

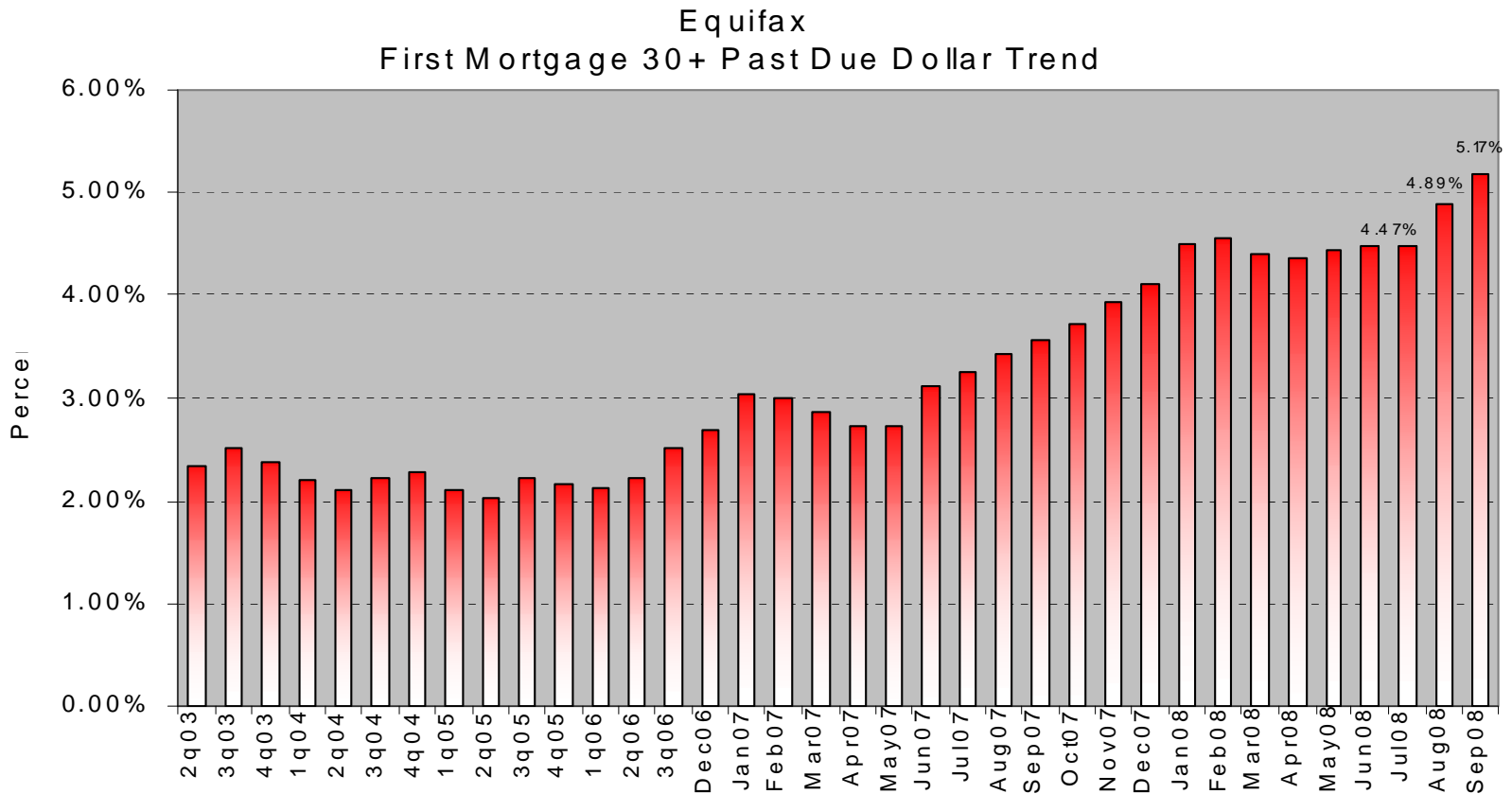


# Consumer Credit Risk in Today's Market

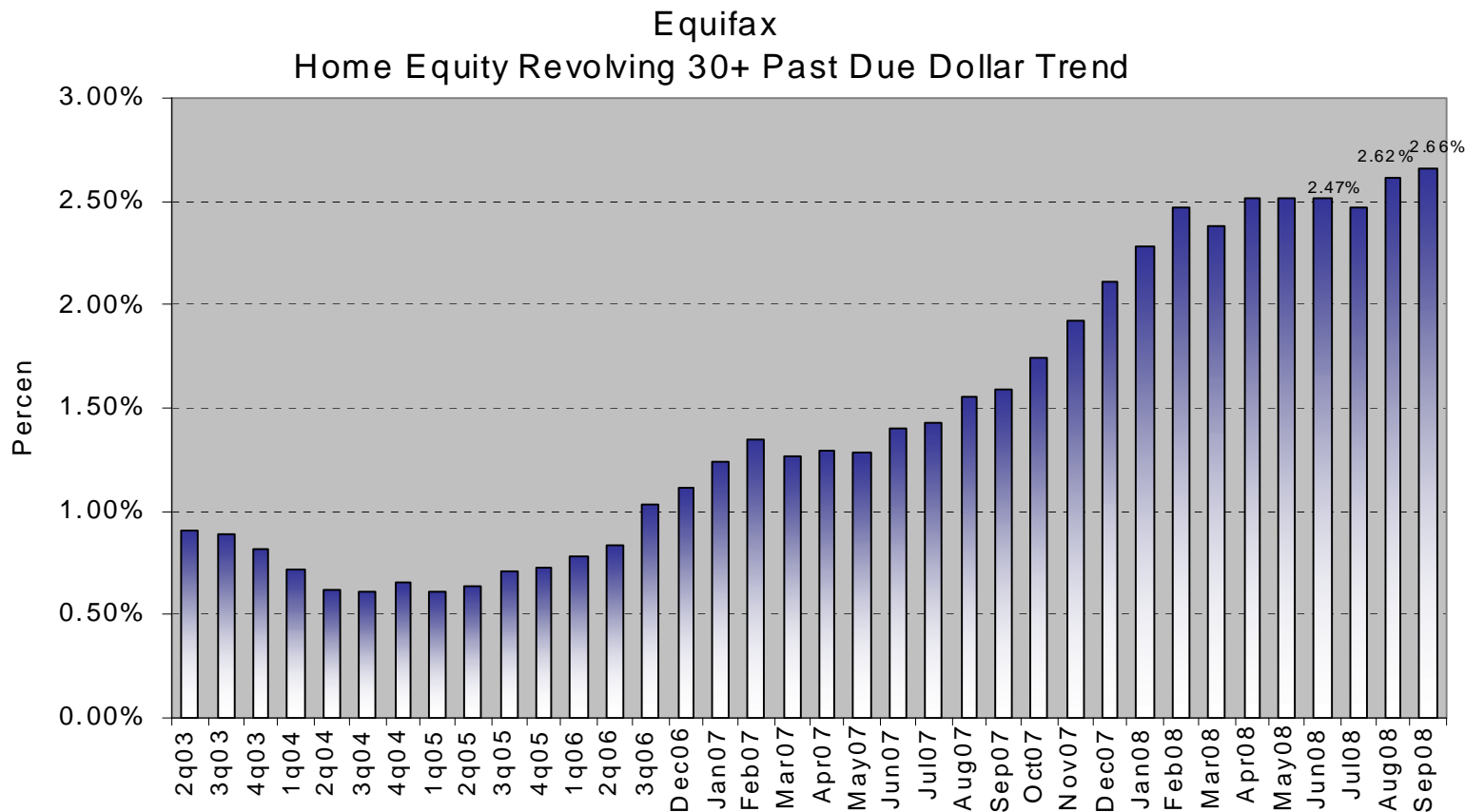
# Consumer Credit Update

Myra K. Hart, PhD  
Equifax Analytical Services

