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Consumer Credit: During COVID-19 and Beyond

Current credit score levels still reflect more **conservative use of credit** and lower levels of activity.

There has been a recent **increase in credit score levels** that also coincided with recent consumer accommodations in response to COVID-19 and the related requirements of the CARES Act on reporting of delinquencies.

After peaking in May, consumer accommodations appear to be **leveling off.**

Reported **delinquency levels remain low,** while there are some signs of increases in early stage delinquencies as accommodations end. However, it is still very early to get a good read of the true level of credit risks.

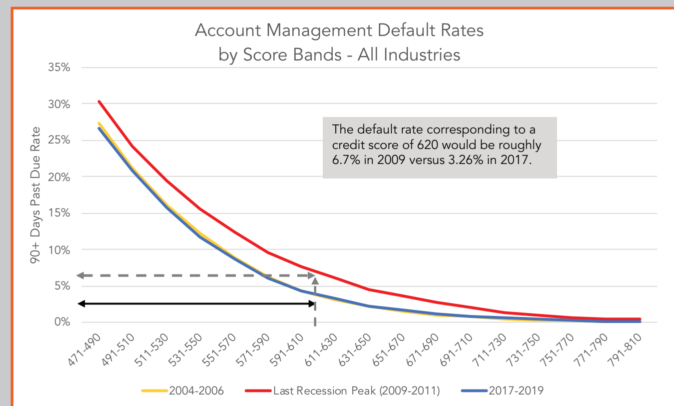
Percent of consumers **opening credit cards** is bouncing back, particularly in Sub-Prime, while the overall activity still remains below pre-pandemic levels.

New auto loan originations have come back strong, and appear to be more concentrated in Prime and Near- Prime vs. Sub-Prime tiers.

Mortgage originations benefited from historically low interest rates, increasing every month since the beginning of the pandemic.

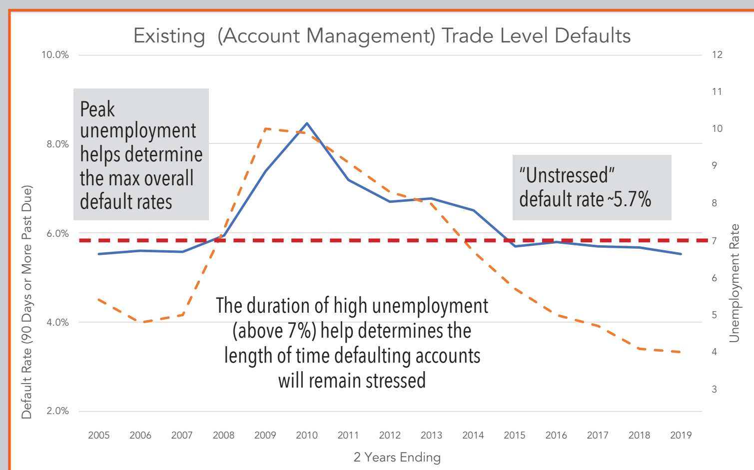
Understanding Default Rates in the Current Stressed Environment

1. The relationship between credit scores and the default rate is dynamic and changes as the economic environment shifts.



2. There is a first order relationship between default rates and unemployment levels, which have been volatile due to the impact of the COVID-19 pandemic.

3. The duration and levels of unemployment will be different geographically, and the impact on default rates may be felt differently.



Given the heightened level of uncertainty, lenders should focus on absolute risk levels as well as rank ordering of risks, shifts in credit behaviors and score distributions. Macro drivers of risk and changes in data definitions and availability need to be closely monitored.