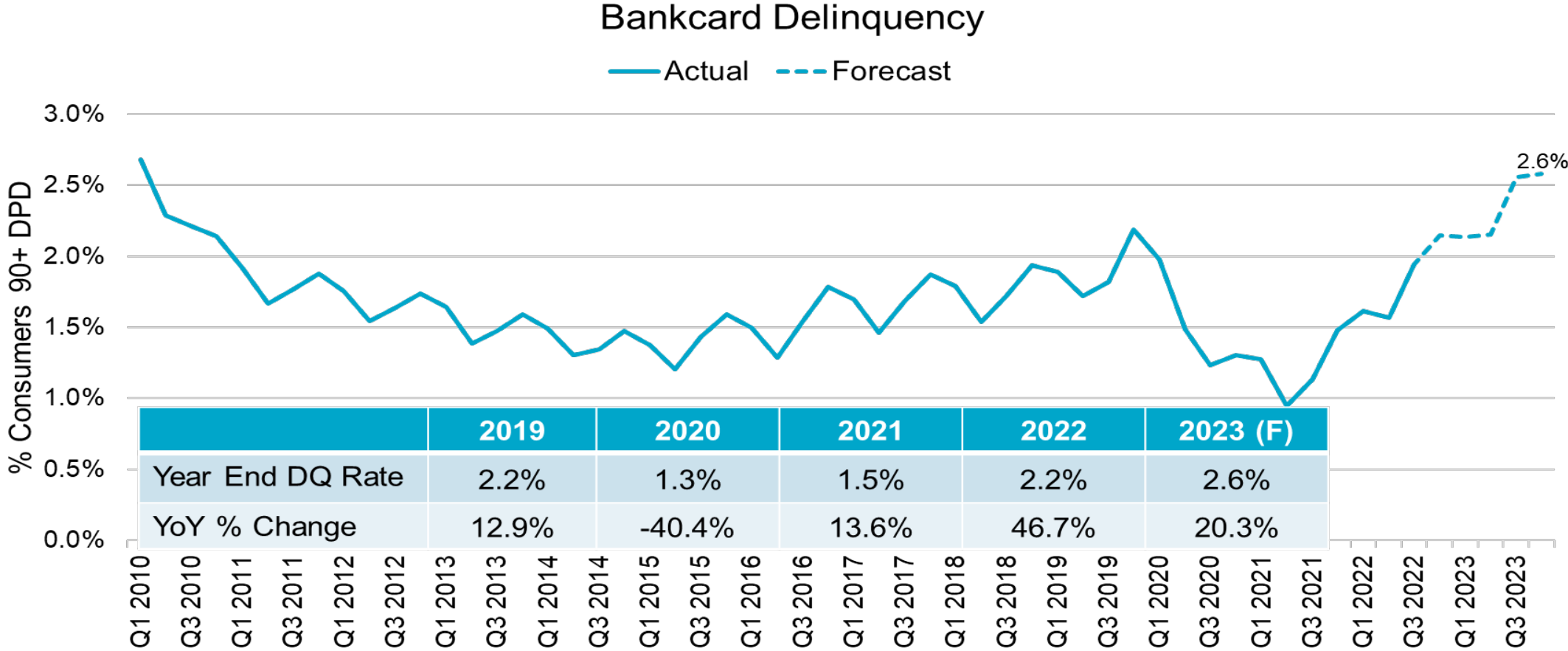
Source: TransUnion US consumer credit database

Recent bankcard yearly vintages reflect significant deterioration as compared to previous cohorts



Source: Prama © Vintage Analysis

Bankcard serious consumer-level delinquency is forecast to continue climbing in 2023



*Serious delinquency considered as 90+DPD for card, mortgage, private label, HELOAN and HELOC, 60+ DPD for all other products

Source: TransUnion US consumer credit database
Oxford Economics Forecast

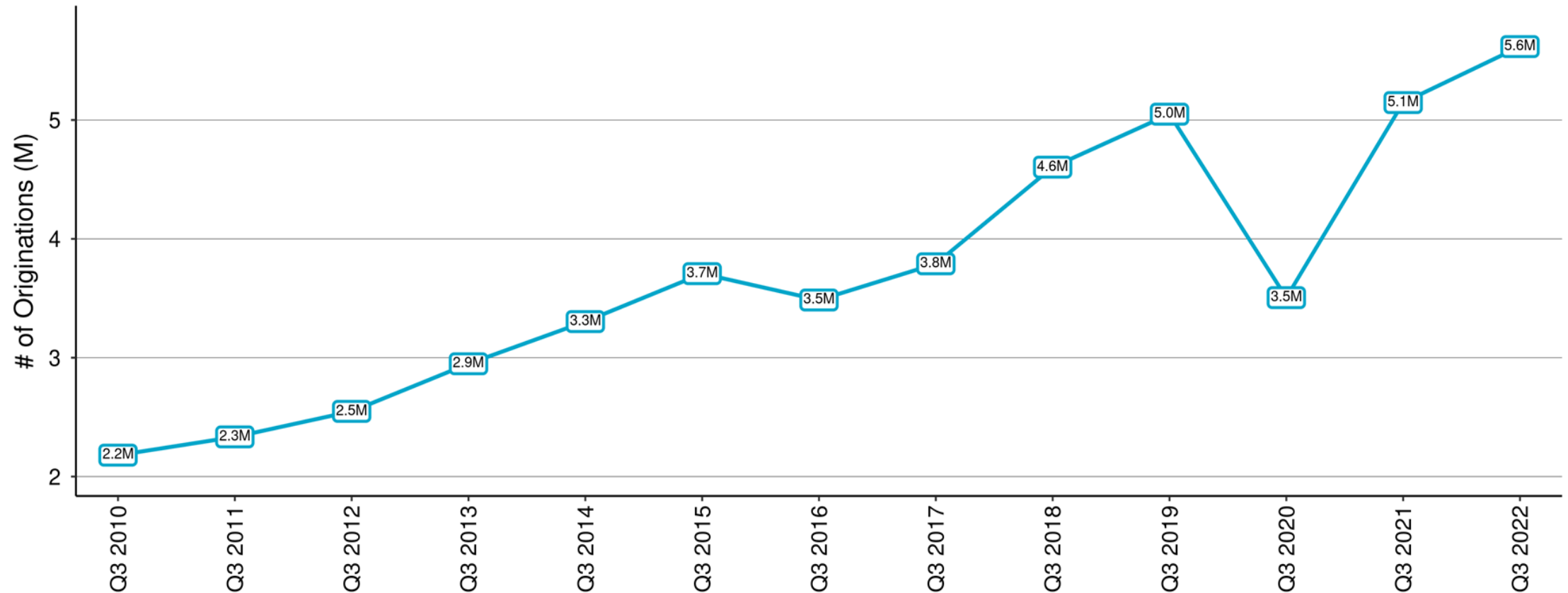


Unsecured Personal Loan



Unsecured personal loan originations continue to trend higher, at 5.6 million in Q3

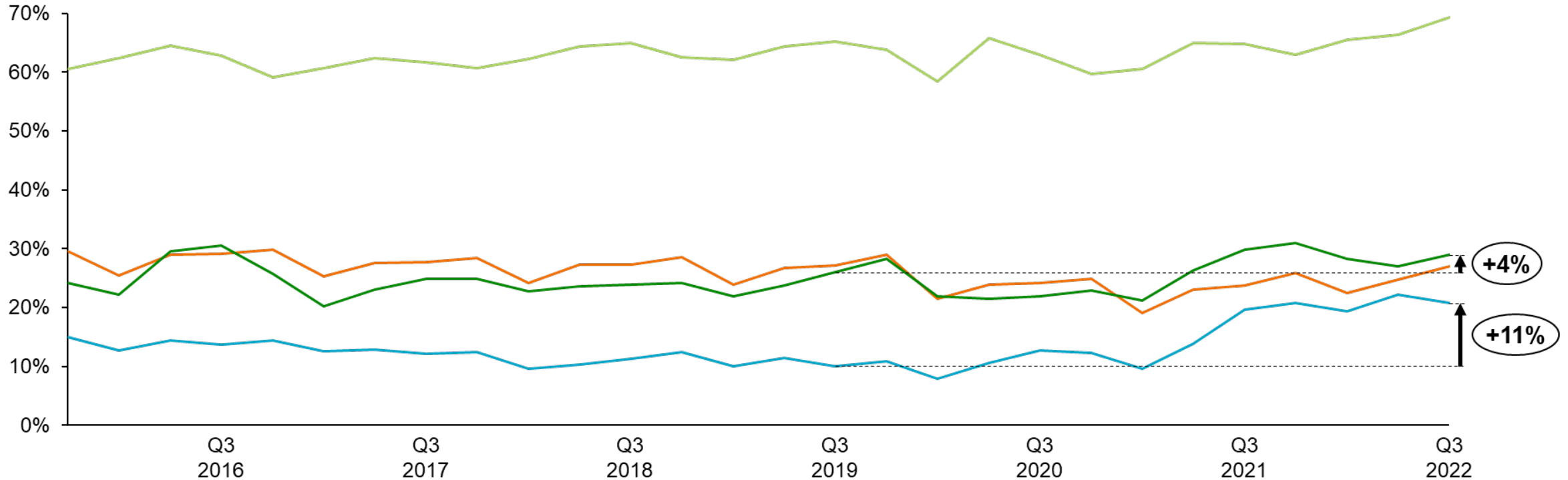
Total Volume of Unsecured Personal Loan Originations



Bank and FinTech lenders expanded subprime originations over the past year

% of Origination Volume to Subprime Consumers

— Bank — Credit Union — Finance Company — FinTech

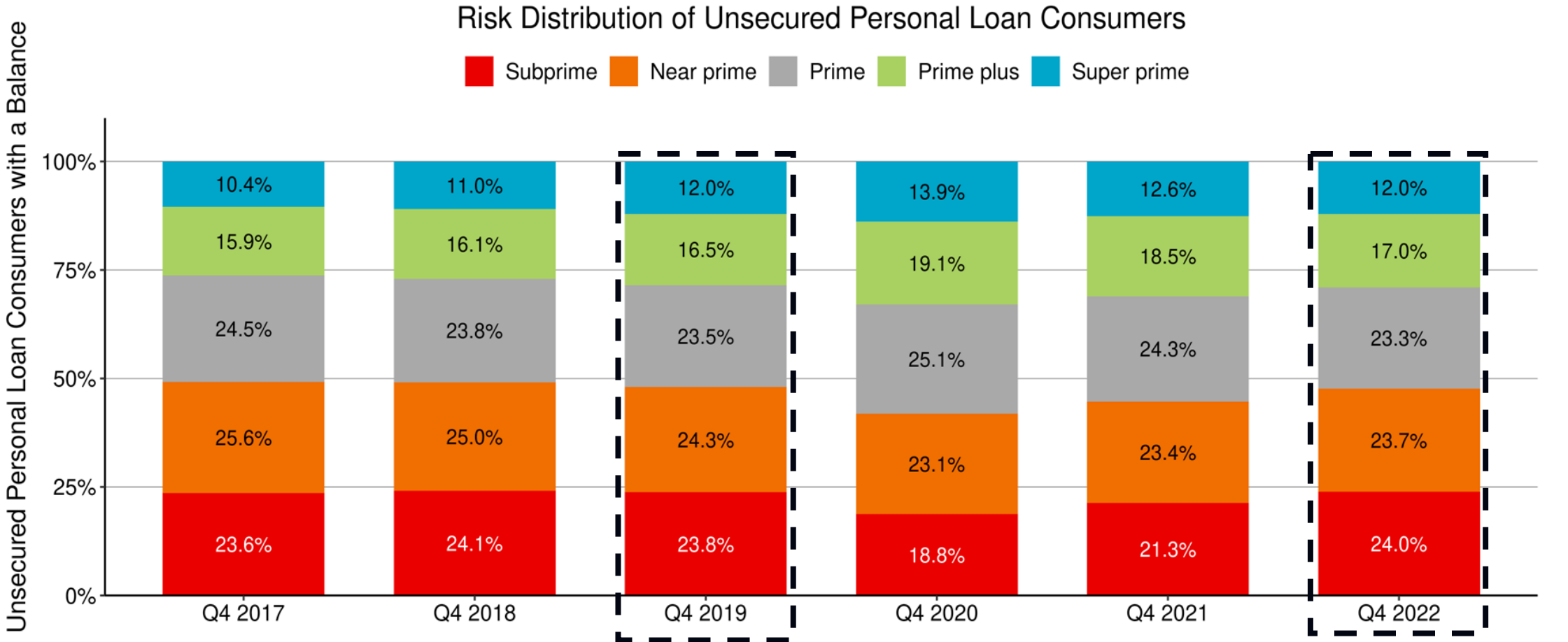


VantageScore® 4.0 risk ranges

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Source: TransUnion US consumer credit database

