2025 Q1 Credit Risk Review

Trends and Early Risk Indicators in Consumer Credit

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May 2025

Executive Summary

We have never seen such a gap between risk data and lender sentiment

Credit risk is not low but is not trending significantly higher

- Credit Card Delinquency rates are actually down slightly, and that's without any real tightening in the last few quarters
- Personal Loan delinquencies are basically flat and still lower than pre-pandemic
- Auto Loan saw the usual Q1 curing though recent April data is more worrisome

But lenders feel concerned

- Recession predicted by Goldman Sachs and others
- Uncertainty over tariffs raising expectations for inflation and unemployment
- Consumer sentiment is down more than 30% YoY, near all time lows
- Resumption of student loan delinquency reporting and involuntary collections on Federal loans further straining borrowers

Recent Quotes from Industry Leaders

We ended up not contracting because if it weren't for the chaos from the administration, we would be expanding so **contracting feels like it would be doubling up on conservatism.**

We are looking closely but still **haven't seen any upticks in delinquencies** across our business lines, outside of auto.

If I had been in a cave and I only was looking at DQ and charge-off data, I would likely be expanding credit right now – **things are coming in better than we forecast a year ago but I'm not about to expand with consumer sentiment where it is.**

We're paralyzed on launching a new product. Risk look stable, but expanding into a new loan product with 5 year payback when I can't see 3 months in the future is a risk I can't take.

In March I dusted off our "recession readiness" playbook that we built out in 2019. **I'm not certain yet that we are heading for a recession, but we are lacking a few core capabilities.**

With new pay-in-four information and student loan DQs simultaneously hitting the bureau it seems like **there's a big subprime underwriting opportunity, but we're not prepared to capitalize.**

Overall Consumer Credit Summary

Credit Card

- Delinquency rates eased this quarter, especially in near prime
- 2023 and early 2024 vintages' risk levels stabilized relative to 2022
- Spike in originations after downwards trend first 3 quarters of 2024
- $8 late fee regulation scrapped

Student Loans

- A substantial volume of student loan delinquencies were reported to bureaus this quarter
- We expect to see Vantage impacts next quarter as delinquent accounts roll into later buckets
- There is also potential spill over to other products, particularly as involuntary collections resume

Personal Loans

- Delinquencies remain below pre-pandemic levels due to tightening
- Some risk worsening in recent prime plus vintages
- High credit card interest rates creating debt consolidation opportunity

Auto Loans

- Auto loan delinquency rates stabilized in Q1 after rising through second half of 2024
- Origination volumes at lowest volumes since 2020
- Recent origination vintage risk levels remain elevated, with some continued deterioration for super prime customers

Mortgage & HELOC

- Mortgage originations are still yet to rebound, driven by still-elevated interest rates and high home prices
- Recent vintages are still performing in line with pre-pandemic (2018/2019) originations
- Homeowner equity declined slightly after reaching an all-time high in Q4, while HELOC limits and utilization remained high

Executive Summary – Credit Cards

Performance

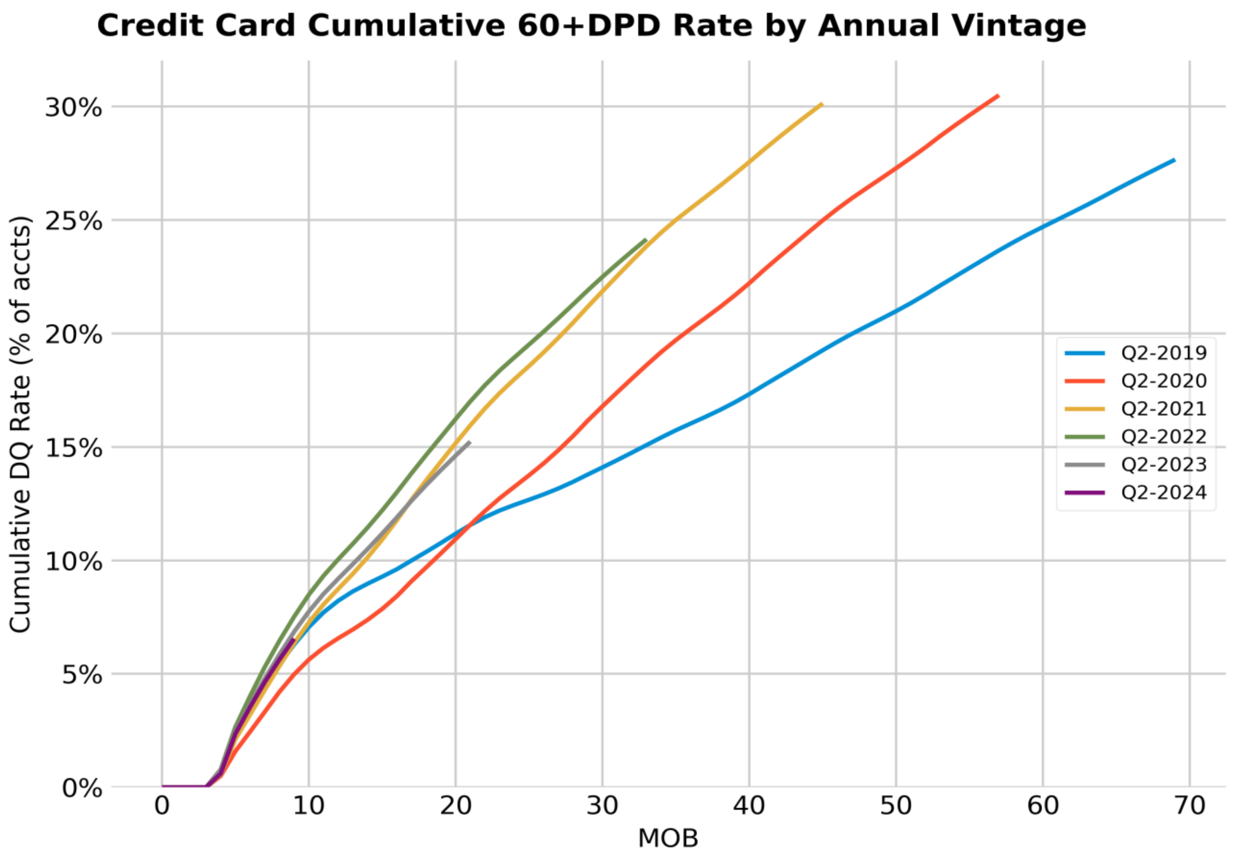
- Delinquency (DQ) rates were down for all risk bands over the last few months, most acutely in near prime
- 2023 and 2024 vintages showed improved performance relative to 2022 as originations shifted towards less risky customers, but still performed worse than earlier years
- Roll rates remained high, and the 30-to-60 DPD rate was well above pre-pandemic levels

Balance

- Credit card debt is down slightly in Q1 relative to high reached in Q4 and is hovering around $1.2T
- Super prime balances saw the largest increase from Q4

Originations

- Total originations decreased slightly in the first quarter of 2025 relative to the same period last year
- Subprime and super prime originations grew while other segments saw moderate decreases
- Credit limits jumped this quarter, especially for lower risk customers



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Executive Summary – Student Loans

Recent Changes

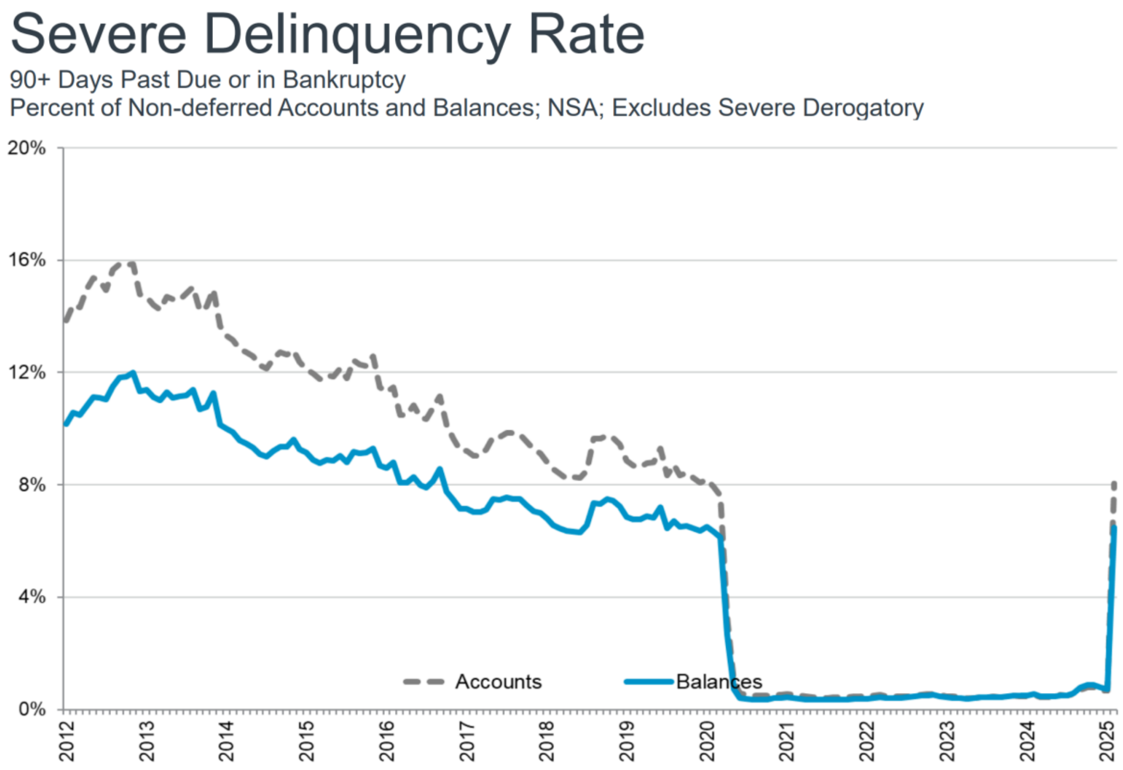
- Delinquency tracking resumed for Federal Student loans in October 2024 with bureau reporting following in Q1 of this year, resulting in millions of newly reported delinquent accounts
- On May 5 involuntary collections resumed for federal student loan borrowers in default, with wage garnishment potentially resuming "later this summer"

Performance

- Student loan delinquencies skyrocketed across credit risk bands as federal loan servicers resumed reporting to credit bureaus
- The Department of Education reported:
  - 25% of its $1.6 trillion SL portfolio in default
  - 4M out of 42.7M borrowers in late- stage delinquency

Expected Impacts

- Delinquent borrowers will experience impacts to their credit scores coming months, though with an average Vantage score of 591 as of January 2025 this group is already impaired
- Involuntary collections implicitly shifts the payment priority for borrowers in default and diminish their ability to repay other debt
- Both changes could contaminate other assets in the form of both back book performance and front book demand from higher risk applicants



Sources: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025; Department of Ed, April 21st, 2025.

Executive Summary – Personal Loans

Performance

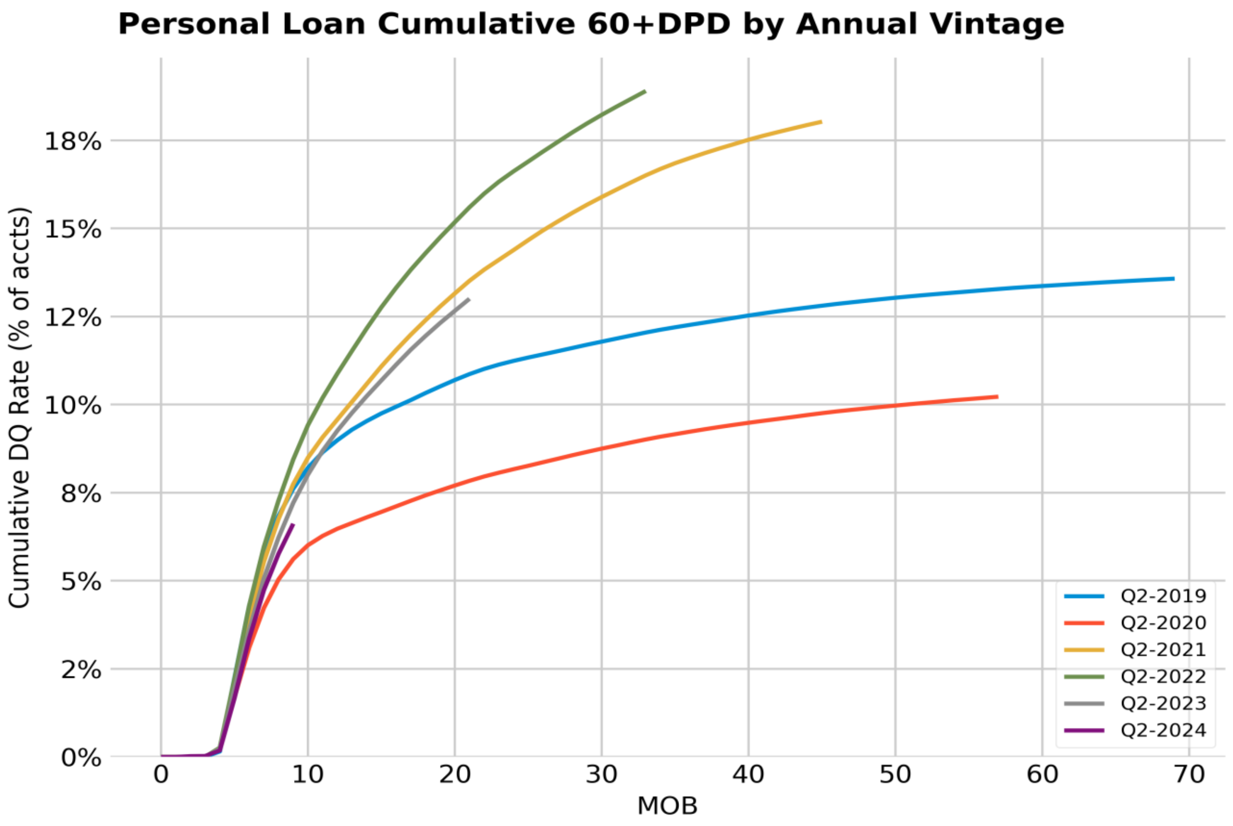
- 60+ DPD rate continues to be stable since 2022 at levels lower than pre-pandemic
- Newer vintages (2022 and on) perform worse than older vintages despite a lower proportion of subprime originations, though 2024 shows a potential return to pre-pandemic levels

Balance

- Total industry PL balance has remained relatively steady since 2023 after increasing over the past decade
- Super prime, near prime, and subprime balance increases this quarter were offset by reductions in other bands

Originations

- Origination volume decreased following a peak in 2022 but volume appears to be rebounding the quarter, particularly in lower risk bands
- Subprime borrowers still took out more loans than borrowers other risk bands in recent originations, but fewer than they did pre-pandemic
- Average loan size remained well above pre-pandemic levels, primarily driven by a shift towards less risky consumers



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Executive Summary – Auto Loans

Performance

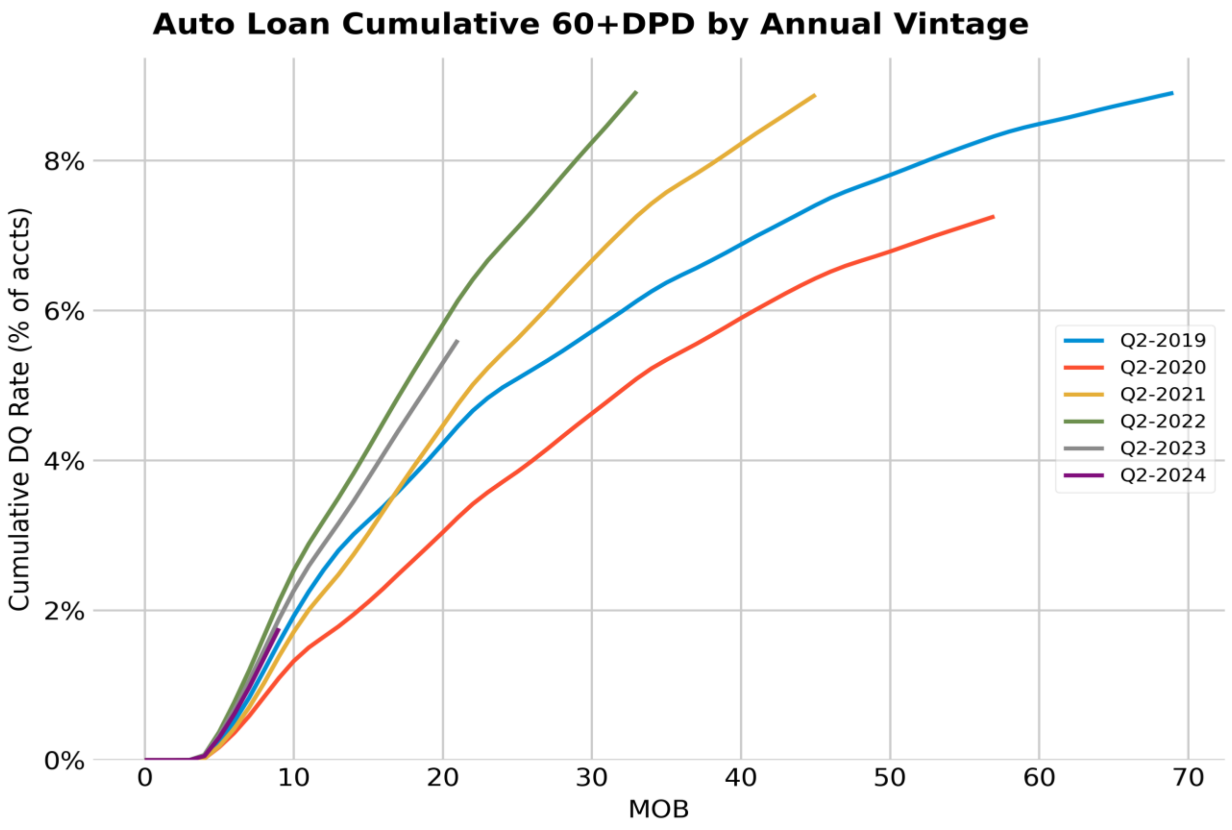
- Delinquency rates continued to rise to unprecedented levels across the risk spectrum (close to 2% mark)
- Auto loan vintages show increased negative fanning relative to card and personal loans

Balance

- Total auto debt remained stable this quarter, hovering around $1.6T
- Total balance owed by subprime grew, while balances dropped across all other risk bands

Originations

- Originations decreased slightly over the last few months, but remained relatively stable since 2023
- Vehicle prices remained flat in Q1 after increasing through the second half of 2024 and are still below 2022 and early 2023 levels
- The originated account distribution continued shifting towards super prime borrowers, emphasizing the persistence of tightened underwriting and elevated costs



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Special Topic: Continued monitoring on regulatory/policy impacts to lending

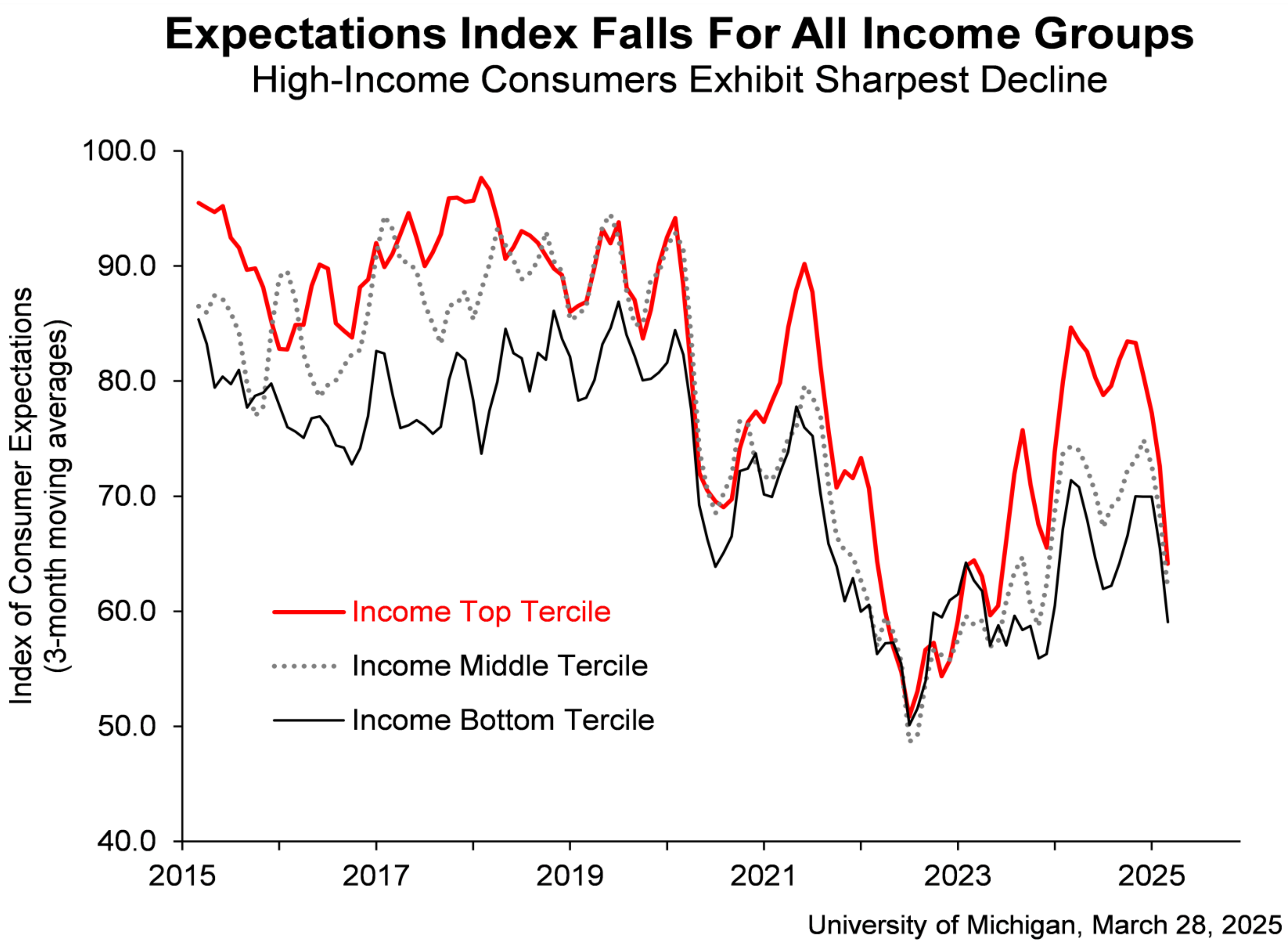
- **CFPB Downsize on Hold**: On April 18th, a U.S. District Court judge suspended the firings of more than 1400 of the ~1700 CFPB employees who received Reduction In Force notices issued by Acting Director Russel Vought. In the interim, the CFPB's enforcement work has been significantly disrupted, while it dropped or dismissed several notable cases against various FIs. (American Banker on workforce reduction; on case drops)
- **New CFPB Regulatory Priorities:** The CFPB outlined a new set of Supervision and Enforcement Priorities, including reducing "supervisory events" by half, shifting focus to depository institutions and fraud issues, de-emphasizing disparate impact-based claims investigations, and avoiding redundant enforcement wherever state regulators are already involved. (American Banker)
- **Late fee cap permanently vacated:** A U.S. District Court ruled against the legality of the Biden-era credit card late fee rule. The decision also prevents continued litigation on the matter. (Reuters)
- **Federal Student Loans Re-entering Collections**: Millions of delinquent federal student loan borrowers entered collections in early May, including potential wage garnishment and tax refund withholding. The Education Department says less than 40% of all borrowers are current. (Associated Press)
- **Eased Requirements and the Growth of Buy-Now Pay-Later:** From Coachella tickets to the grocery store, BNPL usage and delinquency rates have grown. In late March, the CFPB announced its plan to revoke a Biden-era interpretive rule that would have classified BNPL products as credit cards. (Payments Journal, CNBC, Payments Dive)
- **FIs continue to examine potential macroeconomic impacts of tariffs:** The heads of several large banks expressed a mix of uncertainty and optimism on their Q1 earnings calls related to tariffs, while some banks have added to their loss reserves and continued tightening credit card originations in anticipation of a potential economic downturn (American Banker, The Wall Street Journal)
- **Various regulators continue easing crypto regulation:** Following suit with the FDIC's and OCC's recent joint withdrawal of crypto-related regulatory guidance, the Federal Reserve rescinded two Biden-era supervisory letters requiring FIs to receive non-objections from the regulator to engage in certain crypto-related activities. (American Banker)

*Note: This presentation is for informational purposes only and does not constitute financial, legal, or regulatory advice. The insights provided are based on current industry trends and should not be interpreted as definitive predictions about regulatory or macroeconomic developments.

