Global Credit Trends

1H 2023 RELEASE

Insight stories
around the globe

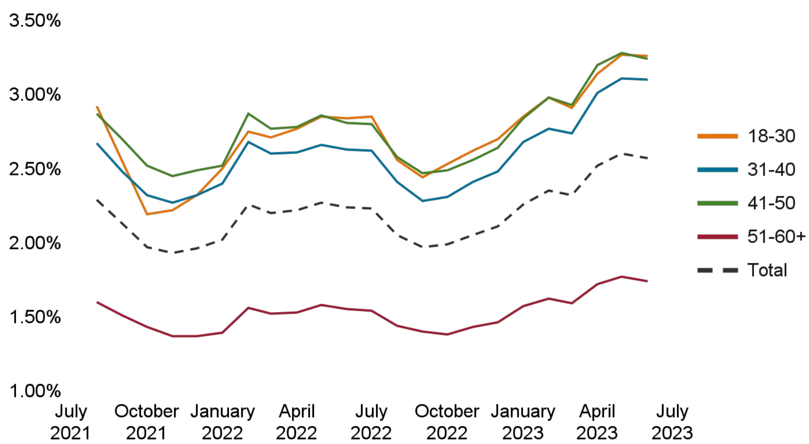
Consumers **feeling the pinch** differently

Higher proportion of consumers with delinquencies in two years

Increased interest rates are having the greatest impact on **consumers with a mortgage** aged 41-50. The average limit per mortgage account for this cohort was $387K in July 23 – higher than the average limit per mortgage account at the total market level

Recent high spending patterns are catching up with **consumers without a mortgage** under 40, pushing delinquency levels to a 2-year high. Delinquencies for consumers without a mortgage in this age group reached 3.58% in the June '23 quarter

Percentage of consumers with at least one 30+ delinquent account



What does this mean?

- Consider consumer risk across all portfolios including recent spend patterns to anticipate potential risk from cost of living pressures
- Monitor consumer portfolio health by identifying customers impacted by shrinking disposable income given higher inflation and rising interest rates
- Encourage consumers to reach out to providers if trouble arises. Assist with alternative repayment arrangements

Sustained **mortgage pressures**

With average mortgage repayments having increased 15% YoY, consumers are now taking action to reduce their short-term mortgage burden

What does this mean?

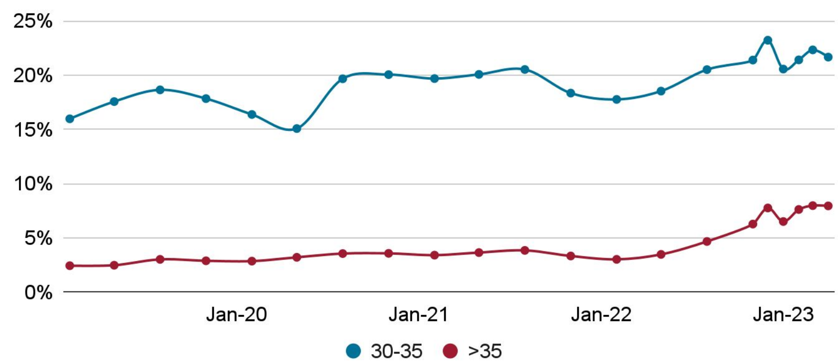
- Paired with persistent high inflation, consumers continue to be squeezed by increased cost pressures from multiple directions
- Timely customer management data becomes ever more important to drive early intervention and improve pre-delinquency and early collections activities
- Robust and flexible affordability assessment remains key in supporting responsible lending in the face of continued consumer expenditure challenges

Evidence of consumers looking to spread the cost of mortgage repayments, with significant growth in the proportion of mortgage originations with loan terms of 30+ years