# Mortgage Delinquencies have Doubled over Two Years

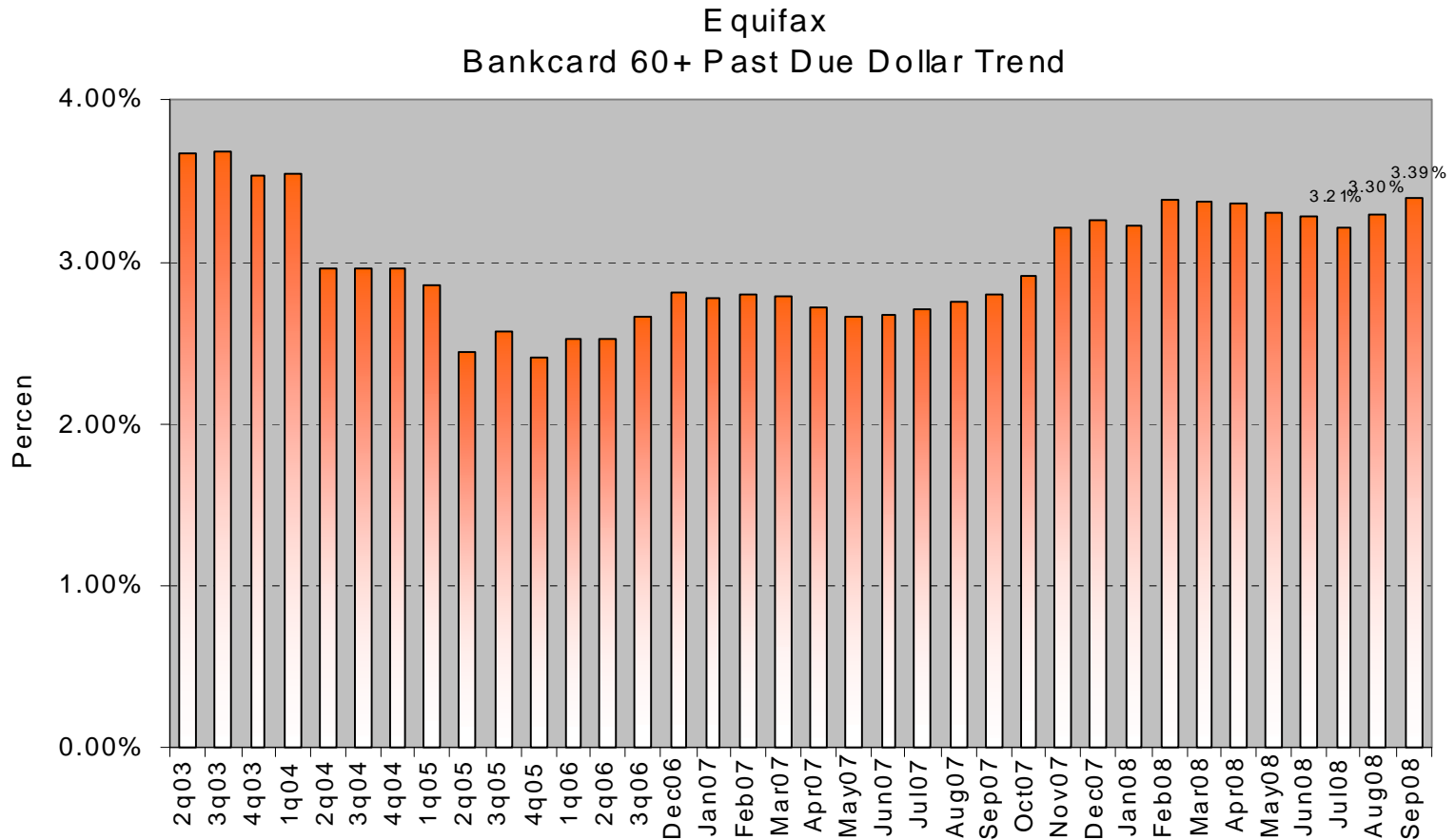


As of September 2008, 5.17% of mortgage balances were past due, representing a 28 basis points increase vs. August and 44% higher YOY

