Global Credit Trends

Emerging trends from the first half of 2024

1H 2024 RELEASE

The easing of inflationary pressures observed in recent months has enabled central banks to reduce cash rates.

This provides much-needed cost of living relief for consumers, and early data suggests that delinquency rates may be starting to stabilize in many areas.

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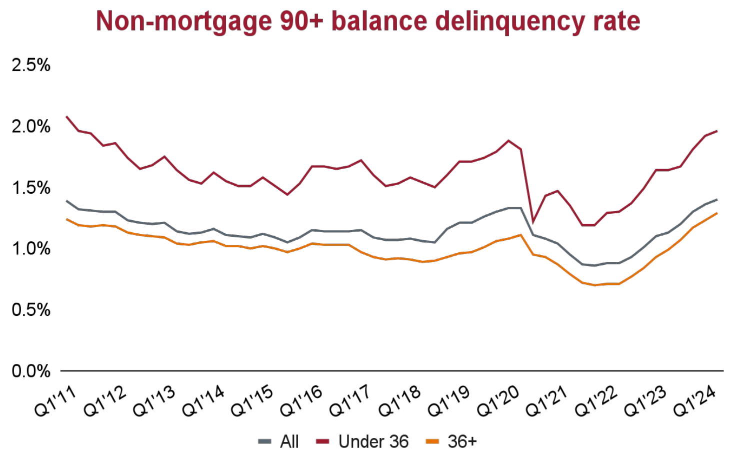
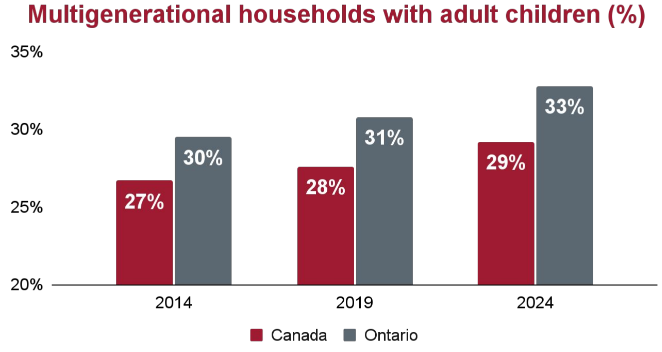
Economic pressures impacting consumer credit performance, especially young adults

Non-mortgage delinquency rates are the highest since 2011. High cost of living and increased cost of credit is contributing to higher levels of missed payments. Consumers under 36 years of age are particularly impacted with high auto loans and lines of credit delinquency rates.



As economic challenges persist and immigration patterns evolve, a growing number of young Canadians are finding themselves living with their parents and grandparents. Currently, almost one in three Canadian households (29.2%) include adult children living with their parents, up from 26.7% a decade ago.



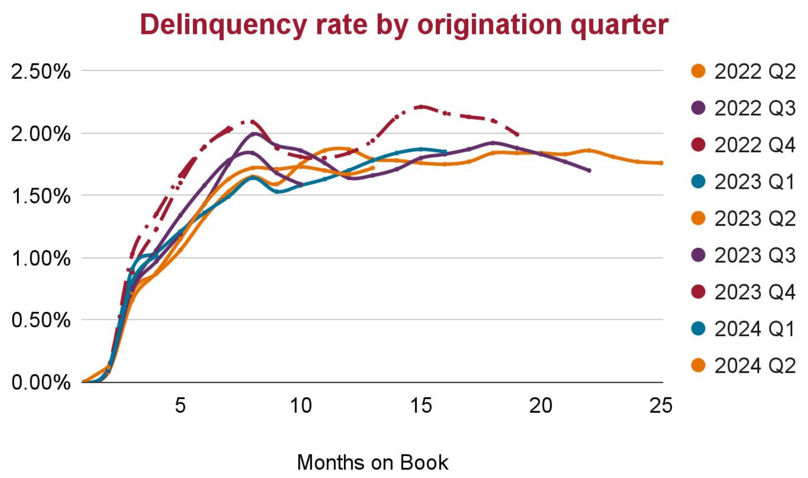
What does this mean for customers?

