

WHITE PAPER

The Changing Shape of Credit Risk

A study on the initial impacts of the Great Lockdown

MAY 2020

Introduction

March 2020 brought dramatic changes to the U.S. economy with shelter-in-place orders, the temporary closing of non-essential businesses and spikes in unemployment insurance claims. As a result, lenders today are grappling with the unknown as the “Great Lockdown” has challenged credit strategies regarding modern risk management.

To better understand the rapidly changing landscape, ID Analytics and LexisNexis Risk Solutions have been monitoring their unique view into U.S. consumer credit behaviors. Now, with nearly two months of data to synthesize, this brief provides the first look at the trends observed during the spring 2020 lockdown. Insights were captured across credit segments, demographics, and industries in the following areas: (1) credit-seeking behavior, and (2) credit application patterns.

This study examined a cross-industry sample of application data in the companies’ respective consumer reporting agencies from March and April 2020 and compared it to baseline data from January and February 2020. The research measured the impacts of the lockdown across numerous industries to identify shifts in credit-seeking behavior, how different demographics are impacted by these shifts, and early indicators of credit instability. This preliminary analysis revealed trends in credit behavior that demonstrate the uncertainty of what lies ahead as lenders navigate uncharted territory.

Changes in credit-seeking behavior across credit segments

The crisis that unfolded in March and April 2020 had unique qualities, considering both the degree of economic turmoil, and how quickly and unexpectedly it developed. From the onset, the defining quality of spring 2020 has been uncertainty — and will likely remain so for the foreseeable future. This is true for lenders and service providers, but also for consumers. One of the consistent themes observed in this study is that consumers did not seek out new credit unless they really needed to. Not surprisingly, consumers with prime credit scores had more success in avoiding credit seeking during this period given their relative financial flexibility, while consumers with subprime credit scores ultimately had to seek more credit products to make ends meet.

In mid-March, analysis of the credit-seeking population in the study showed an overall decrease in the creditworthiness of new applicants across industries. Figure 1 demonstrates this shift for retail card applications. This trend is the result of a disproportionate decrease in prime applications, rather than an increase in subprime applications. For example, while retail and bankcard experienced some decline in subprime applications, those industries saw a 3x decrease in retail and a 2x decrease in bankcard applications from consumers with prime credit scores during the same period.

THE CHANGING SHAPE OF CREDIT RISK

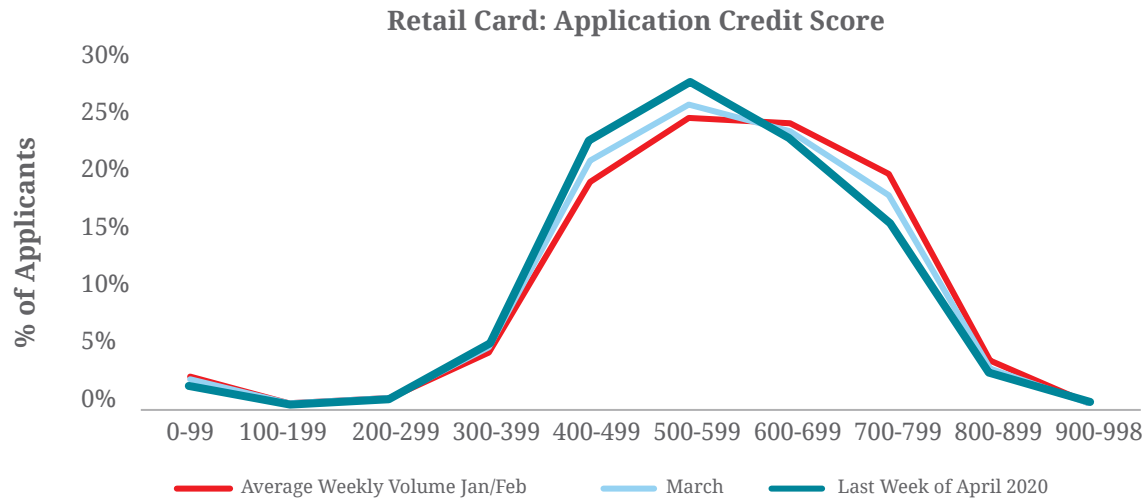


Figure 1. Downward, subprime shift in the creditworthiness of retail card applicants (Jan-April 2020)

Despite the overall decrease in prime applications, the youngest demographic of consumers (i.e., 18-30) with prime credit scores saw a sharp increase in credit seeking across retail, bankcard, auto and wireless industries (see Figure 2). This surprising trend likely results from several factors – younger consumers with prime or near-prime credit scores may lack the same financial flexibility as older consumers with prime or near-prime credit scores, and likely have more comfort in seeking credit through digital channels.