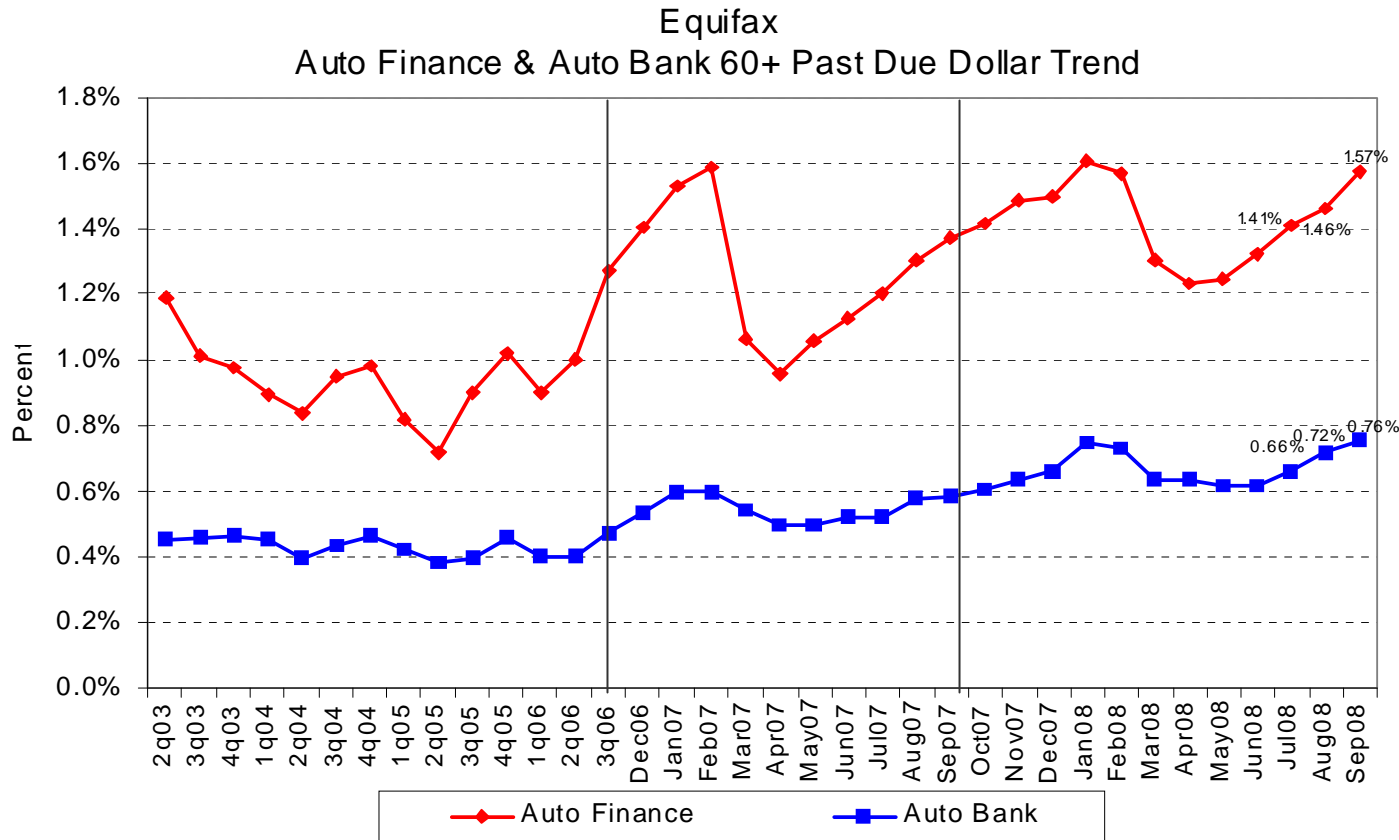


The percent of HELOC balances past due rose only 4 basis points in September, but stands at 2.66% vs. a