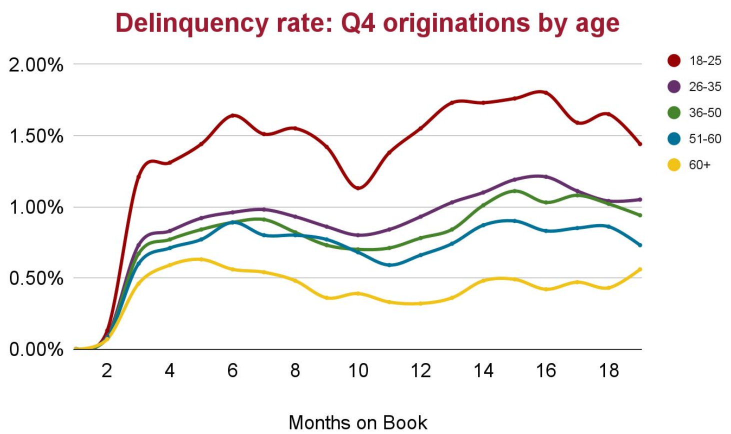
- Understanding and adapting strategies for pockets of potential financial stress can help to minimize losses
- New product initiatives to help first time home buyers enter the mortgage market
- Millennial home buyers who secured homes in 2020 and 2021, with low interest rates and high loan amounts, may need to prepare for significant increases in monthly payments and extended amortization terms during renewal

Utilizing unsecured credit for holiday spending

Over the past two years, credit cards issued in Q4 have shown a higher rate of delinquency compared to cards issued in other quarters. At 7 months on book, **2.02% of cards originating in Q4 are 30+ days overdue,** exceeding the average delinquency rate of 1.64% for cards issued in other quarters.

This trend coincides with increased demand for credit cards since 2022, driven by inflation and economic challenges. Young consumers are more likely to both use unsecured credit for holiday spending and fall behind on payments. In fact, the arrears rate for consumers aged 18-25 who opened accounts in Q4 is 1.21%, double the rate for consumers aged 36-50.





What does this mean for customers?

- Enhance proactive risk management during the application approval process by incorporating more alternative data. This will help to accurately pinpoint consumers who might be overextended financially
- Encourage responsible holiday spending through proactive communication and educational initiatives, such as providing consumers with financial education resources or tools to track their spending

Increased digital activity is increasing fraud risk

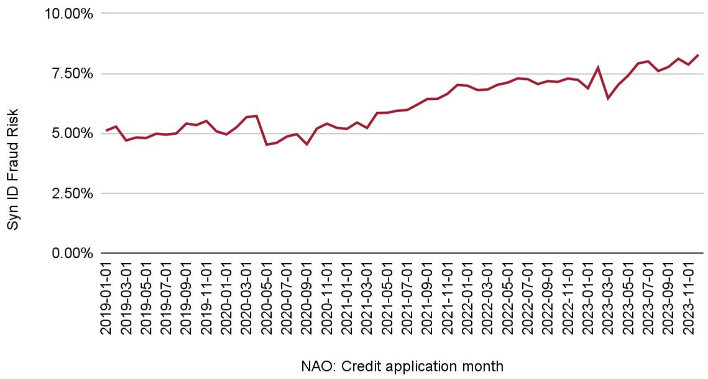
In recent years, digital transactions have increased exponentially around the globe. As digital interactions continue to increase, so do fraud vectors, amongst which are **Synthetic Identity Fraud**.

Synthetic identities (Syn ID) are difficult to spot because they look legitimate, being made up of real information — like social security numbers — and fake names or email addresses. Often, fraudsters target money lenders because the rewards are so high.

What does this mean for customers?

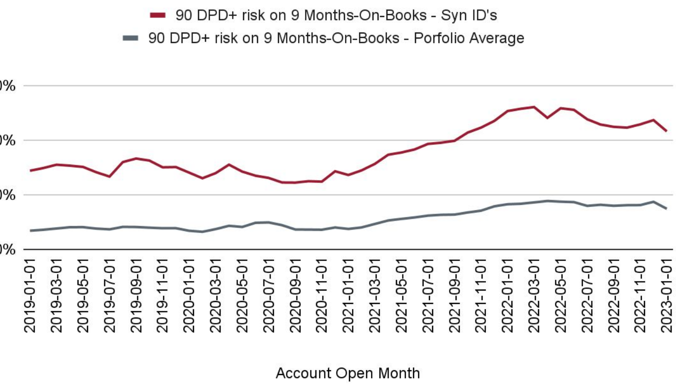
- Combating fraud is a collaborative effort between issuing banks, merchants and fraud solution providers
- Prevention and decision accuracy are data dependent. Fraud prevention technology can collect billions of data points, and with that data, the solution can make more informed decisions on what is and isn't fraud
- A proactive approach to fraud is key. Ideally, you want to build a forward-thinking fraud strategy — one that can solve for a variety of threats and quickly respond to emerging ones

Syn ID Fraud risk for auto credit applications



The number of credit applications for auto loans tagged with having a risk of Syn ID increased from ~5% in 2019 to above 8% in 2023.