2nd Order solutions

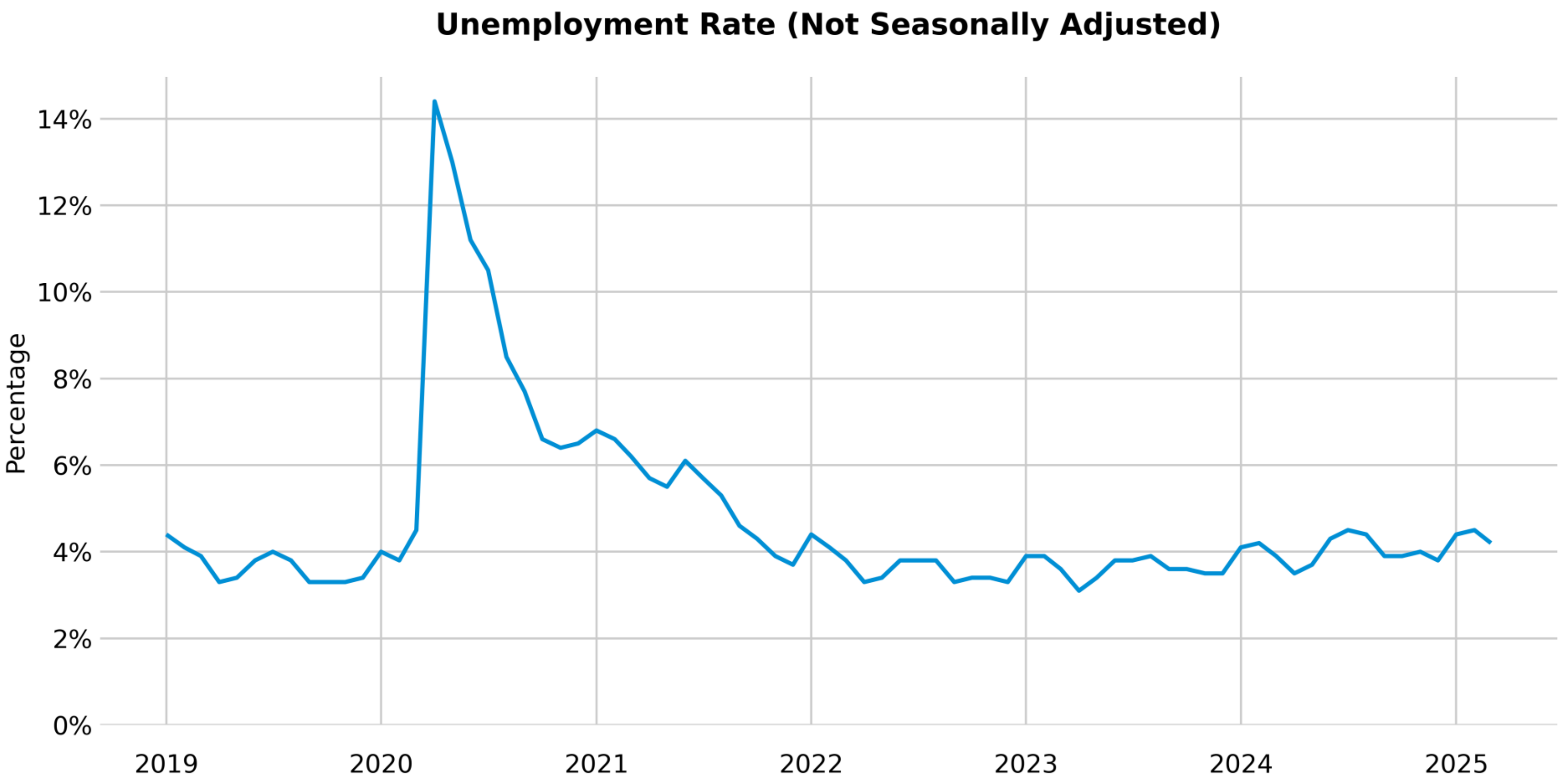
- State of the Consumer
- Credit Card
- Student Loan
- Personal Loan
- Auto Loan
- Mortgage

Consumer sentiment fell sharply last month



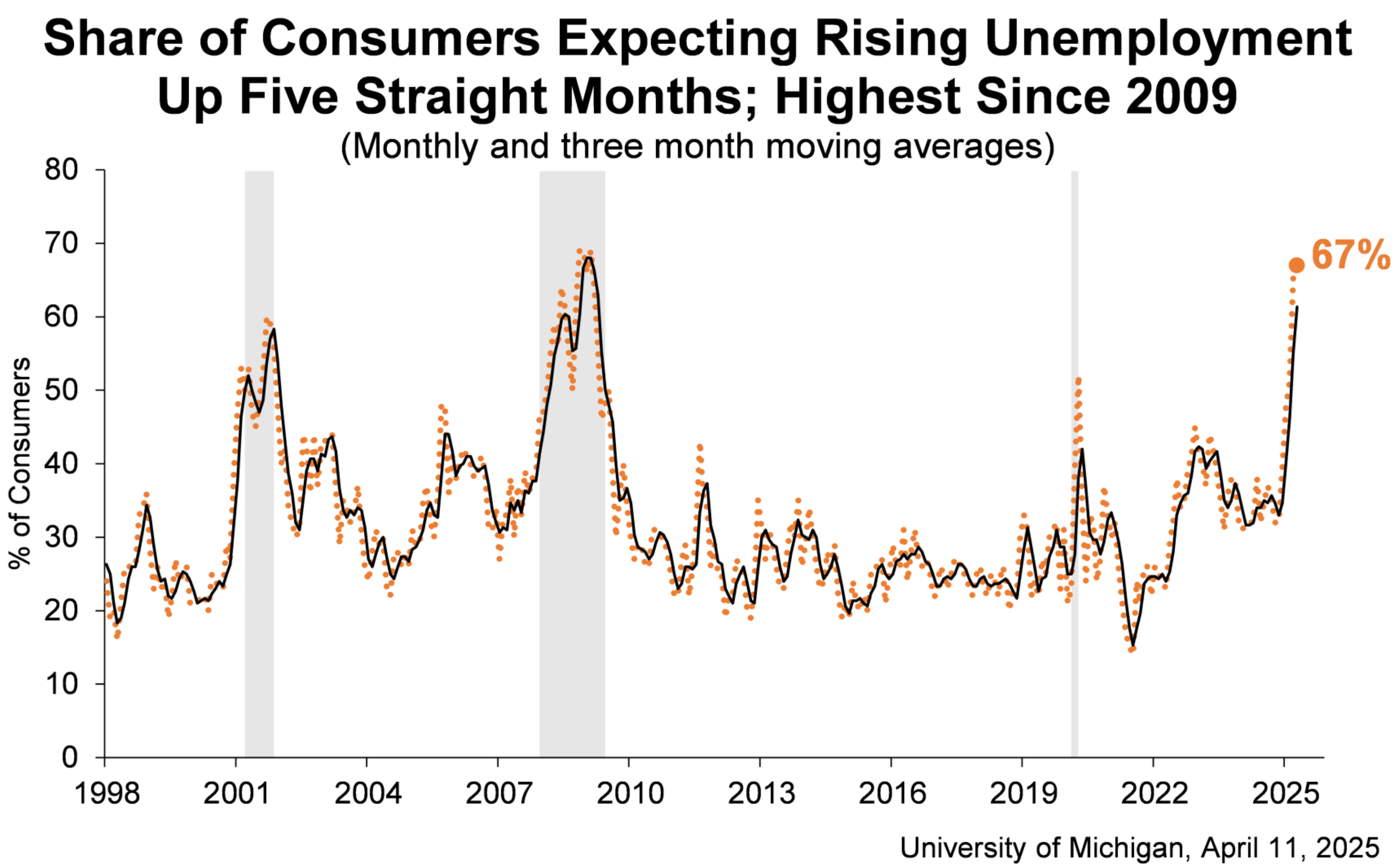
Source: University of Michigan Survey of Consumers, sentiment data as of April 11th

Unemployment remained low in Q1



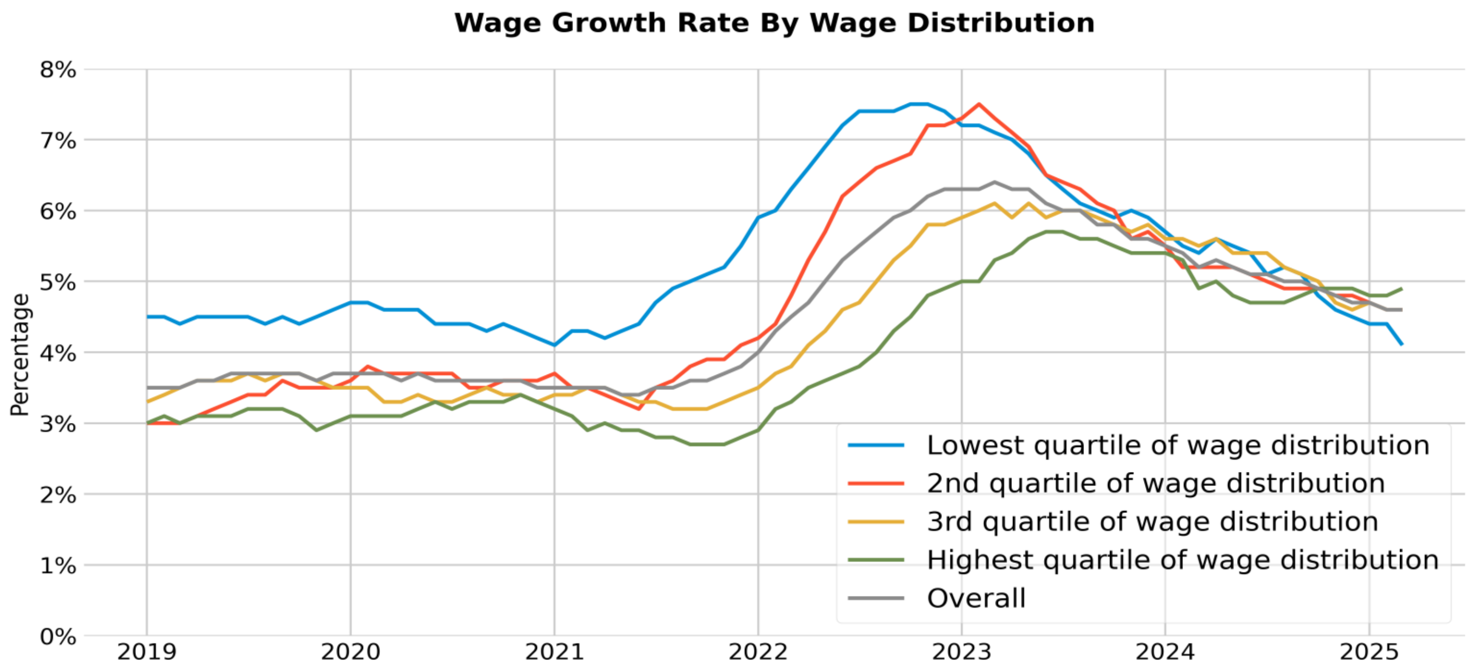
Source: 2OS, FRED. Data as of Apr. 4th, 2025

However, unemployment expectations rose sharply in Q1



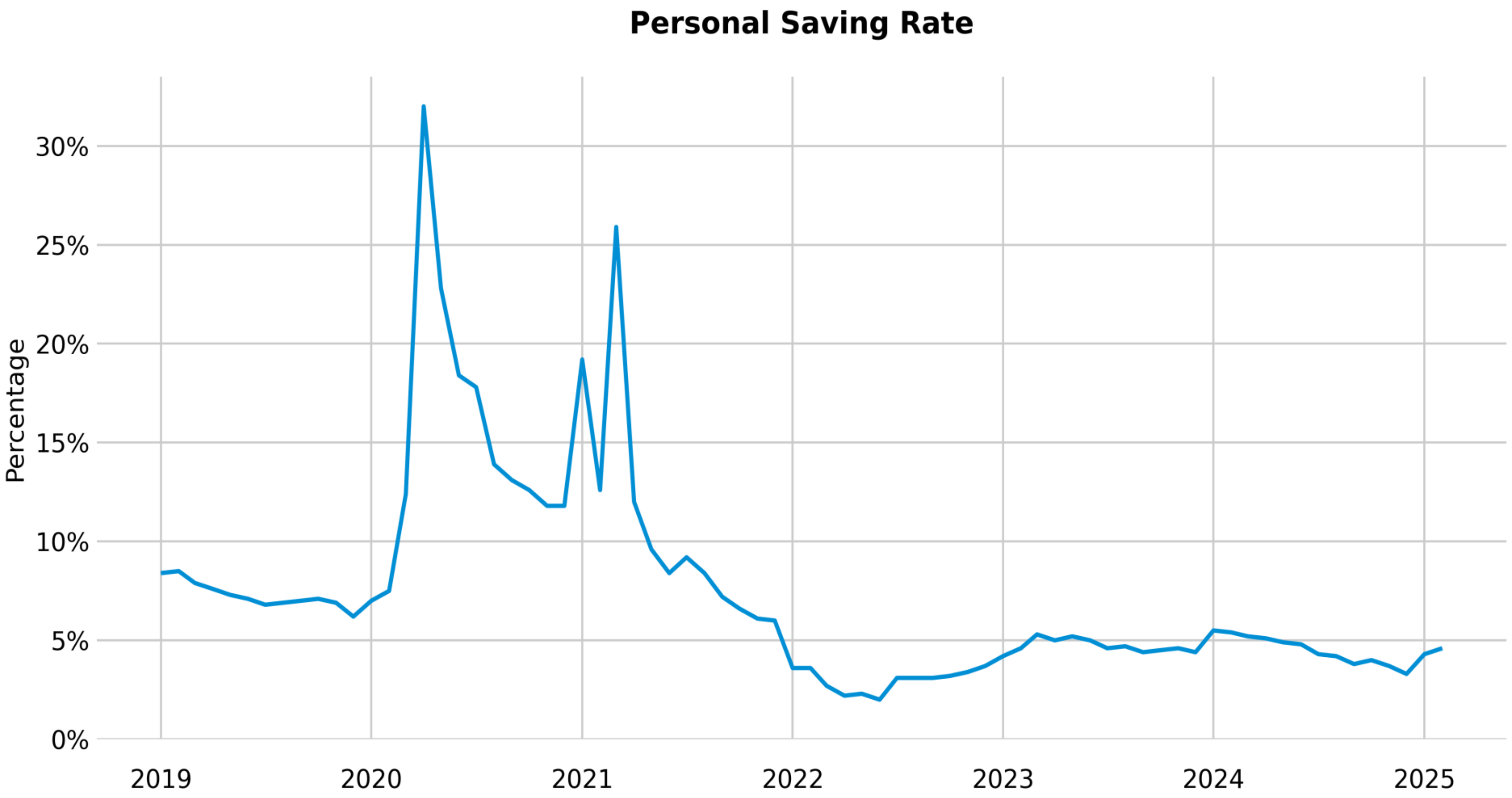
Source: University of Michigan Survey of Consumers, expectation data as of April 11th

Overall wage growth continued decelerating and rank ordering shifted after recent convergence



Source: 2OS, Atlanta Fed, FRED. Data as of Mar. 31st, 2025

The personal saving rate increased modestly this quarter but remained consistent with 2023 patterns at levels lower than pre-pandemic



Source: 2OS, FRED. Data as of Mac. 31st, 2025

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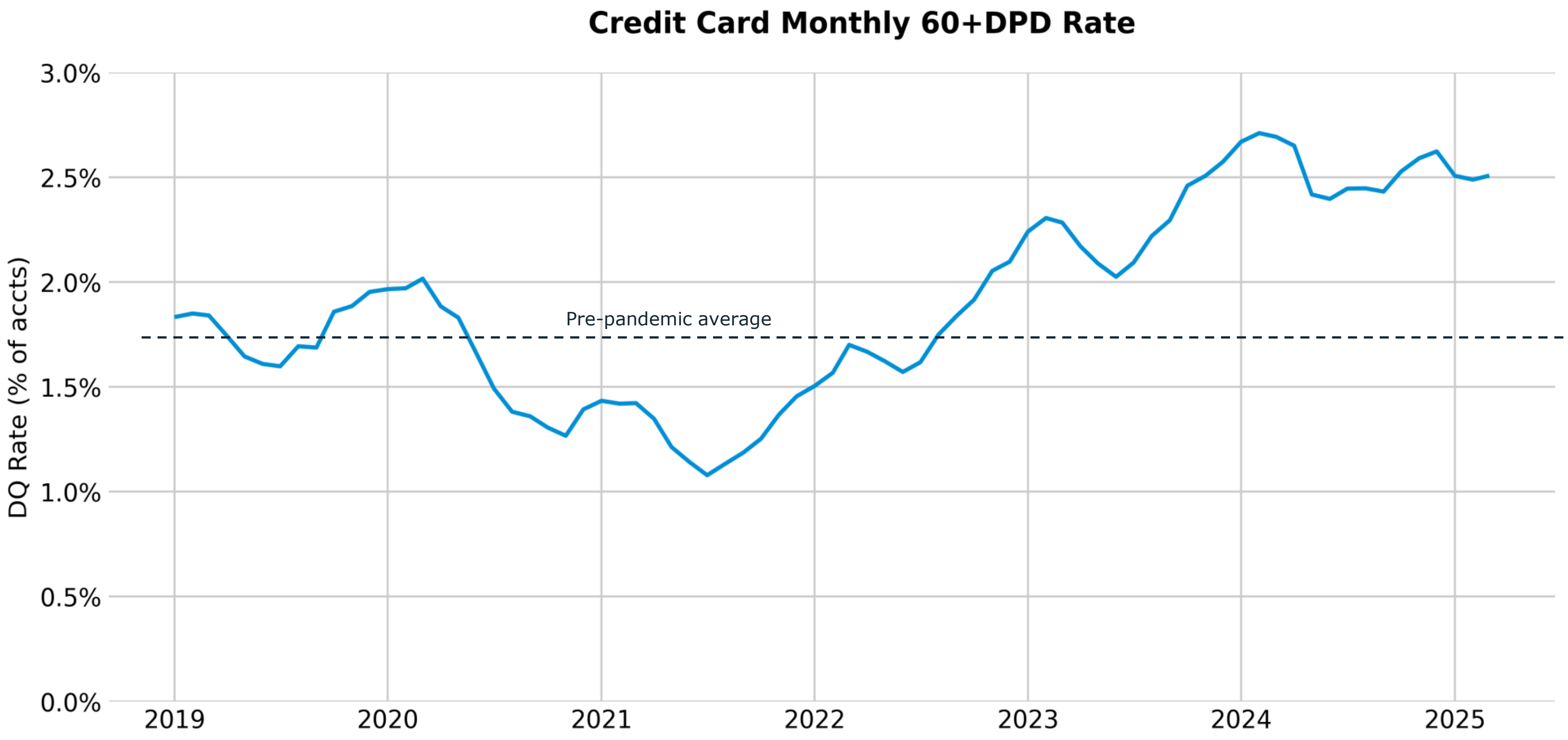
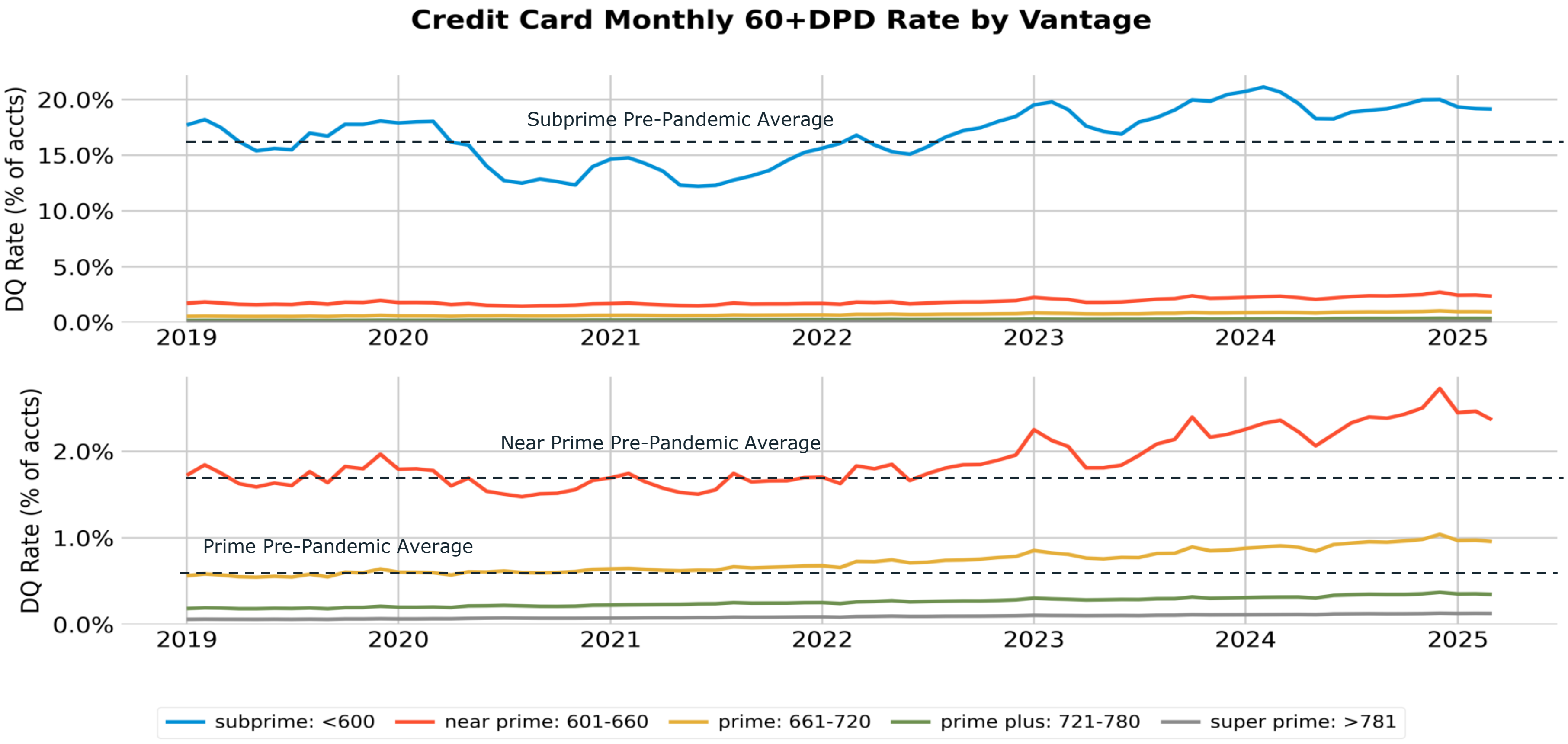
Credit card 60+ delinquencies decreased slightly in recent months, but remained well above pre-pandemic levels



