US CONSUMER CREDIT RISK
Trends and Expectations
FIRST QUARTER 2013

A Survey by the Professional Risk Managers' International Association

April 2013

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FICO™

ACKNOWLEDGEMENTS

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PRMIA would like to extend special appreciation to The Center for Decision Sciences at Columbia Business School for their assistance in analyzing the survey responses. The Center for Decision Sciences brings together scholars from a range of fields who share an interest in human decision making. The center facilitates research and understanding on consumer behavior, the implications of decision making on public policy, and the neurological underpinnings of judgment and decision making. The center is housed within Columbia Business School, widely acknowledged as being among the world's top business schools. To learn more, visit ***http://decisionsciences.columbia.edu***.

EXECUTIVE SUMMARY

Since the first quarter of 2010, FICO and PRMIA have polled bank risk professionals each quarter regarding their predictions for the next six months and the impact of current events on their field.

This quarter, a key finding revolves around delinquency levels for most loan types leveling off, a positive sign. The only exception exists in student loans, where respondents are still predicting increased levels of delinquencies. Other interesting findings include the fact that lenders believe the home price appreciation that is taking hold in many areas is sustainable, and a record high percentage of respondents expect mortgage delinquencies to decline.

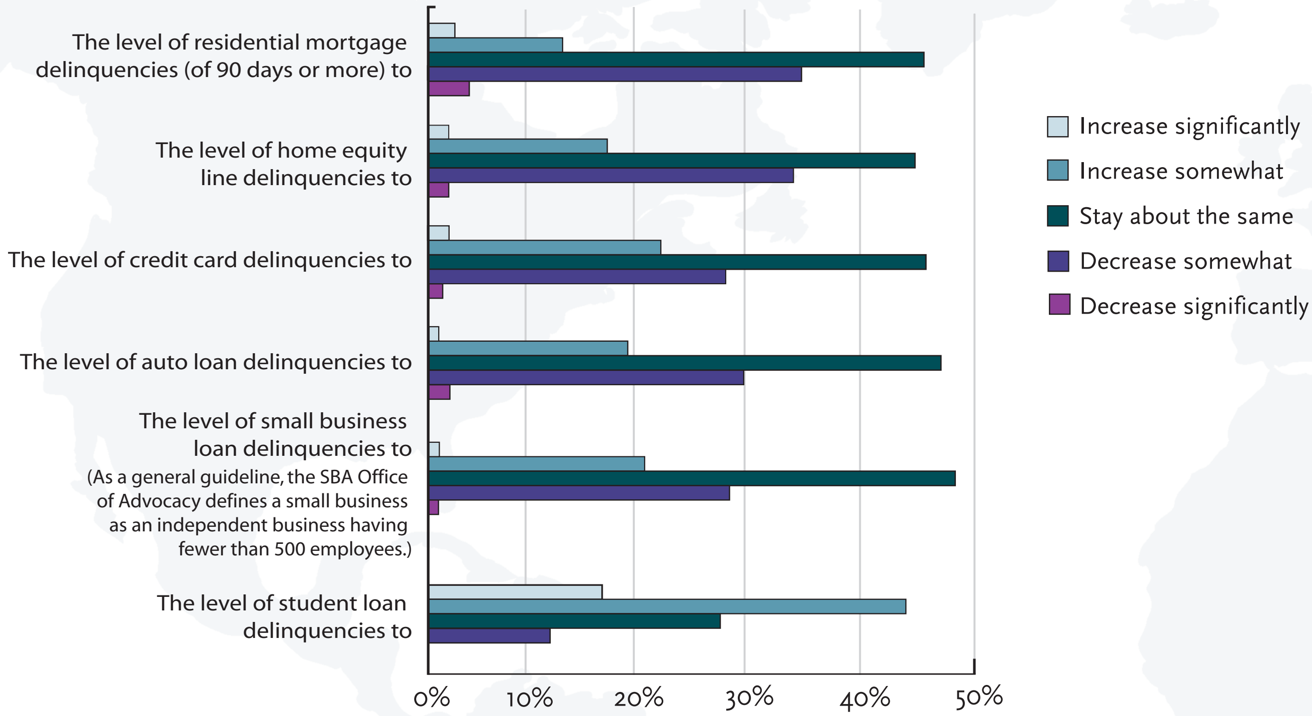
Key Findings and predictions about the next six months:

- Most (83.7%) believe that the level of mortgage delinquencies will decrease or stay the same, a significant improvement over last quarter.
- Less than 20% (19.2%) believe the level of home equity line delinquencies will rise.
- Of all categories of delinquencies, only student loan delinquencies had a majority (61.1%) of respondents predict an increase.
- 57.5% expect levels of existing customers who request credit-line increases to rise.
- A plurality (49%) expect that the total number of delinquencies will remain the same, up 6% from last quarter.
- 48.6% expect that the number of new delinquencies will remain the same, up over 10% from last quarter.
- Small business credit requests are predicted by most (69.3%) to increase.
- Most respondents (70.8%) feel that home prices are rising at a sustainable pace.
- A majority of respondents believe the supply of credit for all consumer loan products will meet demand.
- A majority (63.7%) report that their institution has updated its main credit-scoring system within the past 2 years.