90 DPD+ in 9 months: Syn ID vs portfolio average



Credit applications with a Syn ID risk have a 3 to 5 times higher delinquency rate than the portfolio average.

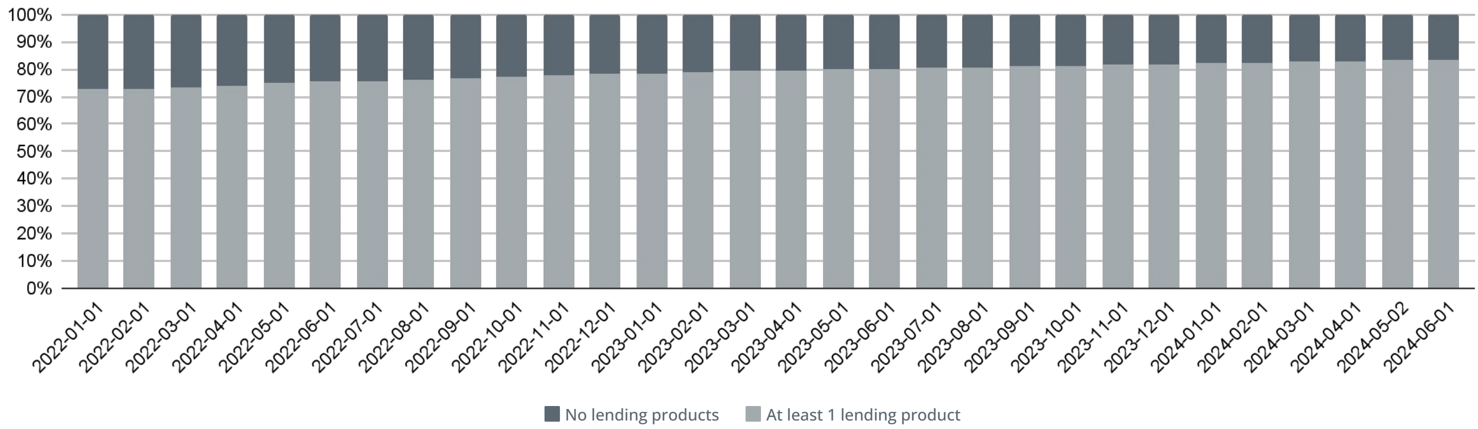
More consumers securing their first lending product

Access to credit is growing, with more consumers securing their first lending product. These trends are mainly driven by the fintech segment.

What does this mean for customers?

- Helps to understand and adjust strategies for first-time credit card populations
- New initiatives to help your customers reduce risks associated with first-time credit card populations

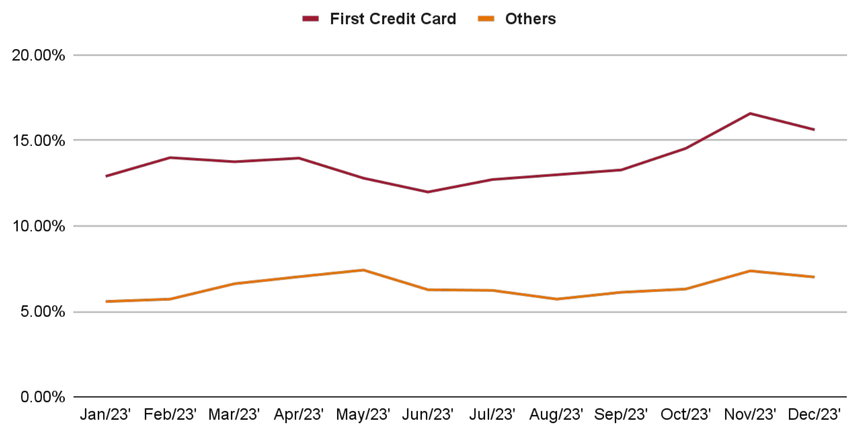
Consumers with lending products in the active population
172.5MM (excluding deaths, minors legal age, and invalid IDs)



Fintechs are three times more likely than other players to get people their first credit card. Innovative approaches from Fintechs provide opportunities for the general population to access credit for the first time.