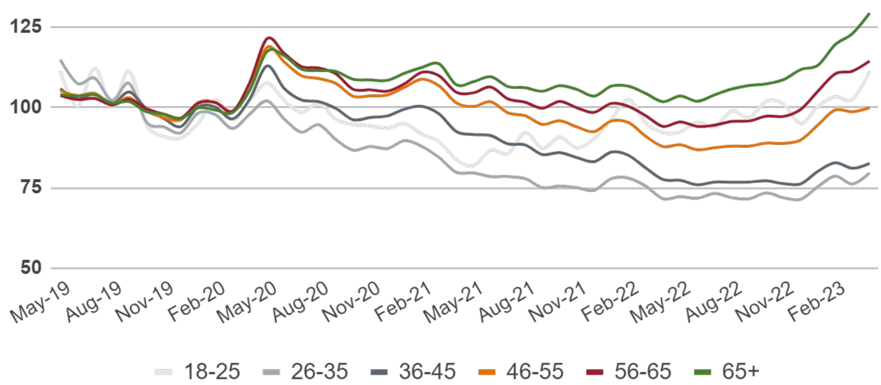
Mortgage delinquency rates have notably deviated between age groups, with **older demographics seemingly less able to accommodate the ongoing cost pressures**

Lenders are likely less willing to delay mortgage maturity in cases where a consumer's loan term already extends into retirement age, **41% of UK mortgages are currently held by consumers who will already be beyond the UK retirement age at loan maturity**

Significant growth in the % of mortgage originations with loan terms of 30+ years

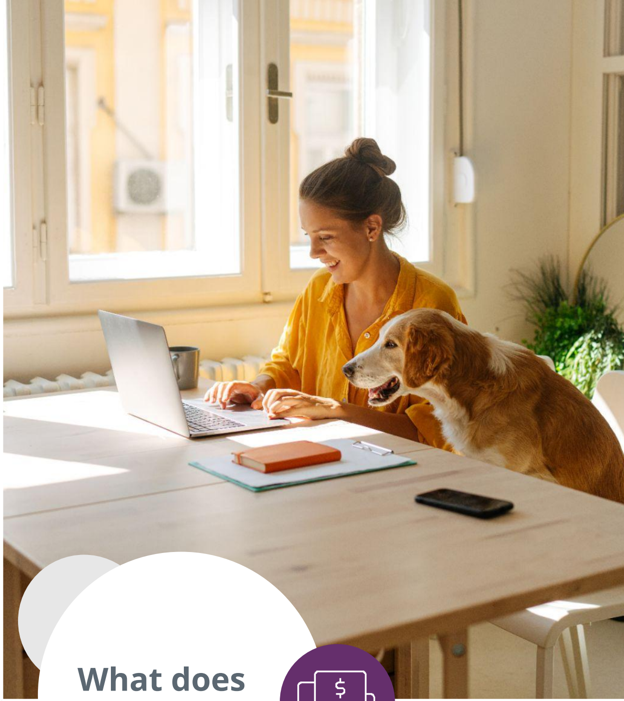


Mortgage Delinquency Rates (1+) by Age Band*



** Indexed to H2-19 age band average*

Consumers **pulling back on spending** amidst high interest rates and inflation



Spend levels plunging: The post pandemic surge in consumer spending is finally slowing down

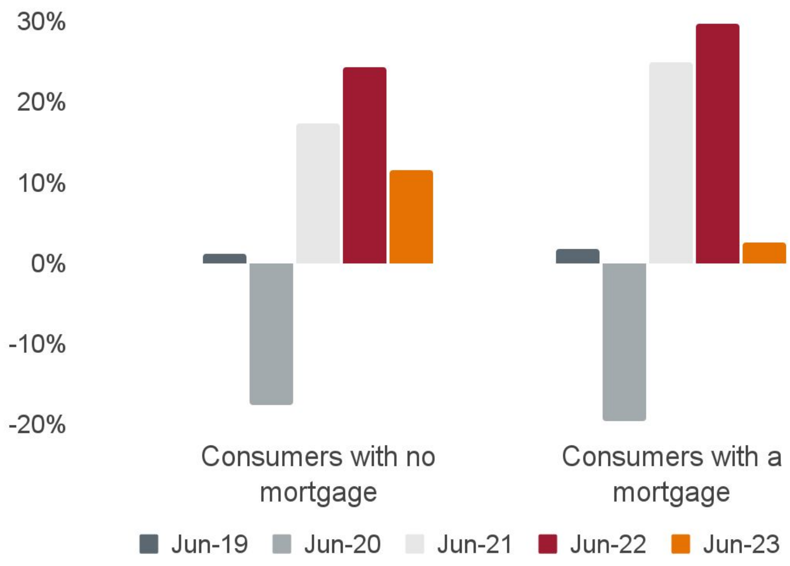
Mortgage holders preemptively cutting down expenses: Consumers with a mortgage are feeling the pressure of high interest rates and show the maximum drop in credit card spend

Inflation affecting the more vulnerable segments: Lower income segments are struggling to keep up with high expenses as their spend levels continue to rise

What does this mean?