KEY FINDINGS AND ANALYSIS

Expecting the Status Quo for Delinquencies

Looking at the industry as a whole, over the next six months, do you expect: (check all that apply)



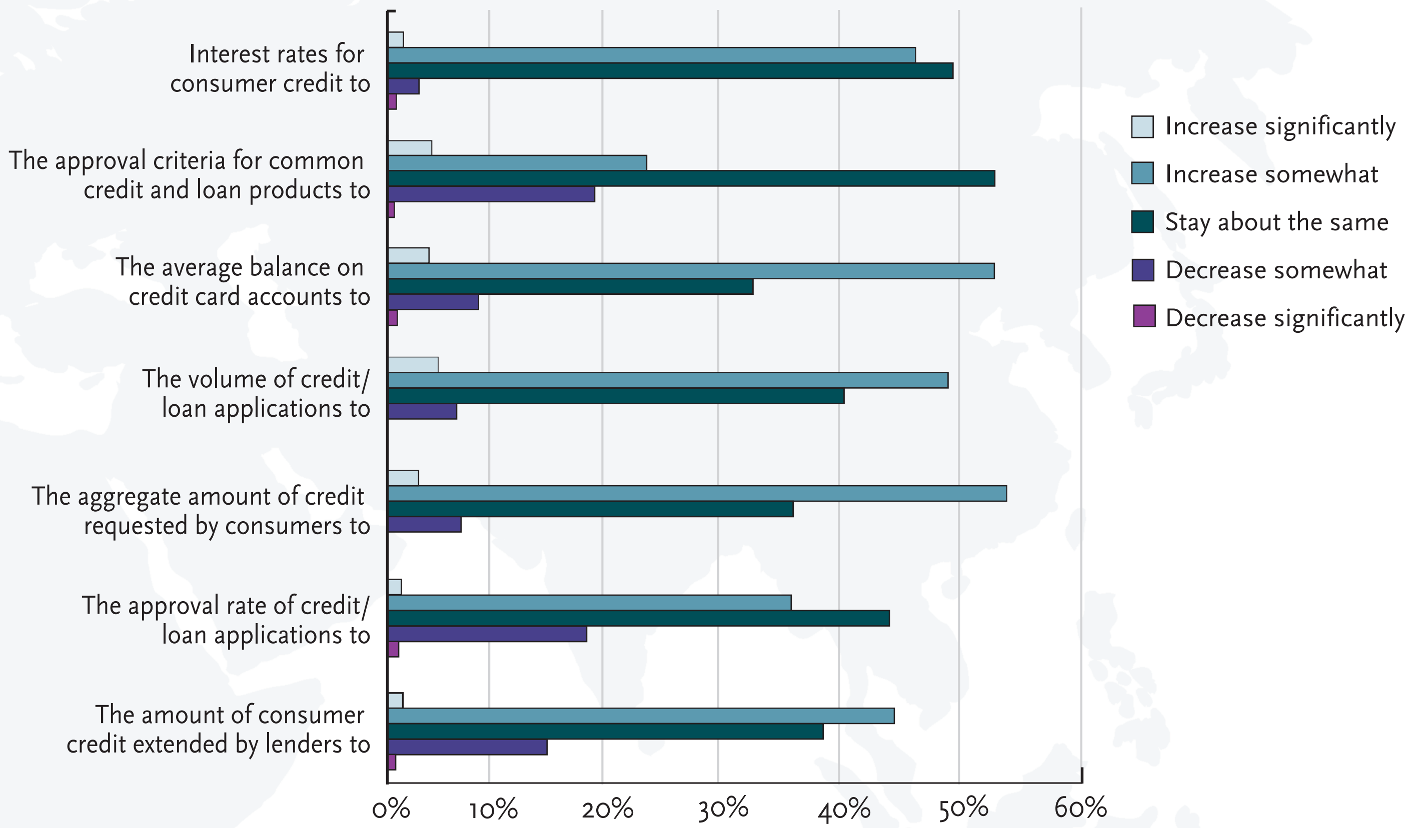
The first quarter of 2013 brings a clear picture of expectations regarding delinquencies, and those expectations overwhelmingly favor the status quo. In 5 out of 6 categories surveyed - mortgage, home equity, credit card, auto, and small business loan delinquencies - a plurality of respondents expect levels to remain the same. And it isn't just that those who felt increases were likely in the past are now dropping to status quo; respondents recorded record high predictions of decreases in delinquencies in many categories as well (see historical analysis). Strikingly, the difference between those who feel mortgage delinquency levels will stay the same (45.2%) and those who feel it will decrease (38.5%) is within 10 points. Similarly, the difference between those who feel that home equity delinquency levels will stay the same (44.8%) is also within 10 points of those who feel it will decrease (36%). In other areas, as mentioned, a plurality of respondents expect the level of credit card delinquencies to remain the same (45.8%) and the level of auto loan delinquencies to remain the same (47.2%).

Throughout 2012, sentiment on delinquencies was fairly optimistic, with only one area continuing to be of concern: Student loan delinquencies. This quarter is no exception. While most respondents believe delinquencies of mortgages, home equity lines, credit cards, auto loans, and small business loans will stay the same, nearly half (44.2%, slightly down from 47.5% in Q4 2012) expect the level of student loan delinquencies to increase slightly, and 16.9% look for it to increase significantly (up over 5 points from Q4). This makes it the only category of loan that consistently paints a pessimistic debt repayment picture, quarter after quarter.

On one hand, this concern regarding student loan debt may be partially driven by the intense discussion of it in the media. However, given that our respondents are all risk management professionals, it is likely that day-to-day experience has further polarized their opinion regarding this form of debt. While one may be tempted to dismiss student loan delinquencies as the lone hold-out in an otherwise optimistic picture of the next six months, it is also possible that delinquencies in this form of debt could impact others as individuals struggle to keep up with other debts. It will definitely be an area to watch.