low of about 60 basis points in 2005

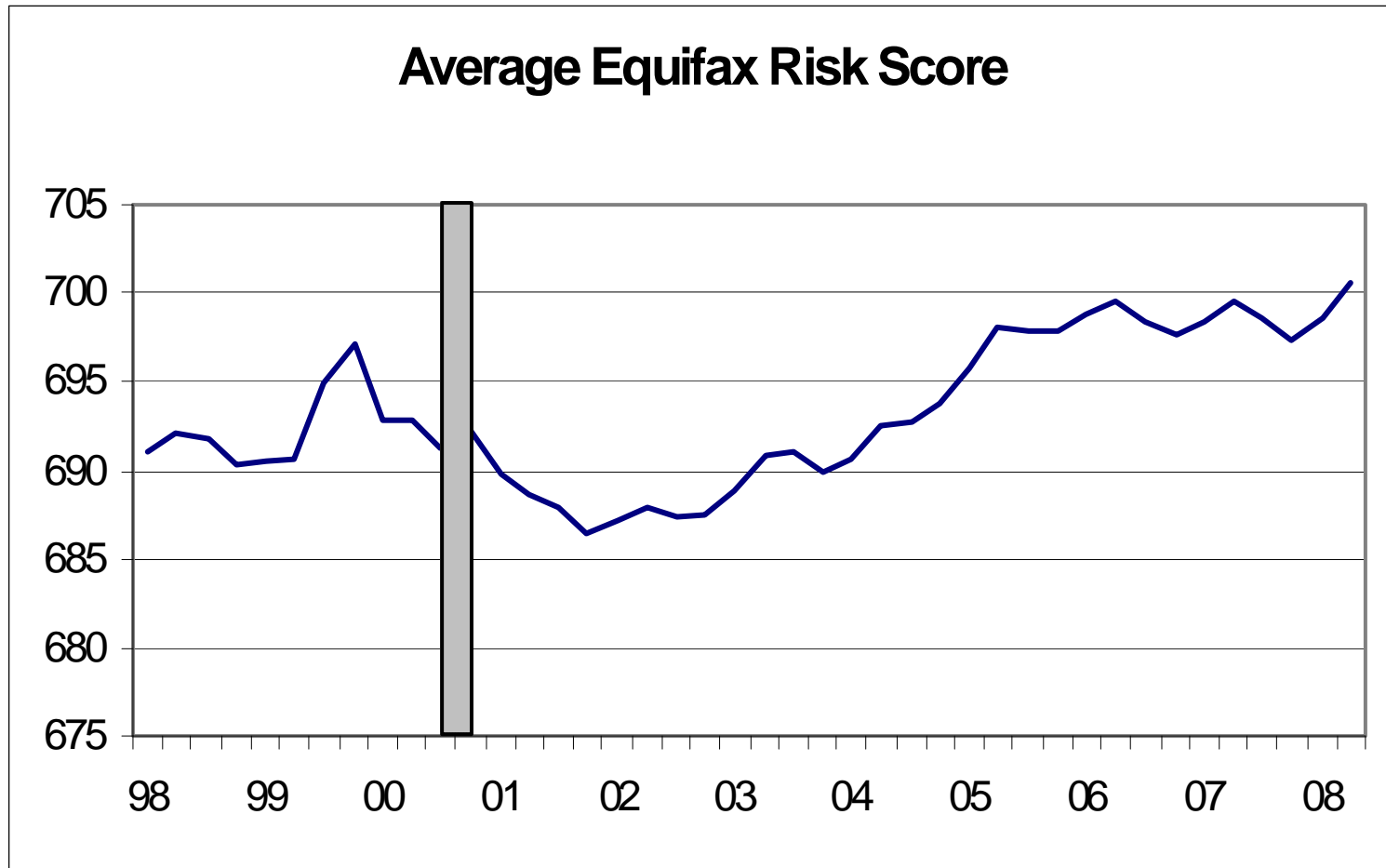
# Bankcard Delinquencies Up but Not High by Historical Standards