- Credit card spend/payment behavior will be a key indicator of early financial stress specially among mortgage consumers
- Consumers going through mortgage renewal payment shocks are at high risk of revolving on their credit card payments
- Interest rate impact will be more visible for variable rate mortgage holders who have hit their trigger rate and are only making interest-only payments
- Lower income groups hit hard by inflation as household savings fall back to pre-pandemic levels

YoY change in average credit card spend per credit card consumer



Student loan outlook

After 3+ years of payment freeze for federal student loans, payments resume in October — reporting is a different story

What does this mean?

- Among your customers, do you know who is affected?
- What potential risk do these customers represent?
- Are your credit policies set up to address actions they may take proactively?
- What actions are you considering and how quickly can you respond?
  - Have you created high risk categories for further analysis?
  - Should cut-off scores be adjusted?
  - Is there a need to revisit collection strategies?
  - New approach in managing revolving customers affected?
  - Proactive outreach to specific customer segments?

Student Loan debt affects **almost 40M consumers** — although current government initiatives will likely reduce the number despite the **Supreme Court striking down payment forgiveness**

It makes up **$1.5T** out of almost $17T in total outstanding consumer loan debt — 3rd largest behind Mortgage and Auto

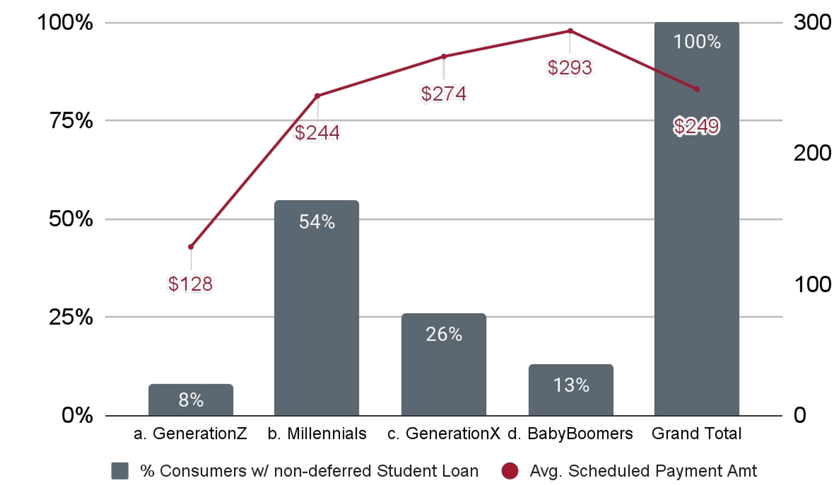
- Consumers **18-39 hold 55%** of this student debt
- **Almost 25%** is held by those **over 50**

Resuming payments will put stress on personal budgets, **averaging a 17% increase in monthly debt commitment** — 24% in the case of Gen Z[1]

Reporting of delinquency and default will still take another year

- Average student loan debt in accommodation is **$38,000 per consumer**[1]
- Consumers hold **3 to 4 student loans**
- **10-24% of our clients' consumers** hold a Student Loan off-them

Average student loan repayment amounts by generation pre Covid



Important Note about Student Loan Repayments

As of October 1, 2023, Equifax anticipates federal student loan servicers to begin reporting updated balances for consumers. Insights about student loan repayments and the impact will be provided in the Full Year 2023 Global Credit Trends Report (to be published in Q1 2024).

Sources: All data from Equifax Portfolio Credit Trends, July, 2023 (data through June 2023) unless otherwise noted.
1. The Student Loan Crisis, Shur, VantageScore and Equifax, 2022

Insights

Inflationary pressures continue to mount across the globe

North America

Canada

- **High inflation:** Inflation slowing down but cost of key commodities remained high
- **Delinquency and insolvency:** Financial stress more visible than ever as delinquencies and insolvencies rise across all segments
- **High interest rates:** Despite the initial slowdown in the mortgage market, mortgage new originations are back up in Q2 2023

United States

- **Inflation:** YoY Inflation up slightly to 3.2% from 3.0% Jun to Jul 2023, within expectations, but higher than Fed goal of 2.0%
- **Consumer spending** increased by 0.2% m/m in Jul; spending on Goods up 0.9% while Service spending up 0.1%
- **Job growth** has slowed, but remains healthy, helping to avoid recession; 187K non-farm jobs added in Jul 2023. Gains from healthcare, social assistance and financial services. Losses from professional services