Even though delinquency rates for first credit card consumers are higher, this should settle with improvements in consumer literacy and as fintech approval policies mature.

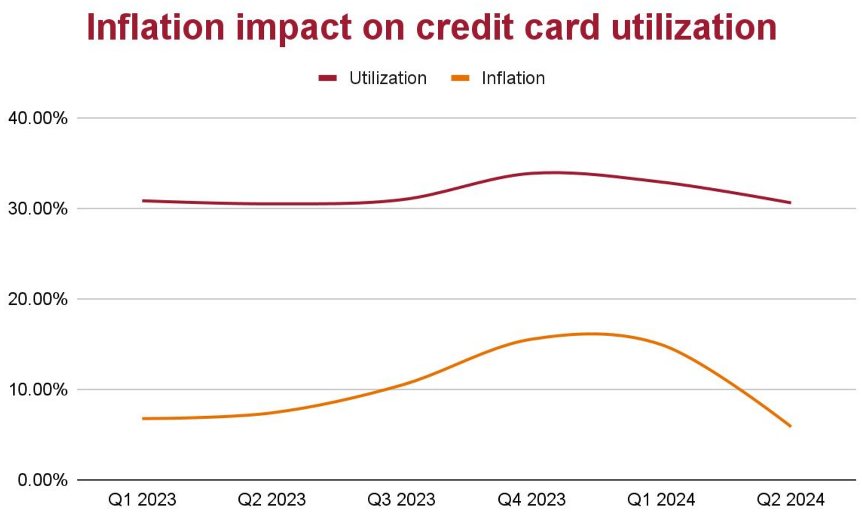
Delinquency rate by origination (DPD over 60)



Argentina's inflation and its impact on credit card utilization

Inflation shows a slowdown trend in recent months, after the peak of 25.5% recorded in December 2023 in comparison with the inflation rate of 4.6% in June.

Credit card utilization seems to mirror inflation patterns. Despite a rapid rise in inflation between late 2023 and early 2024, the increase in card utilization has been moderated due to consistent consumer spending and credit limit increases.



What does this mean for customers?

- As inflation begins to ease in Q2'24, banks are taking advantage of the improved economic conditions to broaden their credit product offerings. This includes products like mortgages, secured loans, and increased credit limits, which were less profitable in the past due to inflation
- The new rental law is leading to a revitalization of the housing rental market. This resurgence should be accompanied by an increase in the availability of mortgage loans
- With this increase in the supply of personal loans, banks are expecting to stimulate demand

Global insight

Inflation comes under control and cash rates adjust downward in most regions.

United States
Inflation continues to track towards the Fed's goal of 2%. While economic output is still positive, growth is expected to slow as consumers become more spend averse. Unemployment inched towards highs not seen since 2021, adding additional momentum for regulators to act with rate cuts.

Canada
Bank of Canada dropped the overnight interest rate by 50 bps since June 2024. Inflation continues to ease as CPI rose by 2.5% on a year over year basis in July. Unemployment rate rising particularly for younger consumers.

United Kingdom
The economy rebounded with a 0.6% growth in the first quarter of 2024 and is expected to continue growing at a similar pace throughout the year. However, headwinds to growth persist, including high interest rates, global economic slowdown, and the ongoing cost-of-living crisis.

Spain
The Spanish economy is growing strongly, reaching 2.9% in Q2, although inflation is still at 3.4%. The main interest rate index in Spain (EURIBOR) is showing a downward trend, although it remains high, at 3.65%.

Brazil
Selic fell by 3.5% in one year and final consumer rates fell by ~5%. Basic and consumer interest rates also fell. Household debt fell by more than 1%. The labor market recovered, with unemployment rates falling by almost 1% in one year.

Australia
The Australian Treasury implemented tax cuts to ease the cost of living for 13.6 million taxpayers. Along with a 1% increase in inflation for the June quarter, the reserve bank held the cash rate steady, maintaining its previous policy stance.

India
Interest rates increased due to changes implemented by the Central bank. This slowed down unsecured credit lending.

New Zealand
RBNZ delivered a 25 bps cut to the cash rate in August, the 1st change after eight successive holds at a high level. The pace of further easing will depend on behavior remaining consistent with the low inflation environment continuing.