Consumer Credit Outlook Optimistic

Looking at the industry as a whole, over the next six months, do you expect: (check all that apply)



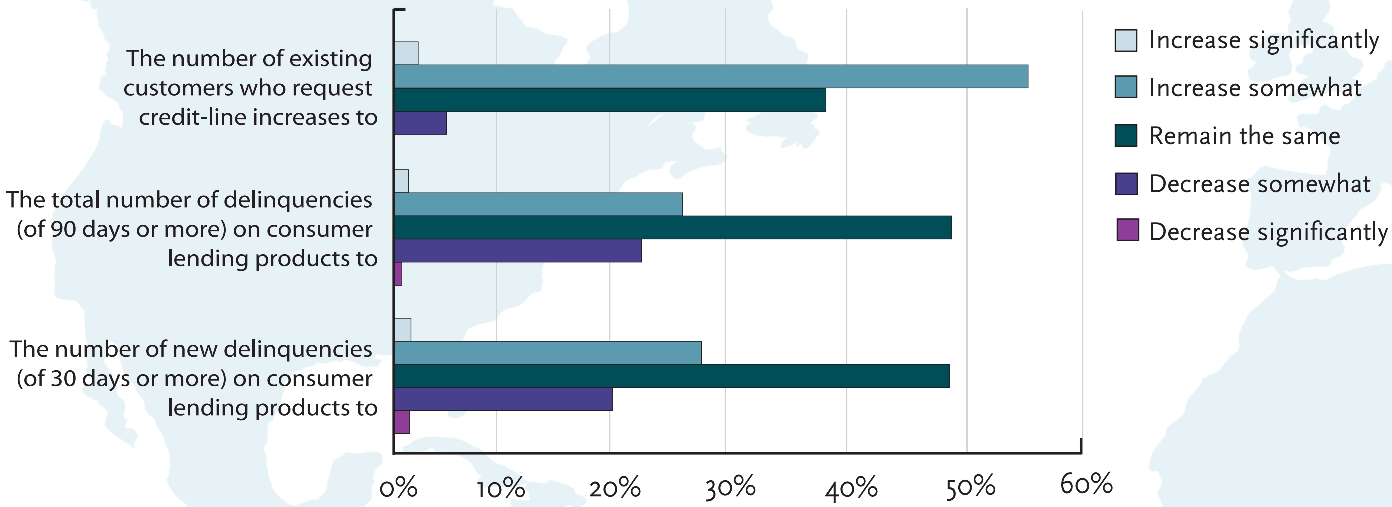
In consumer underwriting, respondents seem more willing to make directional predictions than last quarter. Only slightly under half (49.4%, compared to 59.4% in Q4 2012) now expect interest rates on consumer credit cards to remain the same, with nearly an equal number (47.3%) expecting an increase. In Q4, only a third (31.4%) expect these rates to rise. Most (52.4%) expect the approval criteria for credit and loan products to stay the same, with 27.7% expecting the criteria to become more stringent. A majority (56.5%) look for consumers to be comfortable carrying a higher average balance over on their credit cards, virtually unchanged from Q4 (54.4%) or Q3 (55.5%).

Another trend that continues is predictions of the volume of credit or loan applications. 53.5% expect it will increase, compared to 54.8% in Q4. Interestingly, 57.2% believe credit requested by consumers will increase, continuing a trend from Q4 (60.7%) and still up over 10% from Q3, suggesting that this desire for more credit was not merely driven by the holiday season, but perhaps increased financial ability by consumers. Many (43.5%) feel that the approval rate for consumer credit and loans will remain the same. Finally, 84.5% predict that the amount of consumer credit extended by lenders will increase or stay the same, consistent with Q4 and Q2 2012 by a margin of one tenth of a percentage point.

Overall, the underwriting predictions of this quarter are consistent with attitudes observed throughout 2012 and seem to be trending more toward the optimistic nature they had in Q2 and Q3 of 2012, compared to Q4. Consumers appear to have utilized credit during Q4 without substantial problems and despite a prediction of higher balances, may have gained some trust back from less-than-optimistic risk managers.

Delinquency Predictions Straddle Status Quo

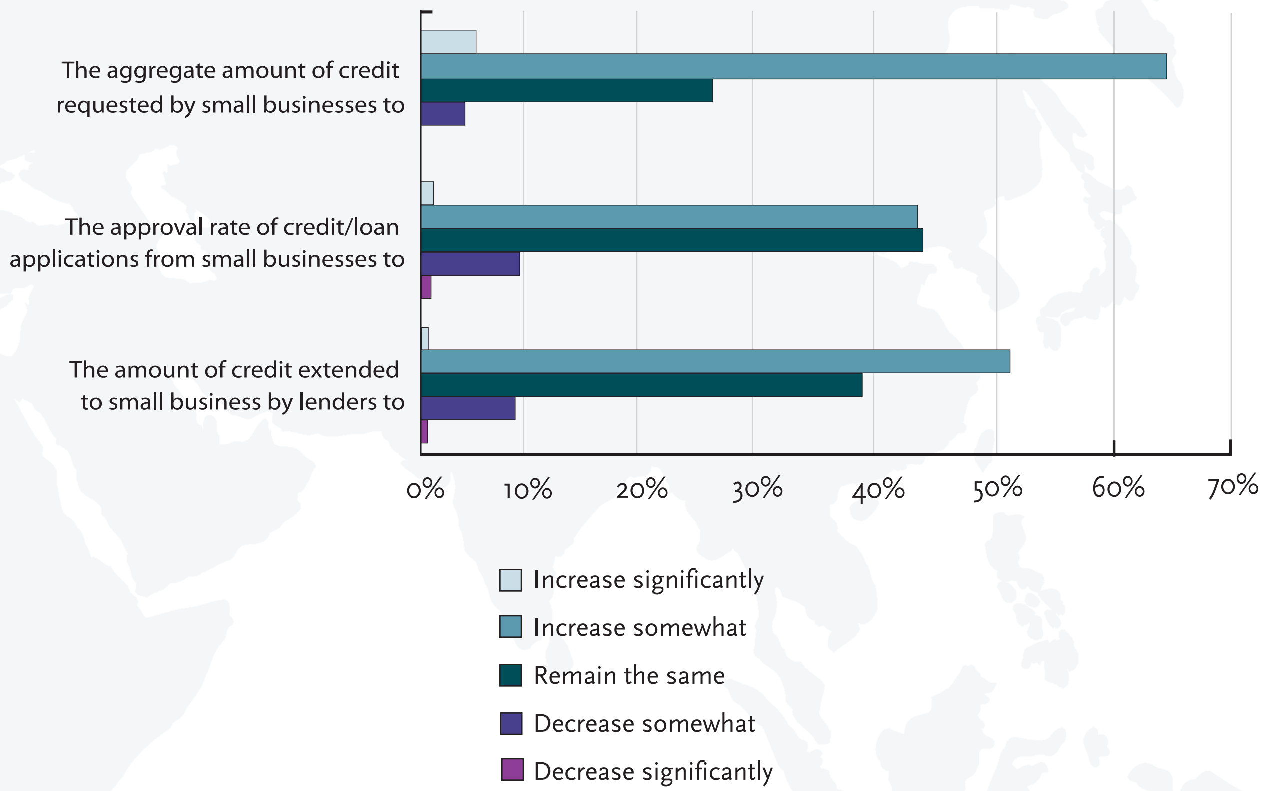
Looking at the industry as a whole, over the next six months, do you expect:



Risk managers continue to predict a rise in credit-line increase requests (57.5% compared to 50.5% in Q3, although down nearly 3% from Q4), with only a third (37.6%) looking for the amount of credit-line increase requests to stay the same. Whereas Q3 saw a majority (52.9%) believe that the total number of delinquencies on consumer lending products would stay the same, this number dropped over 10% (42.7%) last quarter. In Q1 2013(the present survey) the number has rebounded to 49%, suggesting increased confidence that the delinquency picture will not drastically change over the next 6 months. Only slightly more than a quarter (27.3%) now expects delinquencies to increase over the next six months. In regards to new delinquencies, 48.6% of respondents believe the number will stay the same, a marked increase over Q4 (38.5%). Overall, these numbers suggest that delinquencies will remain at status quo levels, while customers are expected to request increases to their borrowing ability.

Small Businesses Outlook Continues Positive Trend

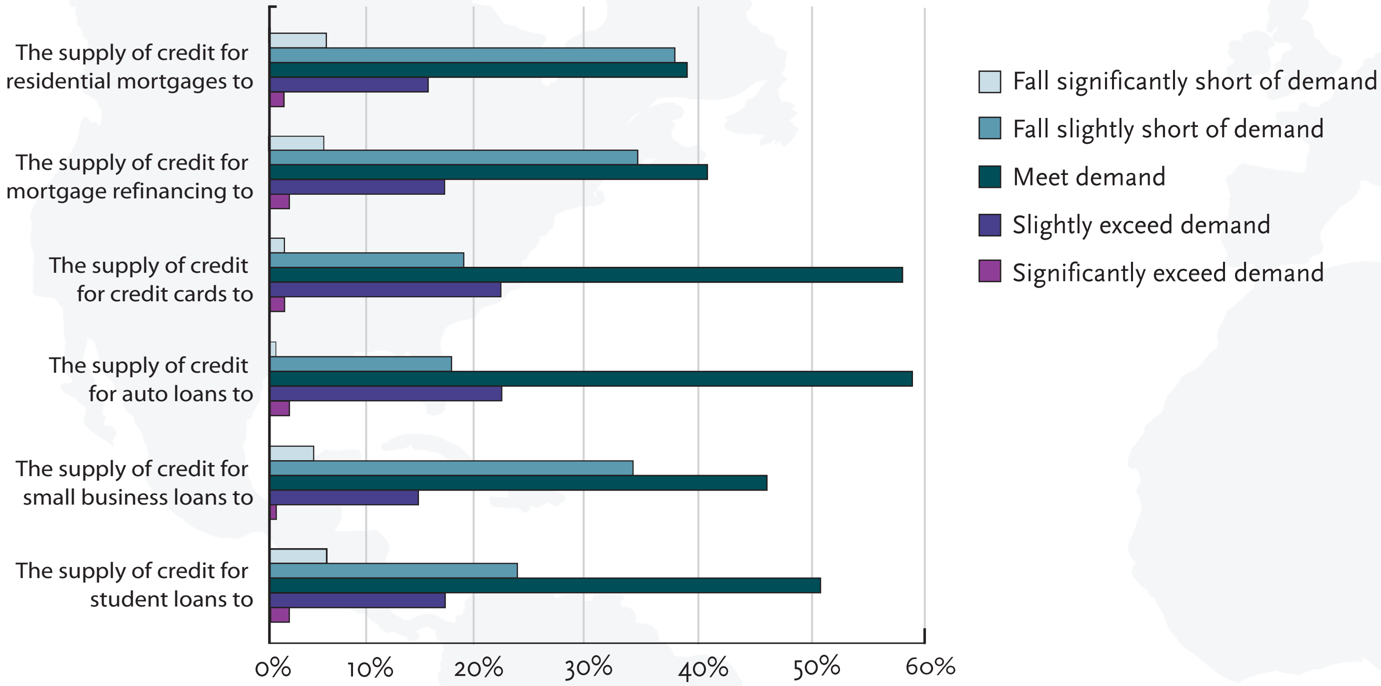
Looking at the industry as a whole, over the next six months, do you expect:



The FICO/PRMIA survey throughout 2012 found positive predictions for small business, and Q1 of 2013 continues the trend. A large majority (69.3%) predict that the amount of credit requested by small businesses will increase, nearly the same level as was predicted in Q4. Approval rates, throughout last year predicted to remain stable, are expected by a plurality (45.2%) to increase. Finally, a majority (51%) now feel that the amount of credit extended to small businesses will increase over the next six months, up from 43.6% in Q4. As noted in previous reports, data from the last 9 quarters of the FICO/PRMIA survey show the outlook on small business to remain stable and positive.