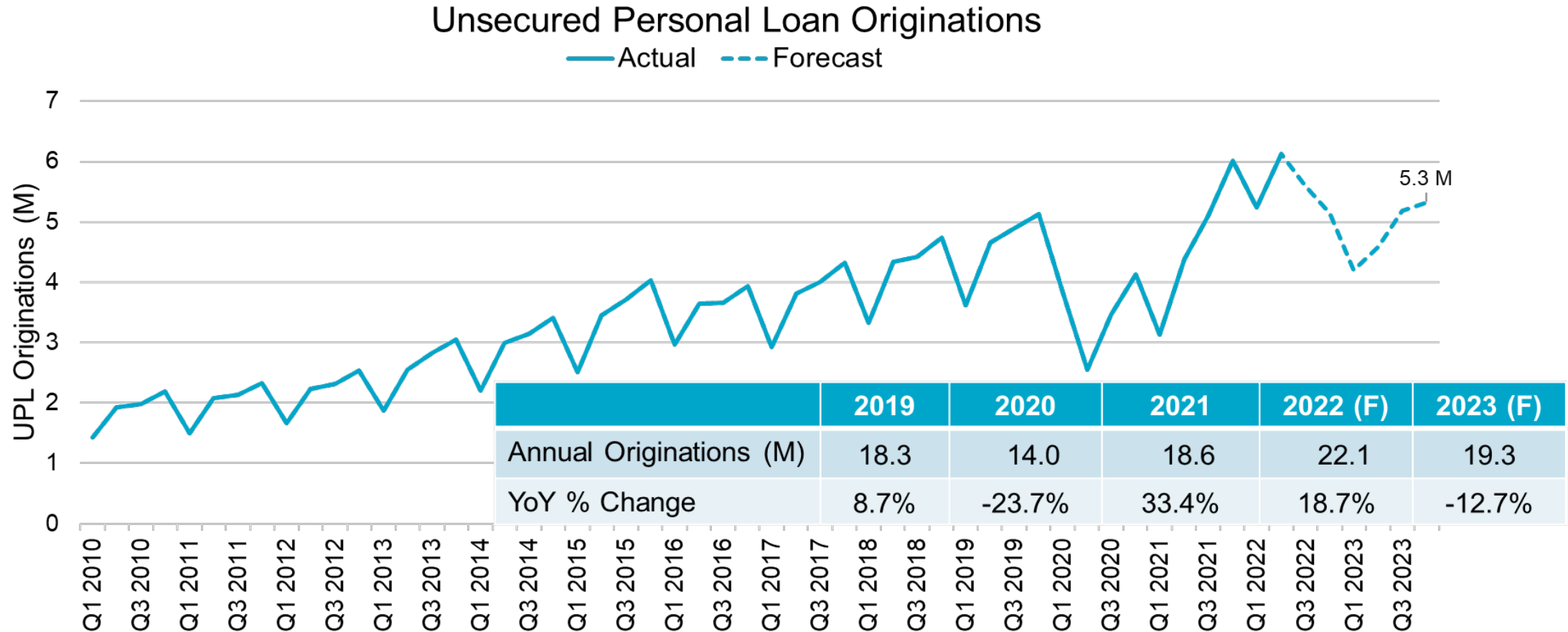
Unsecured personal loan consumer risk distributions have largely returned to Q4 2019 levels



VantageScore® 4.0 risk ranges
 Subprime = 300–600, Near prime = 601–660, Prime = 661–720, Prime plus = 721–780, Super prime = 781+

Totals may not equal 100 due to rounding
 Source: TransUnion US consumer credit database

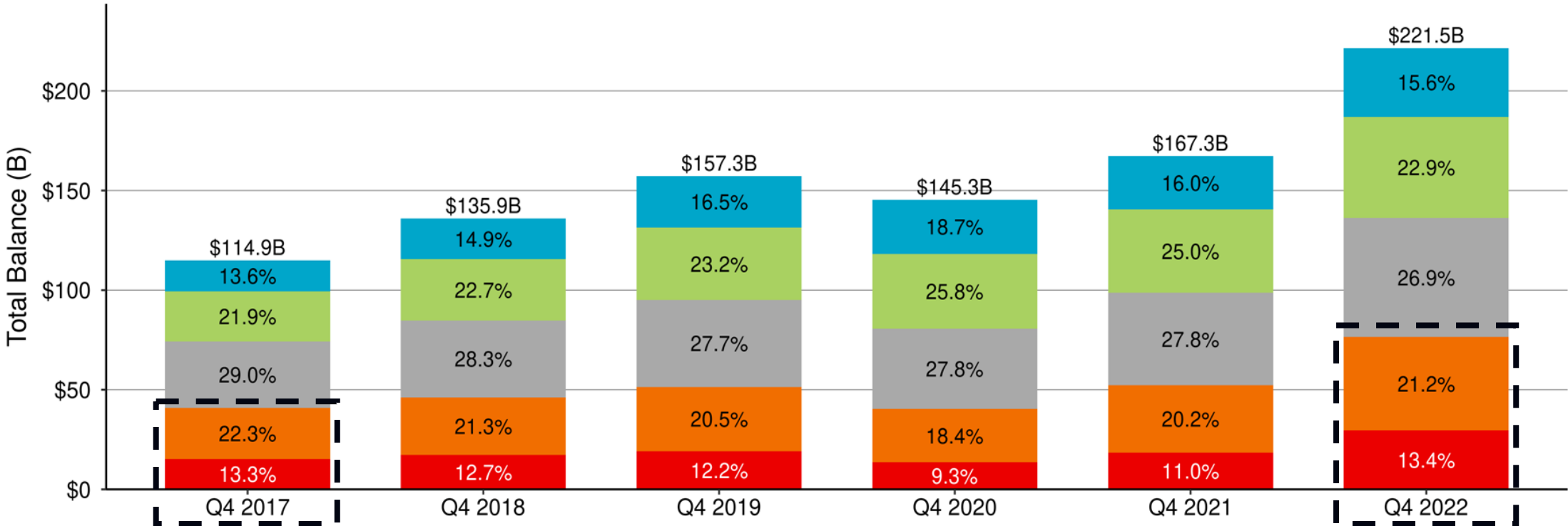
Personal loan originations are forecast to remain above 2019 levels



Total balances set a new record in Q4 2022, with below prime distributions at their highest level since 2017

Total Unsecured Personal Loan Balances, by Risk Tier

■ Subprime
 ■ Near prime
 ■ Prime
 ■ Prime plus
 ■ Super prime

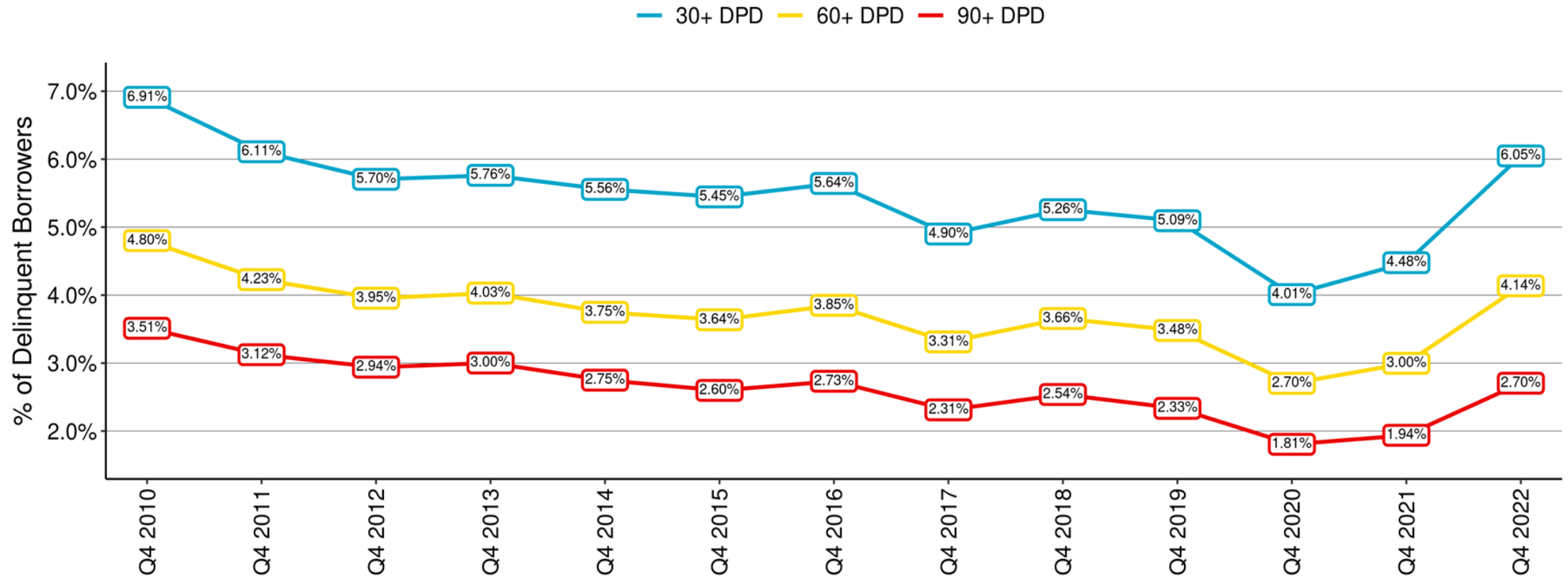


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 Subprime = 300–600, Near prime = 601–660, Prime = 661–720, Prime plus = 721–780, Super prime = 781+

Totals may not equal 100 due to rounding
 Source: TransUnion US consumer credit database

Unsecured personal loan serious 60+ DPD delinquency rates are at their highest level since 2011