Percent change in prime/near-prime credit applicants by age (March/April 2020)

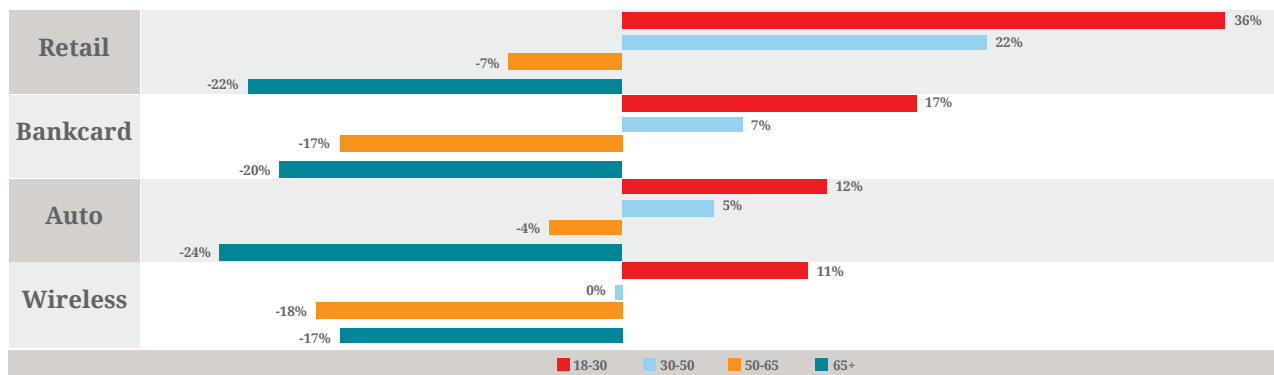


Figure 2. Percent of prime applications across industries and age demographics

These trends highlight risks for enterprises that are likely dealing with an elevated percentage of credit applicants with subprime credit scores as well as an increase in applications from young consumers with prime credit scores – two groups whose credit standing may have been destabilized by recent events and currently overestimated by traditional credit scores.

Changes in consumer credit applications

In addition to shifts in the credit mix of new applicants, the application patterns of consumers seeking credit also changed in March and April. The data identified two credit-seeking behaviors that can be indicators of early signs of credit distress, (1) higher rates of credit applications across industries, and (2) an increase in loan stacking attempts in the online lending marketplace.

In April 2020, the data revealed a 10% increase in the average number of enterprises that credit-seeking consumers applied to within a 30-day period as compared to the same period in 2019 (see Figure 3). The rise in applications across multiple enterprises could be because consumers are being declined at a higher rate due to tightened lending standards, or that consumers are financially stressed and therefore seeking multiple types of credit at the same time.

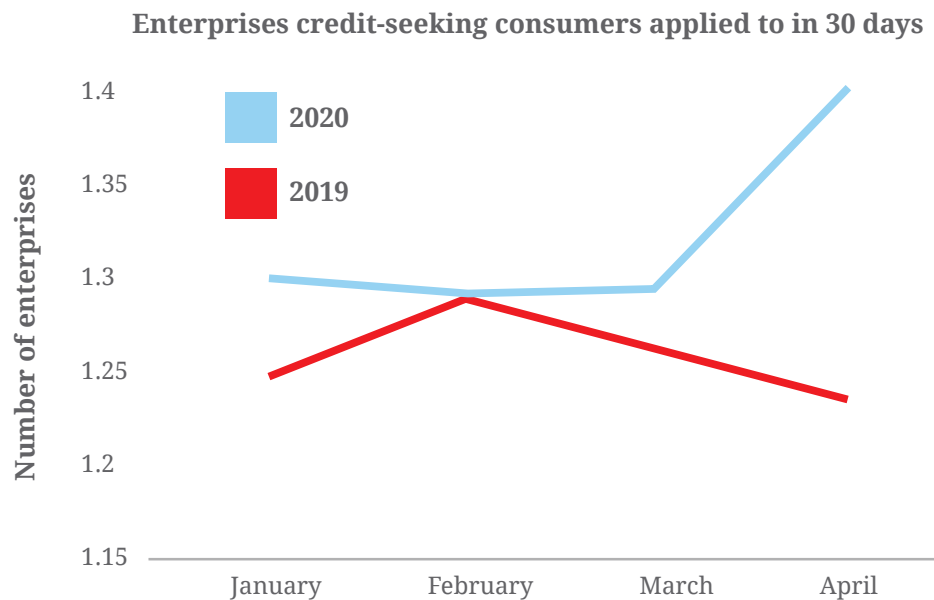


Figure 3. Increase in the number of enterprises applied to by credit-seeking consumers in 30 days