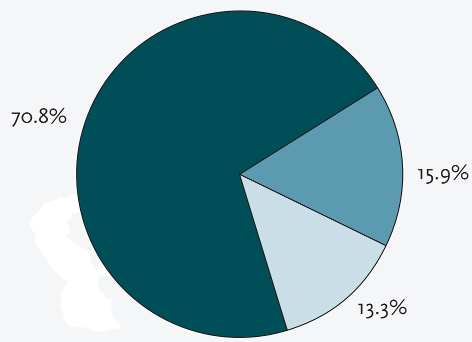
Current Topics: Credit Supply, Home Pricing & Priorities

Over the next six months, do you expect: (check all that apply)



The FICO/PRMIA survey devotes a number of questions each quarter toward current topics. Beginning in Q3 2012, credit supply became a major focus of the current topics section, broken out by multiple categories. In five of the six areas of interest (refinancing, credit cards, auto loans, small business loans, and student loans), a plurality of respondents felt that supply would meet demand, with a majority of respondents feeling that way regarding credit card supply (56.9%) and auto loan supply (57.8%). This quarter saw a shift in sentiment regarding small business loan supply, with 38.6% looking for supply to fall short of demand, down from 47% in Q4. Additionally, in Q4 we speculated that within the next year this issue of supply and demand for mortgages and refinancing would resolve, given the relative optimism regarding consumer behavior on increased credit availability and balance versus delinquency predictions noted above. This quarter has found a small shift away from predictions of mortgage and refinancing supply falling short, a positive sign.

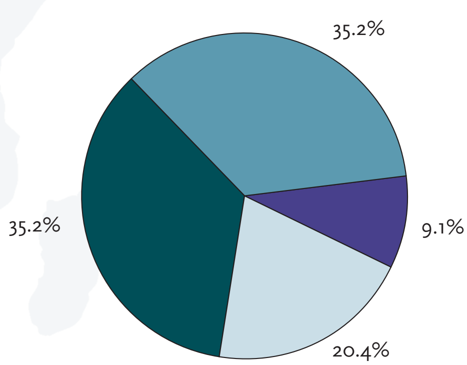
Choose the answer that best describes your sentiment. With regard to mortgage lending risk, describe how you feel about home prices today.



- Prices are rising too high, too fast – this is a risky situation
- Home prices are rising at a sustainable pace
- Prices need to fall further – the market correction isn't over

The survey also asked respondents how they felt about home prices in Q1. A majority, (70.8%) feel that home prices were rising at a sustainable pace, although a minority (15.9%) still worry that the market correction for home prices hasn't completed.

Choose the answer that best describes your sentiment. Which of the following is the highest priority at your institution in 2013?



- Strengthening our fraud prevention systems
- Improving the customer experience
- Utilizing Big Data analytics to gain greater insight into our customers
- Increasing our use of the mobile channel for customer communication and customer self-service

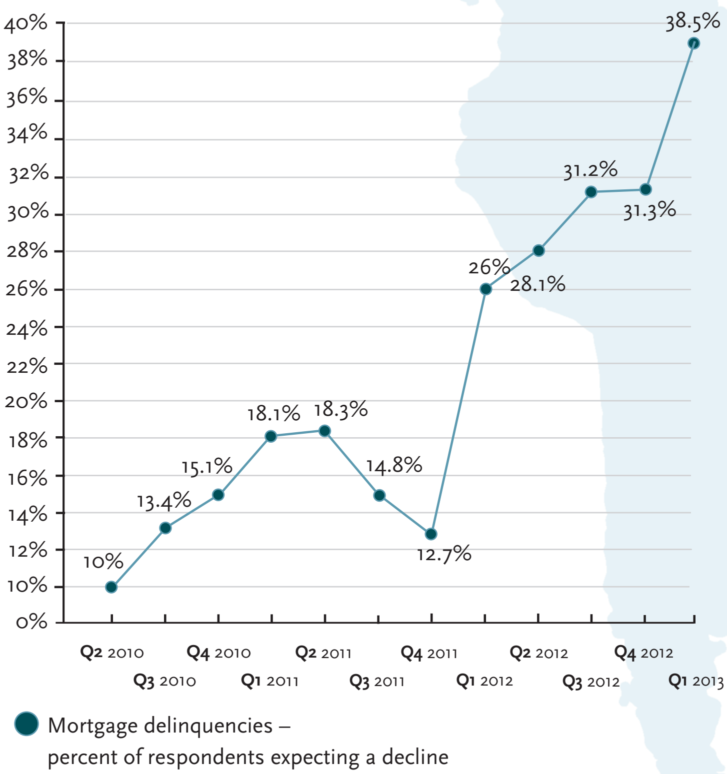
Finally in Q1 the survey asked about the highest priority at respondents' institutions in 2013. Results were mixed, with an equal number of participants citing improvements in customer experience or utilization of Big Data analytics to gain greater insight into customers. The third most popular priority was strengthening of fraud prevention systems. This suggests that institutions are focused on customer-related goals in 2013, recognizing that rehabilitation of a customer revenue stream has not fully been realized after the economic fallout in the last six years.