Unsecured Personal Loan Consumer Delinquency Rates

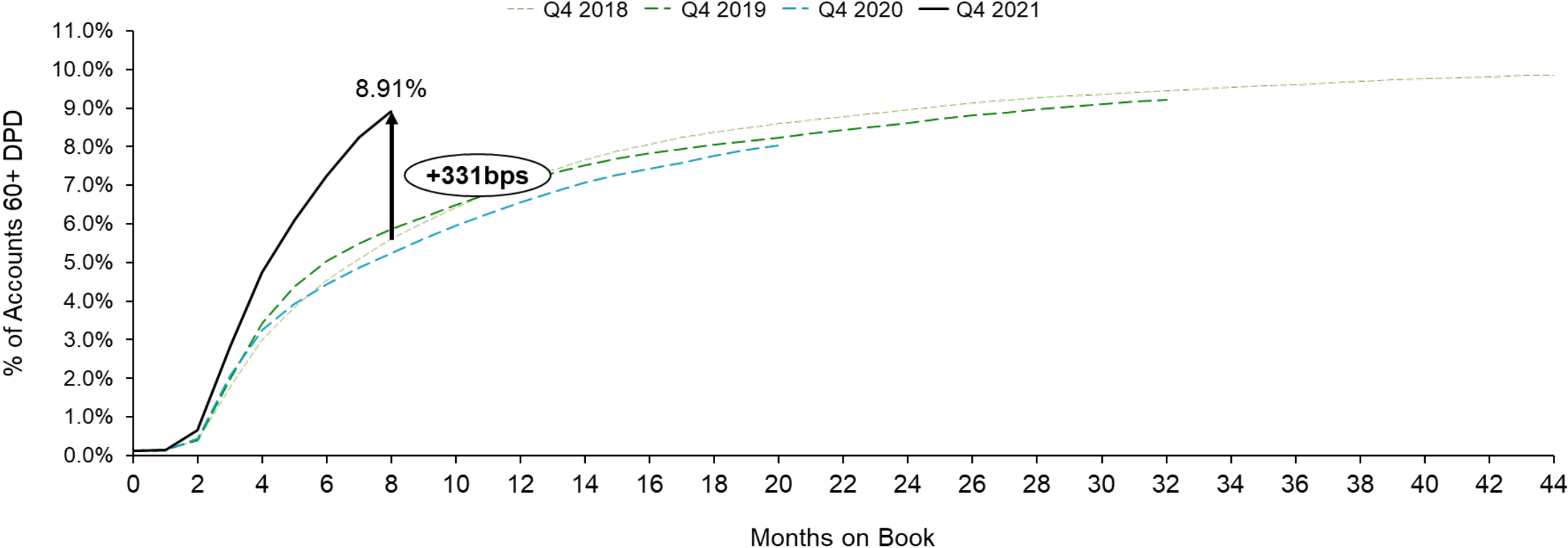


*Serious delinquency considered as 90+DPD for card, mortgage, private label, HELOAN and HELOC, 60+ DPD for all other products

Source: TransUnion US consumer credit database

Recent vintages from Q4 2021 are performing 331bps worse than the Q4 2018 cohort

Vintage Delinquency of Unsecured Personal Loans

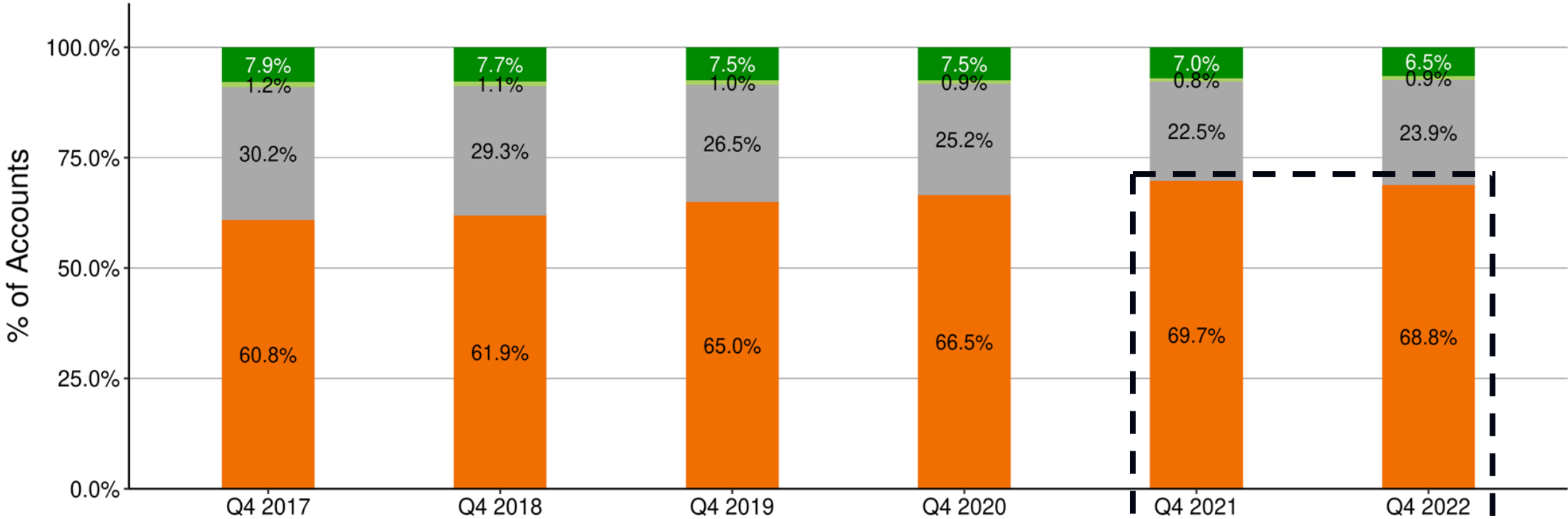


Source: Prama © Vintage Analysis

Roll forward rates remain significantly elevated as compared to previous years

Unsecured Personal Roll Rates

Cure Roll Back Maintain Roll Forward



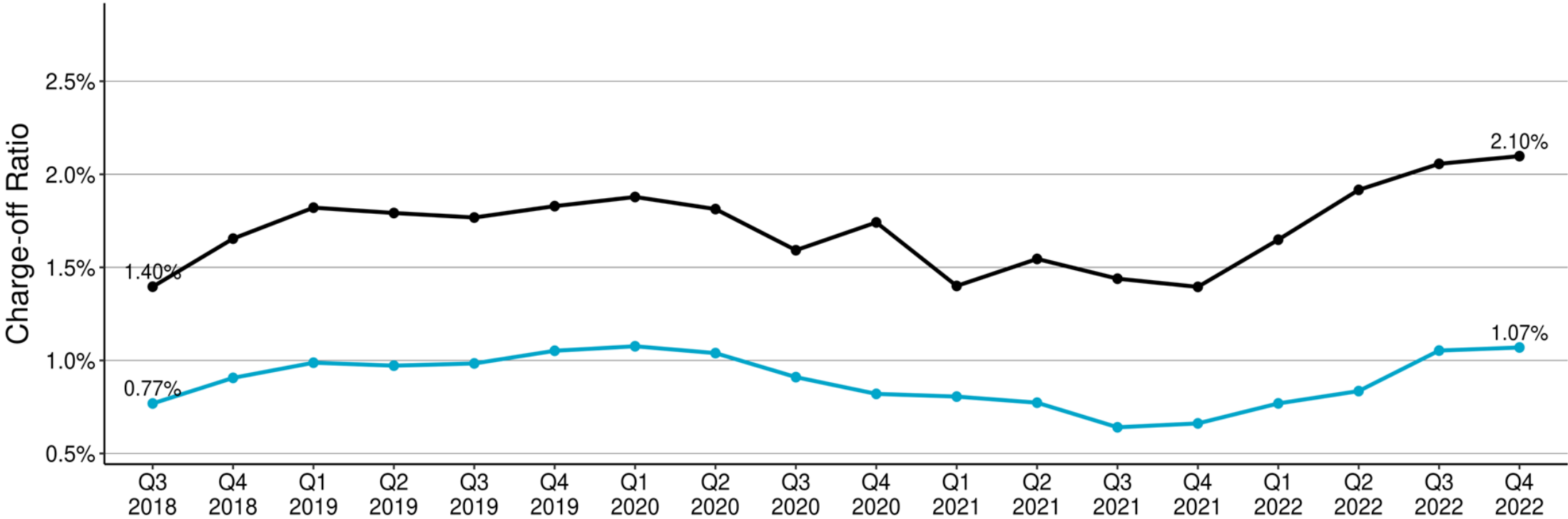
Cure: Brought current; Roll Backward: Moved from 60 to 30 days DPD, 90 to 60, etc
 Maintain: Delinquency unchanged; Roll Forward: Moved from 30 to 60 Days DPD, etc

Totals may not equal 100 due to rounding
 Source: TransUnion US consumer credit database

Despite strong origination volumes and balances, the charge off rate continues to climb

New Charge-offs Relative to Active Unsecured Personal Accounts

Charge-offs as a Percentage of Balances Charge-offs as a Percentage of Trades

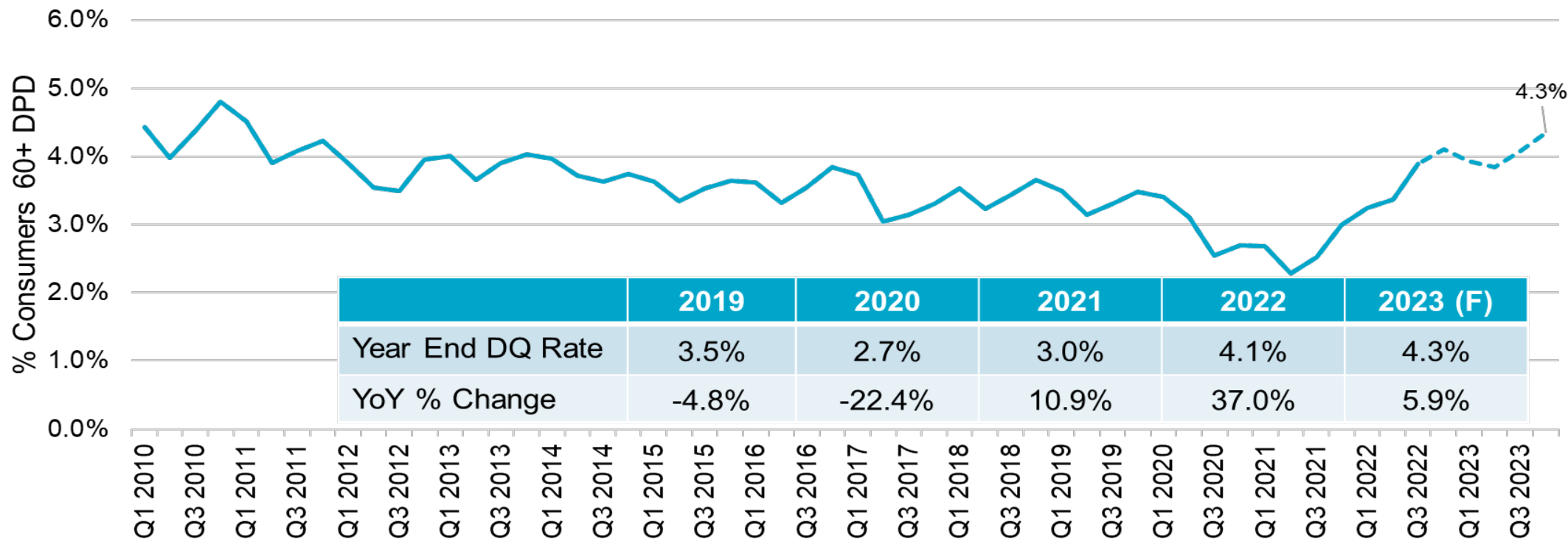


Source: TransUnion US consumer credit database

Unsecured personal loan delinquency rates are forecast to continue climbing in 2023, as consumers face economic challenges