Latin America

Argentina

- **High inflation:** Argentina's inflation rate was 6.0% in June 2023. Consumer prices rose 115% YoY
- During Q2 2023, inflation kept moving at a higher rate than **official exchange rate**, the same behavior since Q3 2022
- Central Bank **interest rates** rose to 97% in June

Ecuador

- **GDP:** World Bank has reduced growth forecast from 3.1% to 2.6% in 2023 primarily attributed to political uncertainty and the slowdown in economic activity
- **Inflation** remains stable at 2,5% annual average for 2023
- **Interest FED rate** has increased in the last quarter; 9,03% (Jun 2023) and had affected Ecuadorian market access to new liquidity[1]

Europe

United Kingdom

- **Inflation** figures dropped to 6.4%, primarily driven by food & energy inflation slowdown
- **Interest Rates** Bank of England implemented a 14th consecutive rate rise; reaching 5.25%
- **Regulation** Mortgage Charter: short-term support measures introduced for those struggling with mortgage repayments

Spain[2]

- **GDP** grew 0.5% in Q1 5.3% and 2023 forecast has raised to 2.2%
- **Inflation** was 3% in Q1 and is trending downward for 2023
- **Interest rates** have increased in Q2; Euribor: 3.87% (Jun 2023)
- **Unemployment rate** for Q2 is 11.6%

Australia and New Zealand

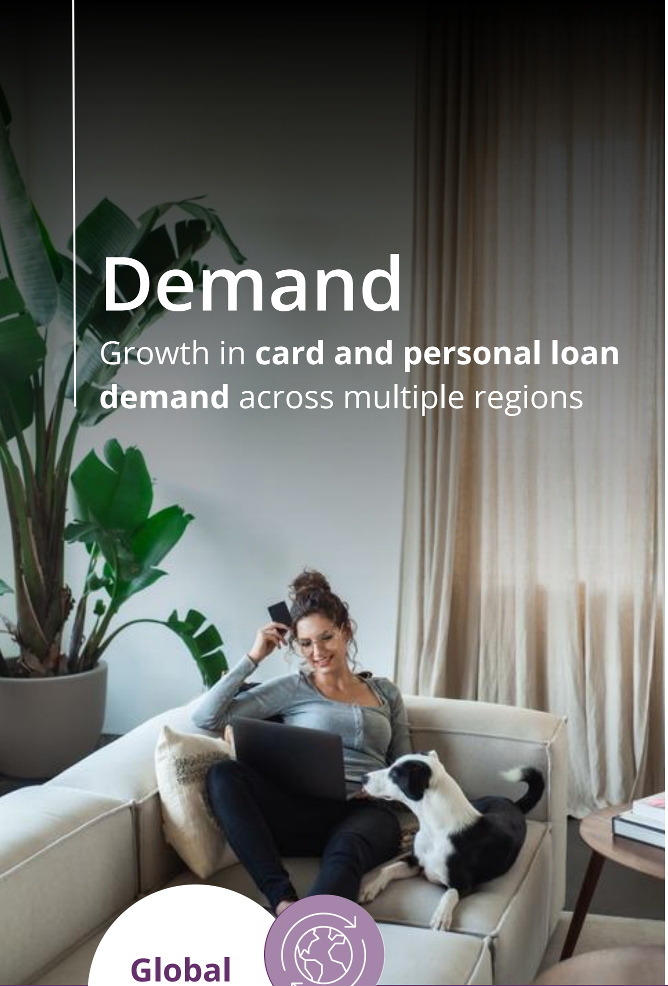
Australia[3]

- **Official cash rate** held stable at 4.10% for Aug 2023. Market is expecting further rate increases in order to achieve inflation target
- **Inflation cooled** for another quarter, dropping to 6% for June 2023 quarter. This is still a fair way from target rate of 2%-3%

New Zealand[3]