Historical Analysis

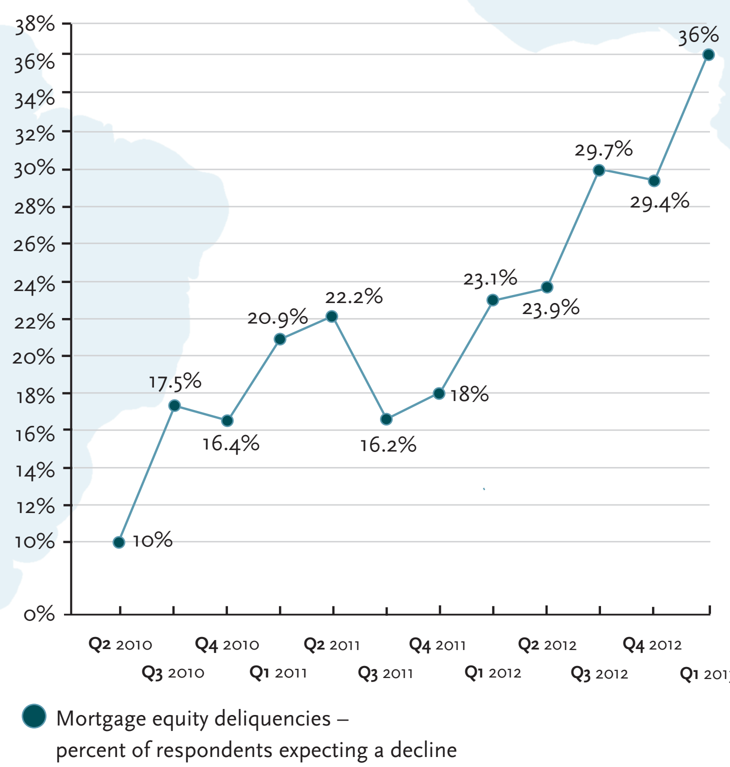
Over 12 quarters, a variety of trends have been noted by the PRMIA survey. These include:

- All-time highs in predictions of mortgage delinquency decreases (38.5% expect a decrease) and home equity delinquency decreases (36%).
- Credit card, auto loan, and small business delinquencies show the second highest level of decrease prediction since Q1 2011. All three are within 7% of their record highs.
- Only 3.2% believe that interest rates will drop over the next six months. This is the third lowest over the last 12 quarters, with only Q2 & Q1 2011 showing lower numbers.
- After hitting a record low level, predicted credit card balance decrease has bounced back slightly, up to 10.1% from 8.8%. However, this is still a far distance from the record high of 33.3% in Q3 2010.
- Only 6.1% expect a decrease in the volume of credit/loan applications over the next six months, a record low. The second lowest is now Q1 2012, where 9.6% expected a decrease in volume, suggesting that perhaps early in the year estimates tend lower.
- Similarly, 6.6% expect the amount of credit requested to decrease, the lowest recorded by the FICO/PRMIA survey, down from the high of 26.4% in Q3 2011.
- 19.9% expect the approval criteria for loans to become less stringent. This is the third highest level in survey history, bouncing back from the lowest level in survey history (12.1%) in Q4 2012.