Ecuador
In Q2, Ecuador experienced a marked economic stagnation due to the downturn of local sales. However, inflation is still under 2% annually. Interest rates have increased to improve the speed of loans to face the weakness of demand. The IMF approved a $4 billion lending agreement for Ecuador.

Argentina
In Q2 of 2024, Argentina's inflation continued its downward trend due to government measures, with a slight uptick in June and the activity levels remain low. Banks started offering mortgage loans and interest rates on fixed-term deposits rose, reversing the earlier downward trend.

		GDP/Capita	Inflation		Interest Rate		Unemployment	
		+/- %YoY*	Percent	+/- YoY#	Percent	+/- YoY#	Percent	+/- YoY*
North America	US	2.58% ▲	**3.00%**	-0.10 ▼	**5.33%**	0.00	4.10%	0.50 ▲
	CA	-2.22% ▼	**2.50%**	-1.60 ▼	**4.25%**	0.75 ▼	6.40%	0.90 ▲
South America	AR	-5.10% ▼	**18.60%**	155.90 ▲	**40.00%**	-57.00 ▼	7.10%	-0.30 ▼
	EC	-0.80% ▼	**0.20%**	-0.51 ▼	**11.40%**	2.37 ▲	3.10%	-0.70 ▼
	BR	3.42% ▲	**4.50%**	-0.12 ▼	**10.50%**	-3.25 ▼	7.10%	-1.70 ▼
Europe	UK	2.12% ▲	**2.20%**	-4.60 ▼	**5.00%**	0.25 ▲	4.20%	0.70 ▲
	ES	2.88% ▲	**3.40%**	0.20 ▲	**3.65%**	-0.07 ▼	11.27%	-1.00 ▼
Oceania & Asia	AU[1]	-1.30% ▼	**3.80%**	-2.20 ▼	**4.35%**	0.25 ▲	4.10%	0.50 ▲
	NZ[2]	-0.30% ▲	**3.30%**	-2.70 ▼	**5.25%**	0.25 ▲	4.60%	1.30 ▲
	IN	7.80% ▲	**5.08%**	-0.27 ▼	**6.50%**	0.00	9.02%	0.70 ▲

*Data shows change in percentage compared to this quarter last year

#Data shows change in basis points compared to this quarter last year

1. ABS.gov
2. stats.nzt

Supply

The mortgage market is recovering as cash rate relief flows through most regions in the recent quarter. New credit card originations remain high as consumers keep up with inflation.

North America

Canada

The mortgage market remained strained due to high interest rates through 1H'24. Although new mortgage originations improved 21.3% from 2023 lows, they were still below typical second quarter levels.

South America

Argentina

Demand is showing signs of stabilization, building upon the positive trajectory observed since the start of 2024, although with a slight increase.

Ecuador

Non-mortgage demand presents a slight increase compared to Q1, reflecting the first trimester without a fall since 2022.

Europe

Spain

Credit demand in Spain is stable with respect to 1H'23.

Oceania & Asia

Australia

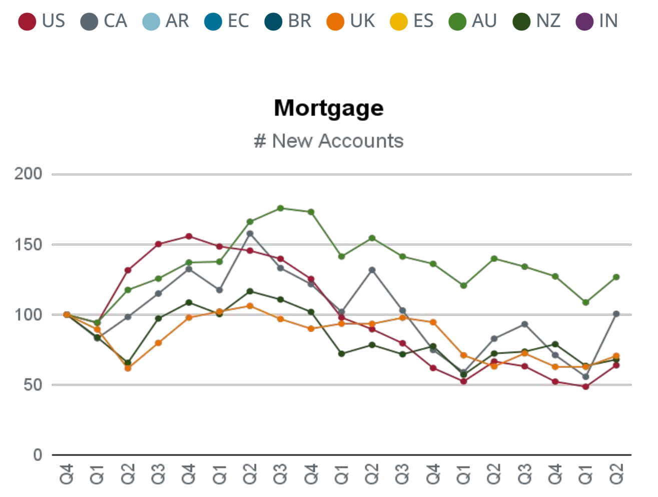
The decline in secured credit growth is expected to persist, with mortgage originations falling by 2% compared to last year, mirroring the decrease seen in the previous quarter. This trend is likely to continue due to significant reduction of refinancing activity compared to last year.