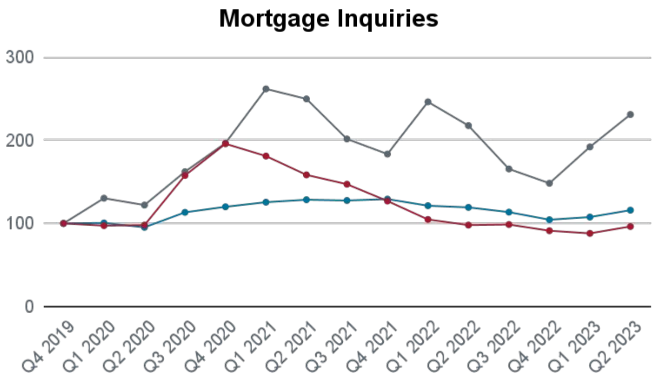
- Technical recession as **GDP** fell to 0.7% and 0.1% across Q4 2022 and Q1 2023
- **Cash rate increases slowed**, staying at 5.50% from May 2023 to Jul 2023
- **Inflation rate** continued to improve, falling to 6.0% in Jun 2023

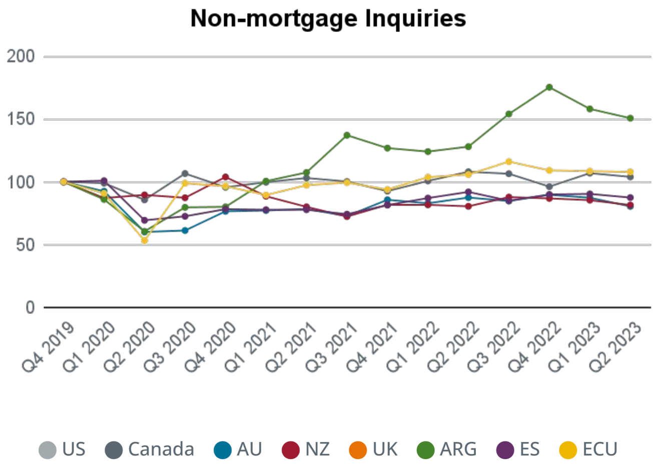
1. INDEC, BCRA, FMI, BCE, World Bank
2. Oxford Economics and INE
3. ABS, RBNZ



Demand

Growth in **card and personal loan demand** across multiple regions





Global outlook

Canada

- Credit demand remained high partly due to increasing need for credit from existing consumers as well as high immigration
- Mortgage market showing resilience as demand is up from the lows of Q1 2023

United Kingdom and Spain

- Credit demand has now reached pre-pandemic levels in the **UK** compared to 2019, although it is not in the same situation in **Spain** (~90%)
- **UK** annual growth rate for all lending at 7.3% in July (11.7% for credit cards)
- **Spain** shows a slight increase in 1H 2023 credit demand from previous year

Australia and New Zealand

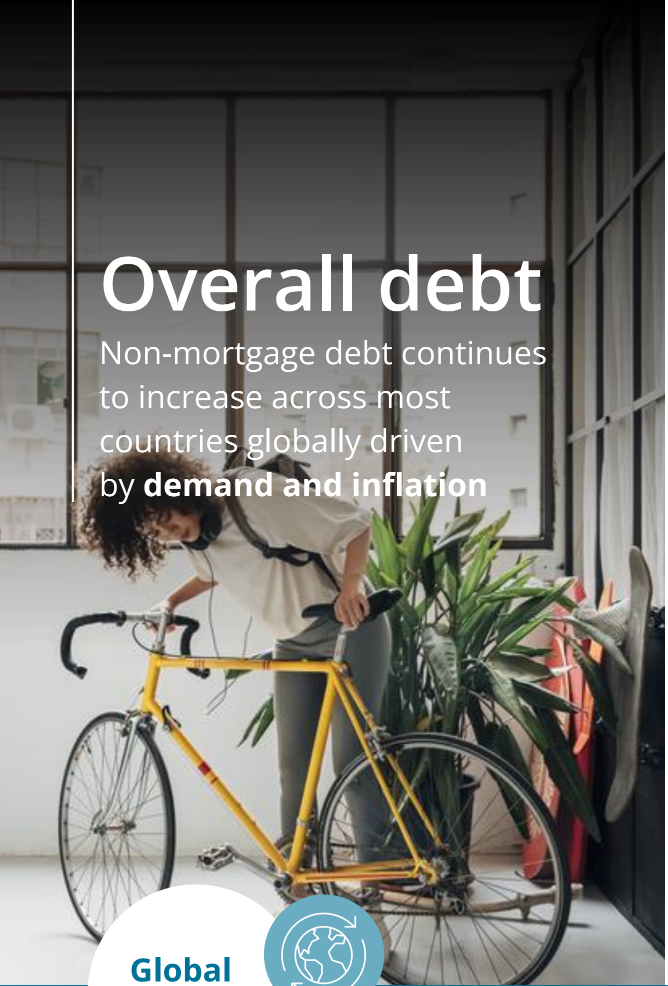
- **Australian** mortgage refinance enquiries continued to be active as consumers look for better rates with a modest fall of 2.8% compared to Q1. **New Zealand** mortgage demand stabilizing this quarter at -1.7% compared to 2022 as average property prices continued to decline
- Overall unsecured demand fell 8.3% in **Australia**, first negative growth quarter since 2021 as inflation cooled. Card demand grew moderately at 5.9% compared to last year. Credit card demand in **New Zealand** remained strong for Q2 2023 with average weekly volume up 7% vs 2022 levels