UPL Delinquency

— Actual - - - Forecast

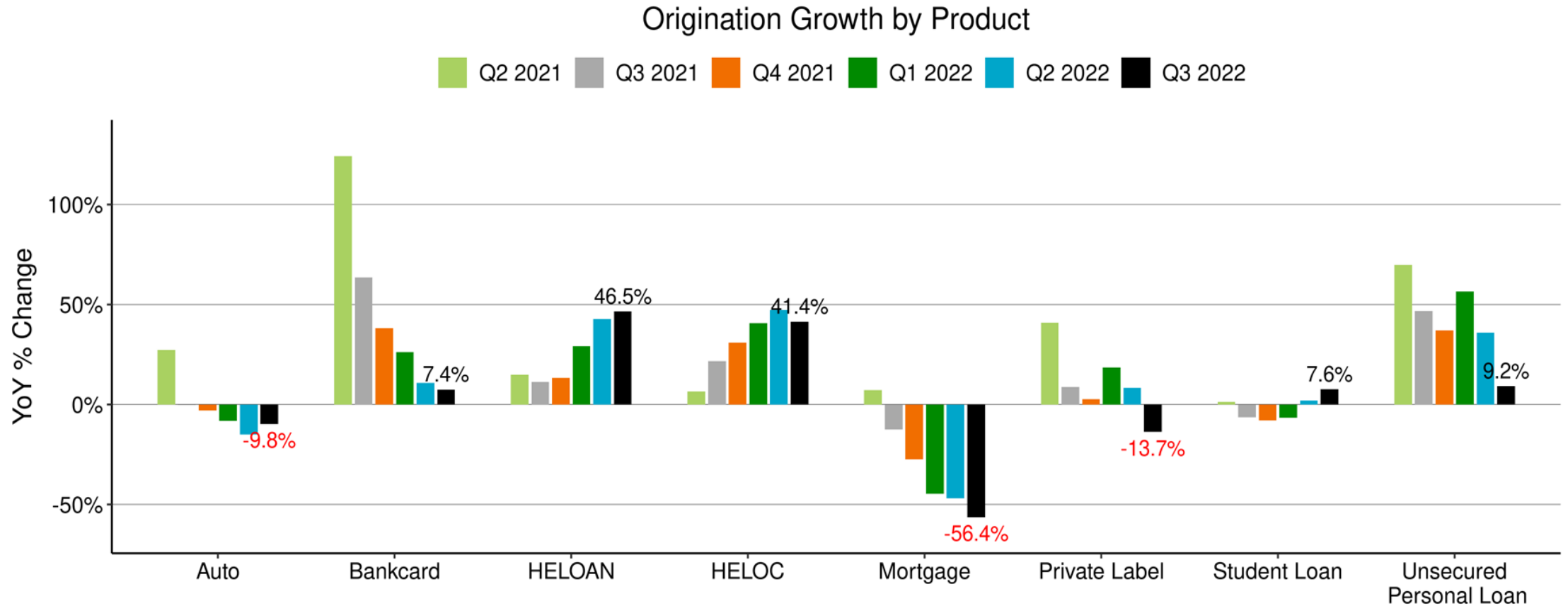




Appendix



Originations totals were mixed across products in Q3 2022

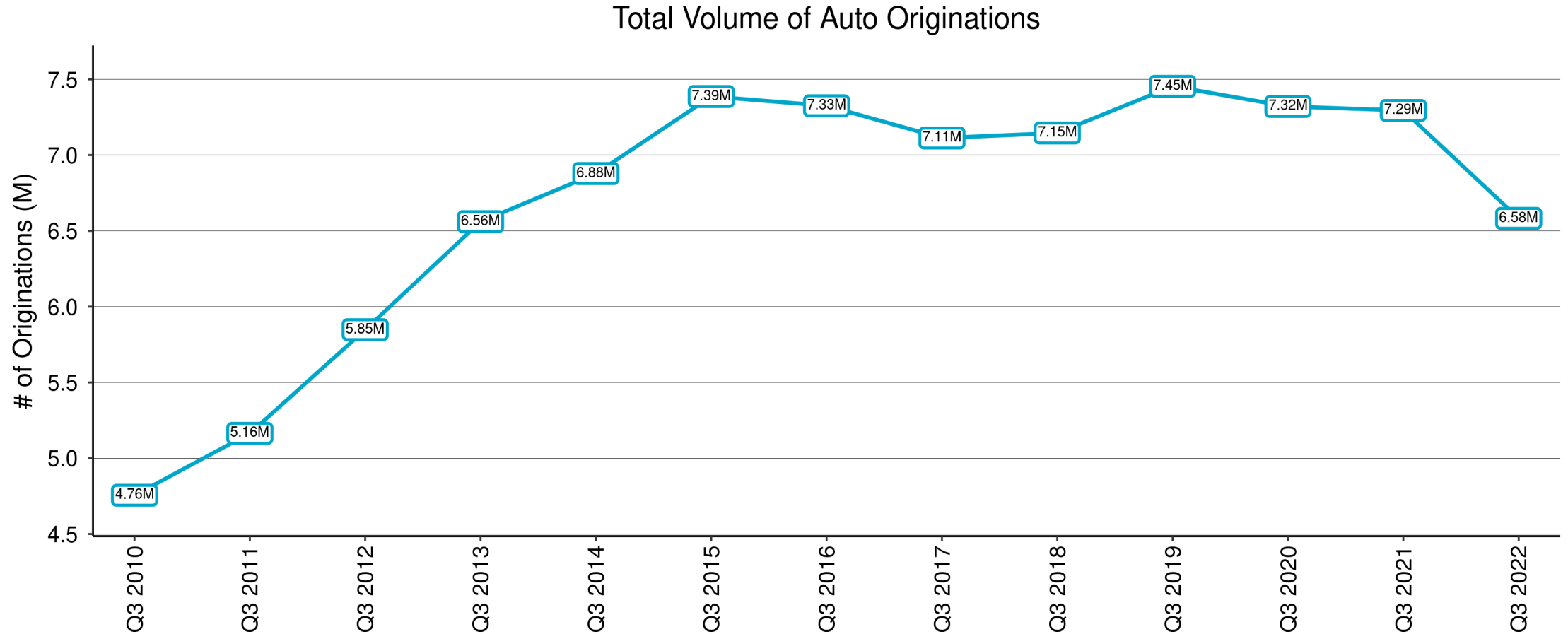




Appendix – Auto Financing

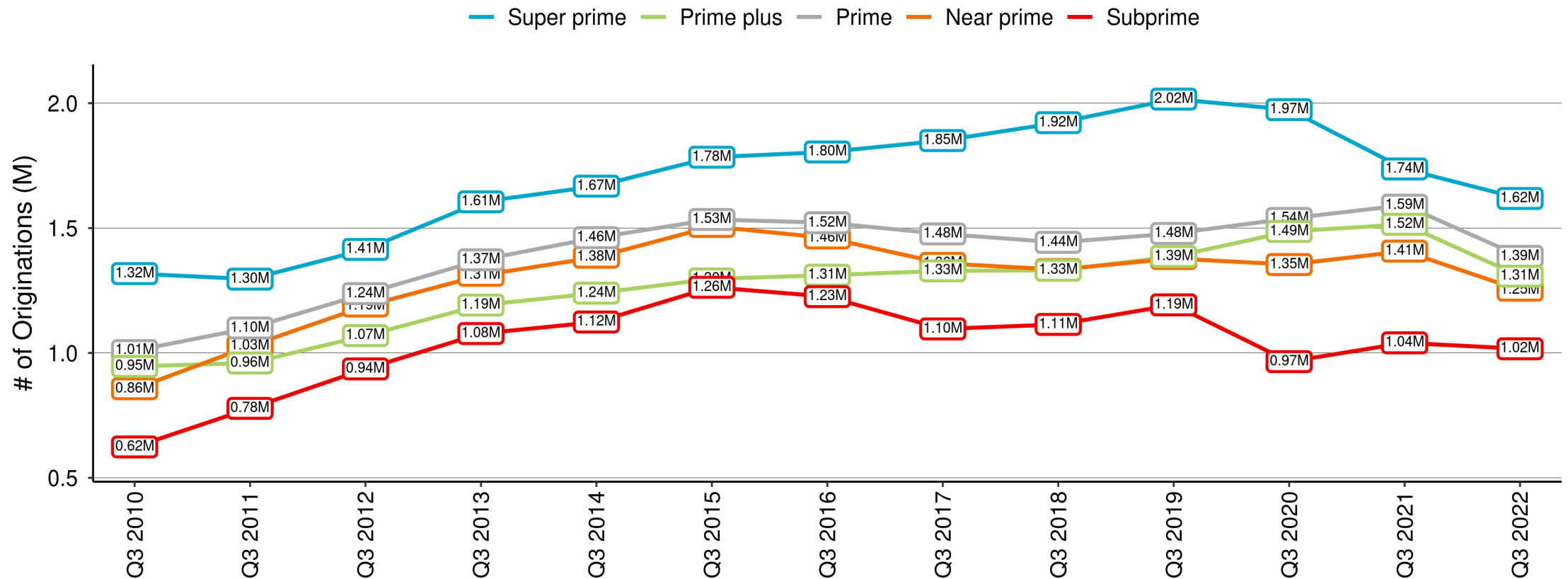


Auto originations have been suppressed due to lack of availability and higher prices



Auto's subprime originations lag as affordability remains a challenge, while super prime is restrained by lack of supply