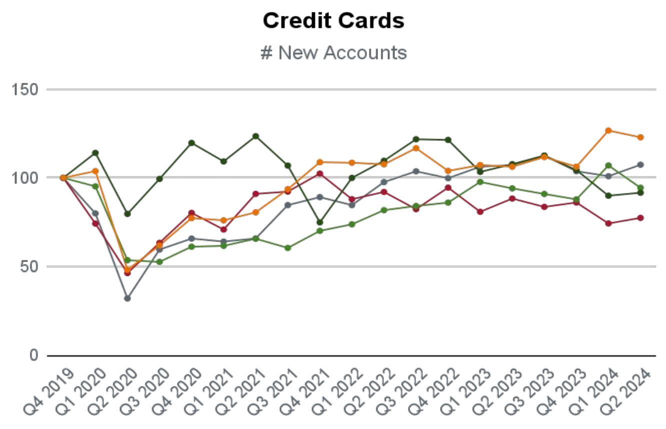
New Zealand

Mortgage demand softened in Q2, falling back from the stronger levels seen at the end of last year and beginning of this year — largely echoing the trends seen in house prices. Personal loan demand was also weak in Q2 on the back of more individuals believing it a poor time to buy a major household item — with the weakness most prominent in younger borrowers.

India

Mortgage demand continued to increase with a growth of 8% in demand compared to the last year. Unsecured loans which were having a huge run up in growth have seen a softening in growth after the central bank's tightening of monetary policies by 10%.





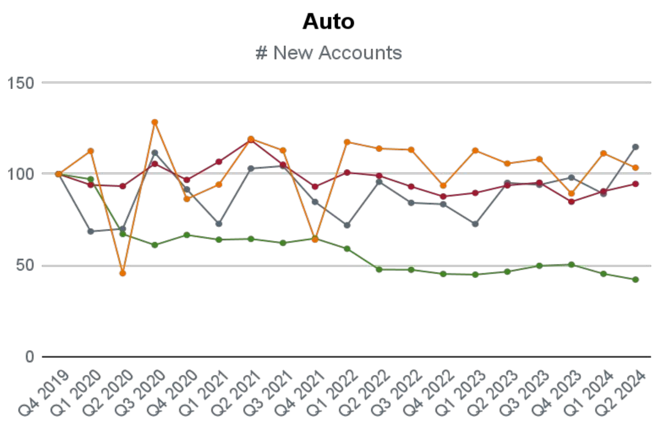
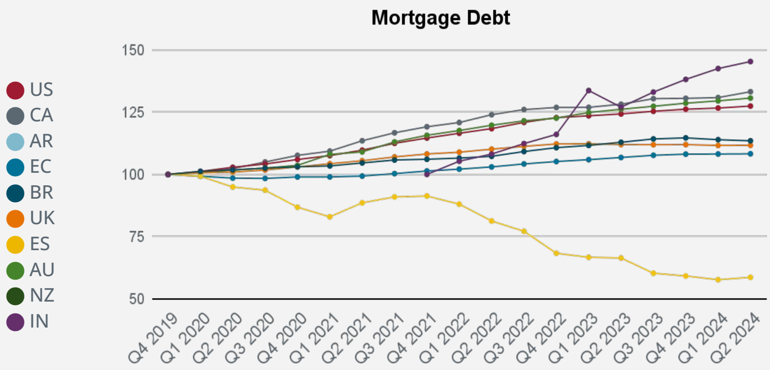
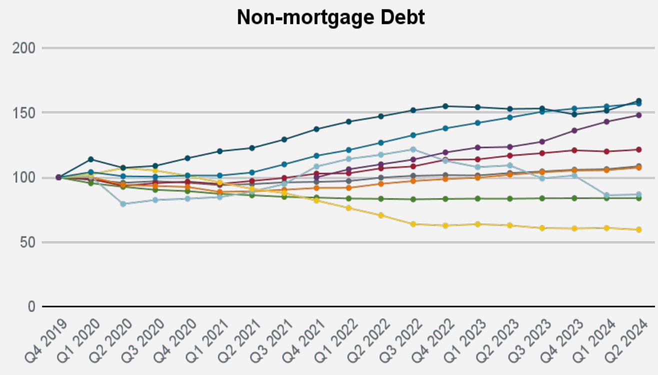


Chart data is indexed as of Q4 2019, except India which is as of Q4 2021.
The New Zealand index was rebased in Q4 2021 due to account adjustments.
Chart data may not include all countries represented in the chart legend.

Overall debt

Non-mortgage debt continues to grow but at a gradual pace.