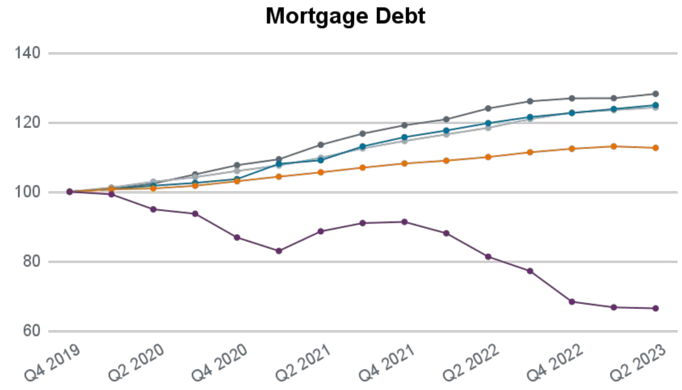
Argentina and Ecuador

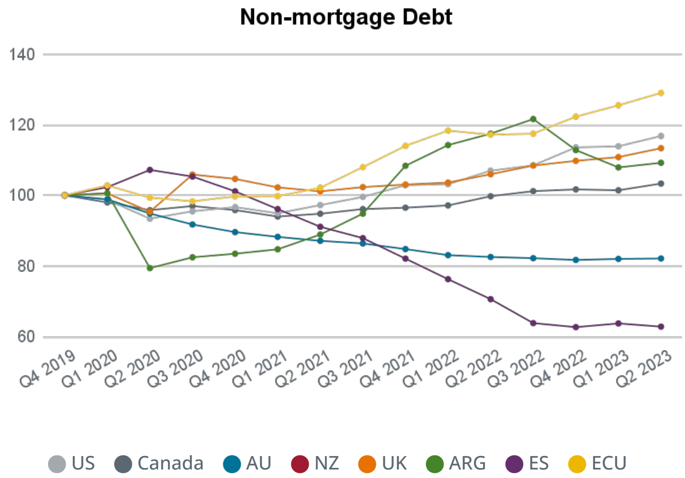
- **ARG: Non-mortgage inquiries** have remained stable at strong historical levels in a context of economic and political uncertainty due to upcoming elections
- **ECU: Non-mortgage** inquiries are stable at pre-pandemic levels despite economic uncertainty

Overall debt

Non-mortgage debt continues to increase across most countries globally driven by **demand and inflation**







Global outlook

Mortgage debt

United States
Total mortgage debt continued to rise, but at a slower rate as new originations slow down. Mortgage debt increased by 5% YoY

Canada
Mortgage debt rising again with higher new originations along with high average loan amount on new mortgages

Australia
Mortgage portfolio growth slows to 4% as originations continued to drop. Q2 2023 fell 18% compared to Q2 2022. Growth in average limit per loan slowed compared to last year and below inflation levels at 2.7% higher than last year

Non-mortgage debt

United States
Non-mortgage debt has increased by ~9% from Q2 2022. Auto Lease debt and HELOC debt decreased, while Auto Loan debt increased by 23%