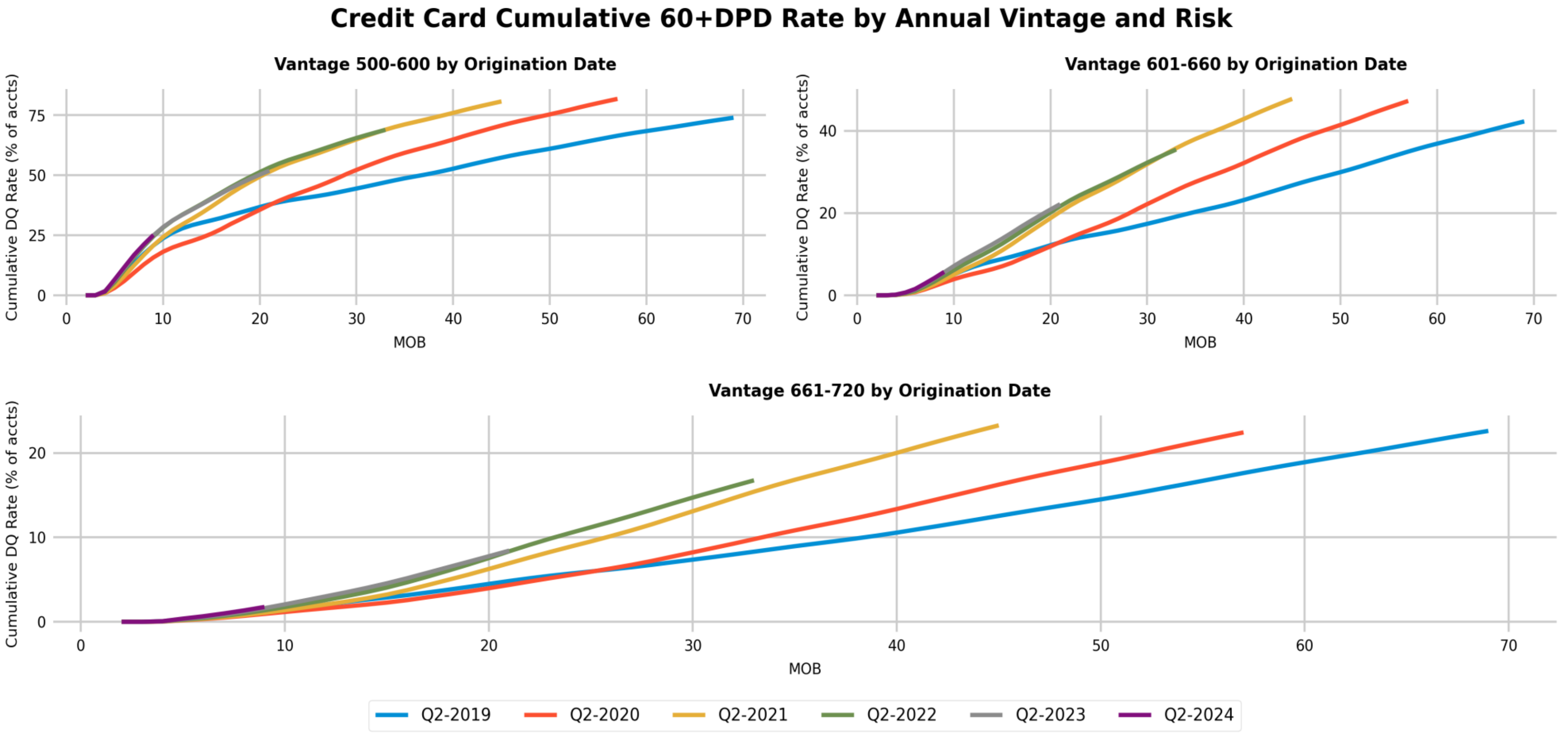
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Subprime, near prime, and prime delinquencies eased over the last quarter, particularly in near prime, but remain well above pre-pandemic averages



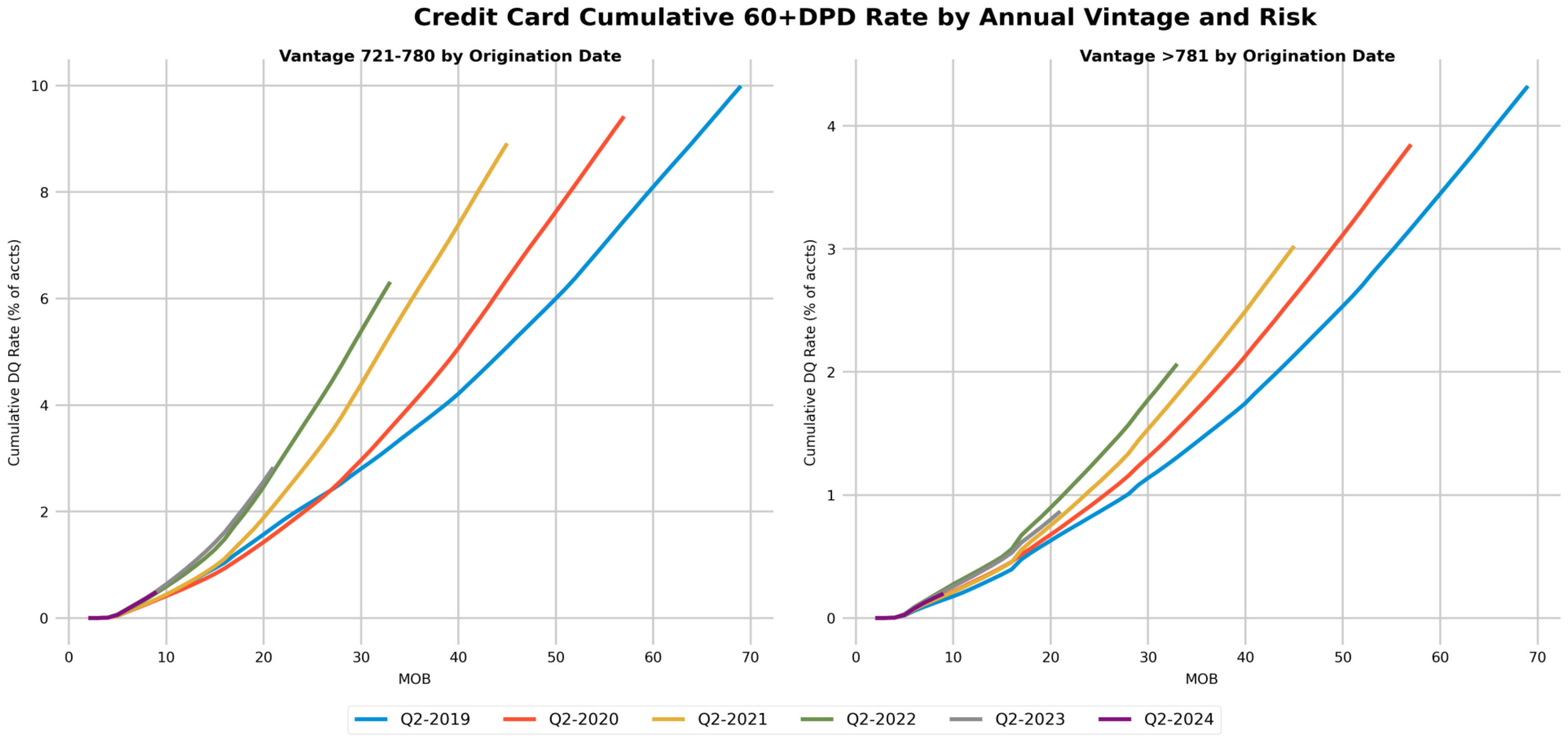
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Across risk bands, Q2 2024 vintages performed in-line with recent vintages and worse than older vintages (Slide 1 of 2)



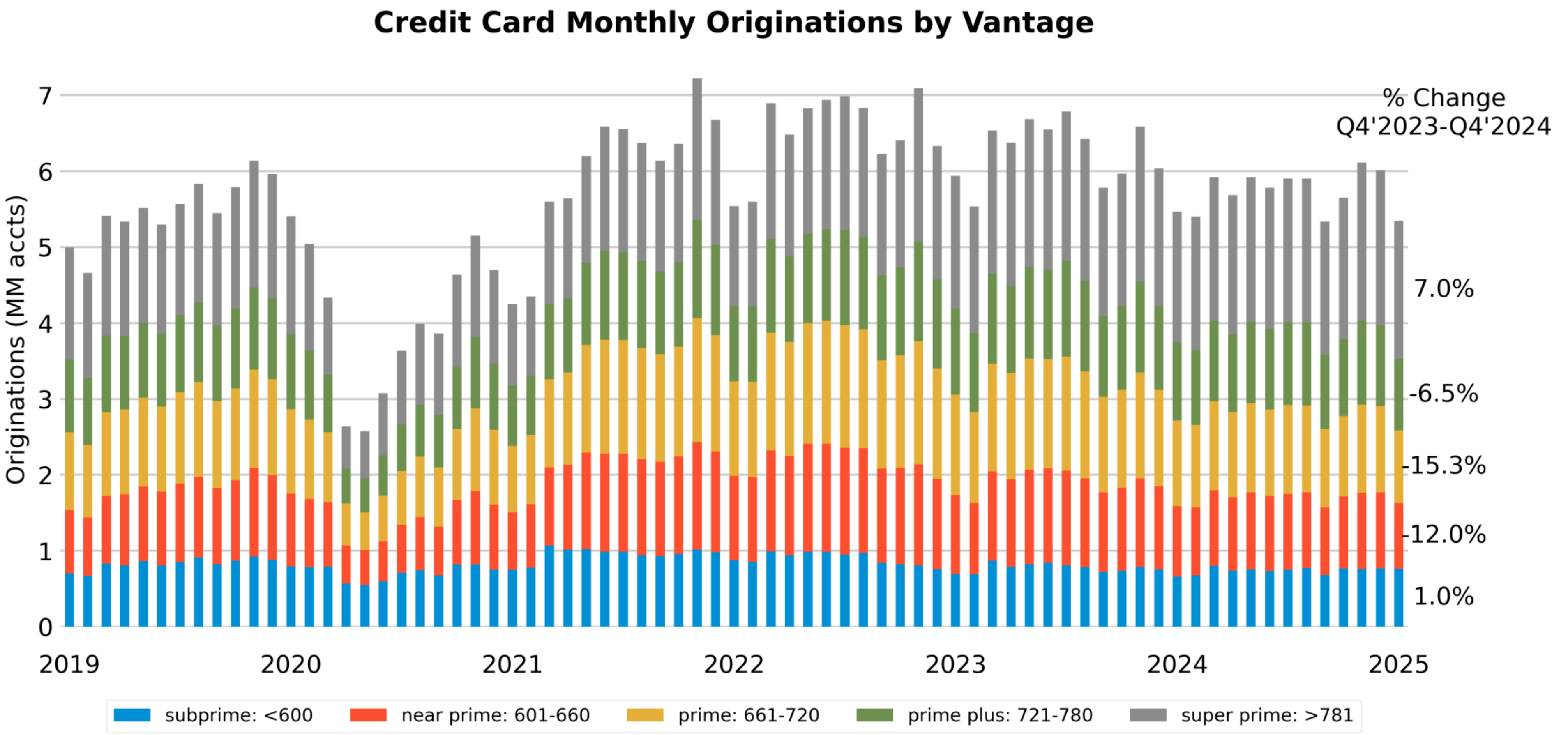
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Across risk bands, Q2 2024 vintages performed in-line with recent vintages and worse than older vintages (Slide 2 of 2)



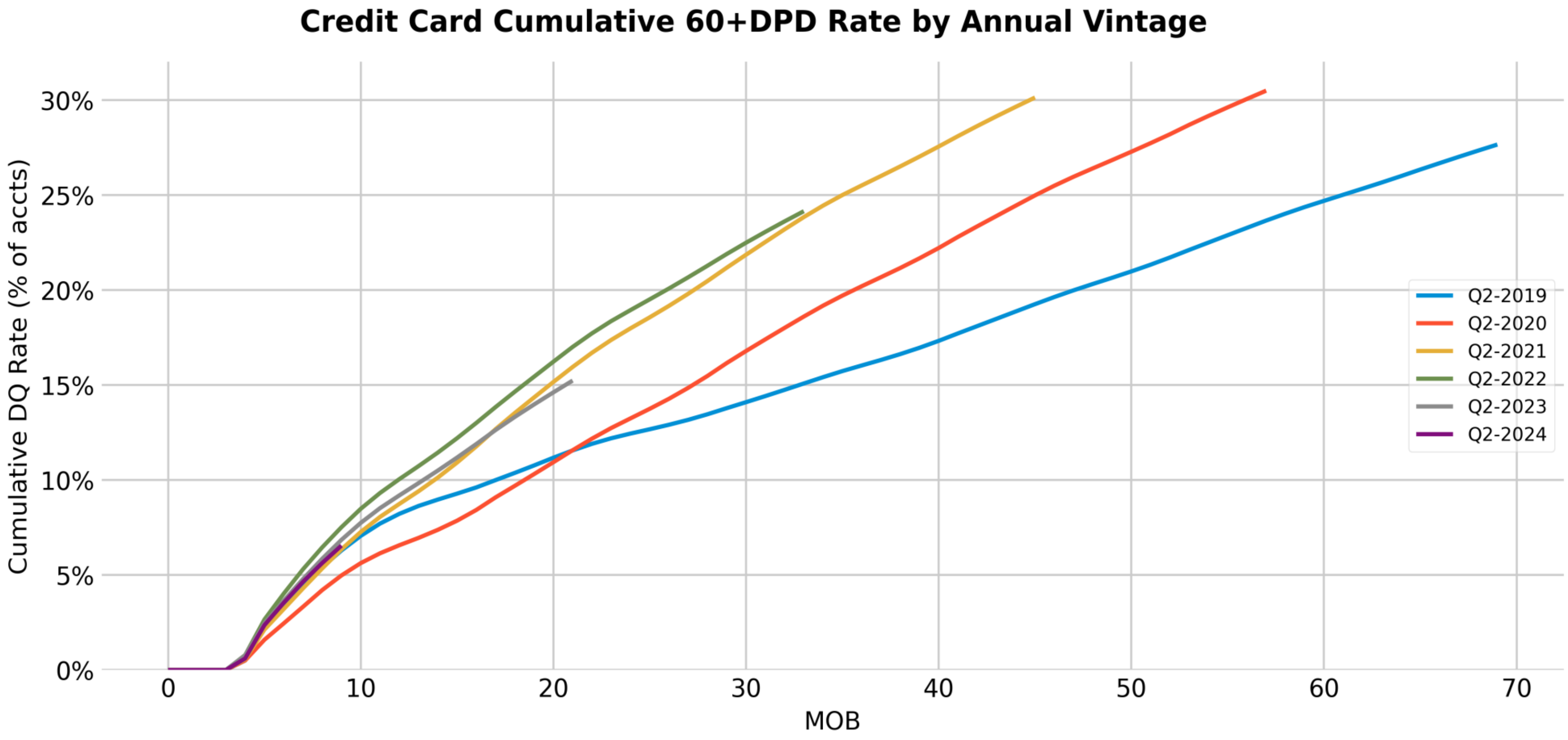
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

2024 originations continued shifting toward less risky customers, with a notable increase in super prime customers



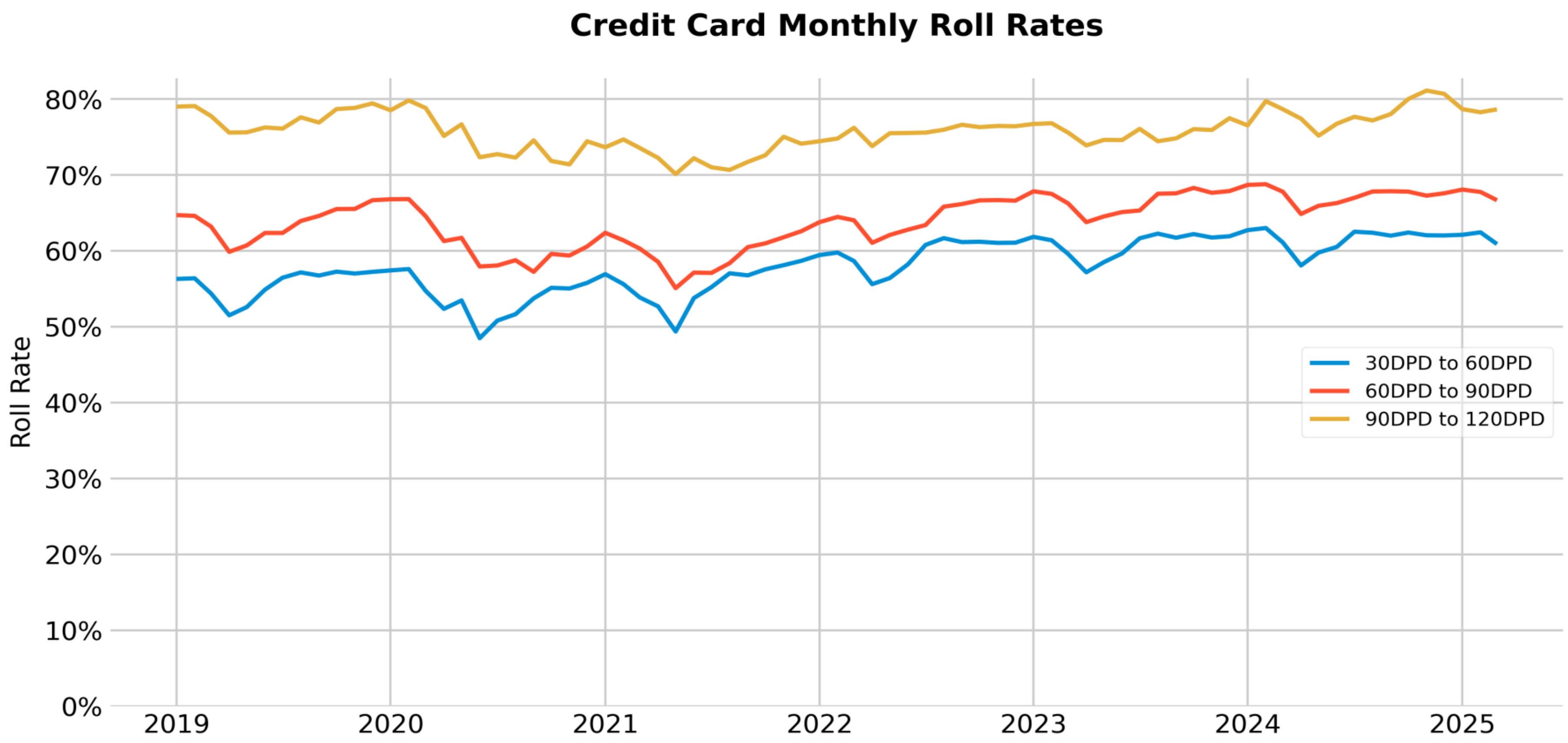
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

This shift towards less risky customers drove improved overall performance for 2023 and 2024 vintages relative to 2022, despite similar performance at risk band level



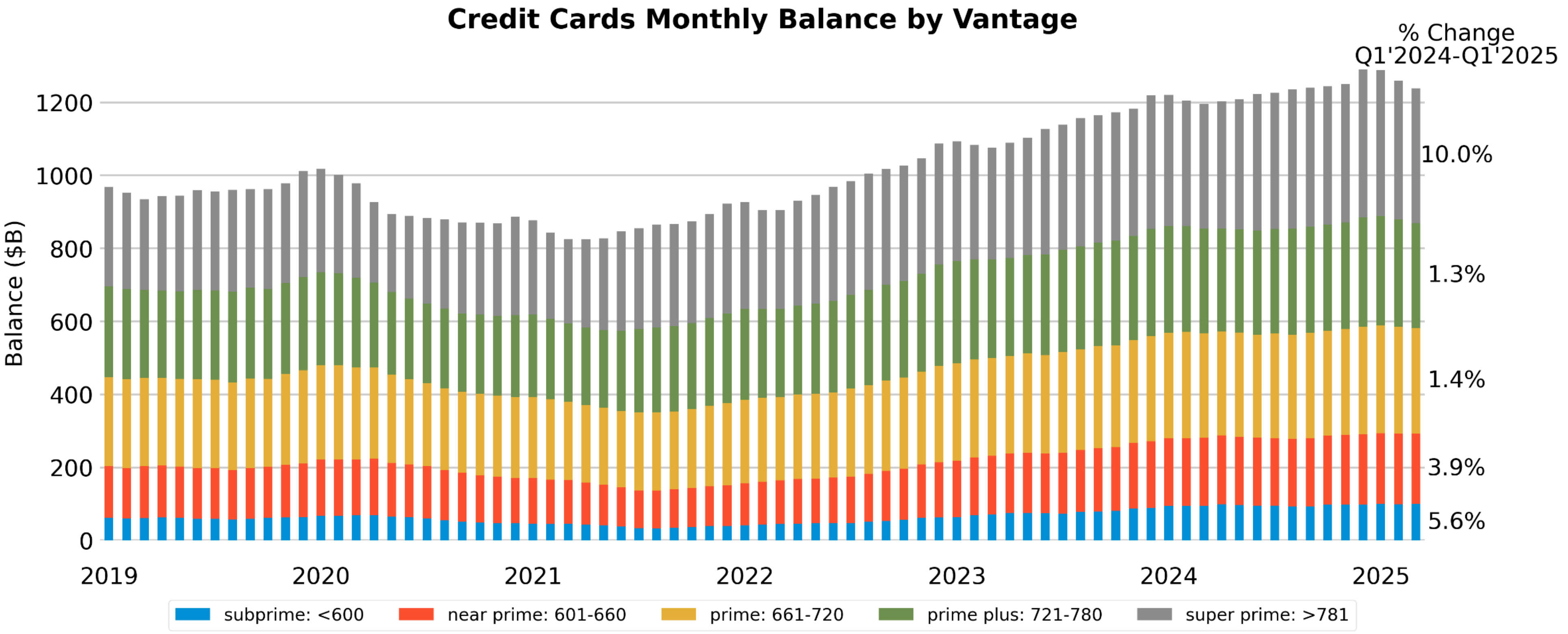
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Roll rates have slightly decreased in recent months but remain elevated compared to pre-pandemic averages



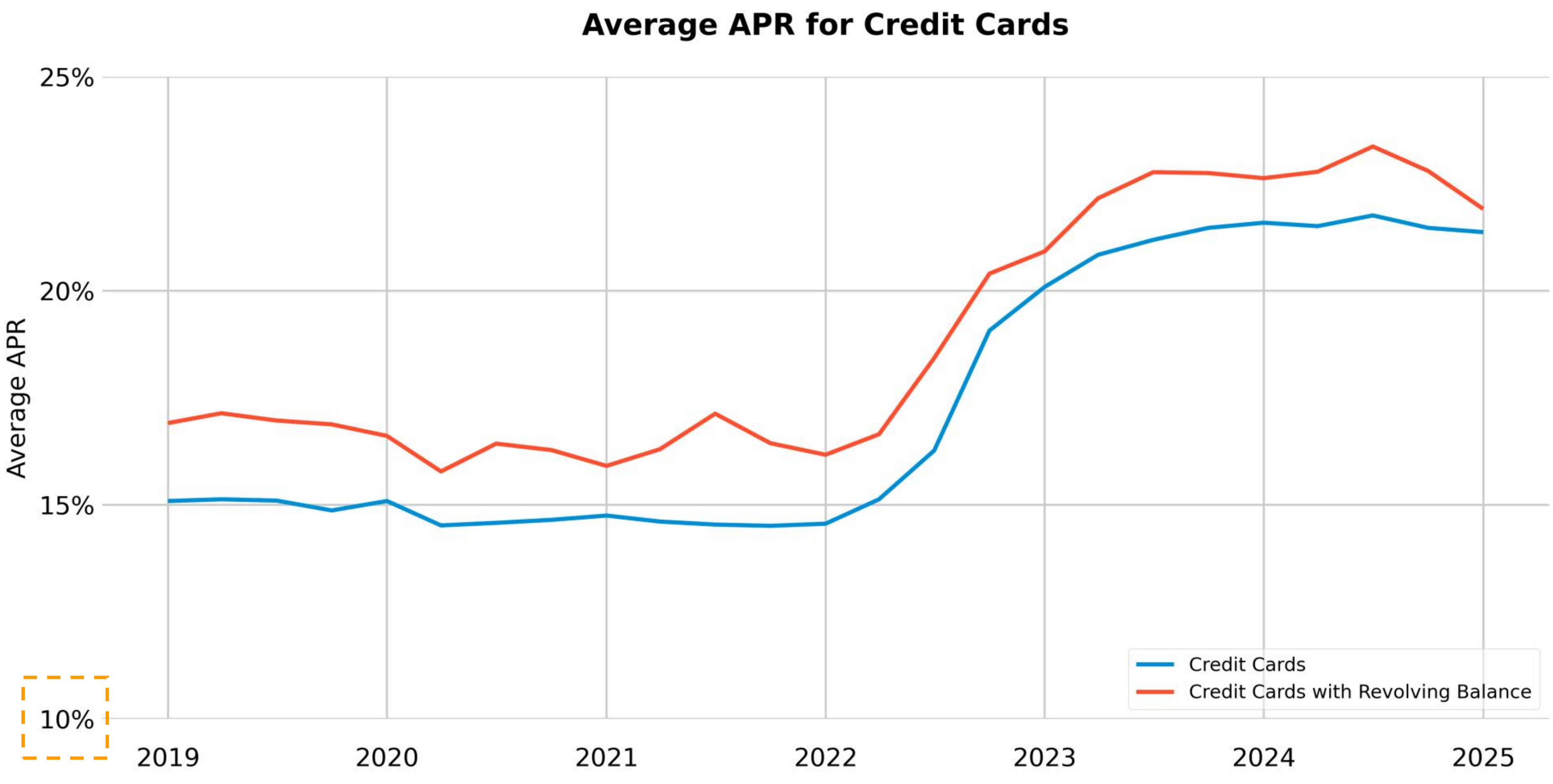
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Overall credit card debt grew across all risk bands, with total super prime balances growing the most year over year