Total Volume of Auto Originations, by Risk Tier

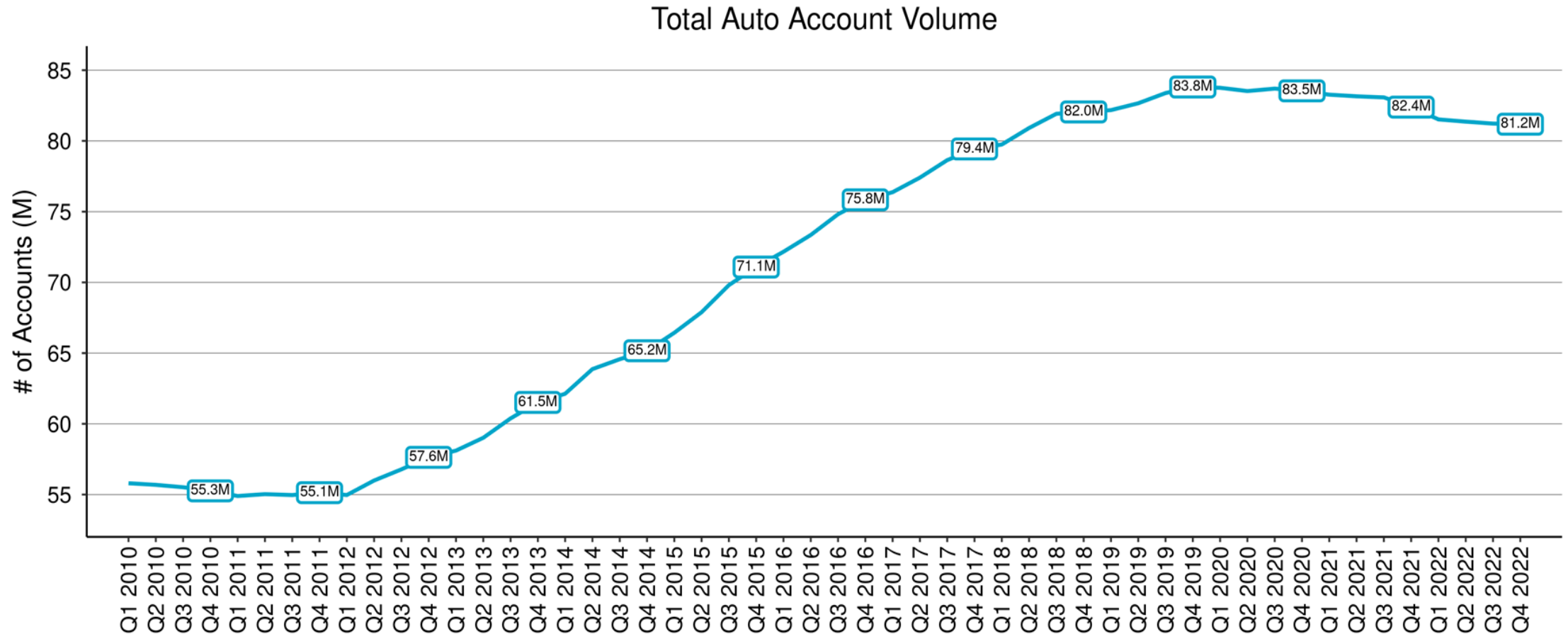


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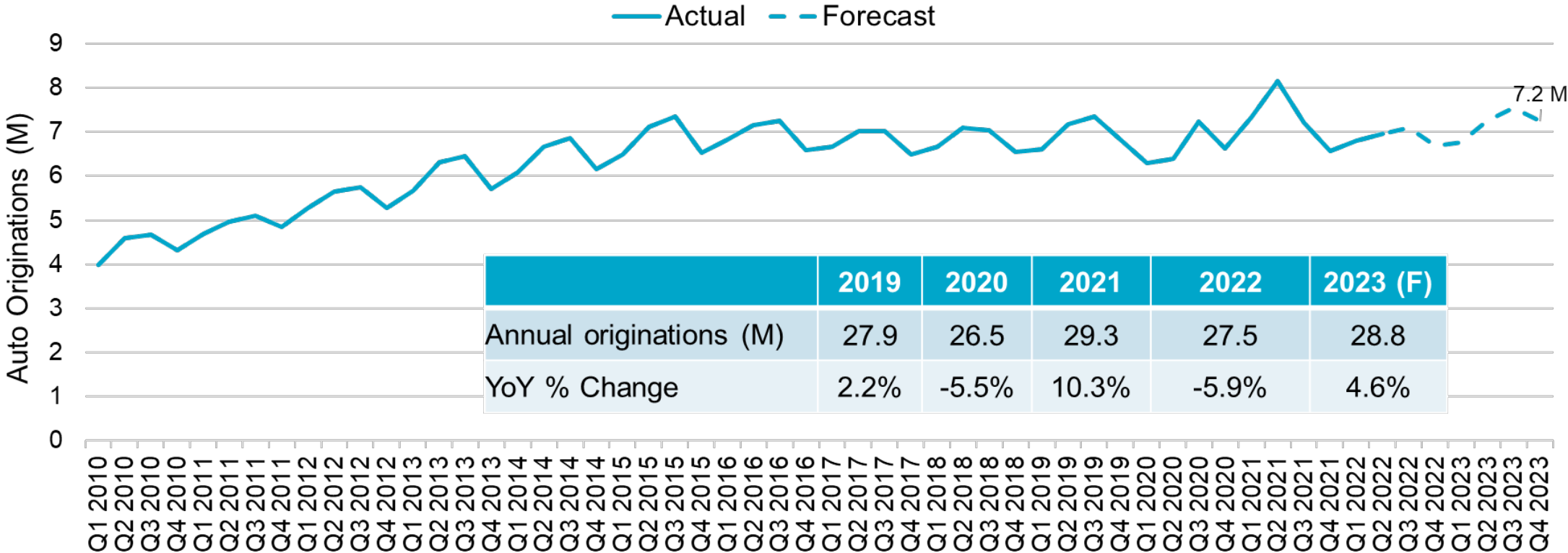
Source: TransUnion US consumer credit database

The slowdown in originations and an aging portfolio have driven auto account volumes to their lowest levels since 2018



Auto originations are forecast to grow 4.6% as inventory shortfalls gradually recover in 2023

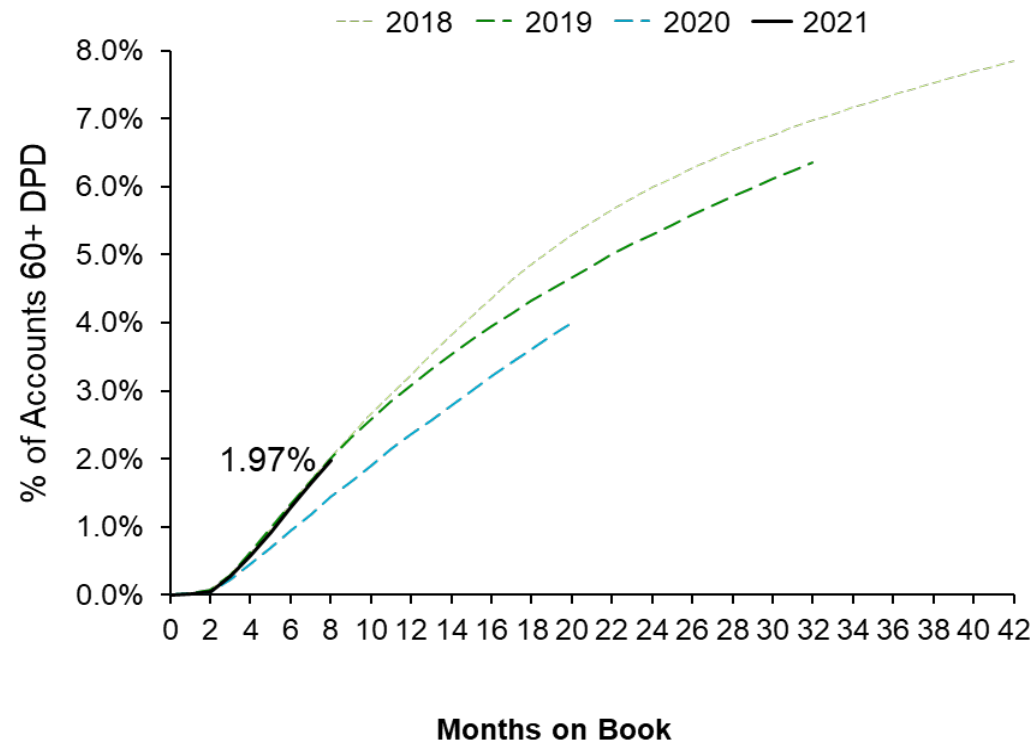
Auto Originations



Source: TransUnion US consumer credit database
 Oxford Economics Forecast

Auto's 2021 vintage delinquency reflects strength, though performance deteriorated in the second half

Annual Vintage Delinquency of Auto Loans and Leases



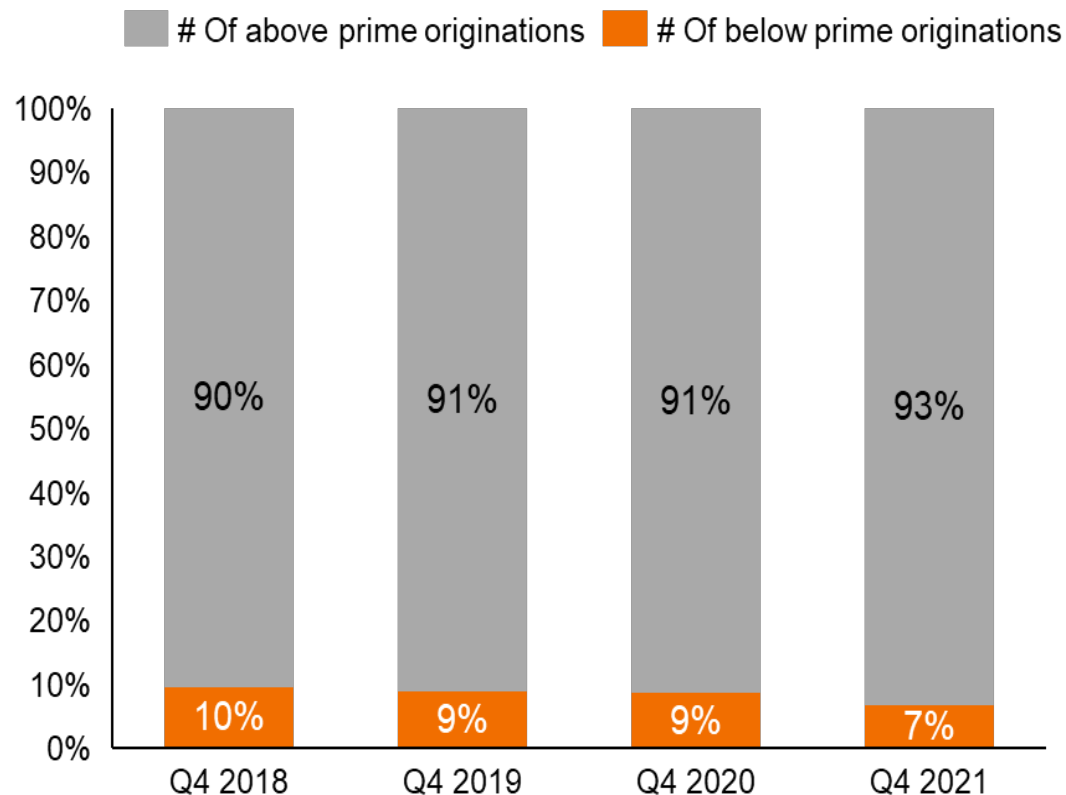
Quarterly Vintage Delinquency of Auto Loans and Leases at 8 Months on Book

Year/Quarter	2019*	2021	Difference
Q1	2.36%	1.75%	-61 bps
Q2	2.18%	1.98%	-20 bps
Q3	1.95%	2.03%	+8 bps
Q4*	1.84%	2.15%	+31 bps

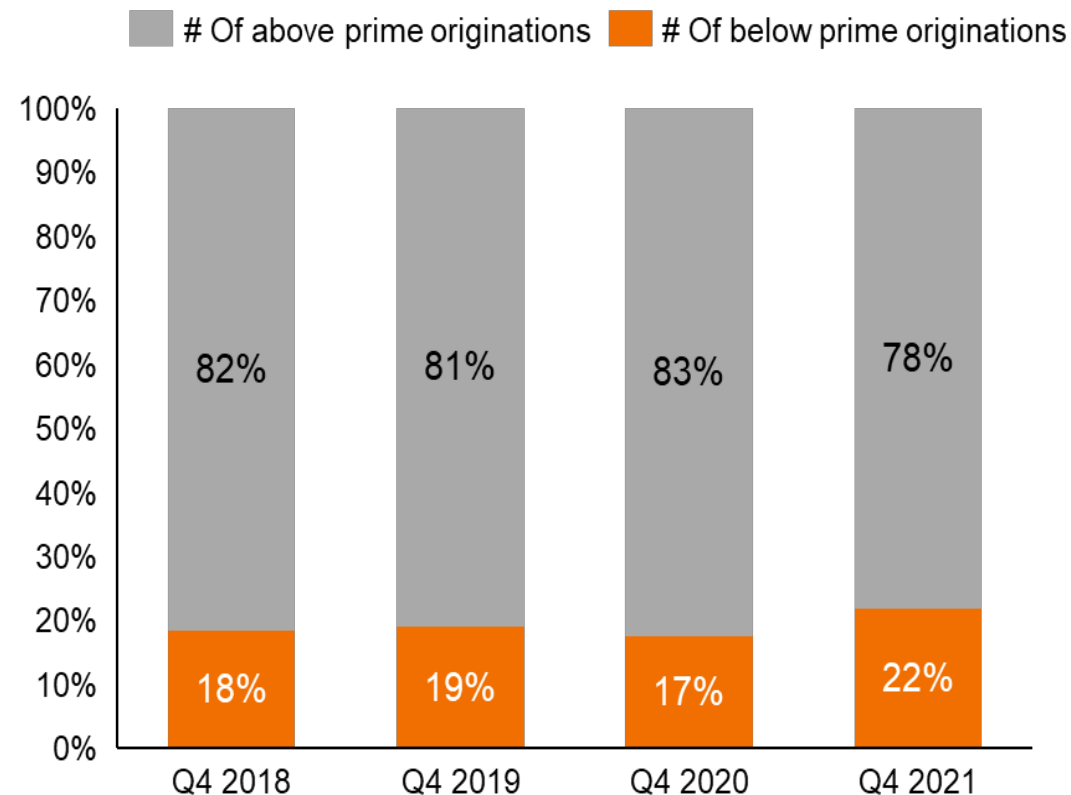
* Q4 2021 is compared to Q4 2018 to remove pandemic related assistance