Bankcard balances 60+ days past due rose 9 basis points to 3.39% in September, up 22% YOY but lower than in 2003

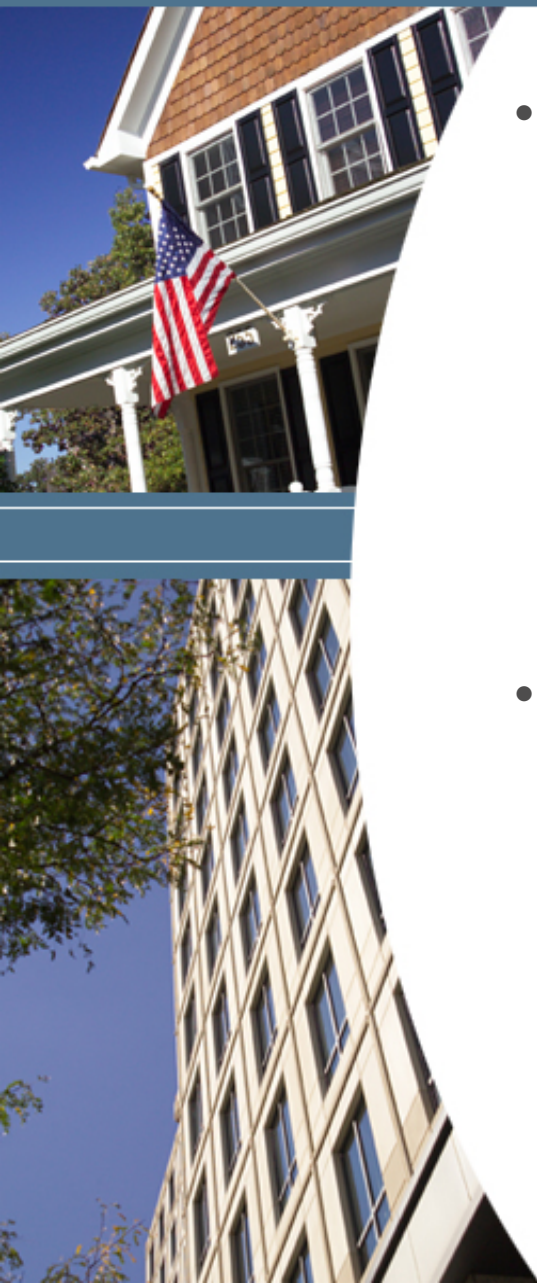


Auto delinquency rates are highly seasonal but have increased YOY by 14% for auto finance loans and 29% for bank loans



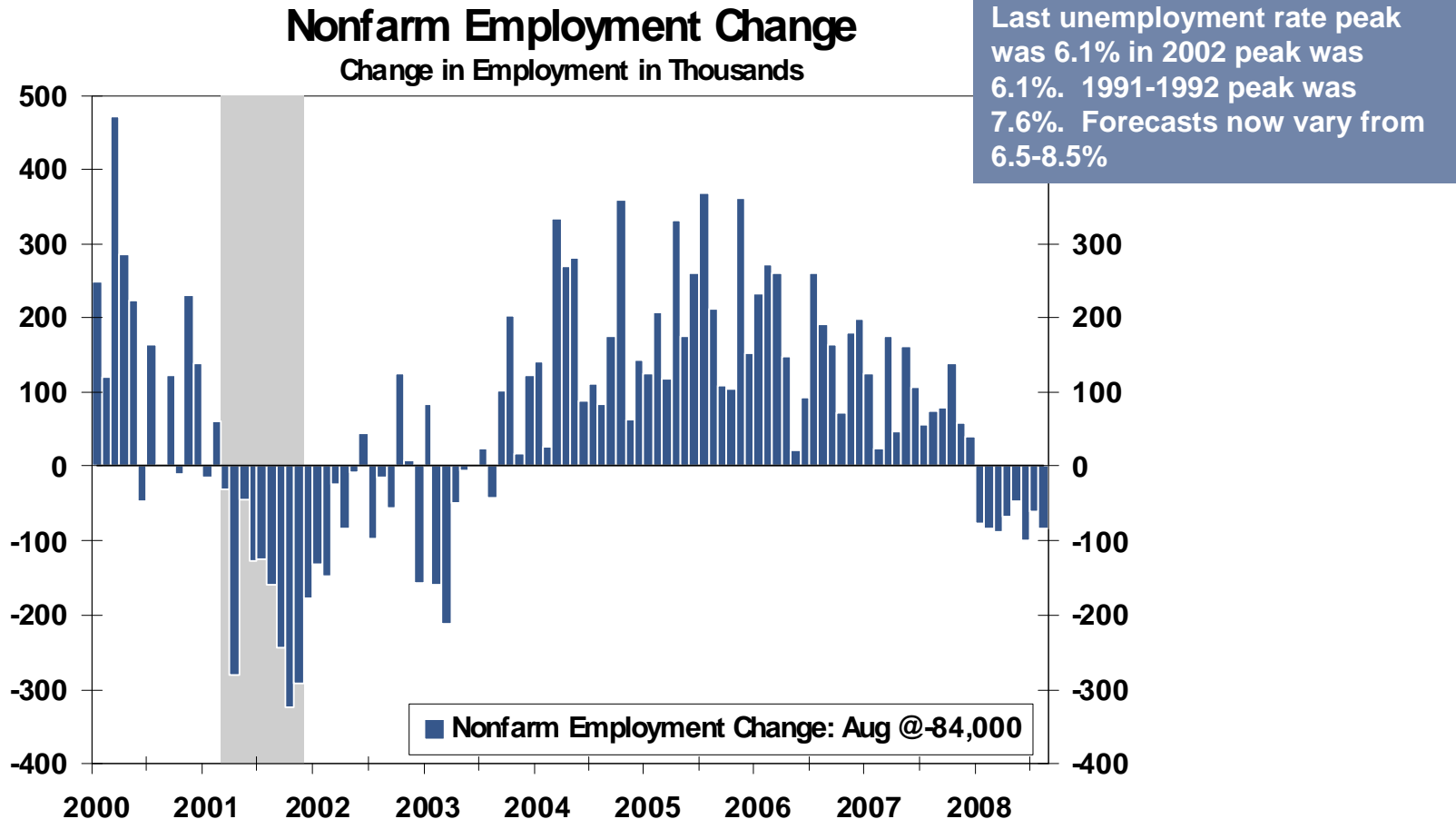
Average risk scores tend to lag the economic cycle as they reflect the impact of unemployment on delinquencies.