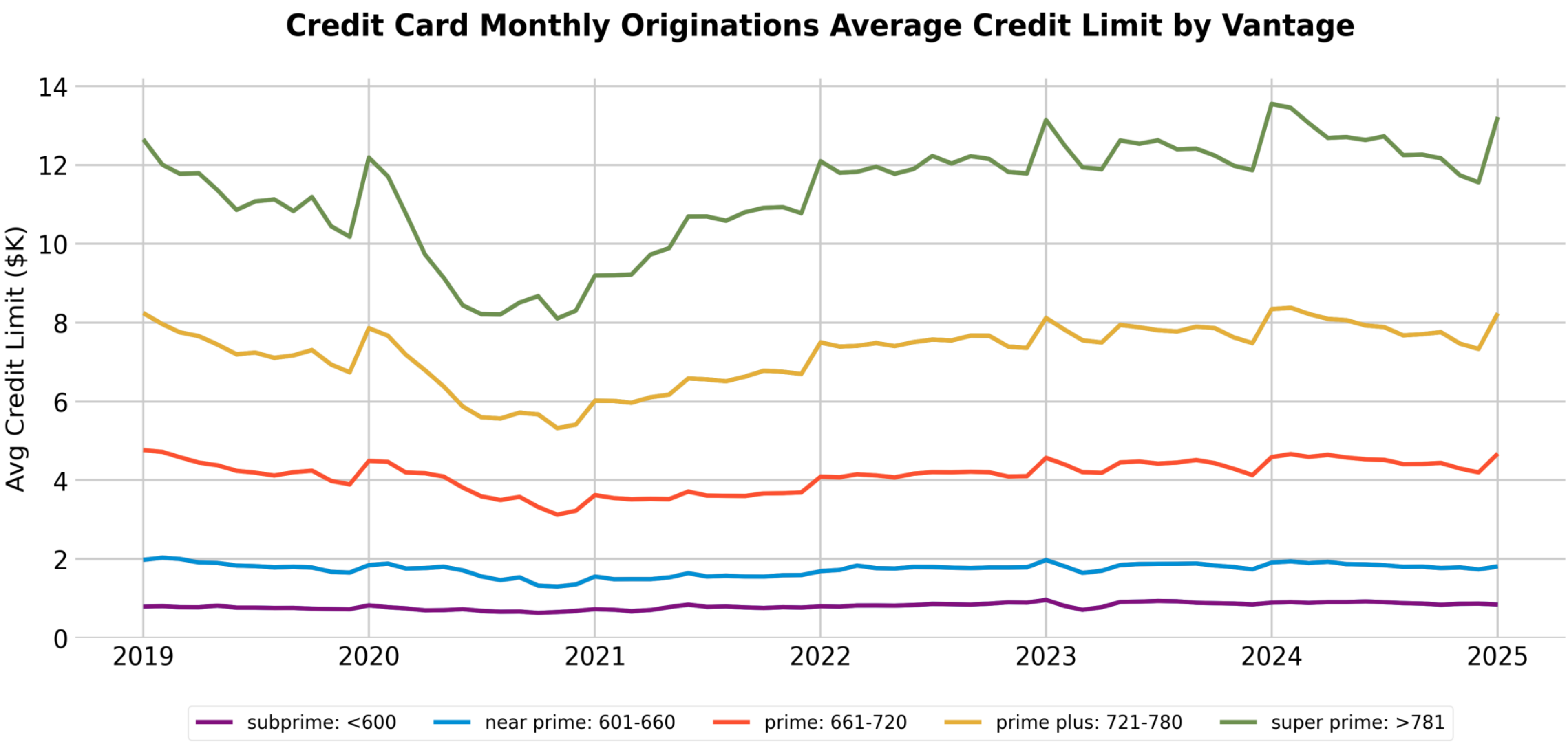
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Credit card APRs decreased over the past few months, especially on credit cards with revolving balance



Source: 2OS, Federal Reserve G19 report. Data as of Mar. 31st, 2025

Average credit limits at origination rose across risk tiers, particularly among lower-risk customers



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

2nd Order solutions

- State of the Consumer
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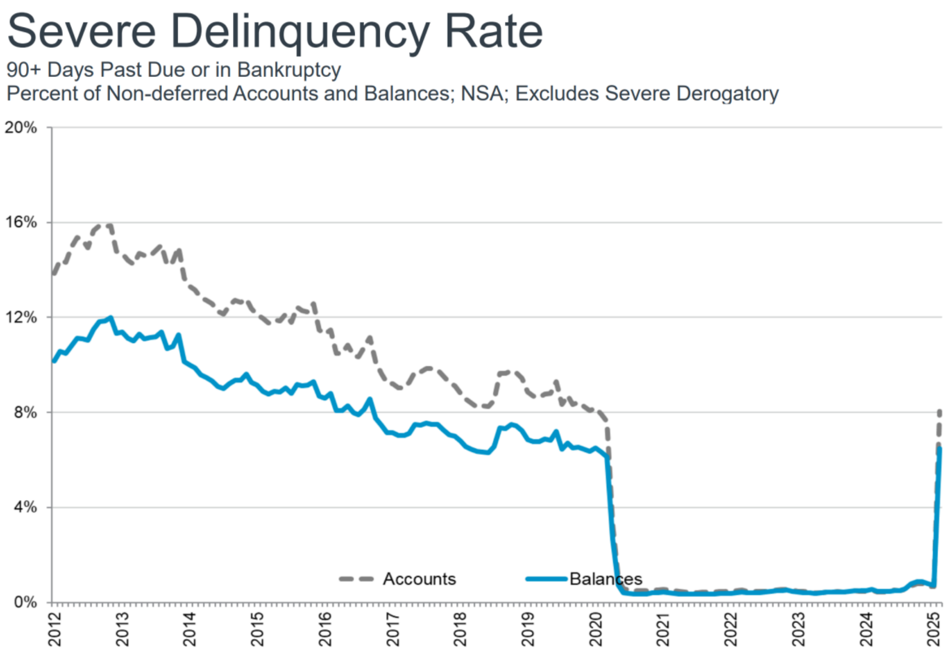
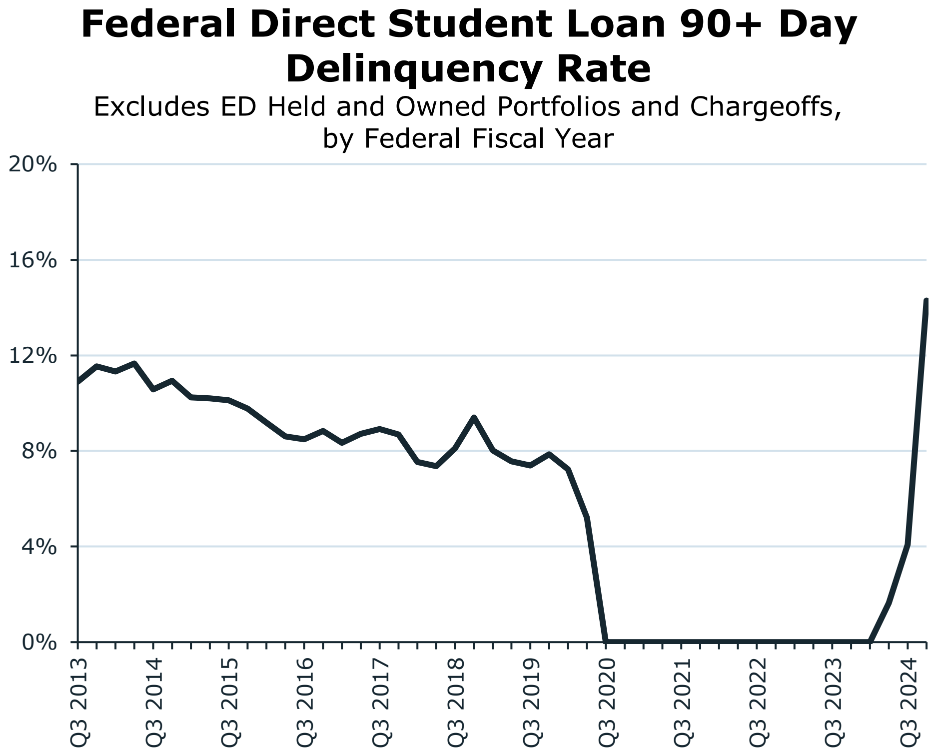
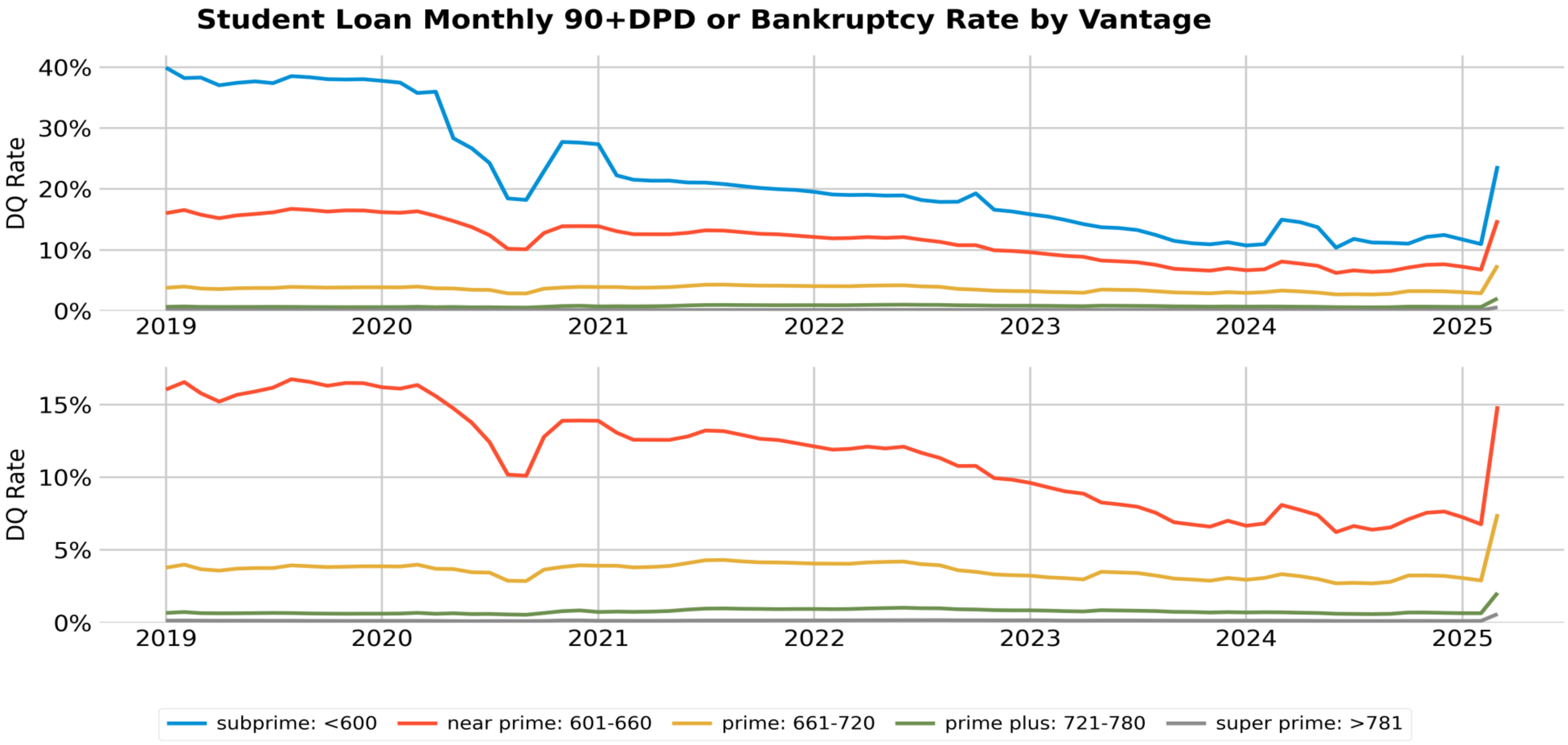
Bureau-reported student loan DQs increased significantly in Q1; Federal Student Aid reporting suggests this volume may continue climbing





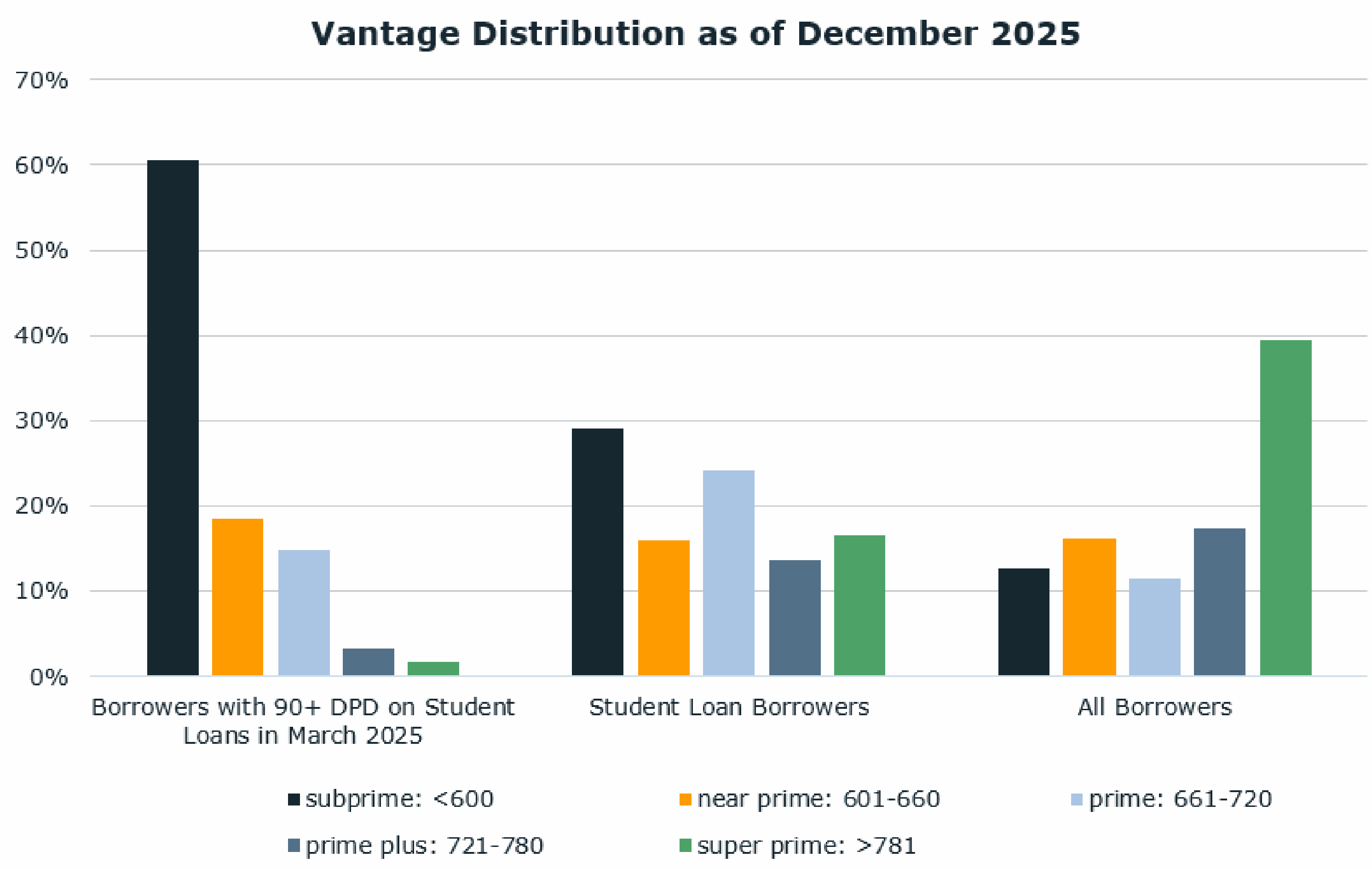
Sources: LHS 2OS, Equifax. Data up to Feb. 28th, 2025
RHS 2OS, FSA Data. Data up to Dec. 31st, 2024

Student loan DQ rates increased sharply this quarter, with notable increases across credit risk segments



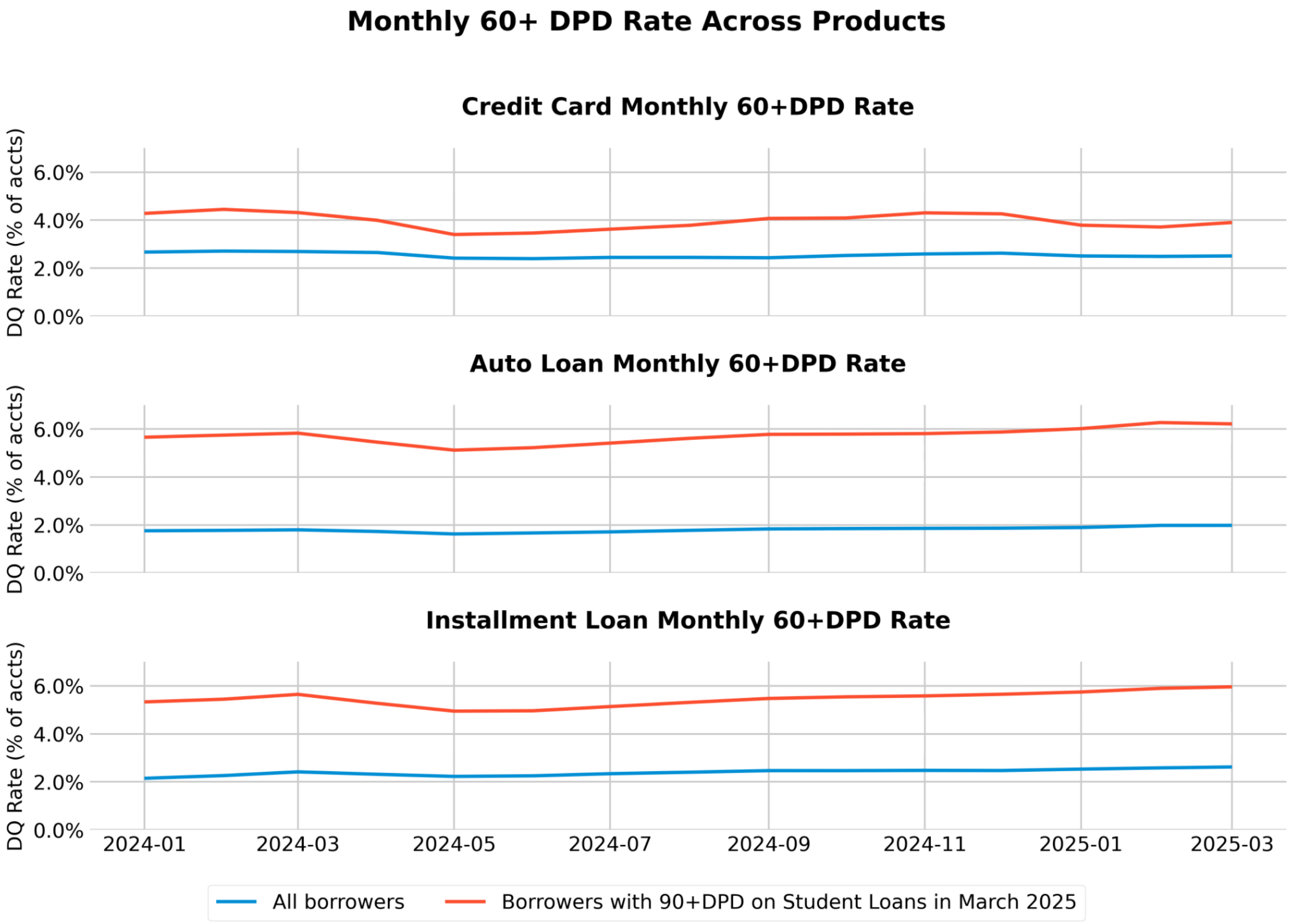
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Vantage scores may decline for borrowers who were reported as 90+ DPD on Student Loans; however, this may be dampened by their preexisting subprime skew



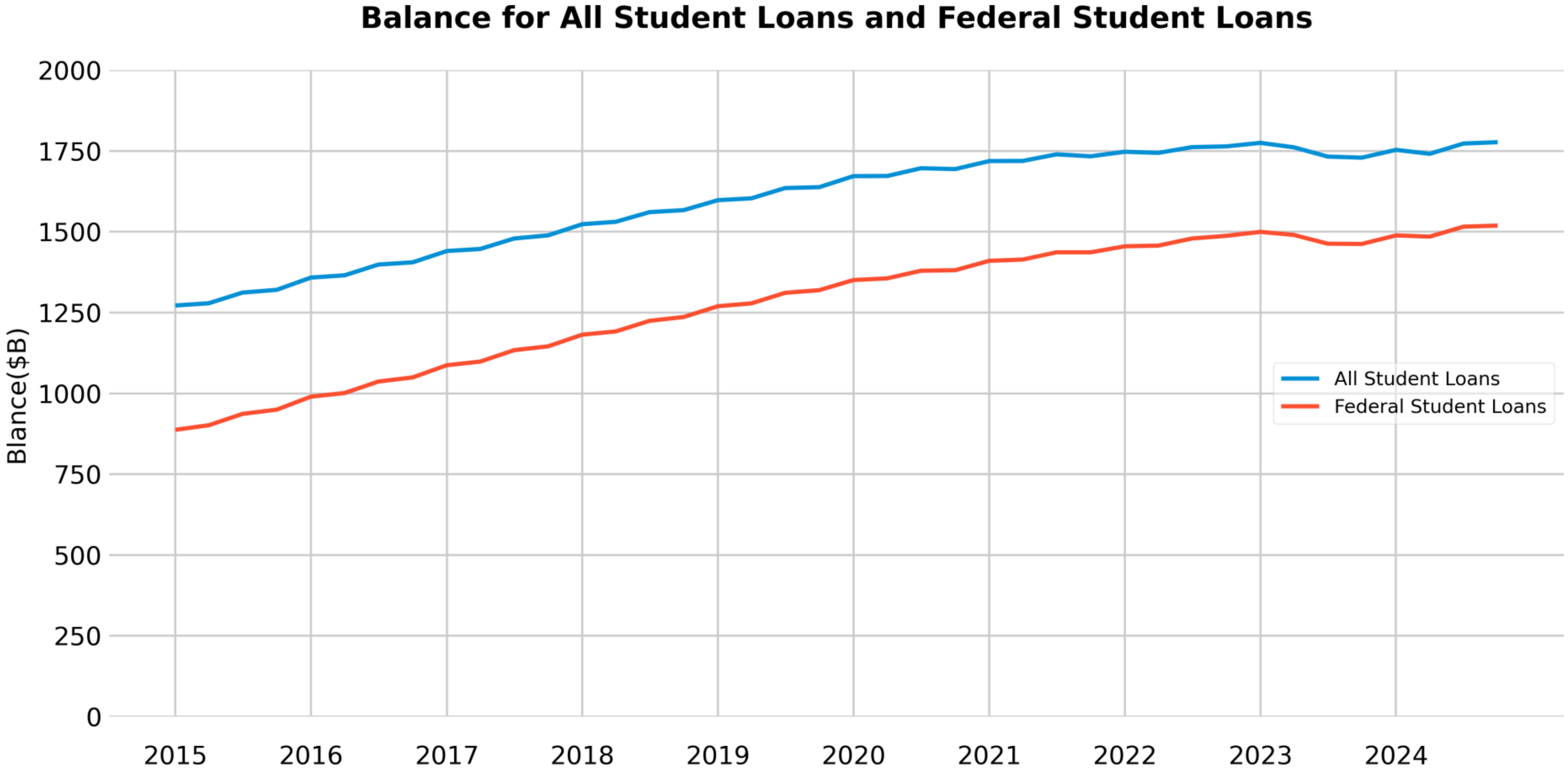
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Borrowers reported as 90+ DPD on student loans in March have persistently higher delinquency rates across assets, though this gap is not increasing