A higher proportion of below prime originations partially explains worsening performance in the Q4 2021 cohort

Distribution of **New** Origination Volume



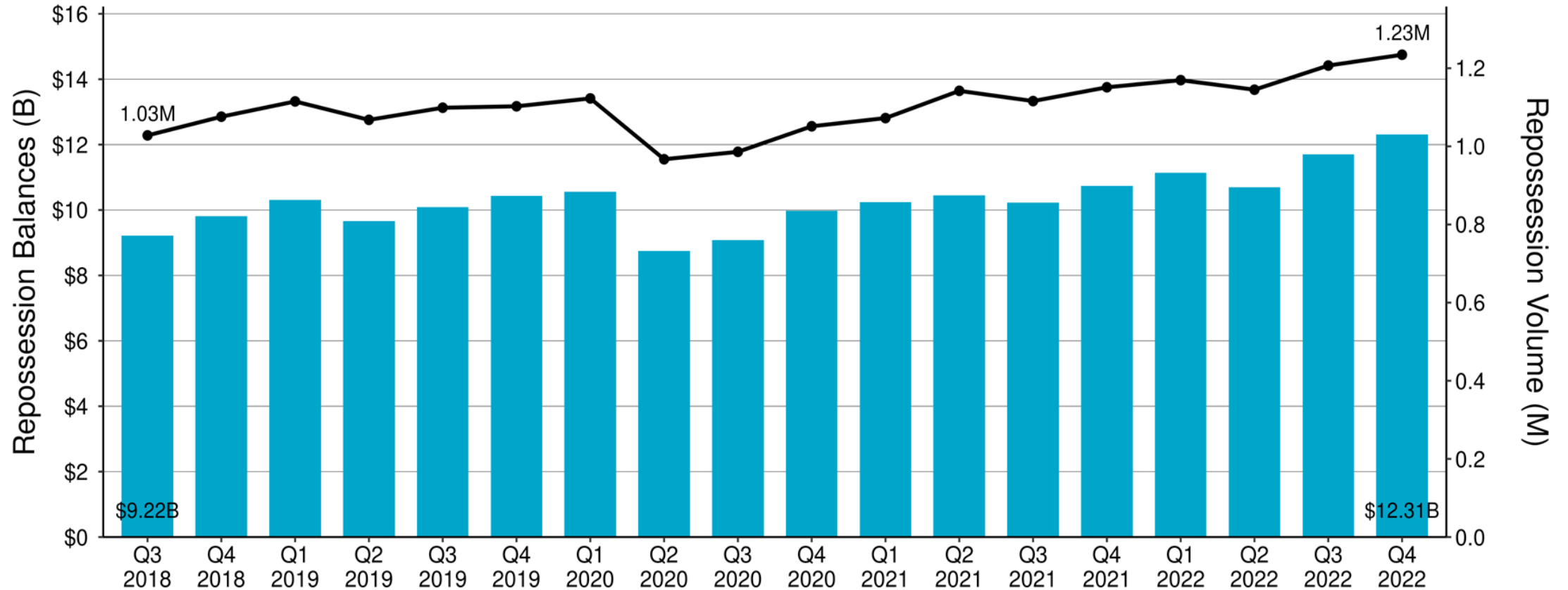
Distribution of **Used** Origination Volume



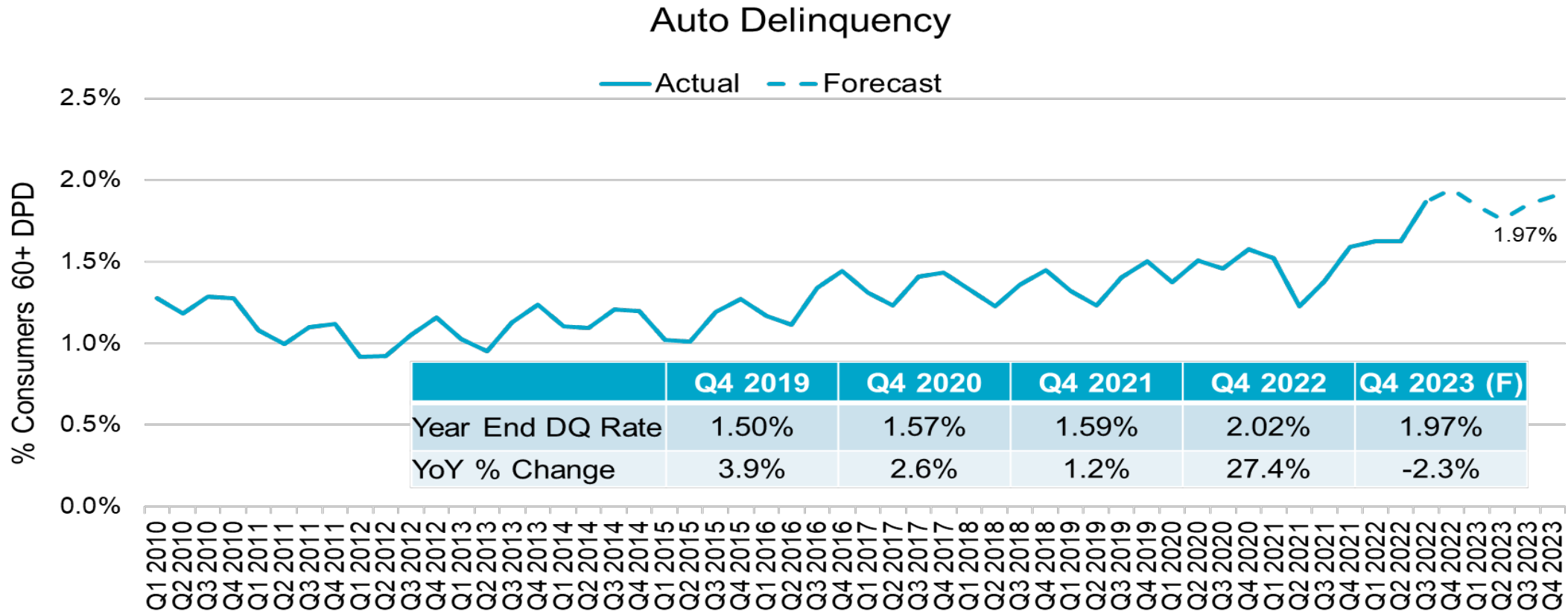
Totals may not equal 100 due to rounding
Source: AutoCreditInsight by S&P Global Mobility, TransUnion

Repossession volume and balance totals have been trending higher

Total Volume and Balances of Auto Accounts Entering Repossession



Auto delinquency is forecast to remain relatively stable throughout 2023



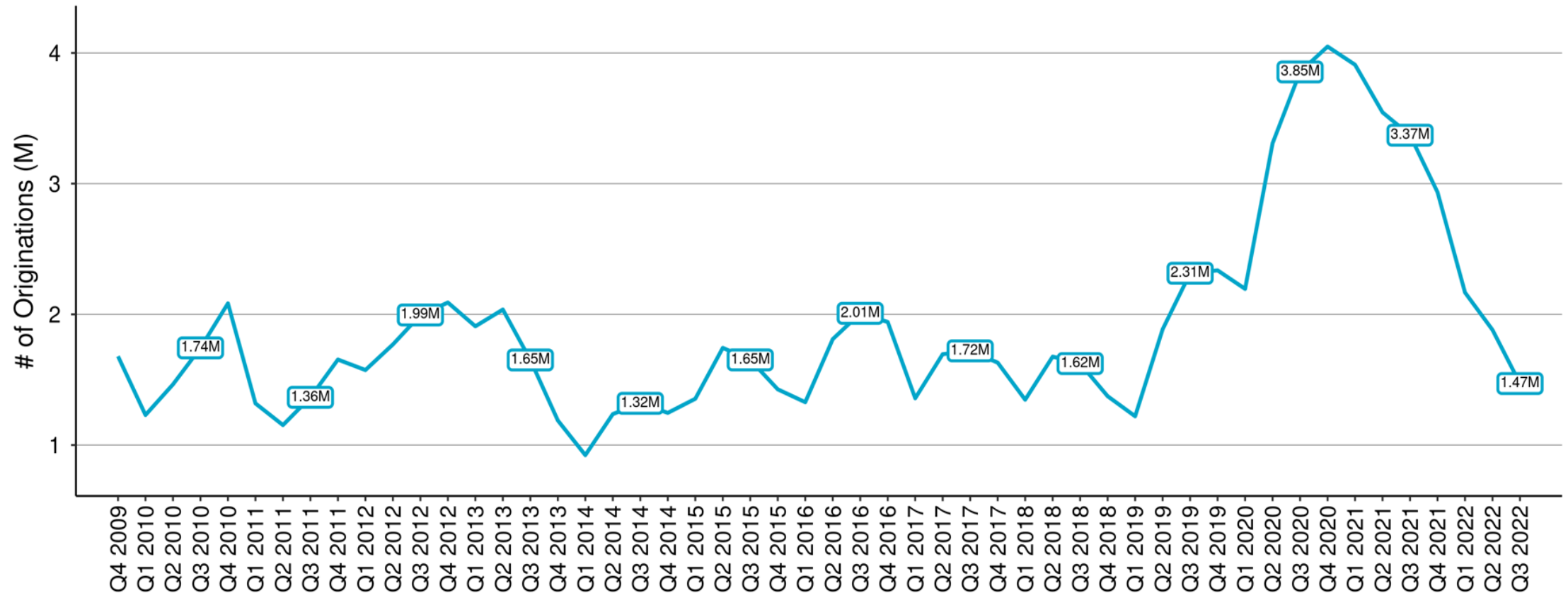


Appendix – Mortgage and HELOC



Mortgage originations have declined sharply in recent quarters, and are somewhat depressed in long-term comparisons