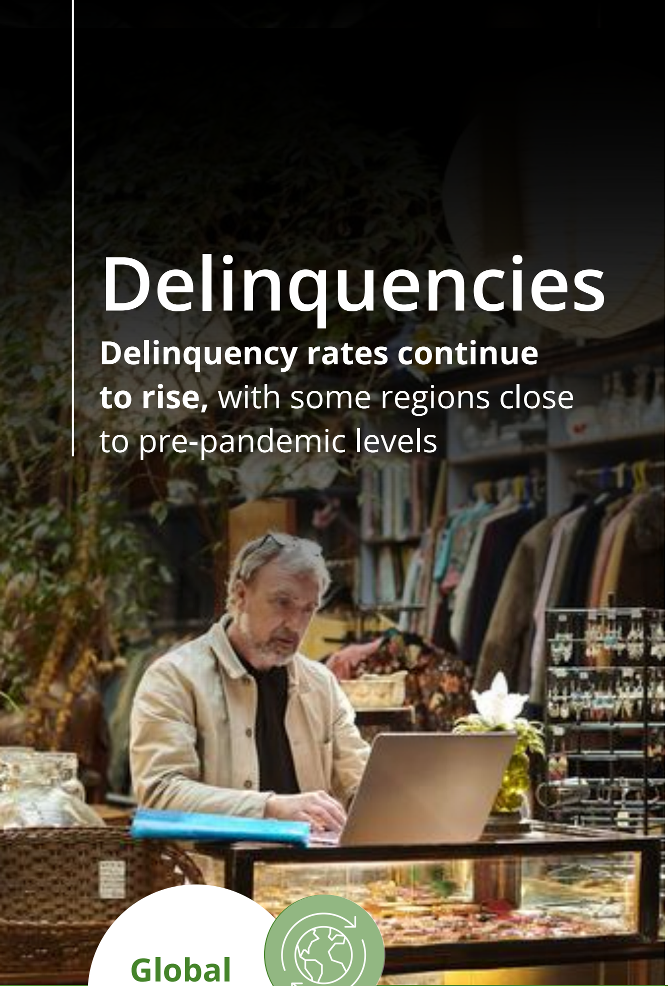
Canada
Non-mortgage debt continues to rise with credit cards being the biggest driver

United Kingdom
Consumers paying off credit card debt throughout the pandemic with balances still **below 80%** of January 2020 levels

Spain
There is a slight change in the trend of the debt due to worsening of the risk profile in credit portfolios as a consequence of the macro-economic environment (Spain only reports defaulted assets)

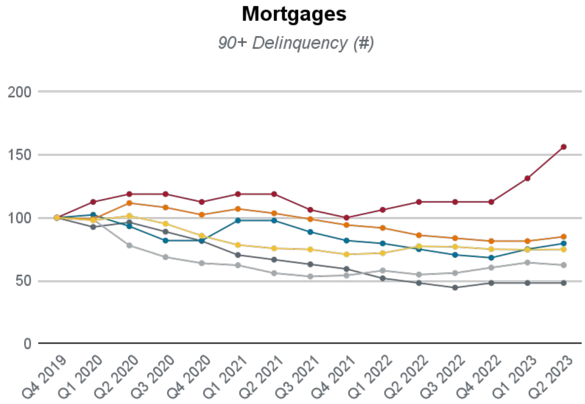
Argentina
Non-mortgage debt remains stable after the decrease in Q4 2022, mainly caused by bonuses and salary adjustments and by a drop in consumption due to loss of purchasing power due to high inflation

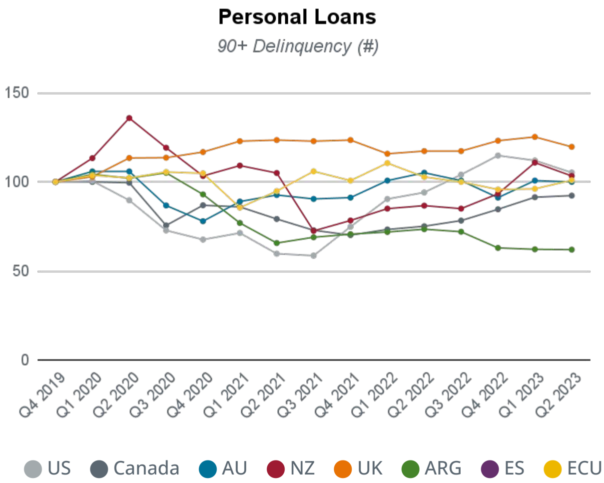
Ecuador
Non-mortgage debt presents an increase in the second quarter caused by an effect of accelerating economic decisions prior to anticipated elections and a higher economic uncertainty in the future plus liquidity restrictions ahead