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Both the total student loan balance* and total federal student loan balance have been relatively flat since 2023 after rising rapidly for years



Source: 2OS, Total SL, Federal SL. Data as of Mar. 31st, 2025

*Note: Slight discrepancies may be found in student loan balance totals depending on the government source used

- State of the Consumer
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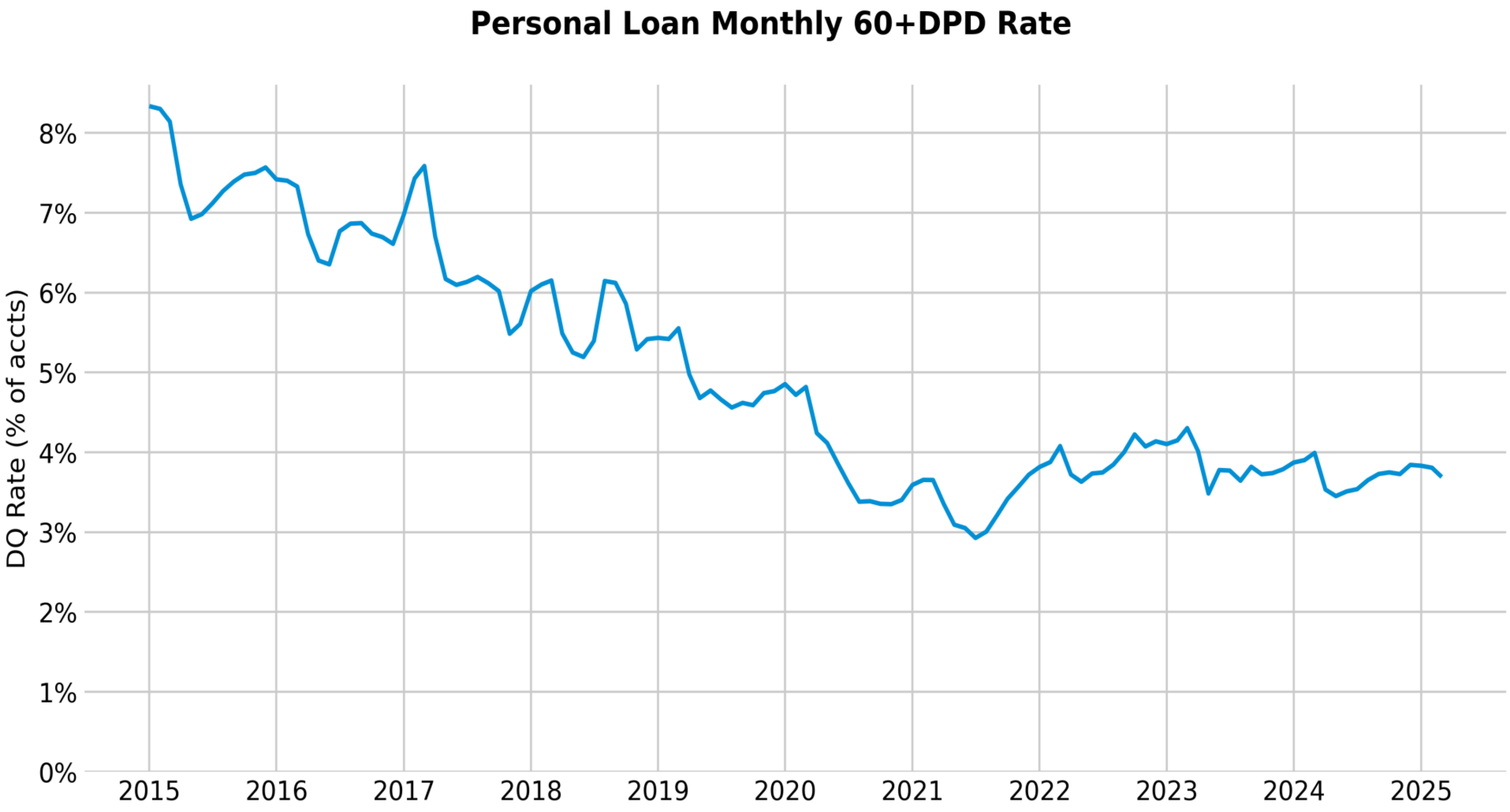
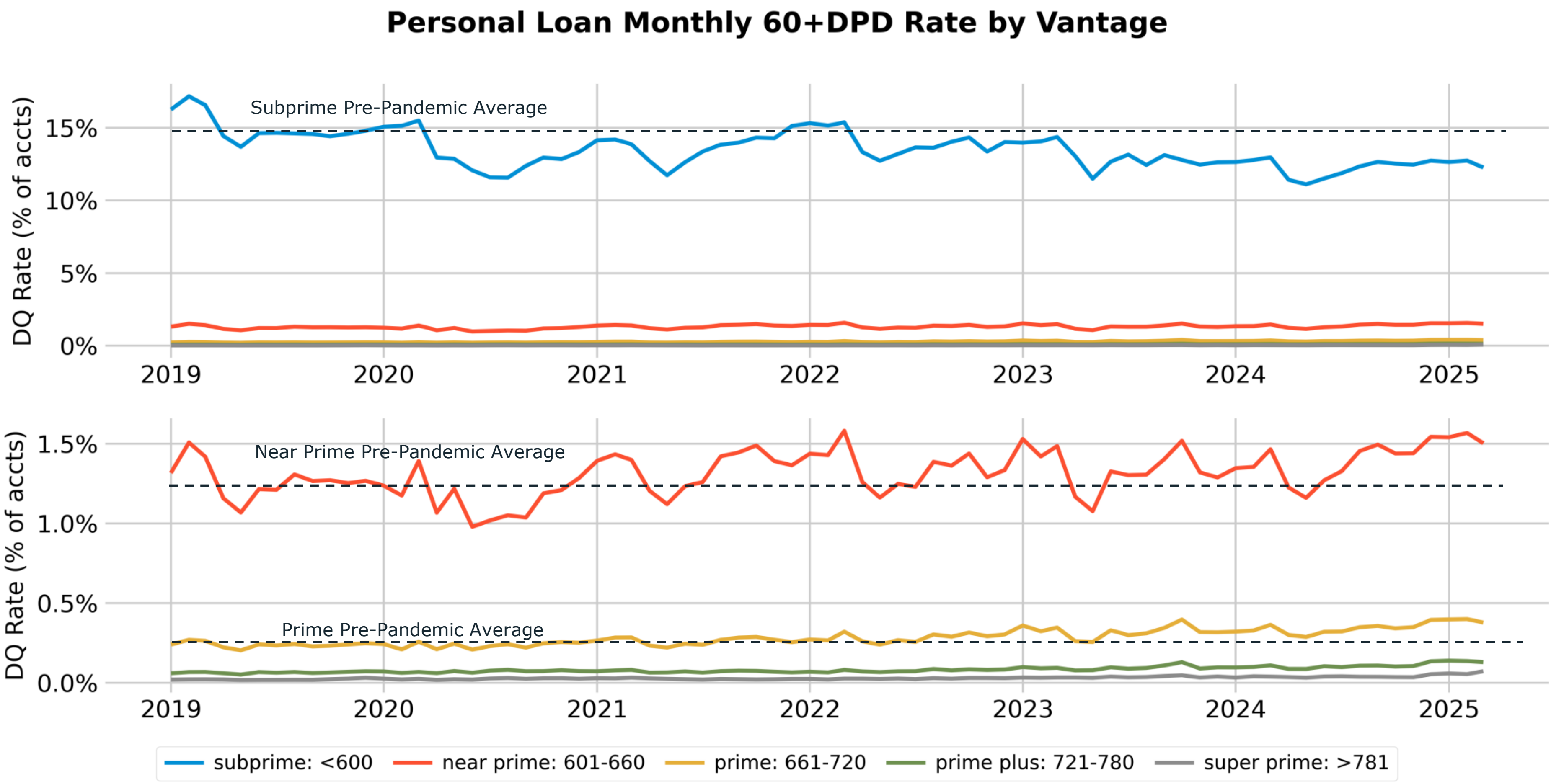
60+ DPD rate has remained relatively stable since 2022, reflecting the mix shift towards lower risk originations



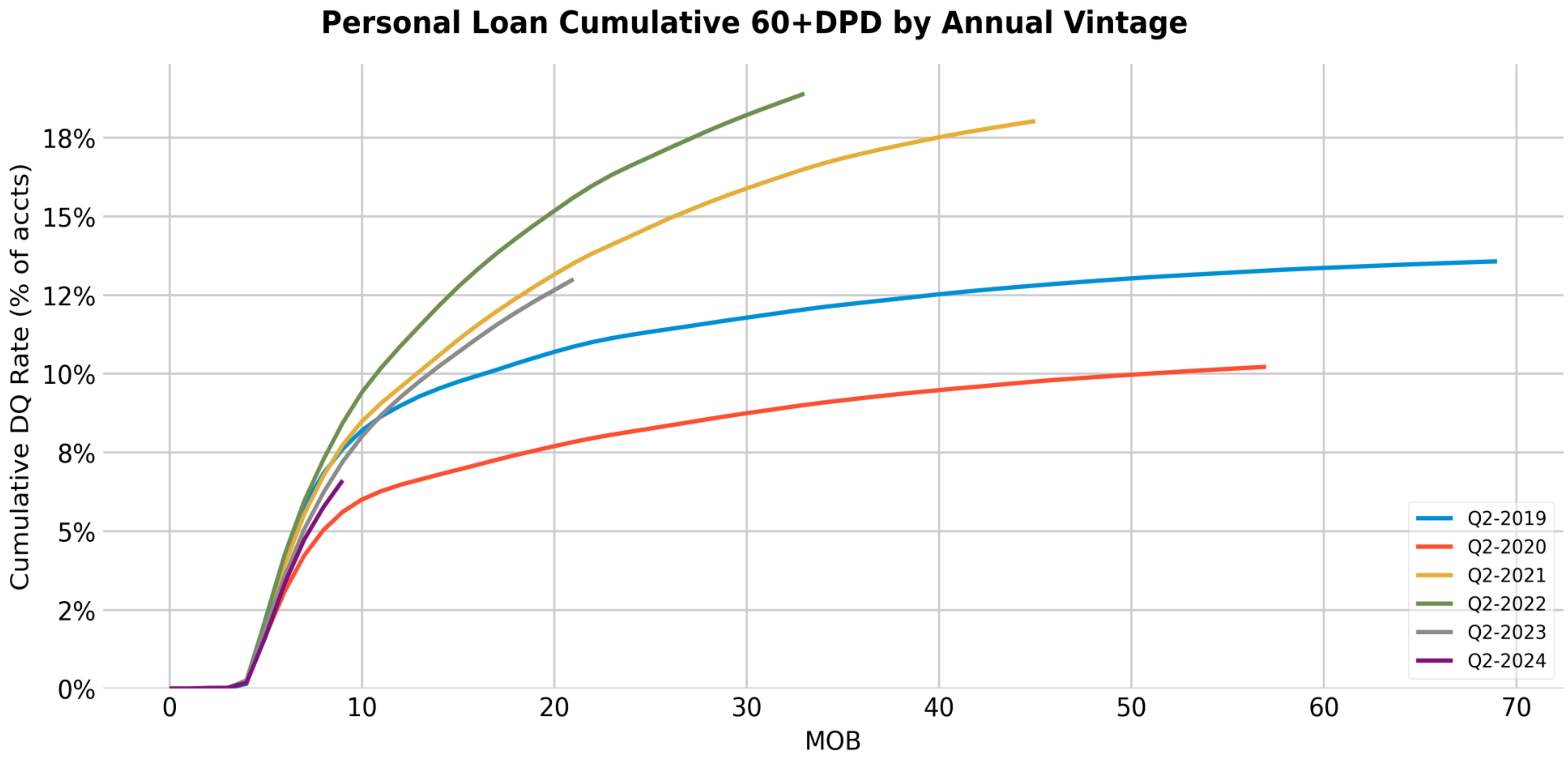
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Subprime 60+ DPD rates remained lower than pre-pandemic averages while the opposite held for prime and near prime



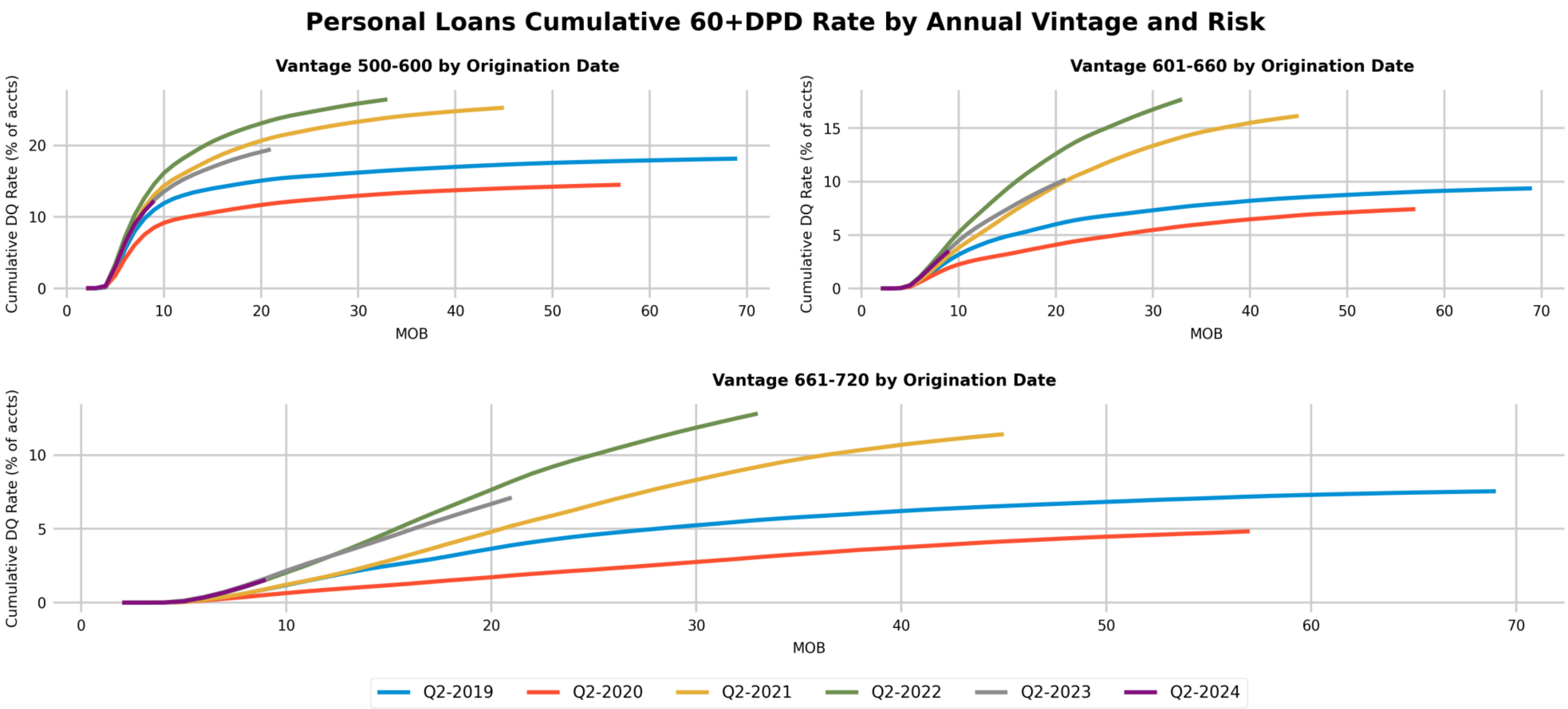
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Early 2024 vintages show continued improvement relative to 2021 and 2022 originations



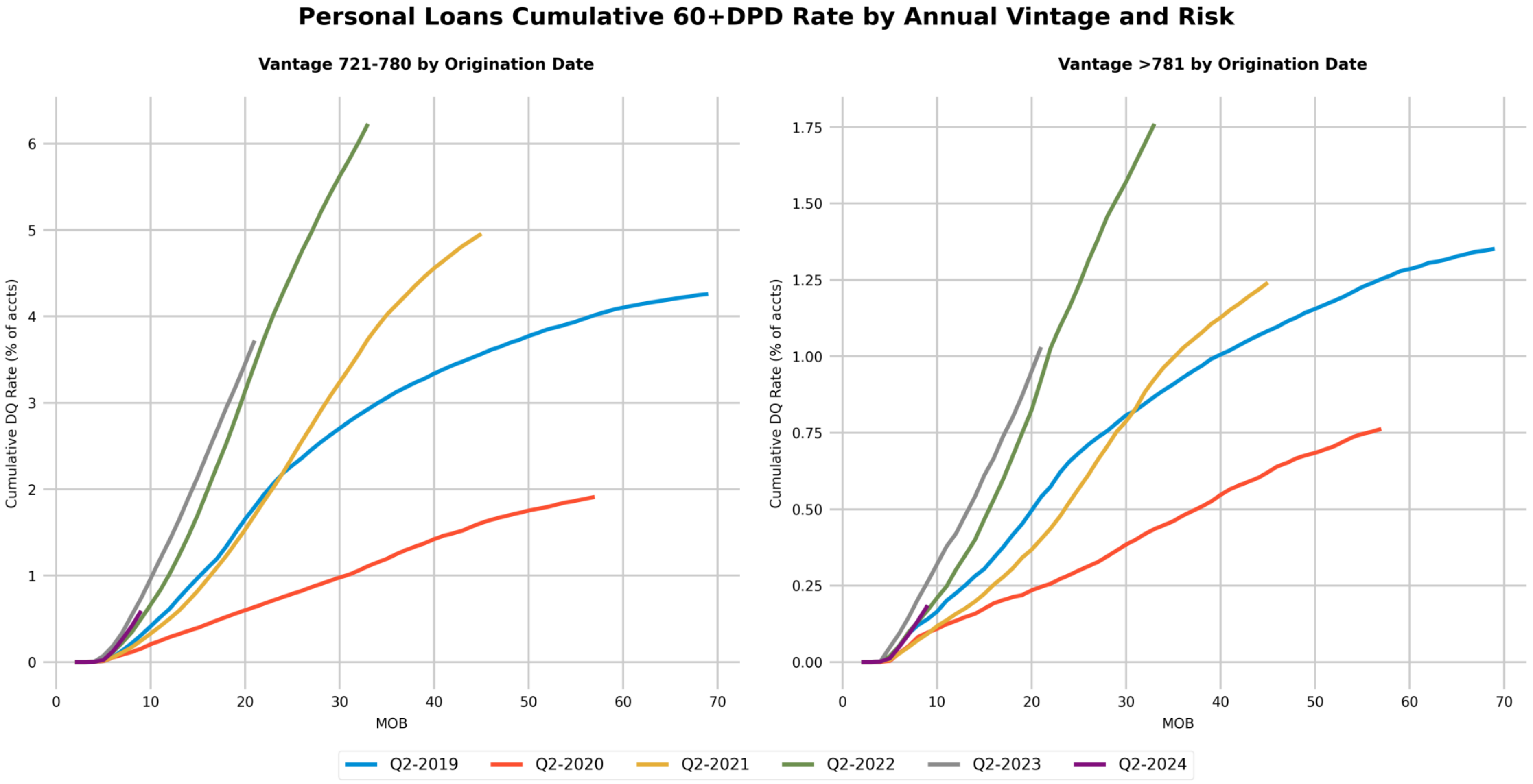
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

The trends seen in overall PL delinquency rates persist for the highest risk bands



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

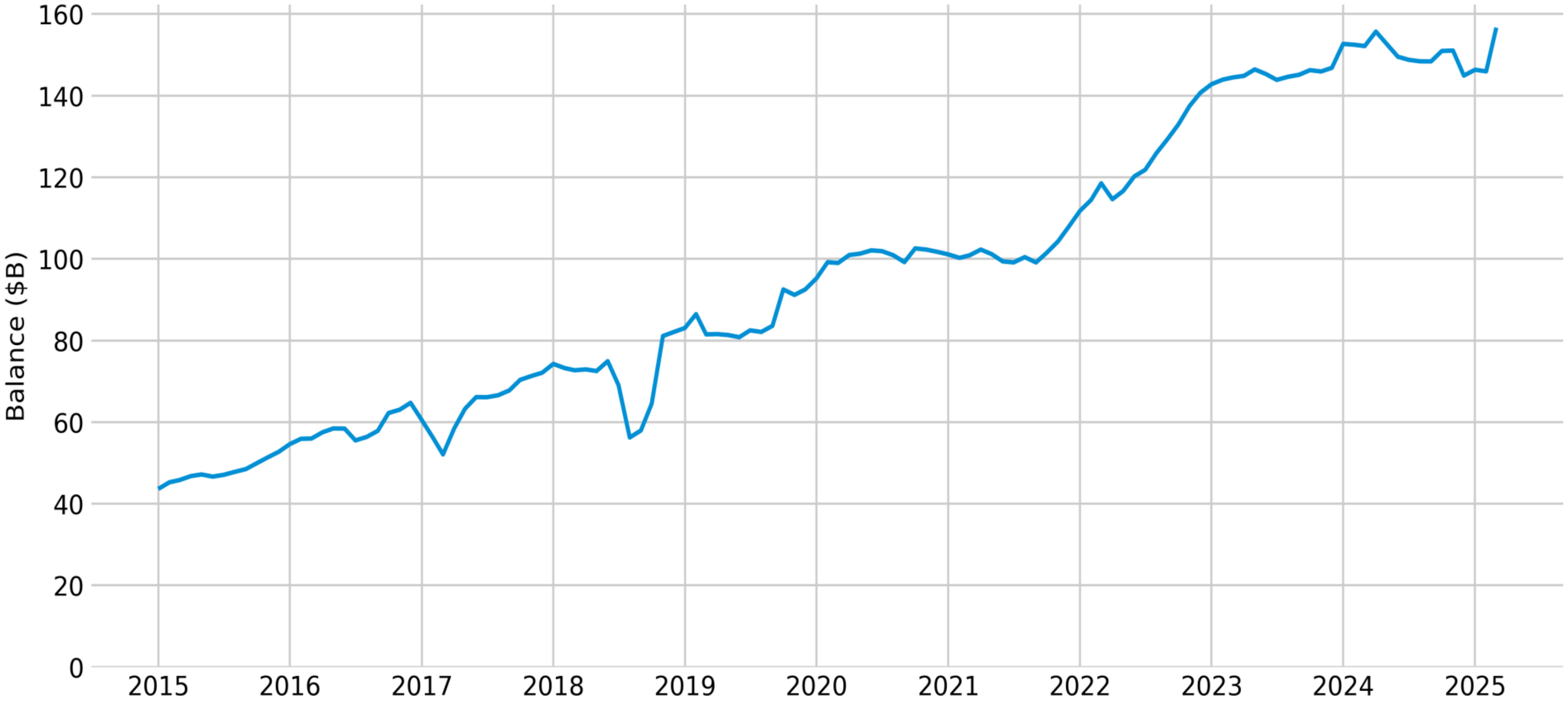
For lower risk bands, newer vintages still exhibit worse performance than pre-2022 vintages, but 2023 and 2024 are in-line with or performing worse than 2022