# Why were there so many “Surprise” Delinquencies?



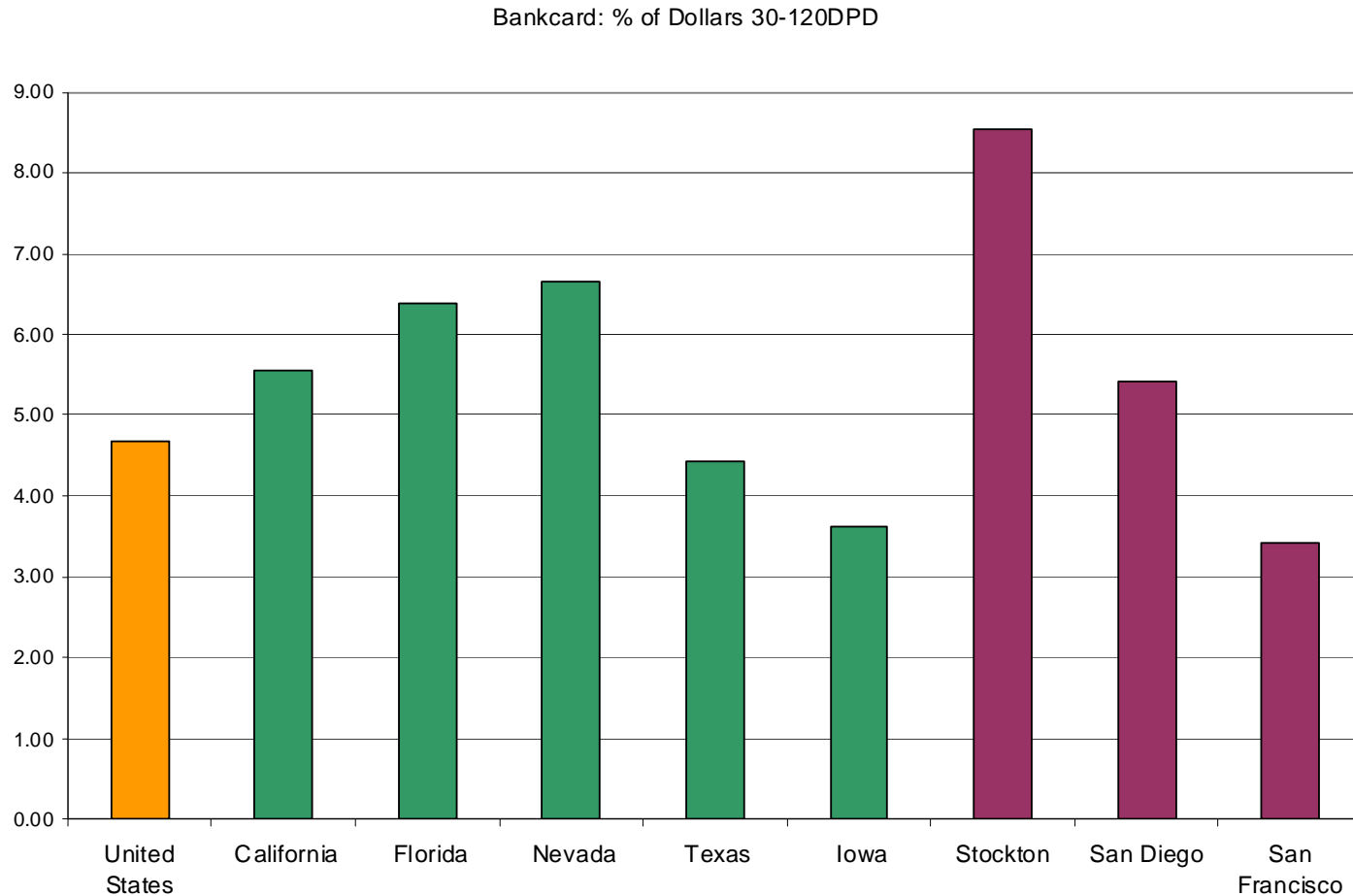
- “Surprise” delinquencies tend to occur when:
  - » Underwriting standards outside risk score policy change dramatically. For example, Increased reliance on stated incomes
  - » Consumer behavior shifts in a way that is not captured in their credit reports. For example, increased desire to invest in real estate and prevalence of owner occupancy fraud.
  - » The economy deteriorates rapidly leading to sudden income disruptions (job losses)
- “Suppressed” delinquencies also happen but get a lot less press. There are periods where odds are lower than expected based on risk scores (for example):
  - » Low rates and rising home prices in 2004-2005 helped consumer’s pay off higher priced debt and reduce minimum payments
  - » Tax rebates gave a temporary income lift in spring and summer of 2008 and probably helped hide some problems