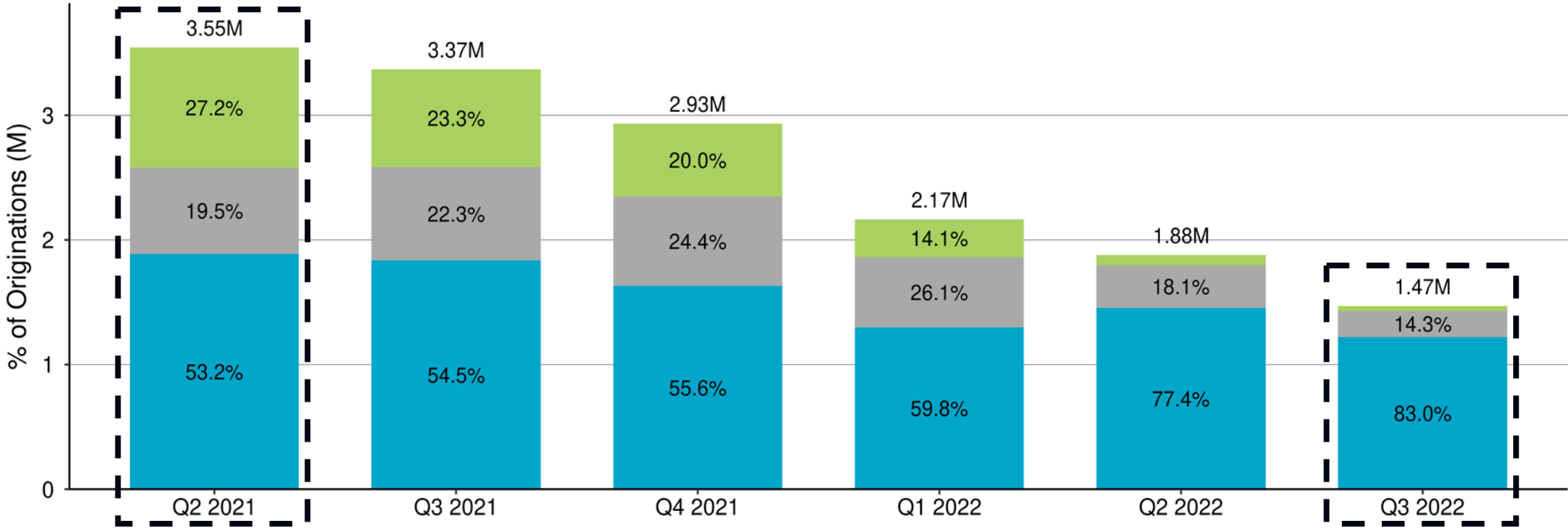
Total Volume of Mortgage Originations



Purchases continue to comprise a larger share of mortgage origination volumes

Distribution of Mortgage Origination Volume, by Usage

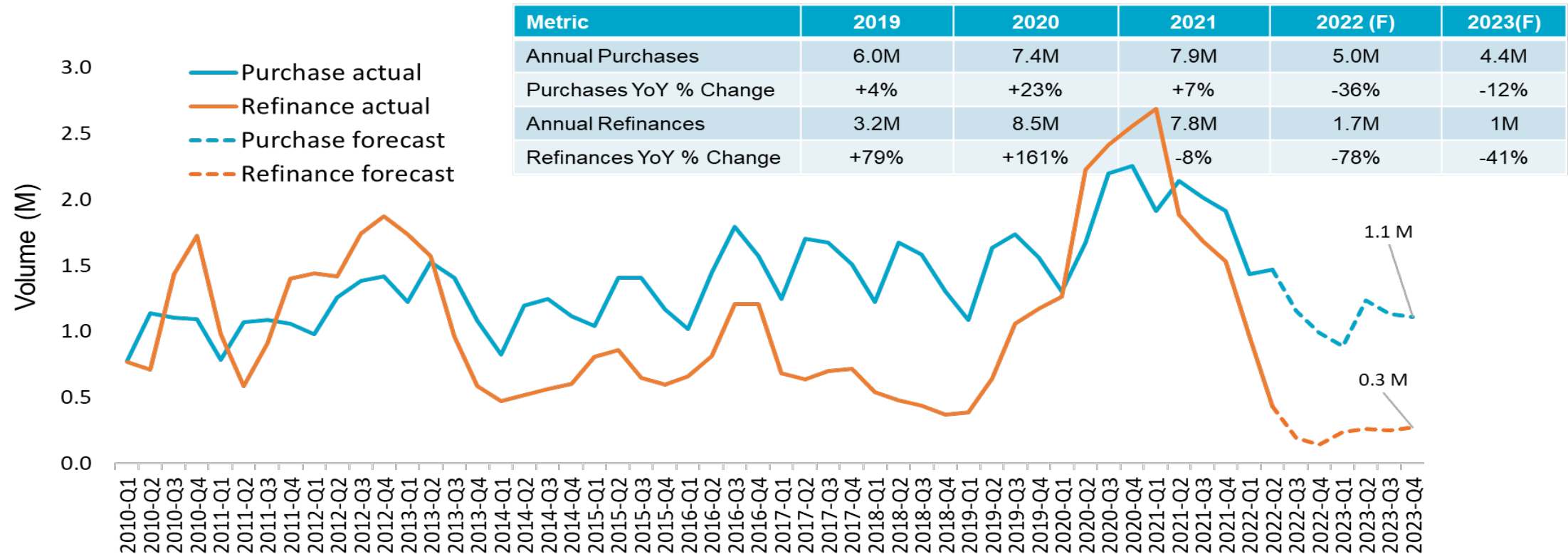
Purchase Cash-out Refinance Rate and Term Refinance



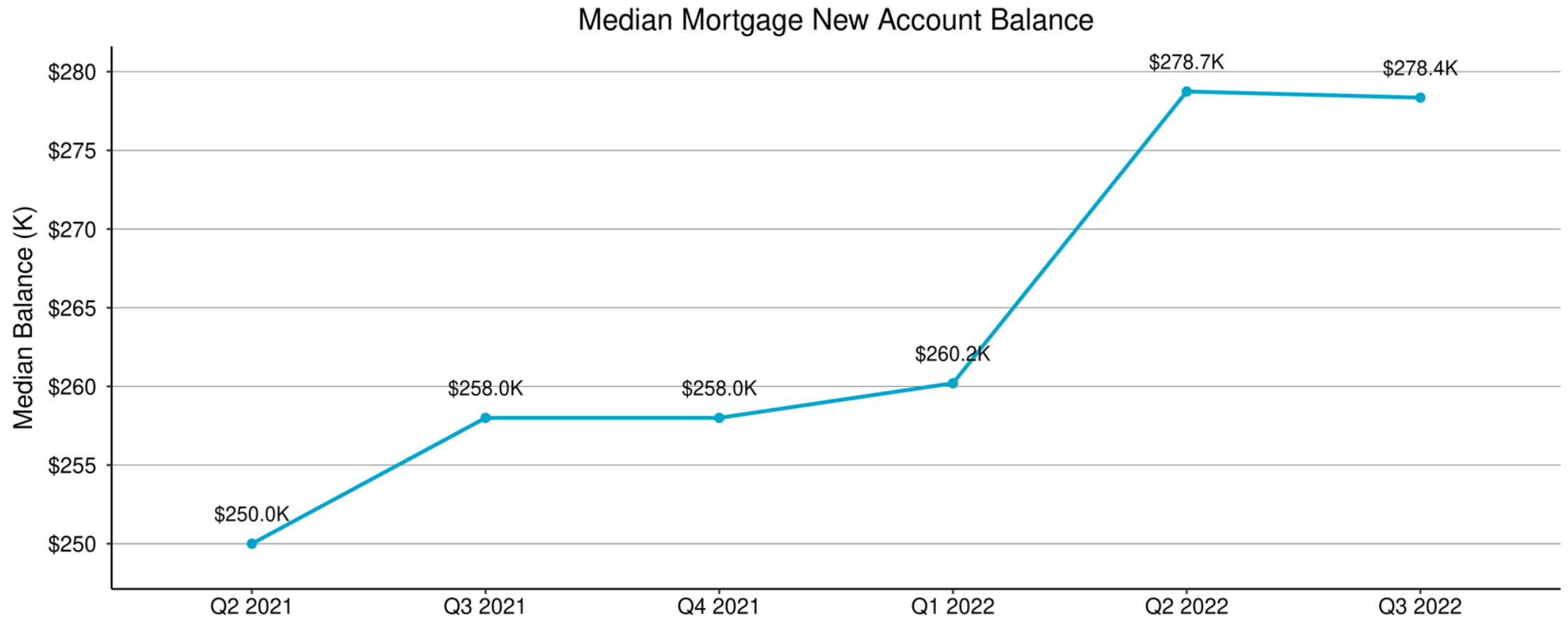
Totals may not equal 100 due to rounding
 Source: TransUnion US consumer credit database

Mortgage purchase and refinance originations are expected to decline in 2023 due to higher interest rates

Mortgage Purchase and Refinance Originations Volume Forecast

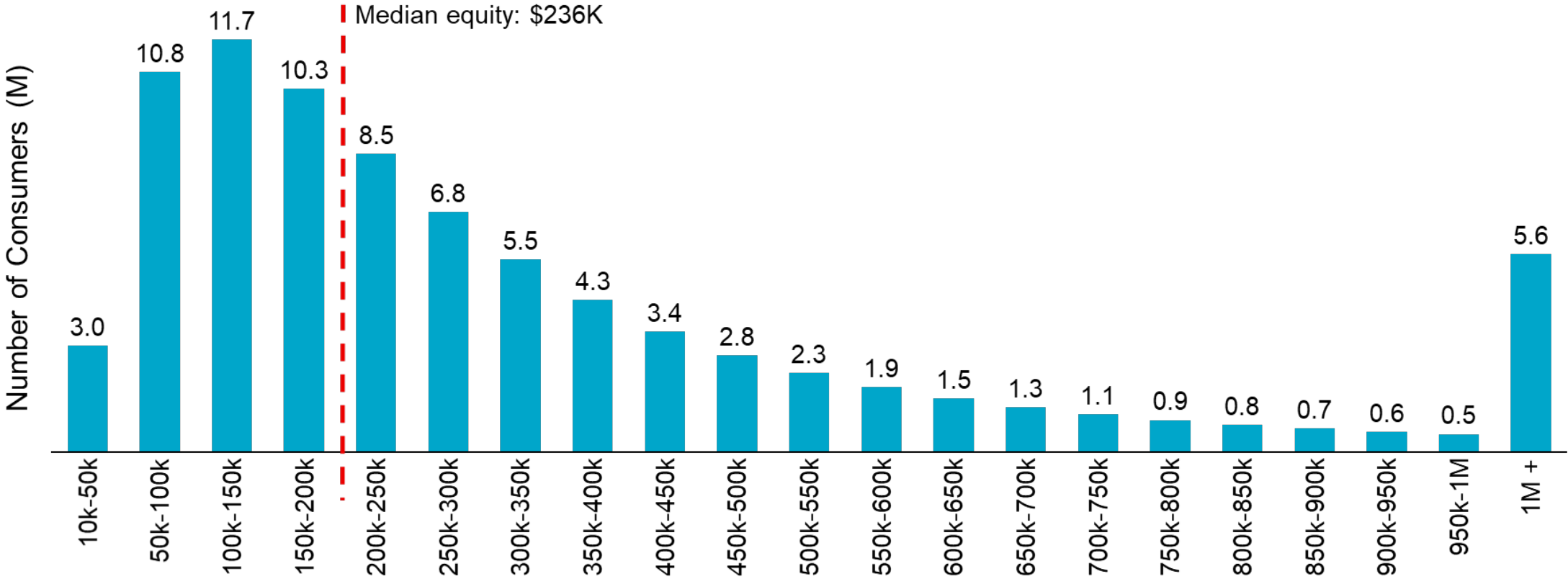


Rising interest rates have slowed the growth in median new account balances for mortgage



Consumers still have significant equity available in their homes, with the median amount of equity at \$236K