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

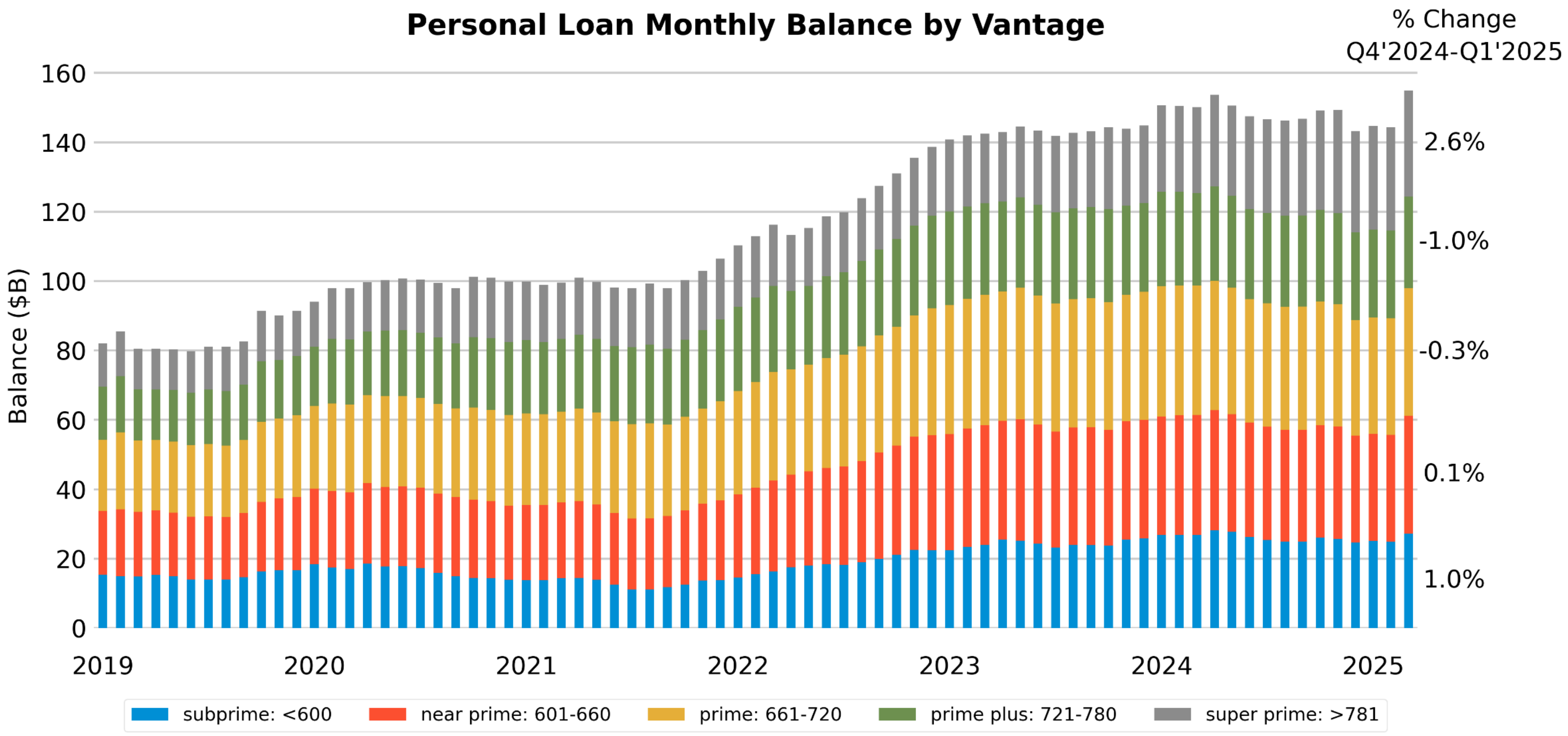
Personal Loan balances rebounded in March after dipping in January and February

Personal Loan Monthly Balance



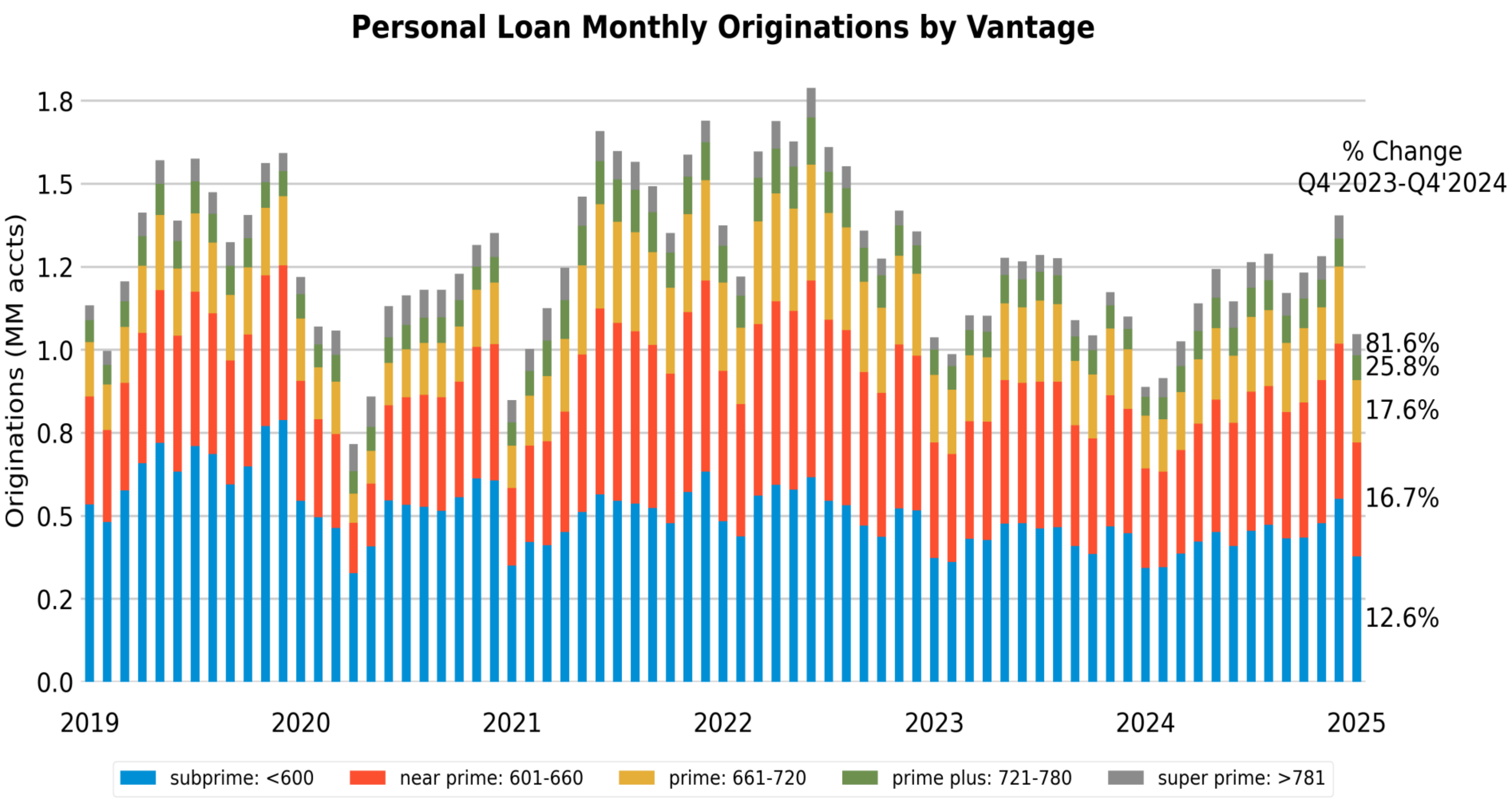
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Super prime and subprime borrowers held an increasing balance of personal loan debt while other risk band balances shrunk or stayed flat this quarter



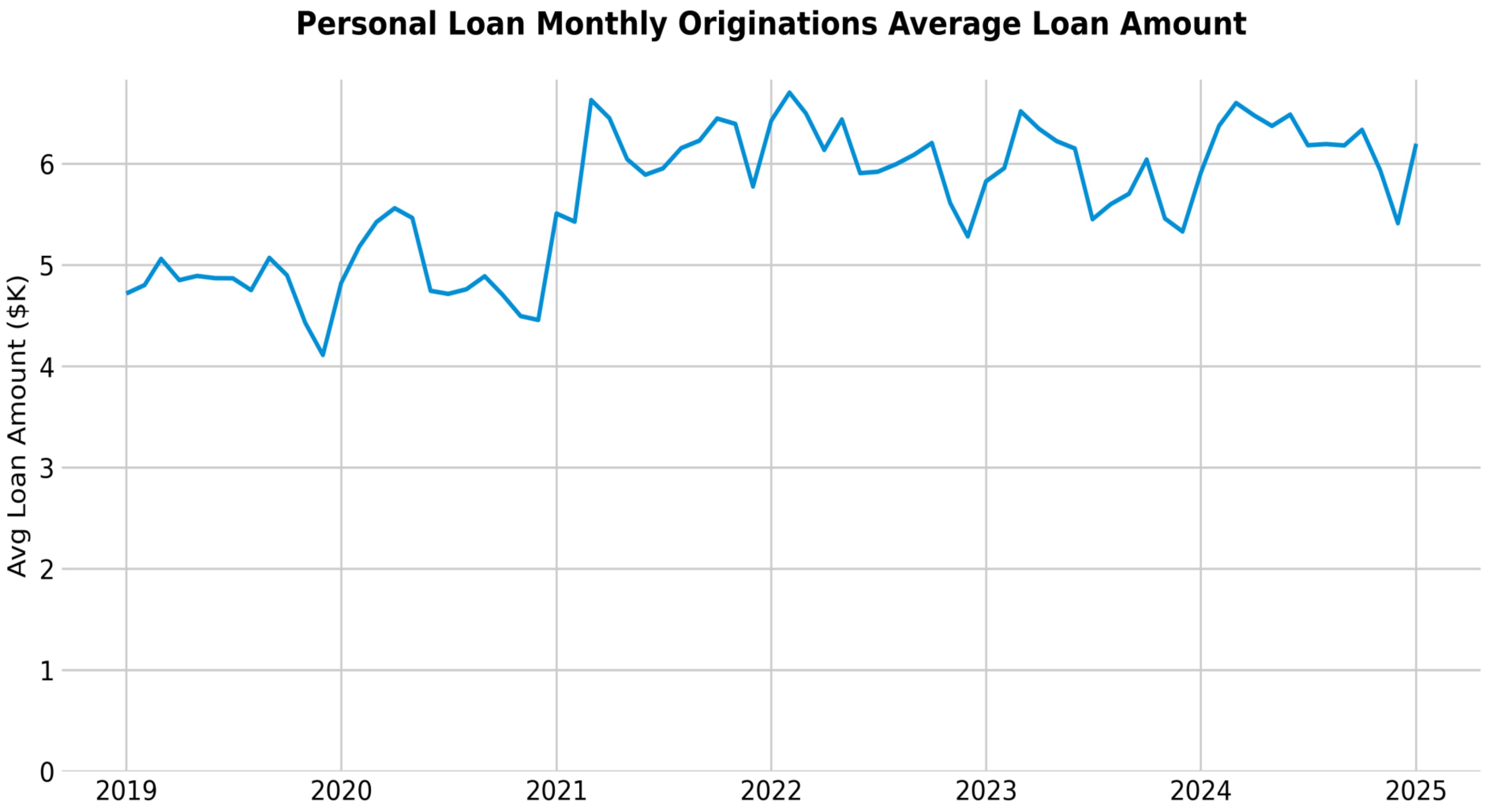
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

The increasing balance among super prime borrowers aligns with a significant increase in recent super prime originations



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Average loan amount remained significantly above pre-pandemic levels, driven by the origination shift towards super prime



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

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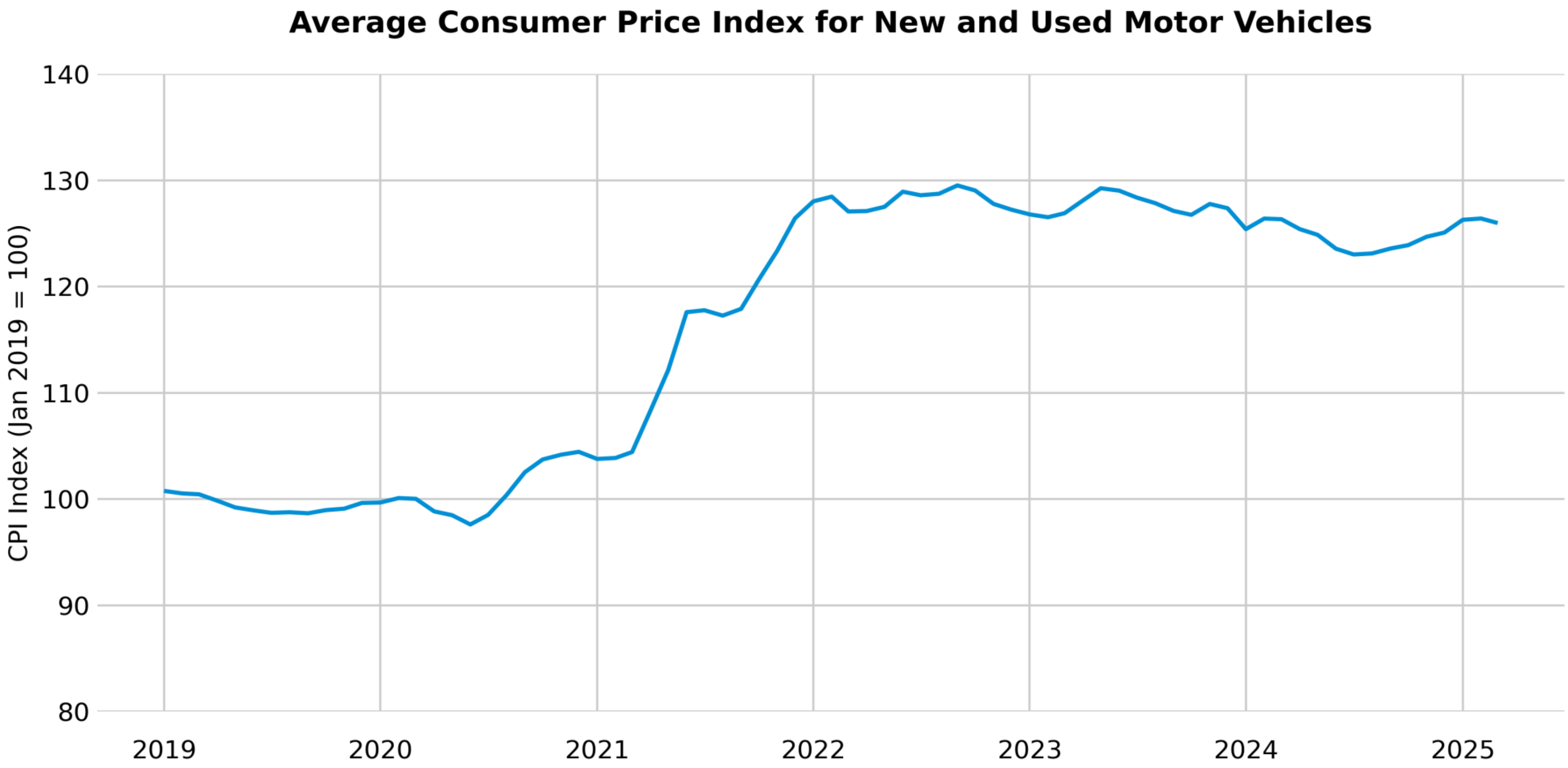
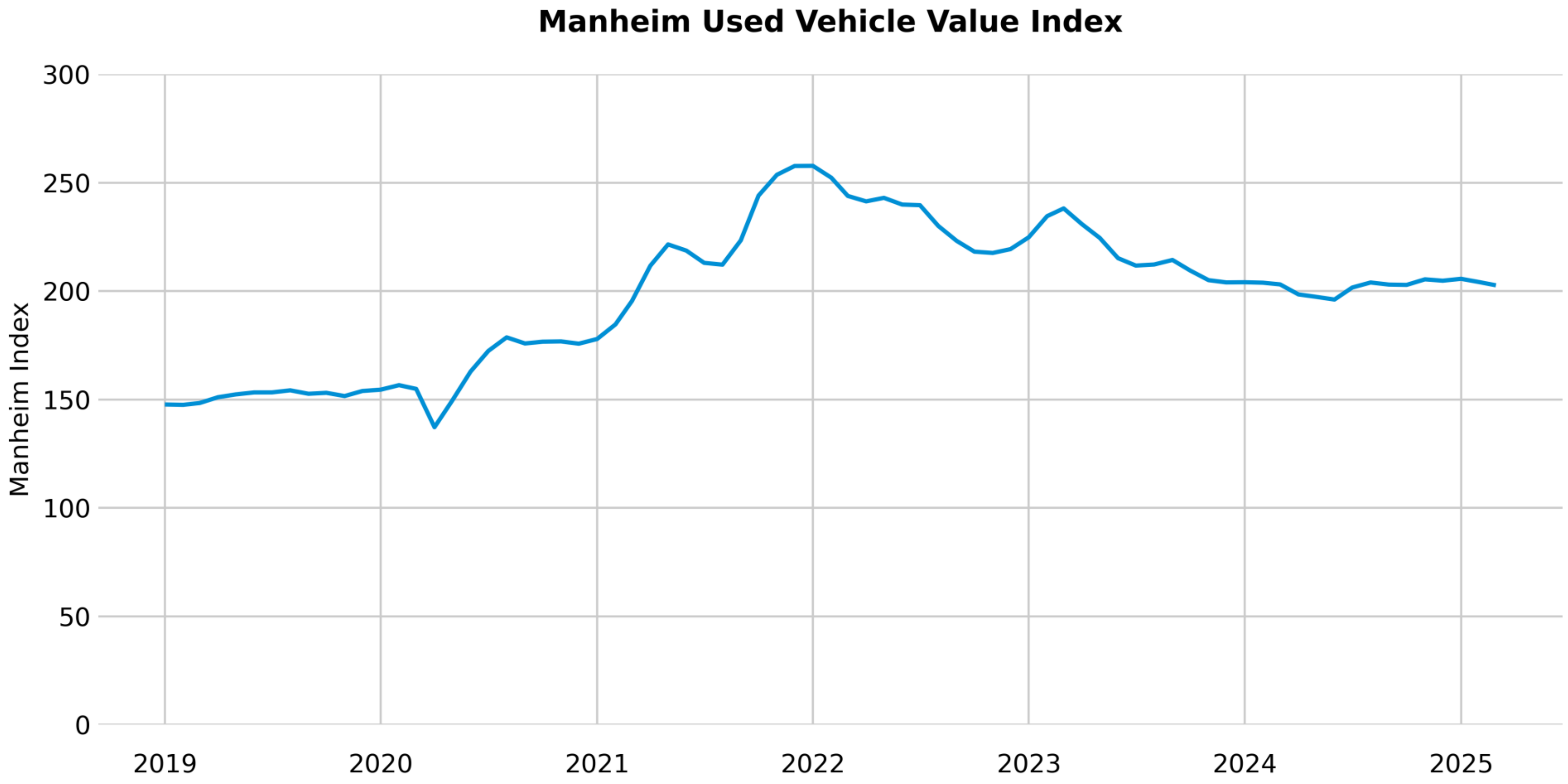
New and used vehicle prices remained relatively flat in Q1 after increasing through the second half of 2024



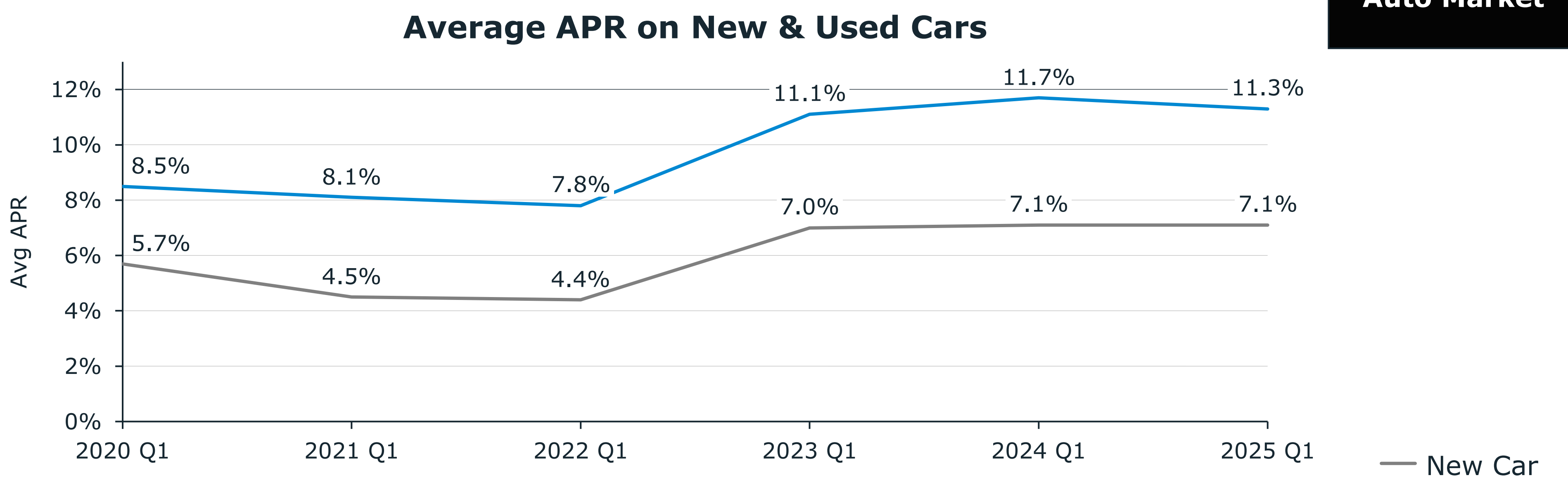
Source: 2OS, FRED. Data as of Mar. 31st, 2025

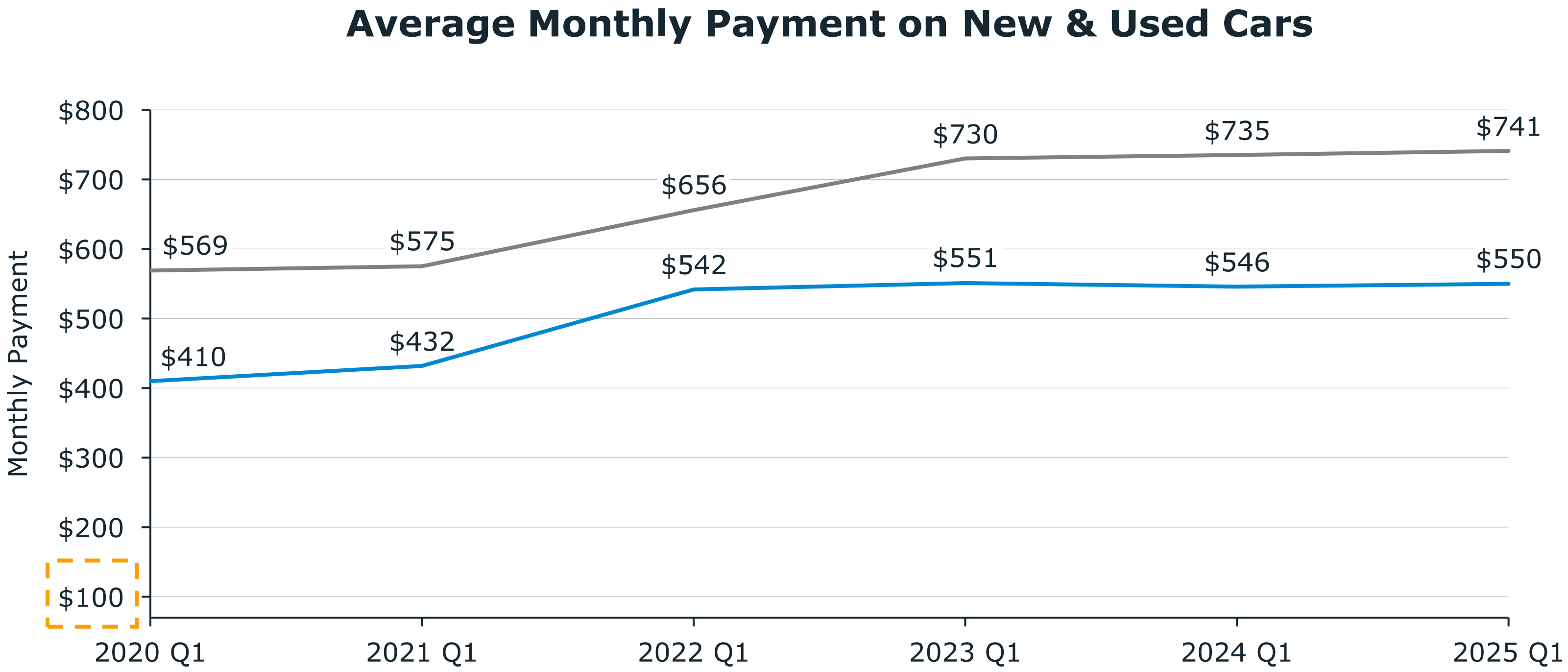
Used vehicle prices remained relatively flat in Q1 2025