ID Analytics' Online Lending Network was purpose built to monitor for loan stacking behaviors and has unique, current insight into how consumers are engaging in the behavior. These volumes typically remain stable in the first half of the year and spike across the market during the holiday season. However, online lenders saw more than a two-thirds increase in loan stacking attempts in mid-March. In response, these lenders appear to have tightened their stacking defenses and adopted more conservative lending requirements, which led to a drop in loan stacking attempts in April. This initial increase in loan stacking behavior, as shown in Figure 4, may signify the financial desperation of consumers during this time.

Quantity of approved credit applicants seen at prefunded stage at another online lender in last 15 days

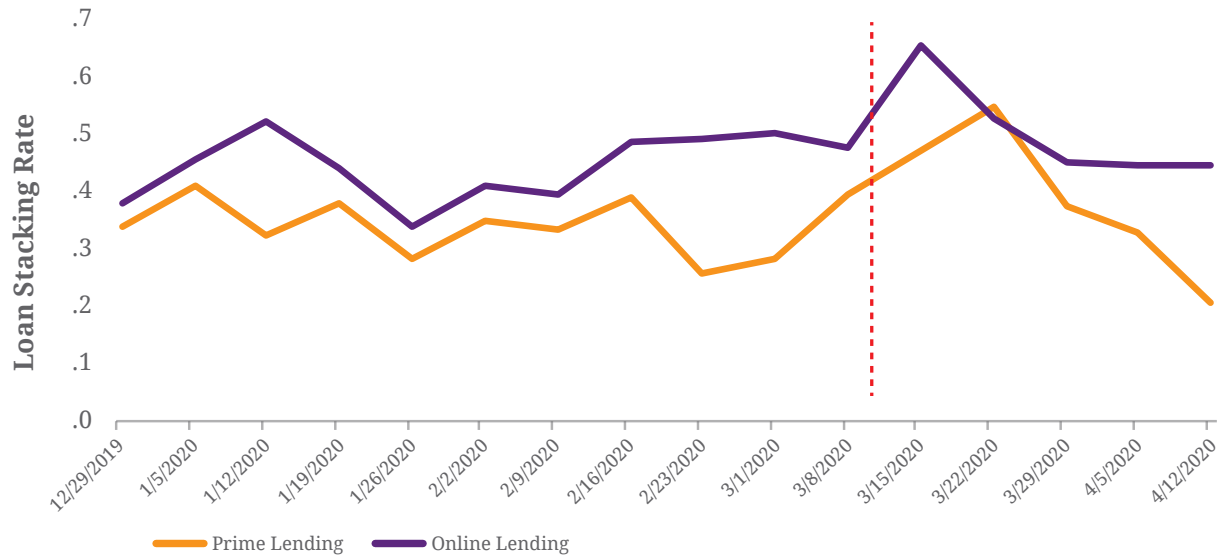


Figure 4. Fluctuation of loan stacking attempts in prime and near-prime online lenders

Conclusion

This is the first in a series of studies that ID Analytics and LexisNexis Risk Solutions will be conducting on both fraud and credit trends resulting from the Great Lockdown.

With the changes to consumer behavior and the uncertainty ahead, one of the few clear implications from the initial two months of the crisis is the imperative for lenders to regain clarity on credit risk by obtaining a more complete picture of consumer creditworthiness. Both alternative credit data and alternative non-tradeline event data expand enterprises' visibility into creditworthiness and stability, helping to maintain and strengthen the integrity of lending strategies across the customer lifecycle.

This credit-focused study examined the impact the first two months the lockdown had on the U.S. consumer population. Our next credit study will evaluate the impact regulatory changes and credit seeking are having on the different data sources feeding both traditional and alternative credit scores and the impact on enterprises.



About LexisNexis Risk Solutions

LexisNexis Risk Solutions harnesses the power of data and advanced analytics to provide insights that help businesses and governmental entities reduce risk and improve decisions to benefit people around the globe. We provide data and technology solutions for a wide range of industries including insurance, financial services, healthcare and government. Headquartered in metro Atlanta, Georgia, we have offices throughout the world and are part of RELX Group (LSE: REL/ NYSE: RELX), a global provider of information and analytics for professional and business customers across industries. RELX is a FTSE 100 company and is based in London. For more information, please visit www.risk.lexisnexis.com, and www.relx.com

About ID Analytics

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