Job losses and income disruption did not begin until 2008 and have been minimal compared to 2001 recession.



The rise in delinquencies over 2007-2008 was not caused by job losses and income disruptions, but there may be more to come.

# Macro View: Bankcard Problems are Correlated with Housing Problems

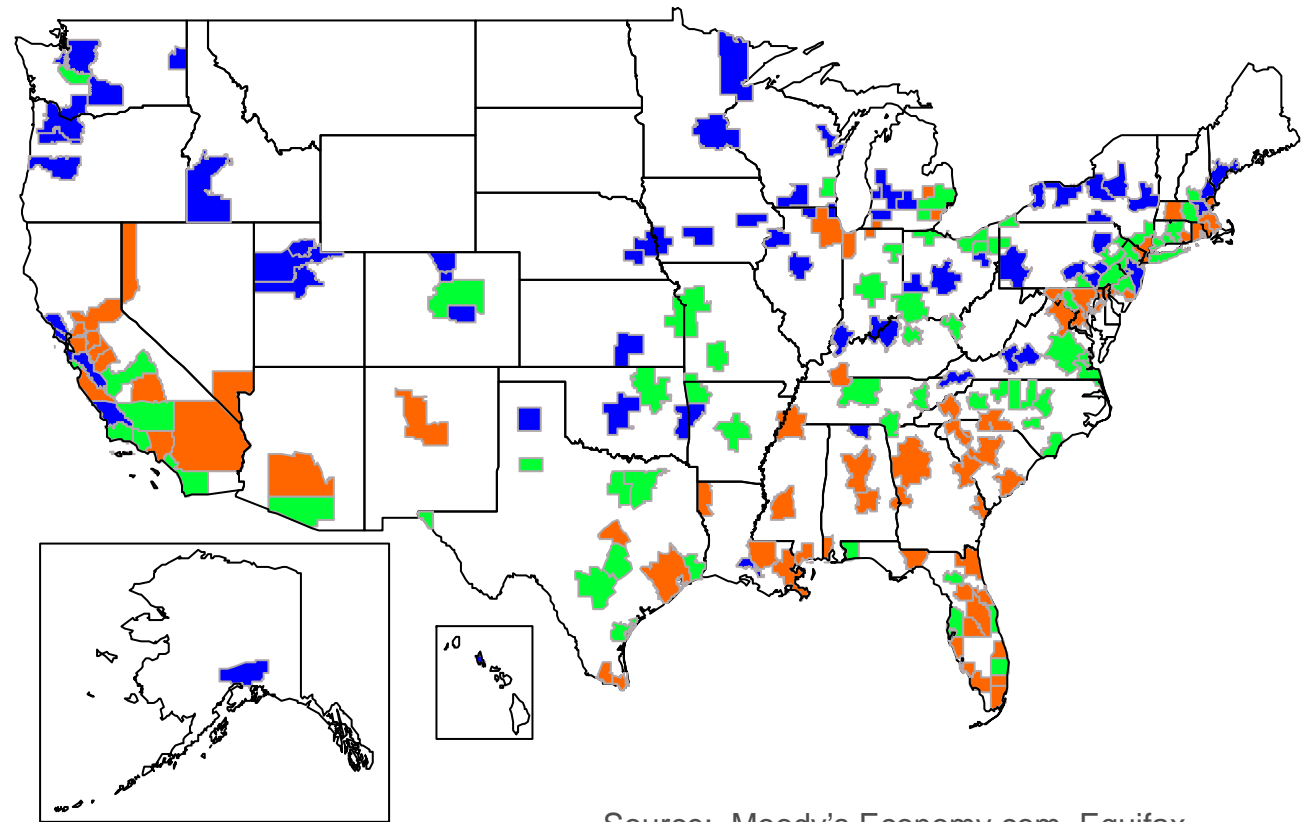


Largest increases in bankcard delinquencies have been in boom to bust housing markets