Source: 2OS, Manheim. Data as of Mar. 31st, 2025

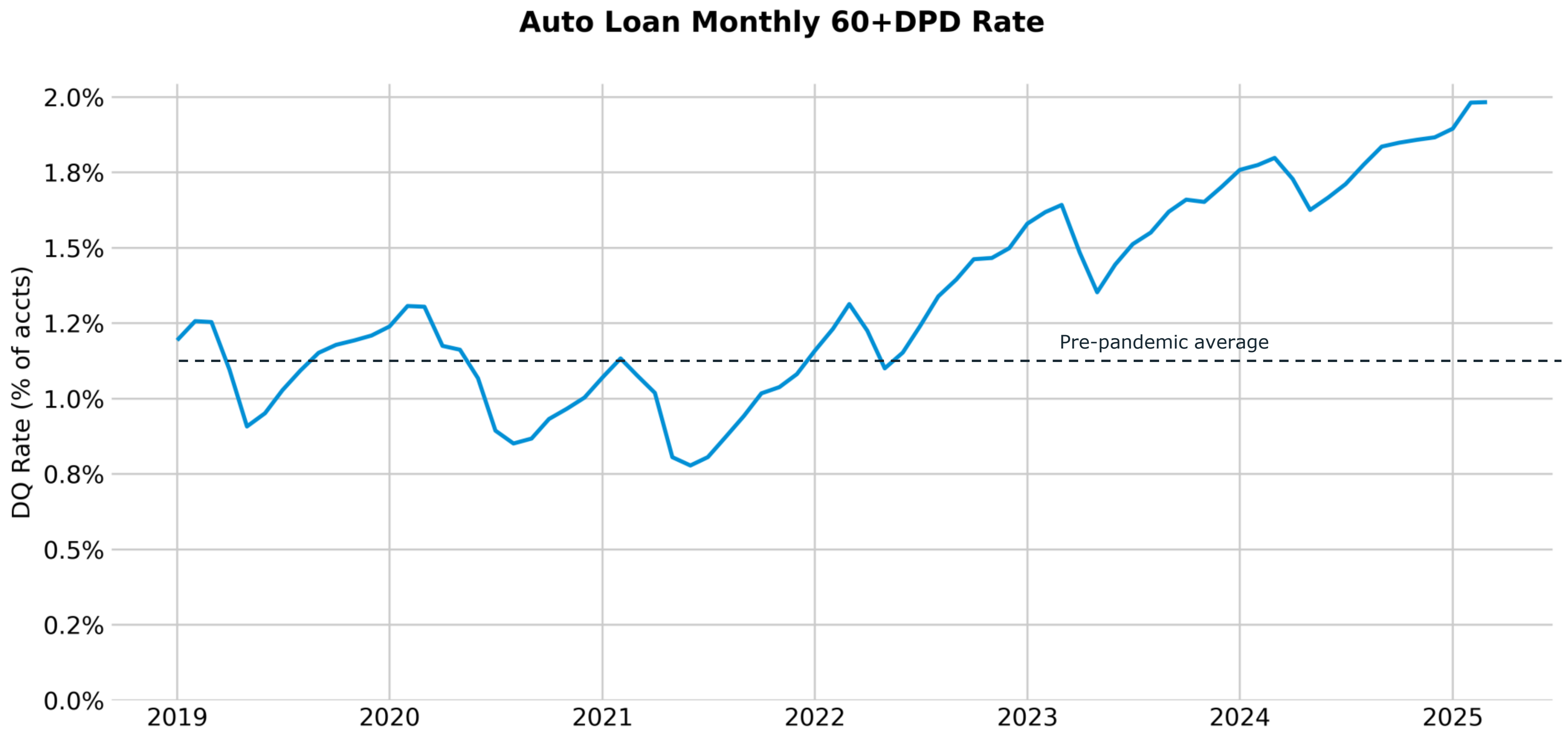
Auto Loan APRs slightly decreased for new cars in Q1, while average monthly payments remained relatively stable





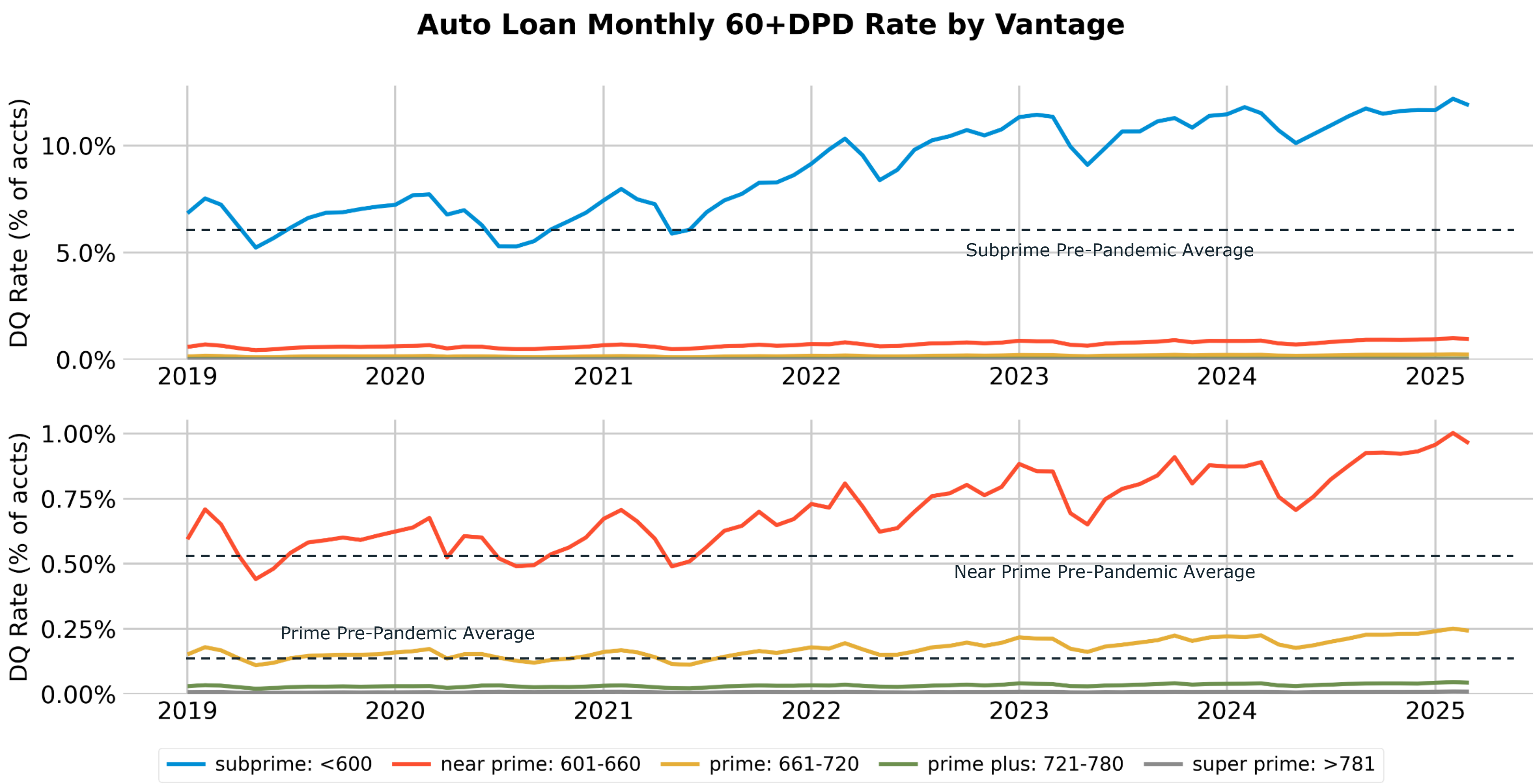
Source: Edmunds reports 2019-2024. Data as of Mar. 31st, 2025

The auto loan delinquency rate continued climbing through Q1 2025, consistent with the trend starting in mid-2021



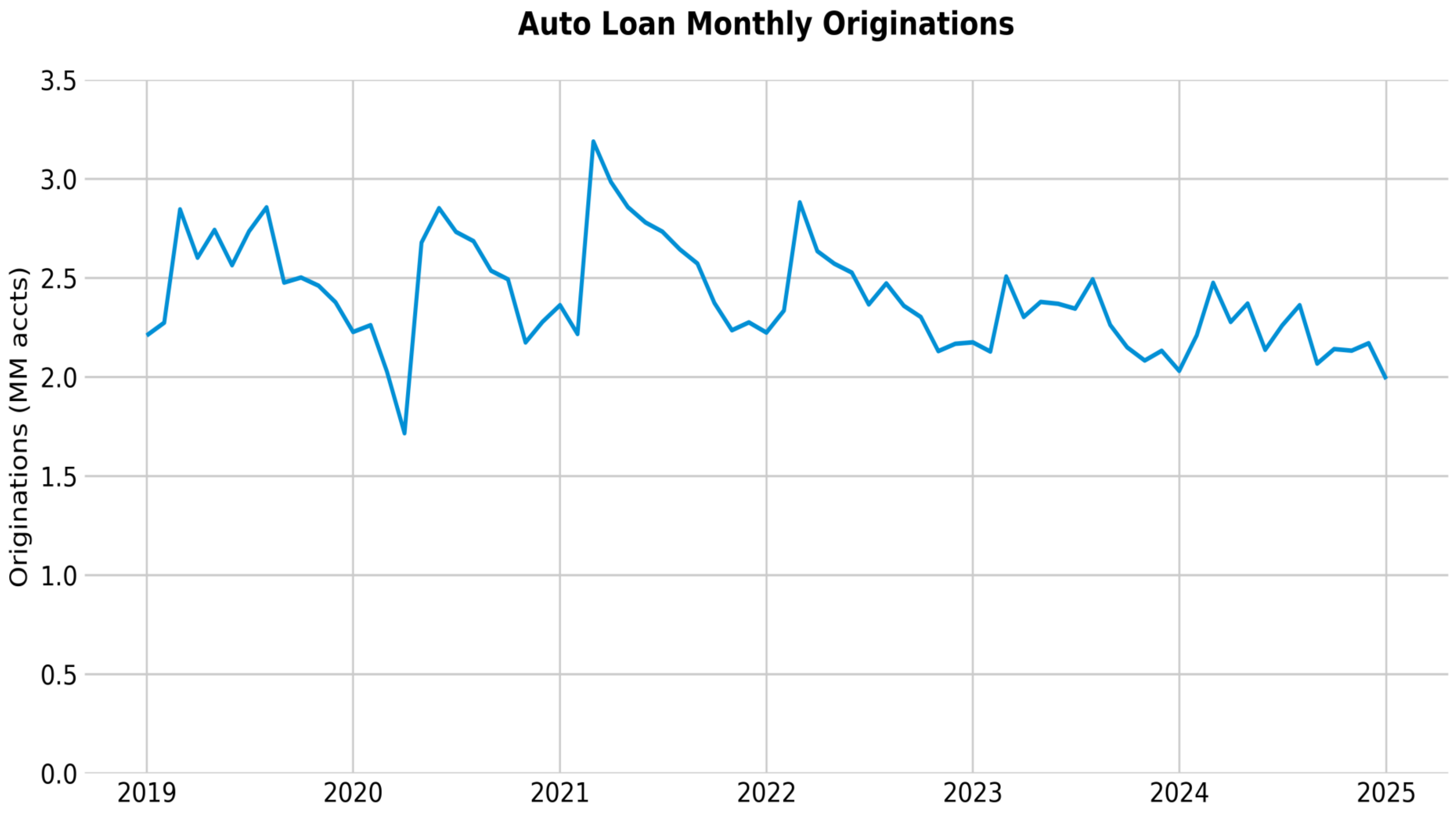
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Despite the overall increase, delinquency rates stabilized in all risk bands



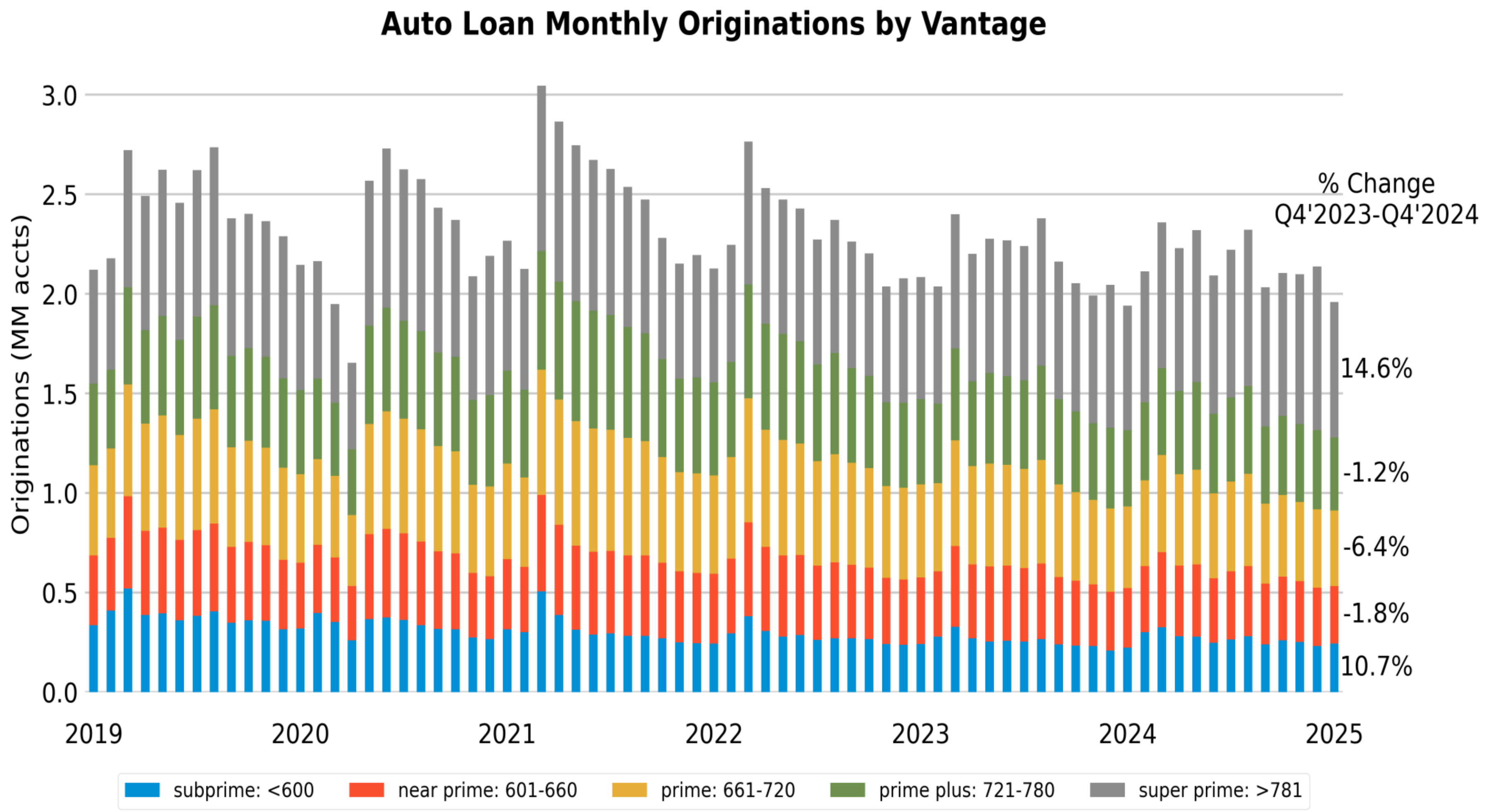
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Overall auto loan originations remained low in Q4



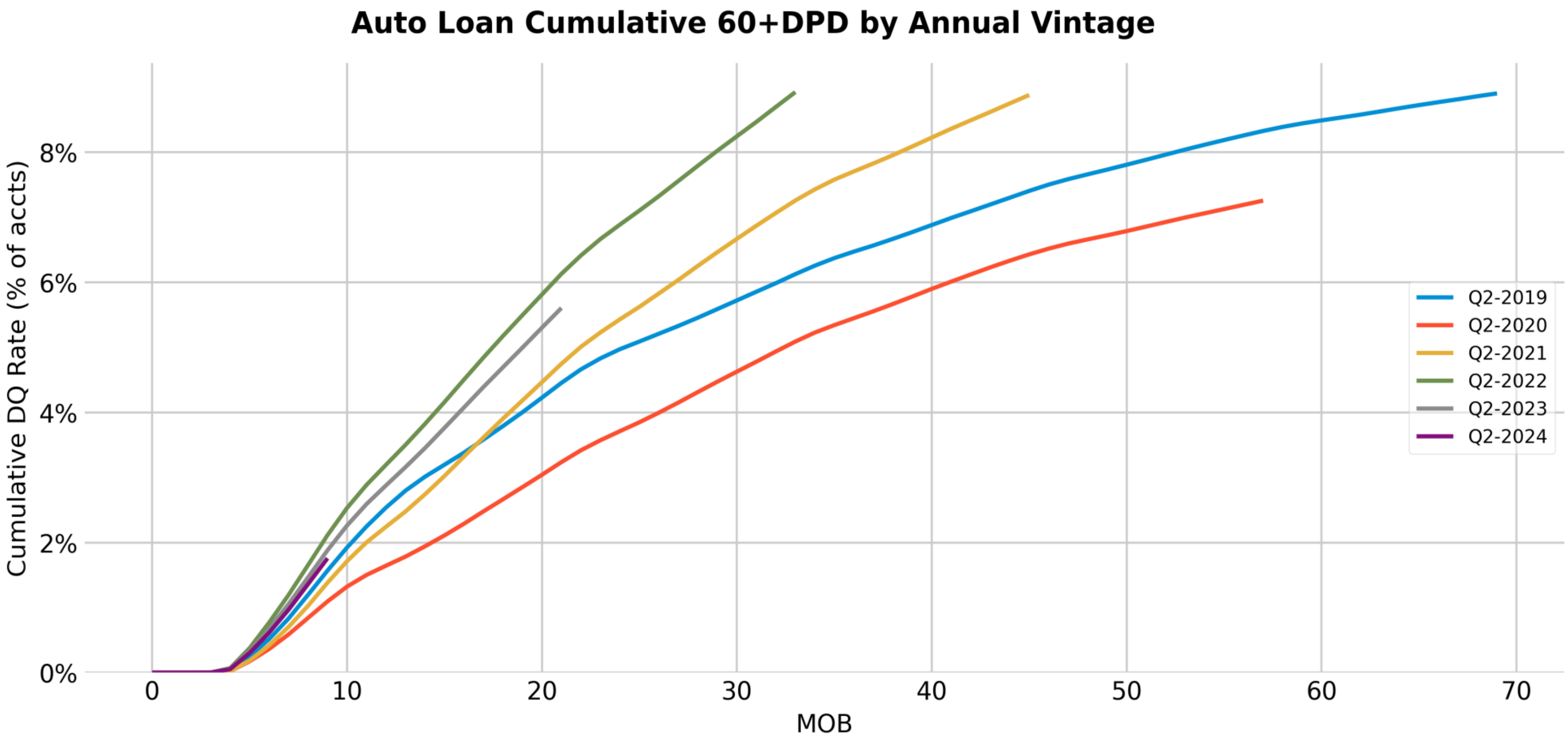
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Originations grew in Q4 year-over-year, driven primarily by super prime and subprime



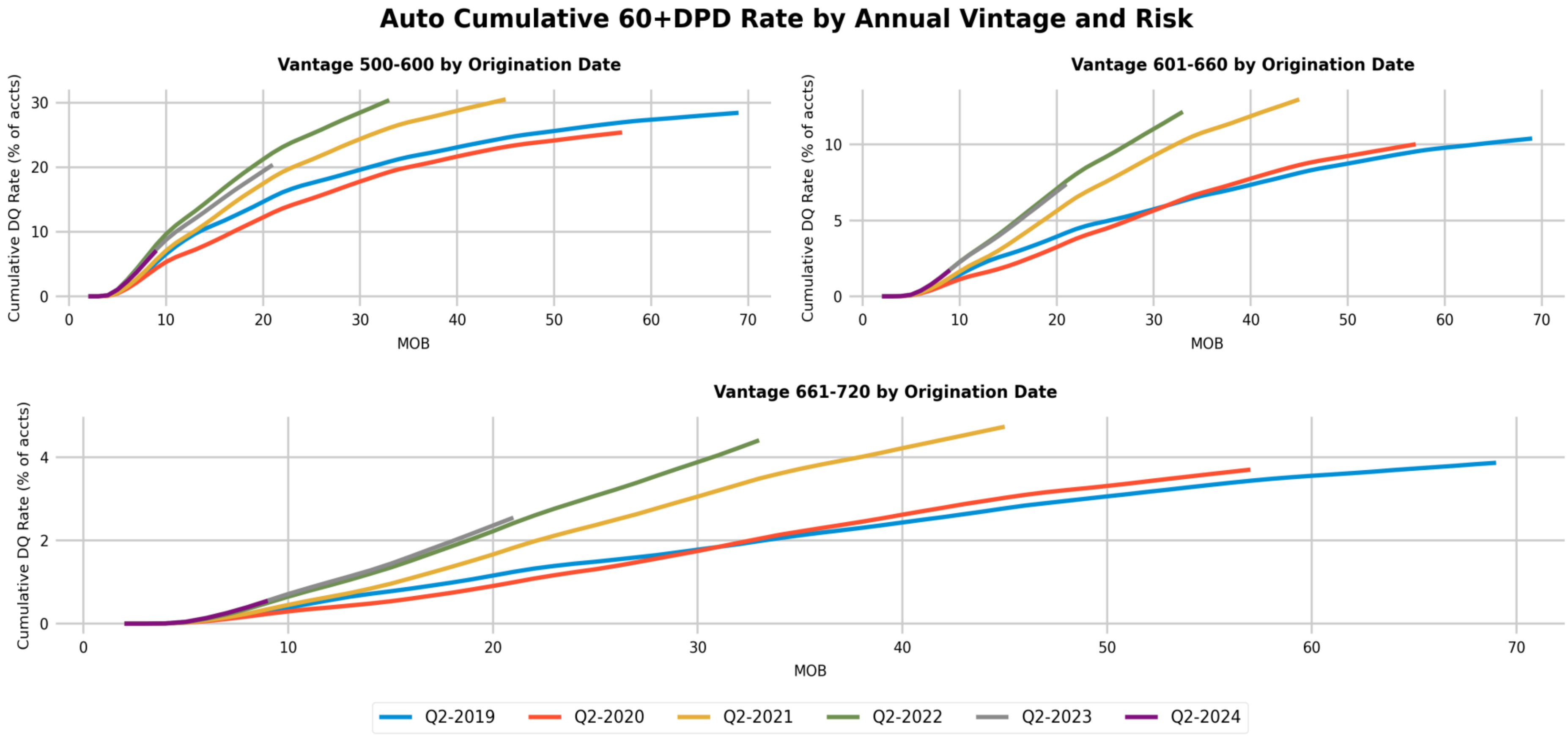
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Overall, 2024 Q2 delinquency rates came in slightly lower than other recent vintages' rates