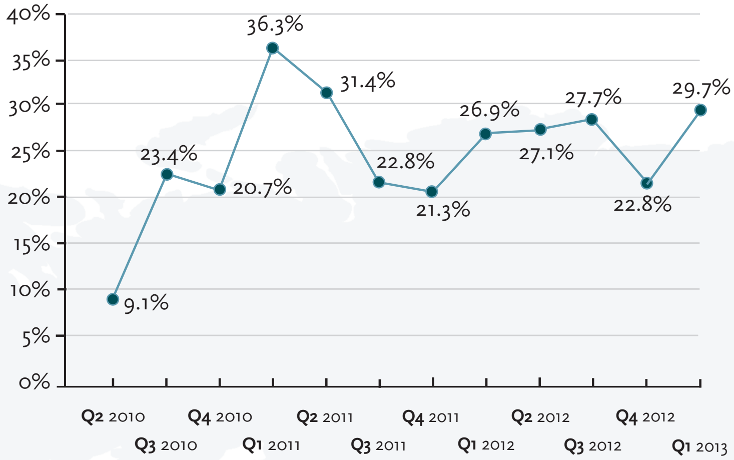
Mortgage Delinquencies



Home Equity Delinquencies

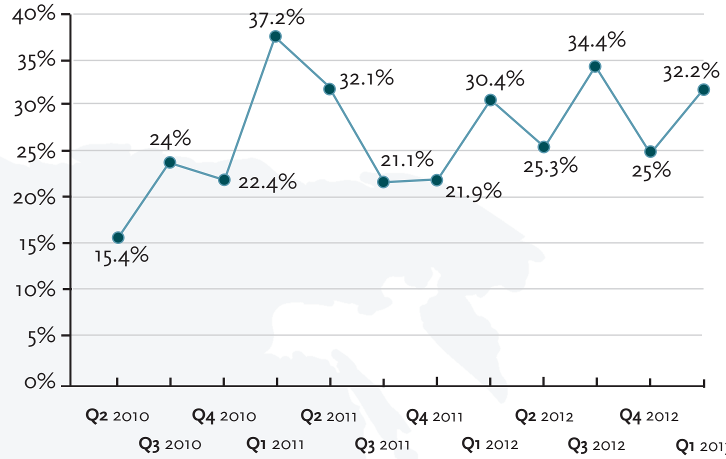


Credit Card Delinquencies



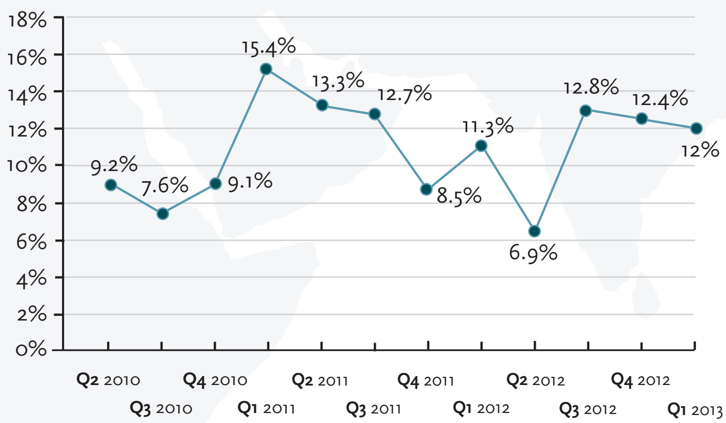
Credit card delinquencies –
percent of respondents expecting a decline

Auto Loan Delinquencies



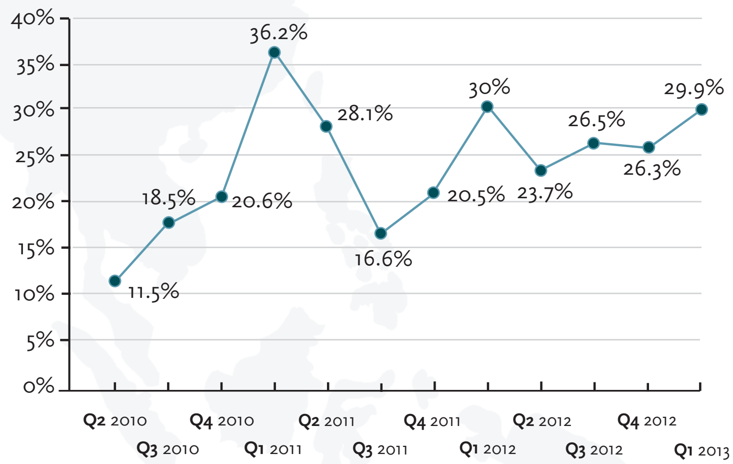
Auto loan delinquencies –
percent of respondents expecting a decline

Student Loan Delinquencies



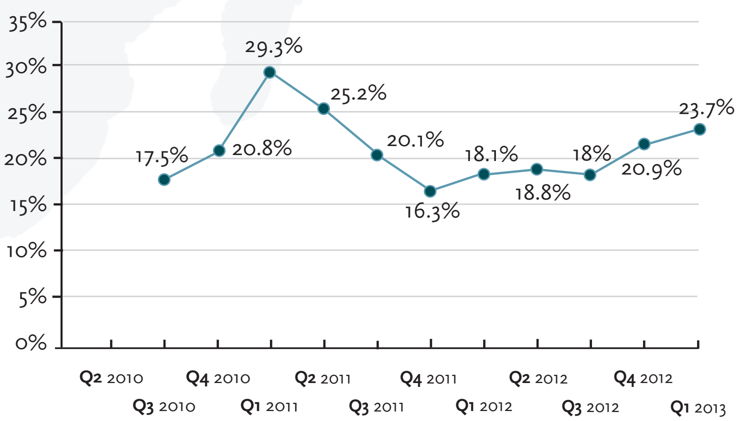
Student loan delinquencies –
percent of respondents expecting a decline