# Auto Delinquency Trends Also Follow Mortgages

30+ delinquency rate, % of balances, 2008Q2



The % of Dollars past due on Auto Loans is also highest areas with largest housing reversals

Source: Moody's Economy.com, Equifax



# Micro View: Credit Issues Initially Isolated among Mortgage Holders

## Percent of Consumers 30+ on at Least one Account

	Housing Peak	Now (q208)	Change
Consumers with No Mortgage			
%DLQ on Other Accounts	23.9%	23.7%	-1%
Consumers with 1 Mortgage			
% DLQ on Mortgage	4.7%	6.3%	34%
%DLQ on Other Accounts	11.1%	12.1%	9%
Consumers with 2+ Mortgages			
% DLQ on Mortgage	4.9%	9.8%	100%
%DLQ on Other Accounts	7.6%	10.3%	36%

- No increase in delinquencies among non-mortgage holders
- Largest increases in delinquency rates are among consumers holding multiple mortgages

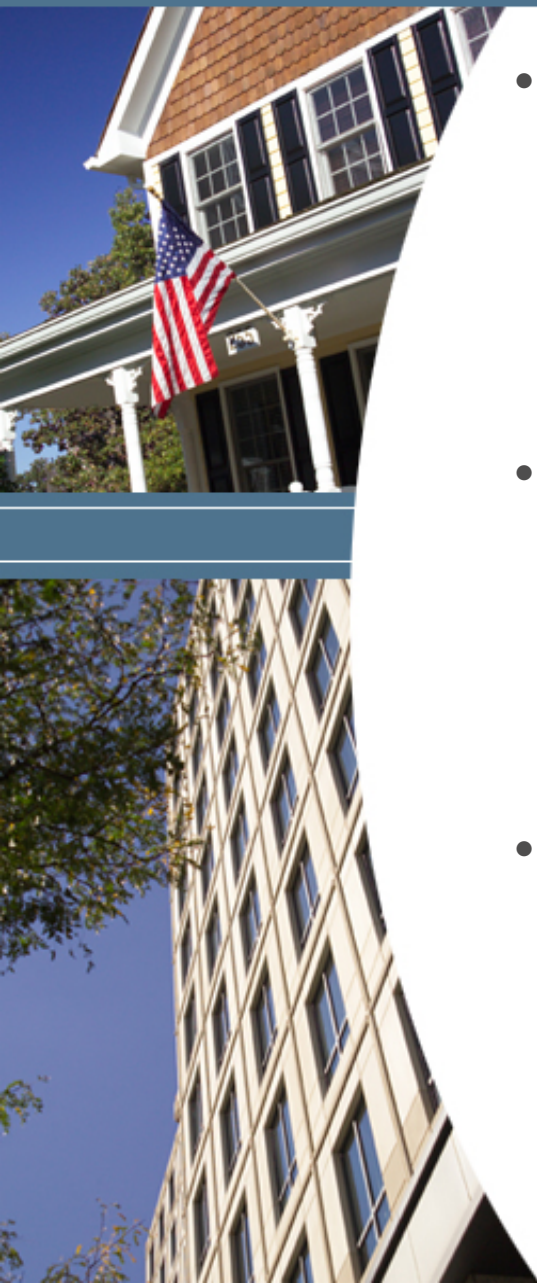
- A surprising number of consumers with mortgage delinquencies, continue to pay other obligations on time.
- Behavioral change is most marked in Boom-Bust states

### Population: Consumers with Mortgage Delinquency

State	Percent with Clean Bankcards	Percent with Delinquent Bankcard(s)
AZ, CA, FL, MA, MD, NV	43%	57%
All Other States	36%	64%
<b>Total</b>	<b>38%</b>	<b>62%</b>

### Population: Consumers with Mortgage Delinquency

State	Percent with Clean Auto Trades	Percent with Delinquent Auto(s)
AZ, CA, FL, MA, MD, NV	67%	33%
All Other States	60%	40%
<b>Total</b>	<b>62%</b>	<b>38%</b>



- Recent consumer credit trends have been dominated by the boom/bust housing cycle which created a period of “suppressed” delinquencies followed by a period of “surprise” delinquencies
  - » Bankcard and Auto delinquency problems arose as housing markets reversed and foreclosures escalated
- The outlook today depends on how severe and how long the recession lasts and how policy makers react
  - » Job losses and other income disruptions will lead put additional stress on consumers who are not having mortgage problems
  - » Loan modifications may ease some debt burdens
- On the bright side..
  - » Lenders have already reacted by tightening lending standards so the 2008 vintages will improve
  - » As consumer spending slows, so does borrowing on bankcards. Consumers are taking on less new debt which will help them clean up their balance sheets