Mortgage debt

United States
Overall first mortgage debt continues to increase, up 2.5% YoY, but continues to grow at a slower pace as a result of higher interest rates in the US. Supply constraints are also easing in both new and used home inventory, providing prospects for more originations if rates start to fall.

Canada
Slower than average growth in mortgage debt. Despite fewer home sales, average mortgage loan amounts rose by 6.1% YoY and 5.5% from the previous quarter.

Australia
Mortgage account originations continued to slow at 2% below last year. National average limit per new account increased 10% YoY holding up overall portfolio growth of 4%.

India
Mortgage debt increased by 16% YoY. Non-mortgage debt increased in the range of $18-22 YoY with gold loans seeing the maximum increase.

Non-mortgage debt

United States
Non-mortgage debt increased by ~4% YoY, driven by increases in credit card debt (8%) and auto debt (1.9%). Credit card originations limits are on the rise and is currently 8% higher than the same time a year ago.

Canada
Consumer debt levels rose to $2.5 trillion in Q2'24, marking a 4.2% increase since Q2'23. Credit cards continued to be the primary driver of rising debt with outstanding balances reaching $122 billion, up 13.7% from Q2'23.

United Kingdom
Gradual long term increasing trend in credit card balances, likely driven by increased costs. Total credit card balances up 7.7% YoY.

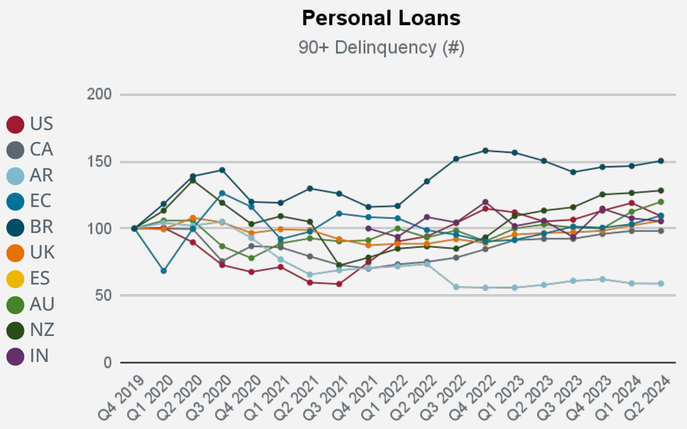
Spain
Slight increase in mortgage debt, which is still decreasing in the long term, while non-mortgage debt appears to be stable as already observed in the last year and a half.

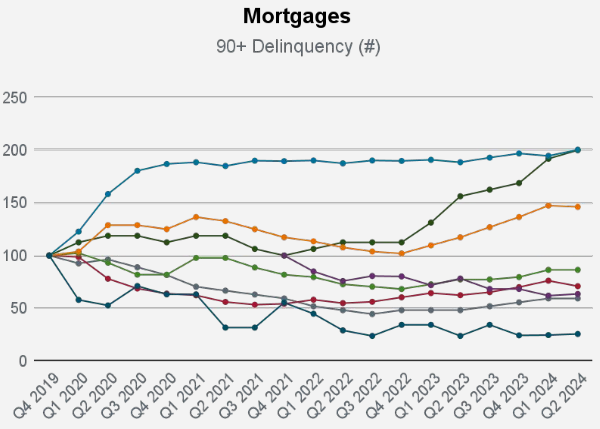
Argentina
Non-mortgage debts remained stable compared to the last quarter.

Ecuador
Non-mortgage debt remains unchanged due to weakness of demand(0.6% annual estimate rate in 2024) in the private demand sector and the lack of liquidity.

Delinquencies

Early signs of pressure easing on delinquencies across many regions.





North America

United States

Non-mortgage delinquency continues to decrease across most lending products, indicating the increase in delinquency since mid 2022 is slowing. Mortgage delinquency is still lower than in pre-pandemic levels. Subprime delinquency remains elevated.

Canada

One in 23 consumers are missing a payment on at least one credit product in Q2'24, up from one in 25 a year ago. Overall, the non-mortgage balance delinquency rate sat at 1.4% surpassing peak 2020 levels, and the highest since 2011 — rising 23.4% compared to Q2'23.

South America

Argentina

Delinquency has remained stable in 1H'24, as the economic environment is affecting payment capacity.

Ecuador

Personal loans delinquency rate has continued to increase due to the deterioration of people's ability to pay.