Delinquencies

Delinquency rates continue to rise, with some regions close to pre-pandemic levels





Global outlook

Canada

- **Delinquencies** are near 2019 levels for auto and credit cards
- **Non-mortgage trade delinquencies** up by 28.9% for non-mortgage consumers and up 37.6 for mortgage consumers compared to 12 months ago

United States

- **Non-mortgage** delinquency (removing student loans) have reached pre-pandemic levels, while **mortgage** delinquency remains much lower, despite an uptick in Q1 2023
- **Consumer loans, auto and credit card** delinquency are exceeding pre-pandemic delinquency levels, with bankcard and personal loans showing signs of increased early delinquency levels in recent vintages

United Kingdom

- **Mortgage** delinquency rates still at low levels with households still transitioning from pre-interest rate rise fixed agreements
- **Unsecured** delinquency rates are starting to rise uniformly, with most product types approaching pre-pandemic levels of delinquency

Argentina and Ecuador

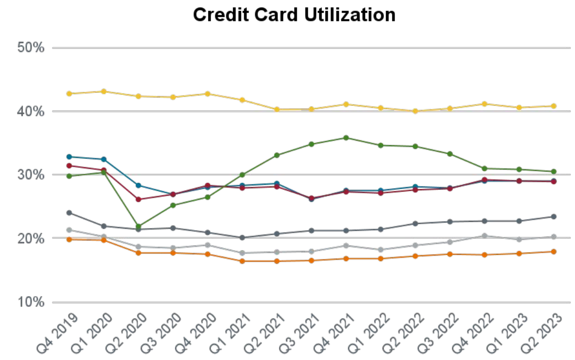
- **ARG: Delinquency** remains stable. This market behavior shows the same trend since 2021, according to historical loan delinquency levels
- **ECU: Personal Loans delinquency** is starting to rise due to liquidity problems and uncertainty affecting sales and payment capacity

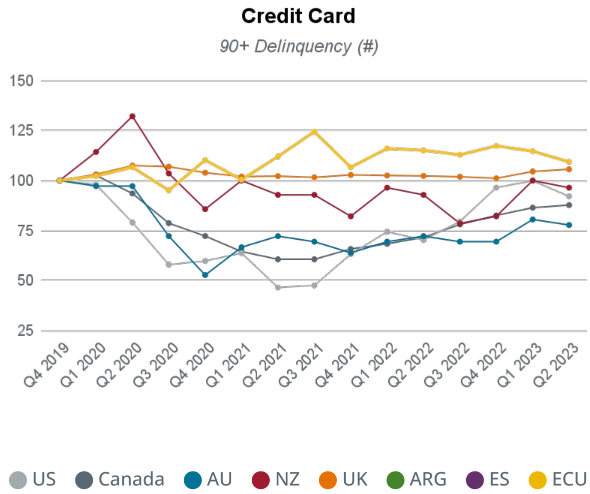
Australia and New Zealand

- **AU:** Signs of mortgage stress coming through, particularly with early delinquencies. 30-89 day delinquency rates increased from 0.28% in Q2 2022 to 0.40% in Q2 2023
- **NZ:** Mortgage delinquencies increasing across all day past due categories in the 1H of 2023. 90+ day delinquencies have increased from 0.18% last year to 0.25% in Q2 2023

Utilization

Inflationary pressure reflected in increasing card delinquency rates across regions





Global outlook

Rising card delinquencies

Overall
Multiple regions are showing an uptick in credit card delinquency

Canada
Vintage view of credit card delinquencies shows a much higher increase in newly opened cards after 6 months of opening (especially in the sub-prime segments)

United States
While the unit delinquency rate has surpassed pre-pandemic levels, the dollar delinquency rate lags behind; and is still below pre-pandemic levels. While subprime has the most marked increase, prime loans have reached pre-pandemic default levels as well

Revolving debt

Argentina
The second quarter presents stable levels of credit card utilization. In the context of high inflation and rising interest rates, credit cards have become the most common financial instrument

Ecuador
Credit card utilization remains stable and new accounts present a 10% increase as a result of supply restrictions on microcredit loans

Canada
Credit card utilization is increasing but the overall impact on utilization is being masked due to increasing growth in new credit card volume and higher credit limits being assigned to new cards

United States
Credit card debt has increased significantly over the past year due to new originations and increased credit limits. However, utilization remains below pre-pandemic levels

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