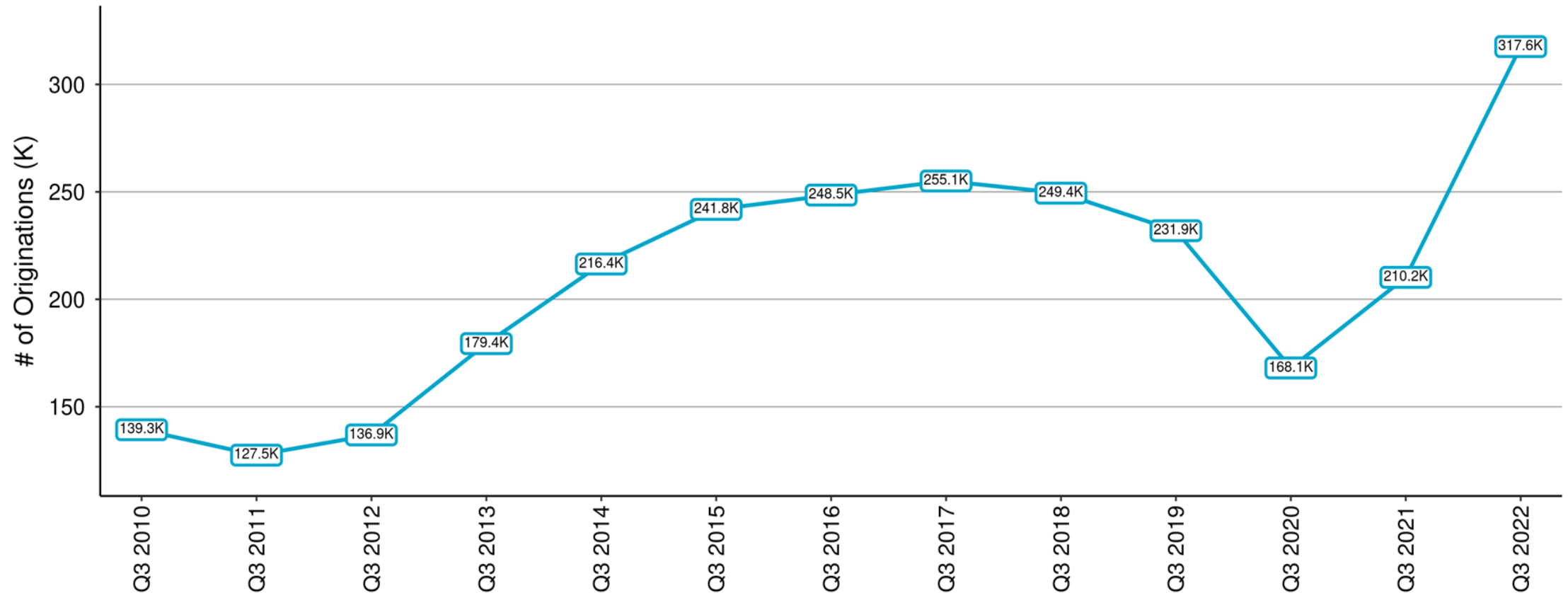
Available Equity Distribution, Q3 2022 (84M Consumers)



Source: TransUnion US consumer credit database

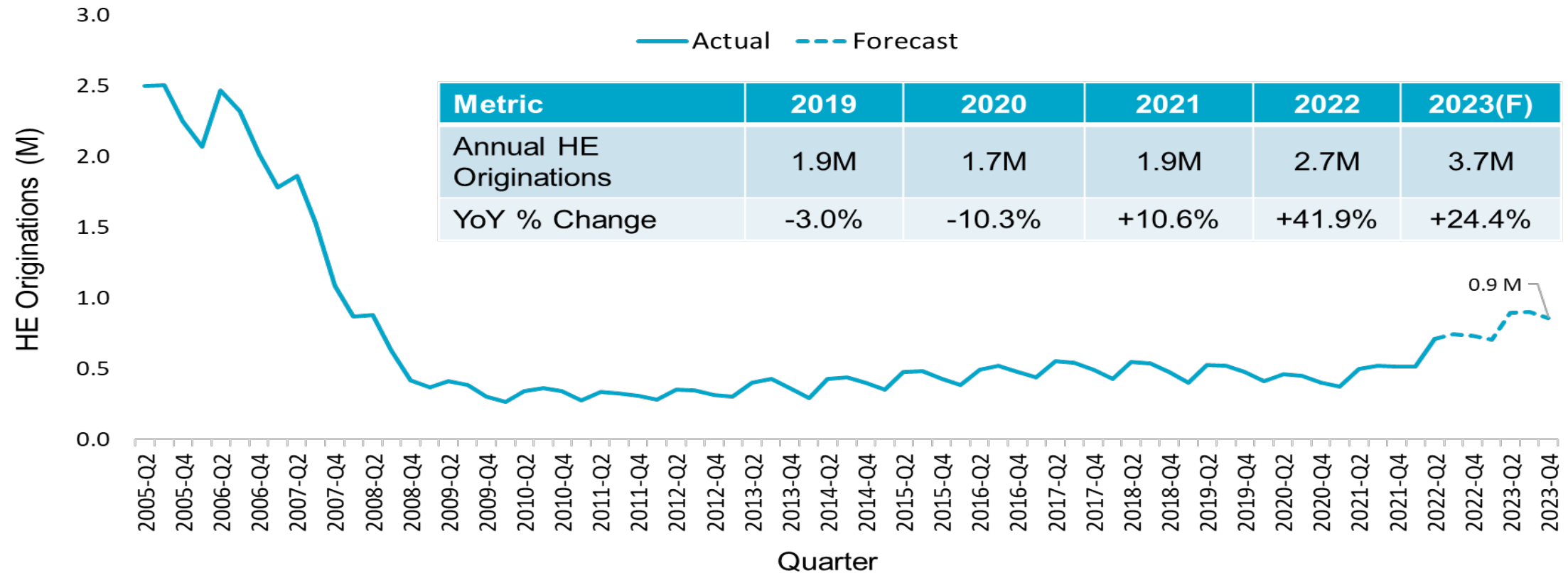
With rising interest rates and significant levels of available equity, HELOC demand has been surging

Total Volume of HELOC Originations with a Balance



Home equity originations are forecast to increase 24% in 2023 as consumers tap home equity to manage debt

Home Equity (Combined HELOC and Heloan) Origination Volume – Actual and Forecast

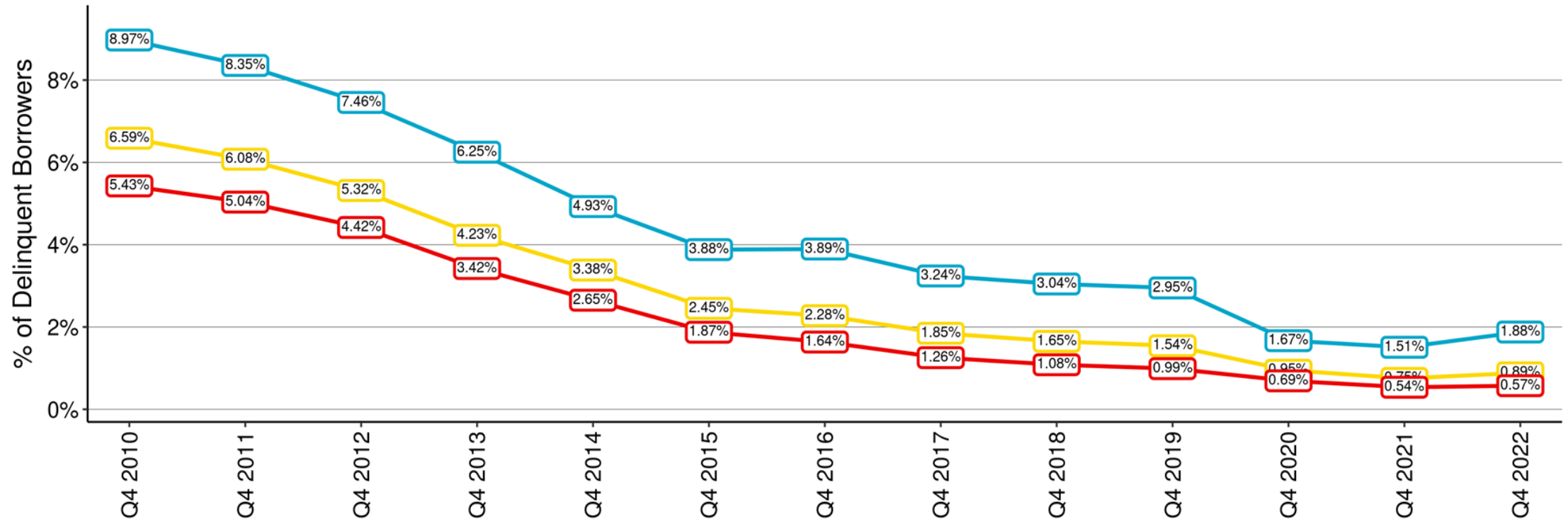


Source: TransUnion US consumer credit database
Oxford Economics Forecast

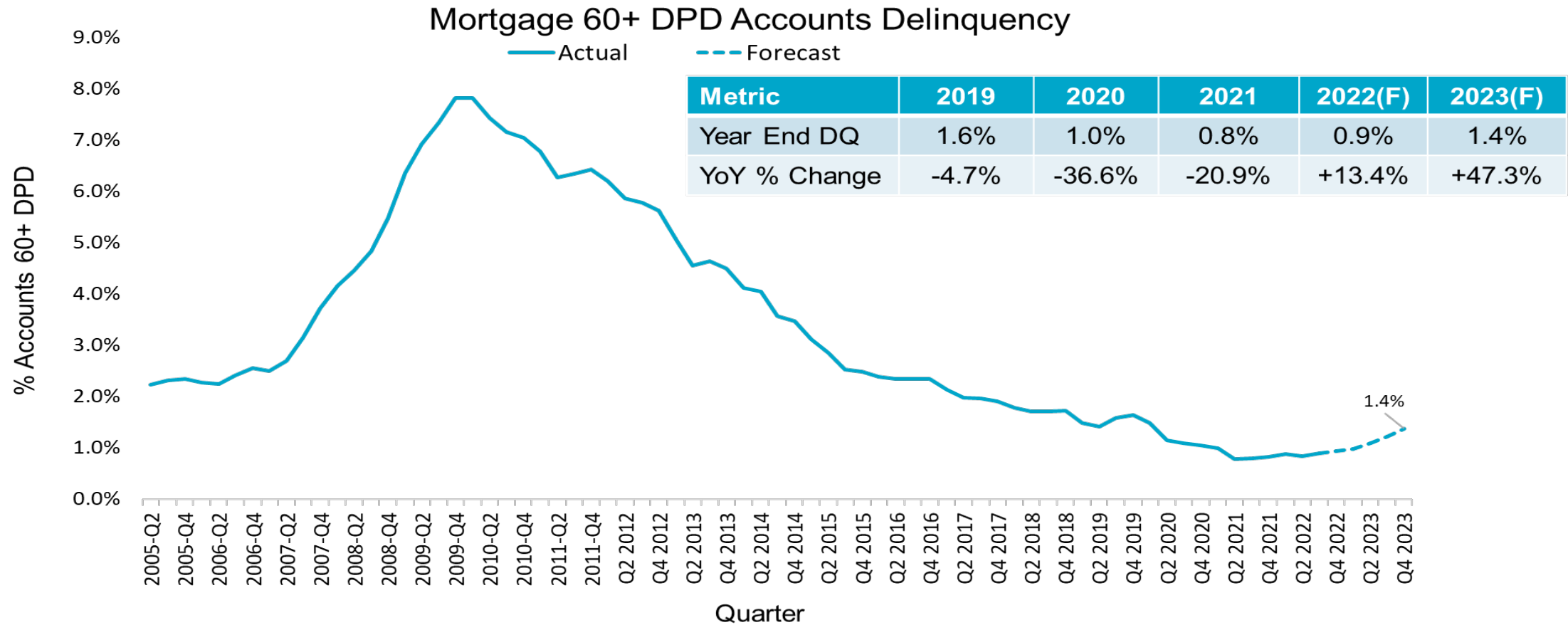
Mortgage rates have ticked higher recently, but remain near historic lows

Mortgage Consumer Delinquency Rates

— 30+ DPD — 60+ DPD — 90+ DPD



Mortgage delinquency is forecast to increase in 2023 but remain low in historical comparisons



Thank you!

We hope to see you at

2023 NCBA Connect

**The Annual Conference at the
Epicenter of Legal Collections**

May 2-5 | Denver, CO

Help us celebrate 30 years of NCBA!