Brazil

The delinquency rate for auto and personal loans increased a little, around 3%, compared to Q1'24.

Europe

United Kingdom

After a prolonged period of growth as a result of interest rate pressures, mortgage delinquency rates have stabilized since the turn of the year. This welcome pause in the upward trend suggests that consumers may be adjusting to the higher cost of borrowing. Similar stability in delinquency trends has been observed across various account types.

Oceania & Asia

Australia

Delinquencies are still increasing but gradual. The slow increase in mortgage delinquencies reflect resilience demonstrated by Australian consumers over the past two years. If unemployment rises further, mortgage delinquencies are expected to increase more rapidly in the coming months.

New Zealand

Delinquencies are up over the long-run noting the economic environment; however the Q2'24 levels for all products were flat (if not down) compared to Q1'24. The majority of mortgage borrowers have absorbed the pressure, noting the 90 day delinquency level is well below the GFC and the deterioration over the last few years is rolling off historically low levels (2016-2020).

India

Mortgage delinquency saw a 13 basis points decline YoY. Non-mortgage loans saw a 5-10 bps increase across products, this is due to the higher demand-supply dynamics in the small ticket loan segment.

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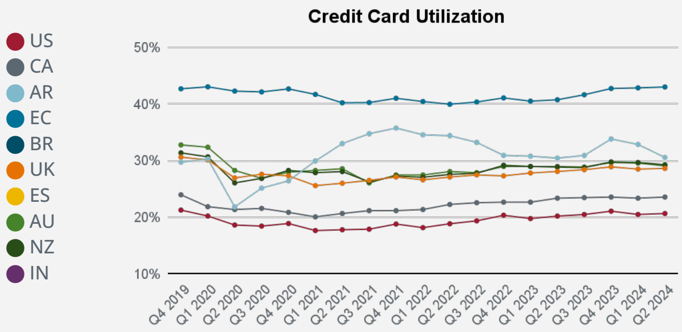
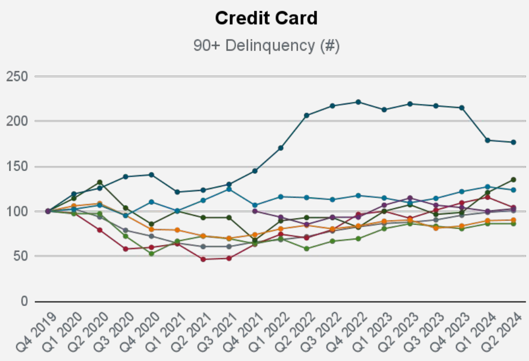
Credit card in focus

Card utilization is relatively flat despite high growth in credit card debt. Delinquencies are starting to flatten out for many regions.





Card utilization

United States

Credit card utilization is around ~21% — 50 bps higher than a year ago — on the back of increased credit limits, with total credit card limits 8% higher than a year ago, and balances 8% higher than a year ago.

Canada

Huge growth in new originations coupled with increasing credit limit on new cards is keeping credit card utilization flat.

Argentina

Lower credit card utilization (-7%) due to an increase in credit card limit, but constant spending.

Ecuador

Credit card utilization remains stable due to increase in credit limits in the overdebt sector. Total credit card debt increased 2.2% in Q2'24, attributable to the persistent stagnation in the labor market recovery.

Delinquency

United States

Credit card delinquency is nearing pre-pandemic levels after a runup in 2023. Severe delinquency rates (60+ DPD $ delinquencies ex: write-offs) stand at 1.8%. Newer vintages are still exhibiting higher delinquency rates vs. those vintages originated during the pandemic.

Canada

Average credit card balance per consumer continued to grow despite a slowdown in consumer spending. This increase was primarily attributed to a reduction in card pay rates, with consumers under 35 years of age seeing the fastest decline in card payment levels.

Brazil

The delinquency rate for credit card remains stable in 1H'24, after a few quarters of increase.

India

The delinquency for credit cards has gone up by 17 bps YoY; credit card stress is increasing in the Indian economy.

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Non-mortgage: Includes Buy Now Pay Later, credit cards, installment loans, personal loans and automobile loans. Availability and coverage will vary by region. Debt: Money borrowed by consumers at a point in time. Refers to amortised limit or outstanding balance depending on data collected from each region, except Spain which reports just defaulted assets because Spanish Bureau manages negative data only. Delinquency (#): The delinquency rate refers to the percentage of loans that are 90 or more days past due.