Small Business Loan Delinquencies



Small business loan delinquencies –
percent of respondents expecting a decline

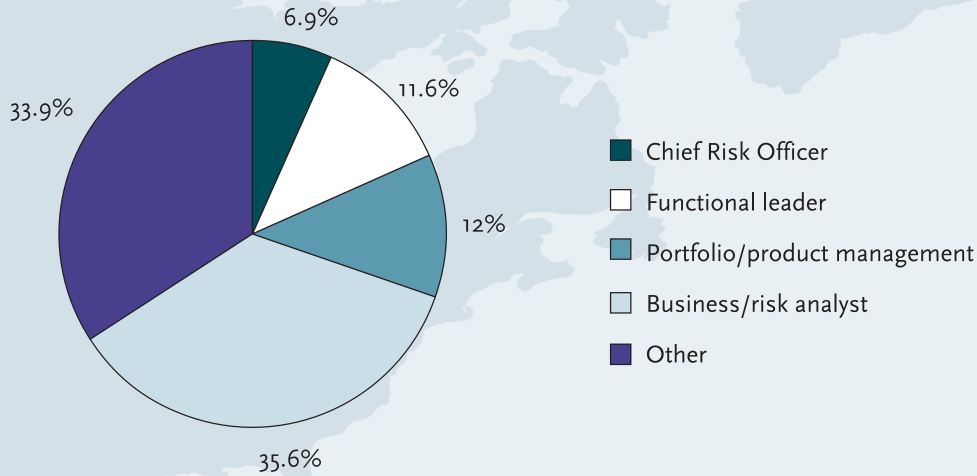
Total Loan Delinquencies



Total number of delinquencies – percent of respondents expecting a decline

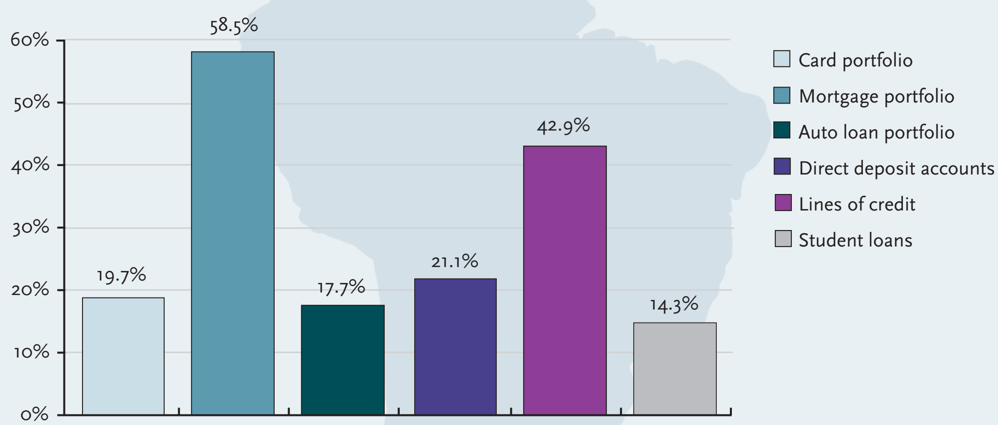
RESPONDENT PROFILE

Your job (select most appropriate)



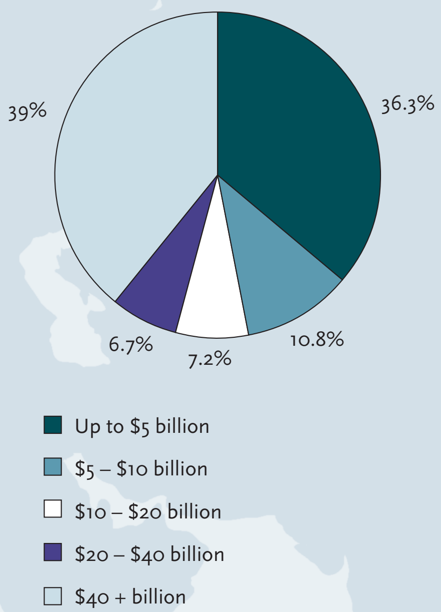
A plurality of respondents (35.6%) identified as business or risk analysts. Further, smaller percentages of respondents identified as portfolio or product managers (12%), functional leaders (11.6%) or chief risk officers (6.9%). A growing number, 33.9% this quarter, 29.8% in Q4 2012, and 26.2% in Q3 2012, indicated their job as "other", reflecting a changing landscape in formal risk management roles.

What is your area of responsibility (check all that apply)?

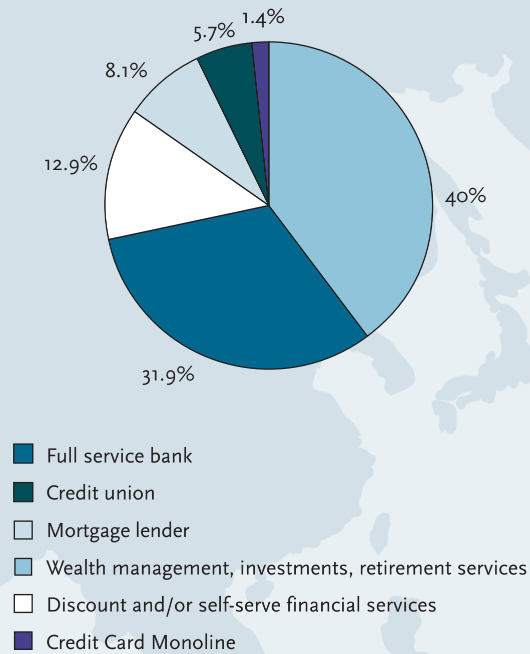


The vast majority of respondents managed either a mortgage portfolio (58.5%) or lines of credit (42.9%). 1 in 5 respondents (21.1%) were responsible for direct deposit accounts, with slightly less responsible for a card portfolio (19.7%) or auto loan portfolio (17.7%). Finally, few (14.3%) were tasked with managing student loans, suggesting that the weary nature surrounding student loan debt extends beyond those who are responsible for it.

What is the size of your institution (by total assets)?



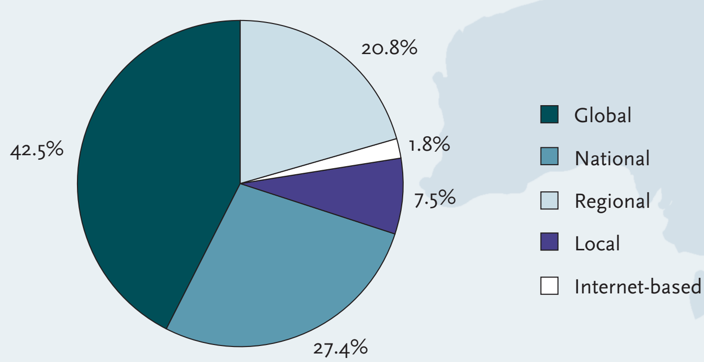
What is the business orientation of your institution (select the most appropriate)?



A third of respondents (36.4%) worked in a firm specializing in wealth management, investment, or retirement services. Approximately another third (32.7%) worked in a full service bank. Nearly 1 in 5 (18.2%) worked in a discount or self-service financial institution. The plurality of institutions (45.4%) represented in this quarter's panel were smaller, managing up to $5 billion in assets. The other end of the spectrum was not absent though, with 33.9% of respondents working for a firm that managed in excess of $40 billion in assets.

What is the geographic reach of your institution?

Most frequently, respondents worked at a firm with global reach (42.5%), with fewer (27.4%) working in a firm with national reach or regional reach (20.8%). The panel also included individuals who worked in an institution with local reach (7.5%) or an Internet-based institution (1.8%).



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