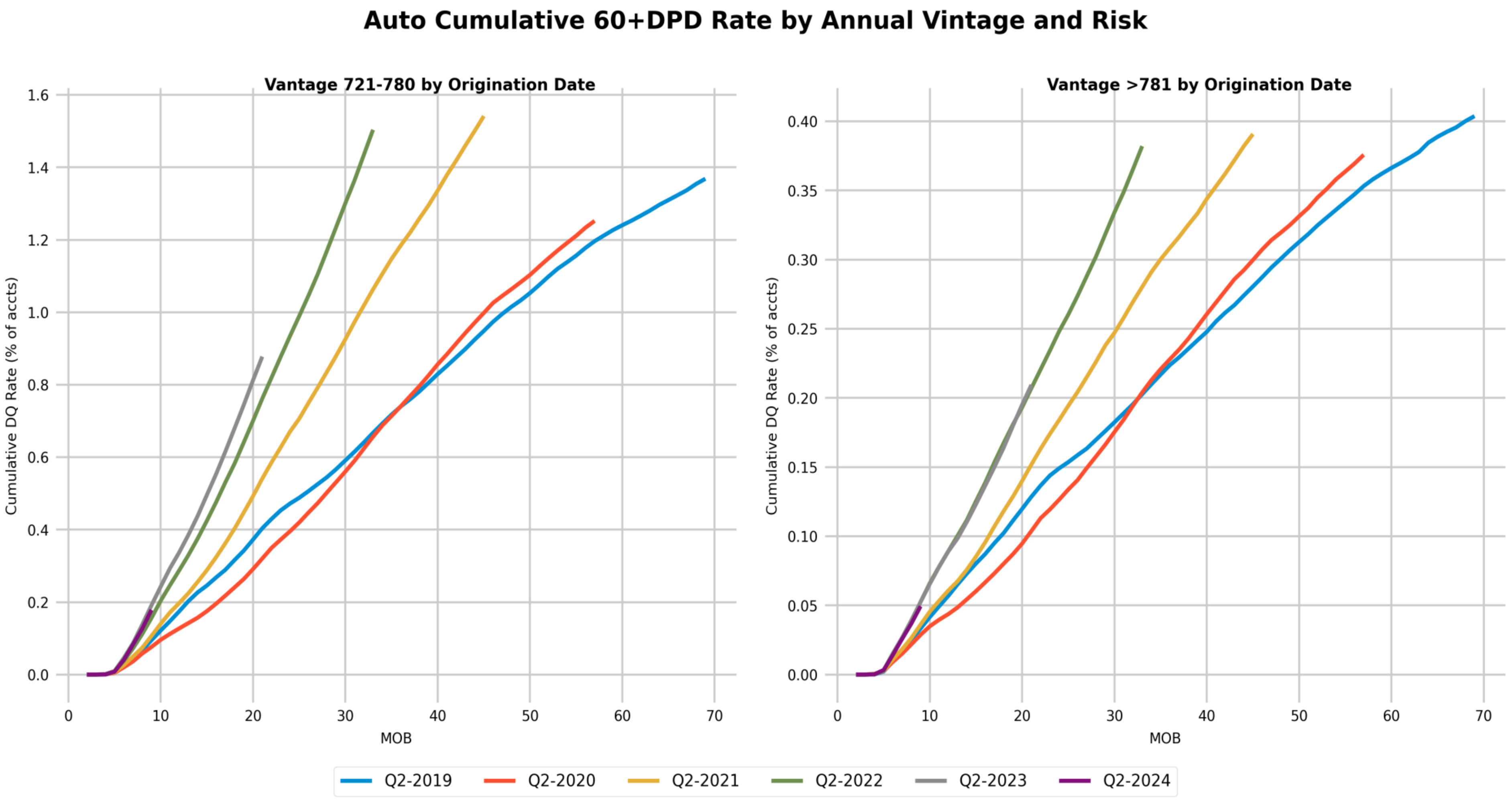
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

The improved performance of early 2024 vintages is less apparent when broken out by risk, as it aligns with recent years across all Vantage groups



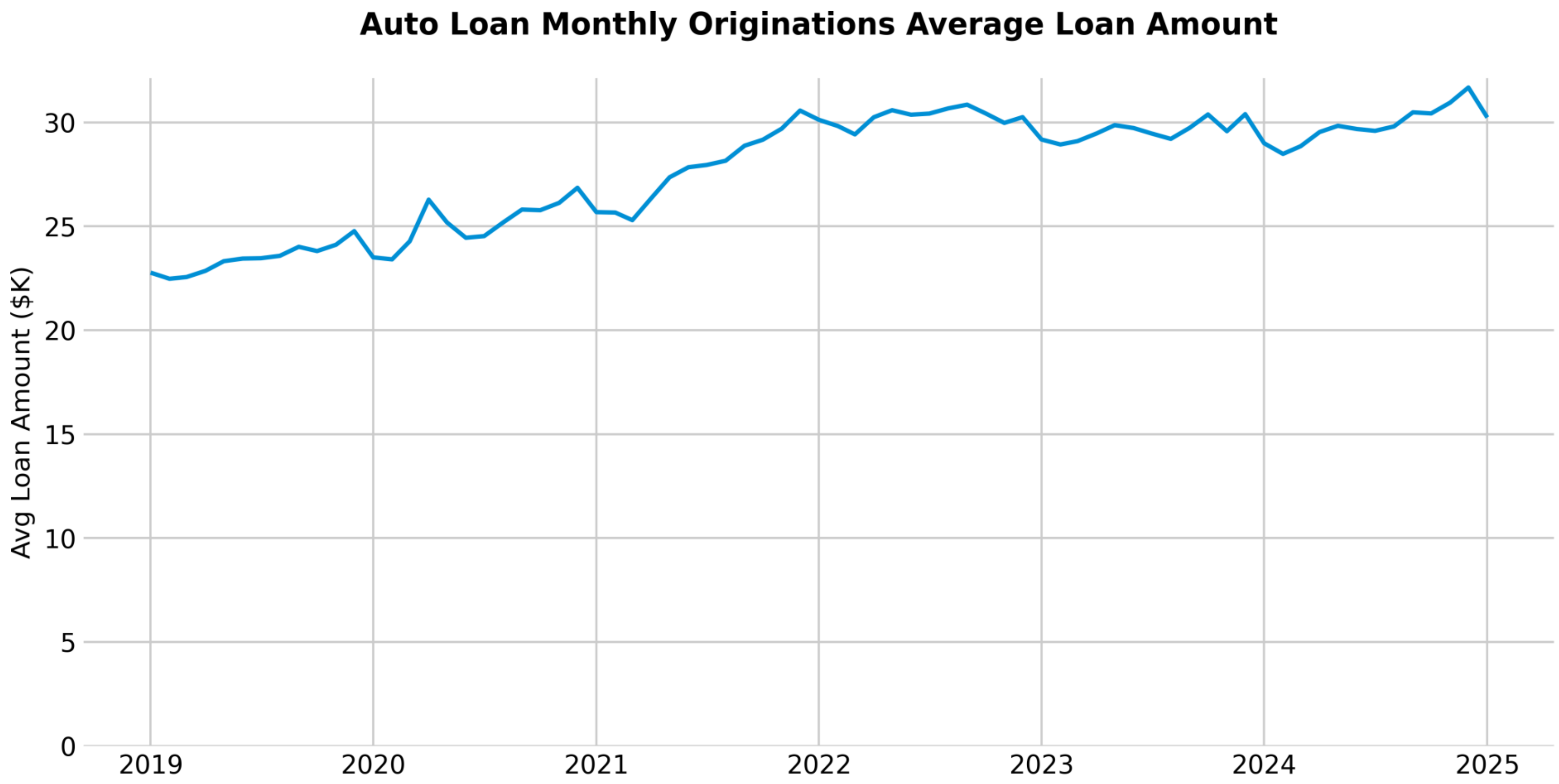
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

2024 Q2's lower overall delinquencies are likely driven by the higher share of low-risk borrowers rather than improved performance within risk bands



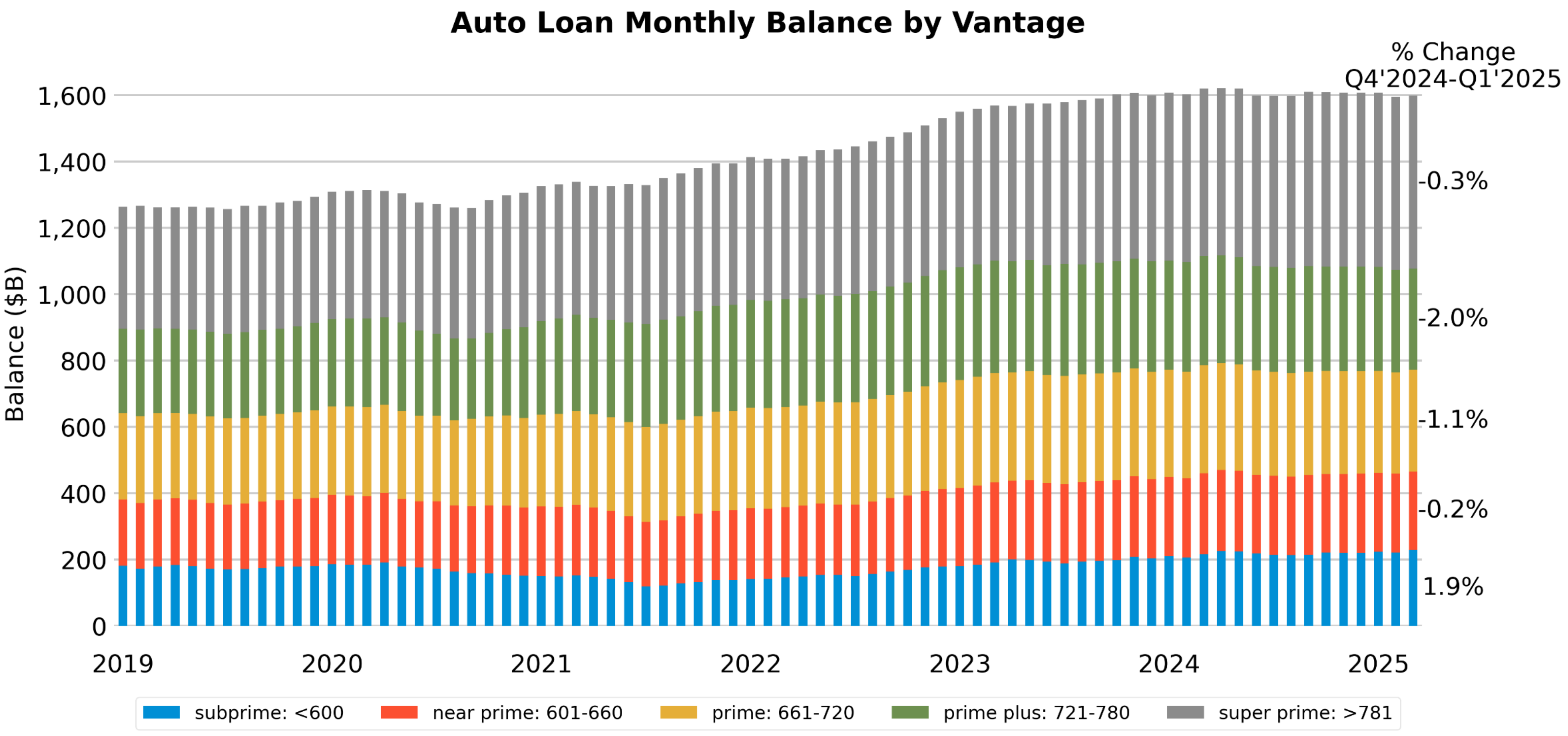
Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

Average loan amount remained high, aligning with high vehicle prices and the shift of originations towards lower-risk accounts



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

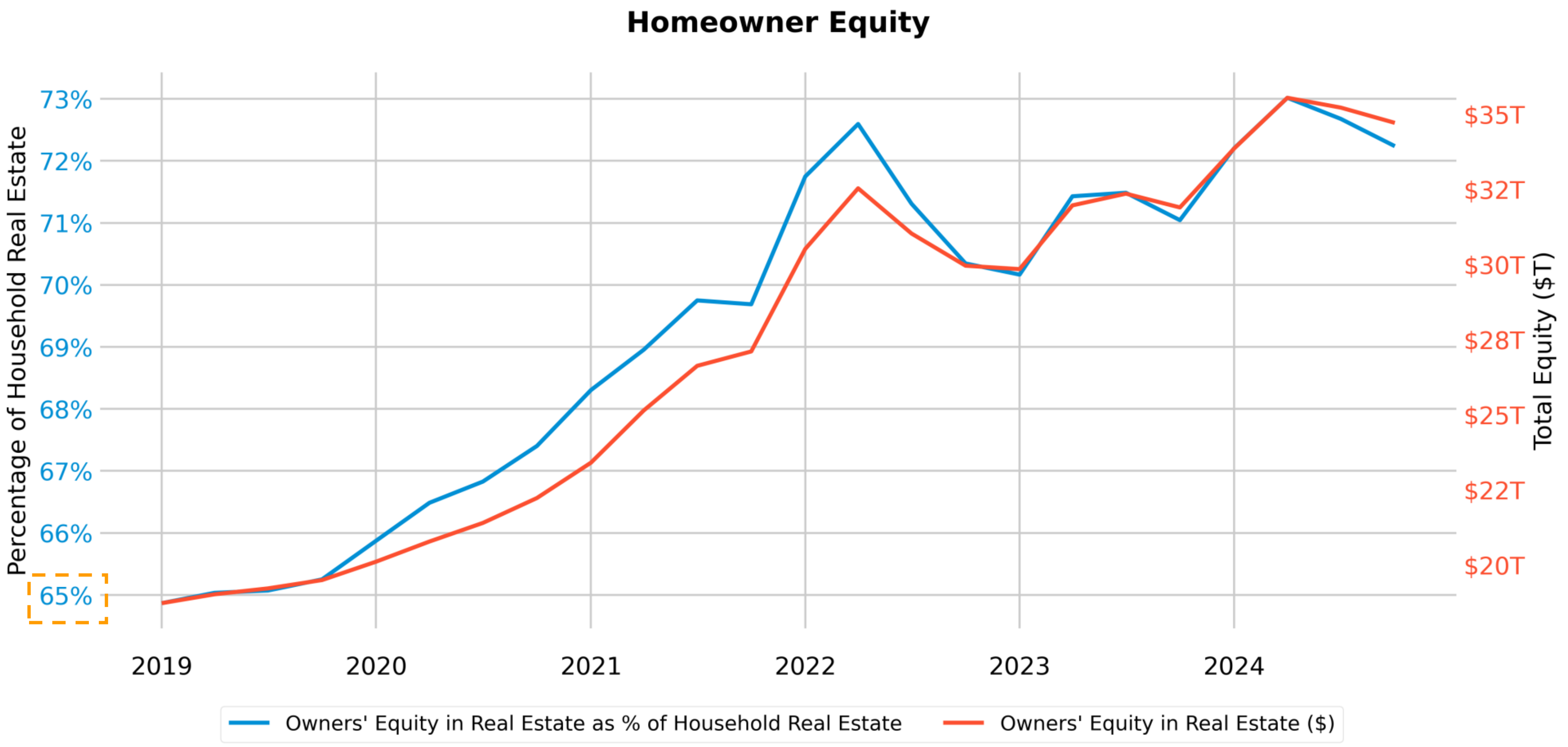
Total loan balances remained relatively stable with moderate continued growth in subprime



Source: 2OS, Equifax Ignite. Data as of Mar. 31st, 2025

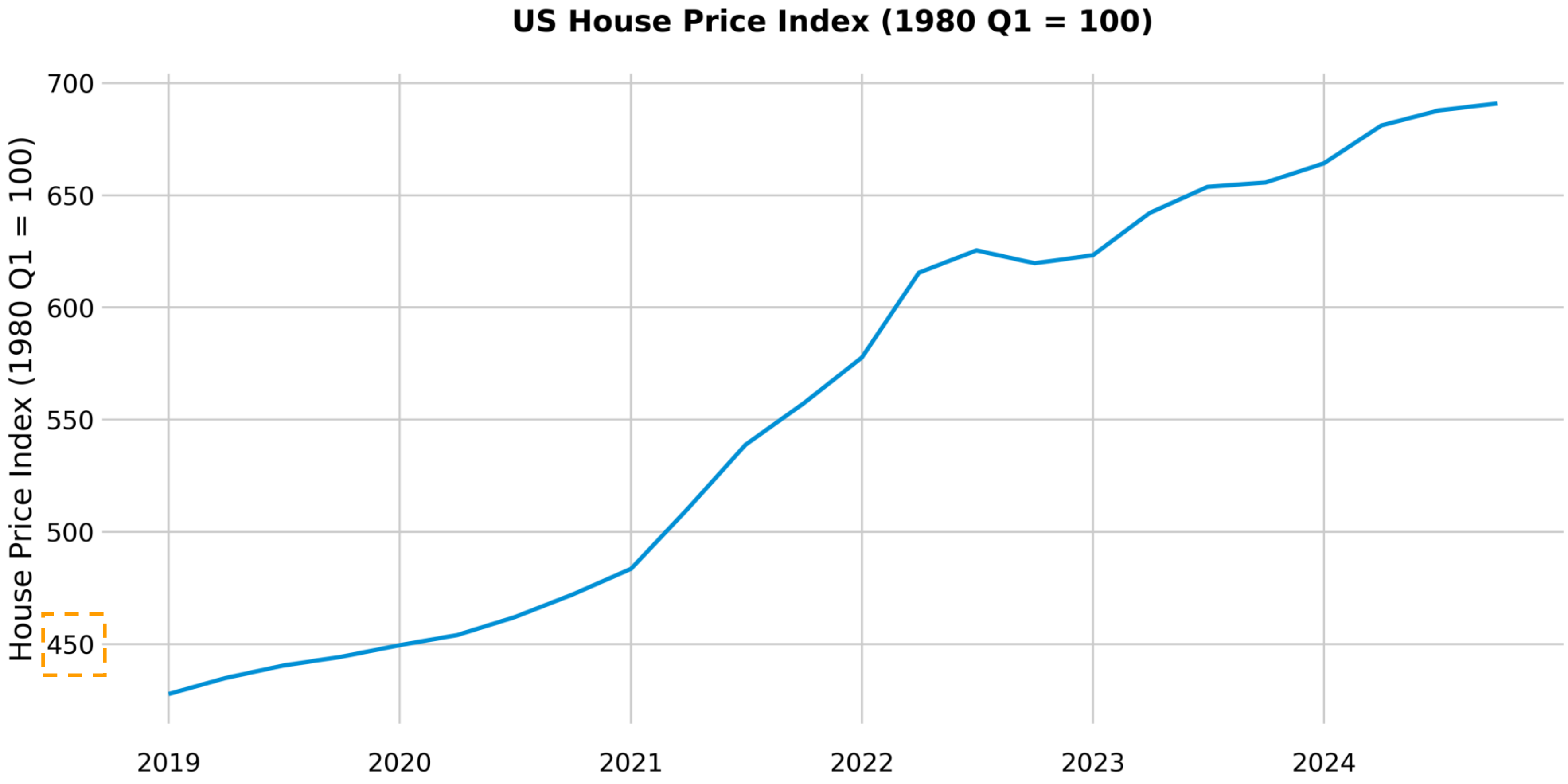
- State of the Consumer
- Credit Card
- Student Loan
- Personal Loan
- Auto Loan
- Mortgage

Homeowner equity reached an all-time high in 2024 but started to decline in the recent quarters



Source: 2OS, FRED (blue line, red line). Data as of Mar. 31st, 2025

US housing prices and overall home value continued to grow in Q3 2024

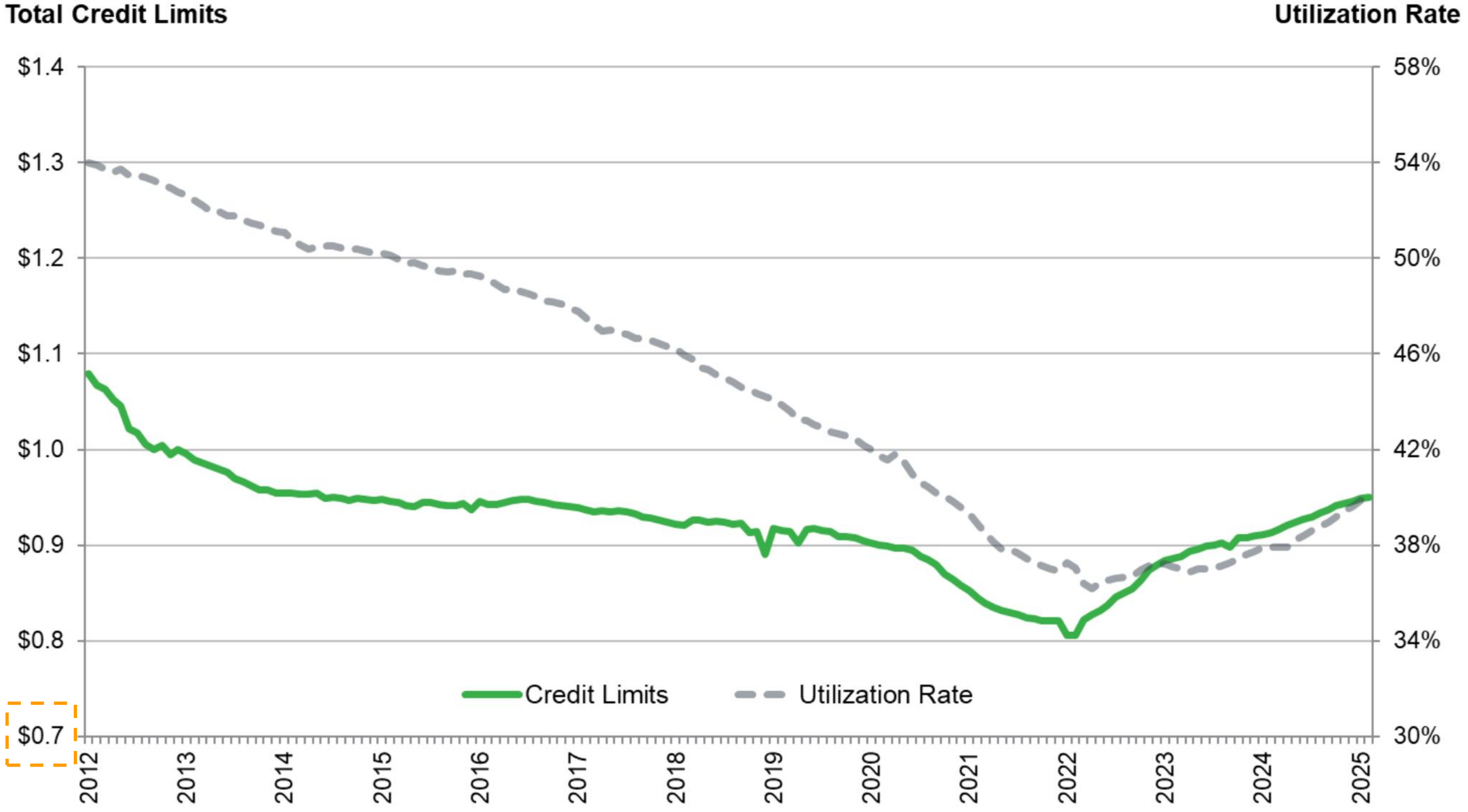


Source: 2OS, FRED. Data as of Mar. 31st, 2025

Increased homeowner equity and home value continued to drive an increase in both HELOC total credit limit and utilization in Q1 2025

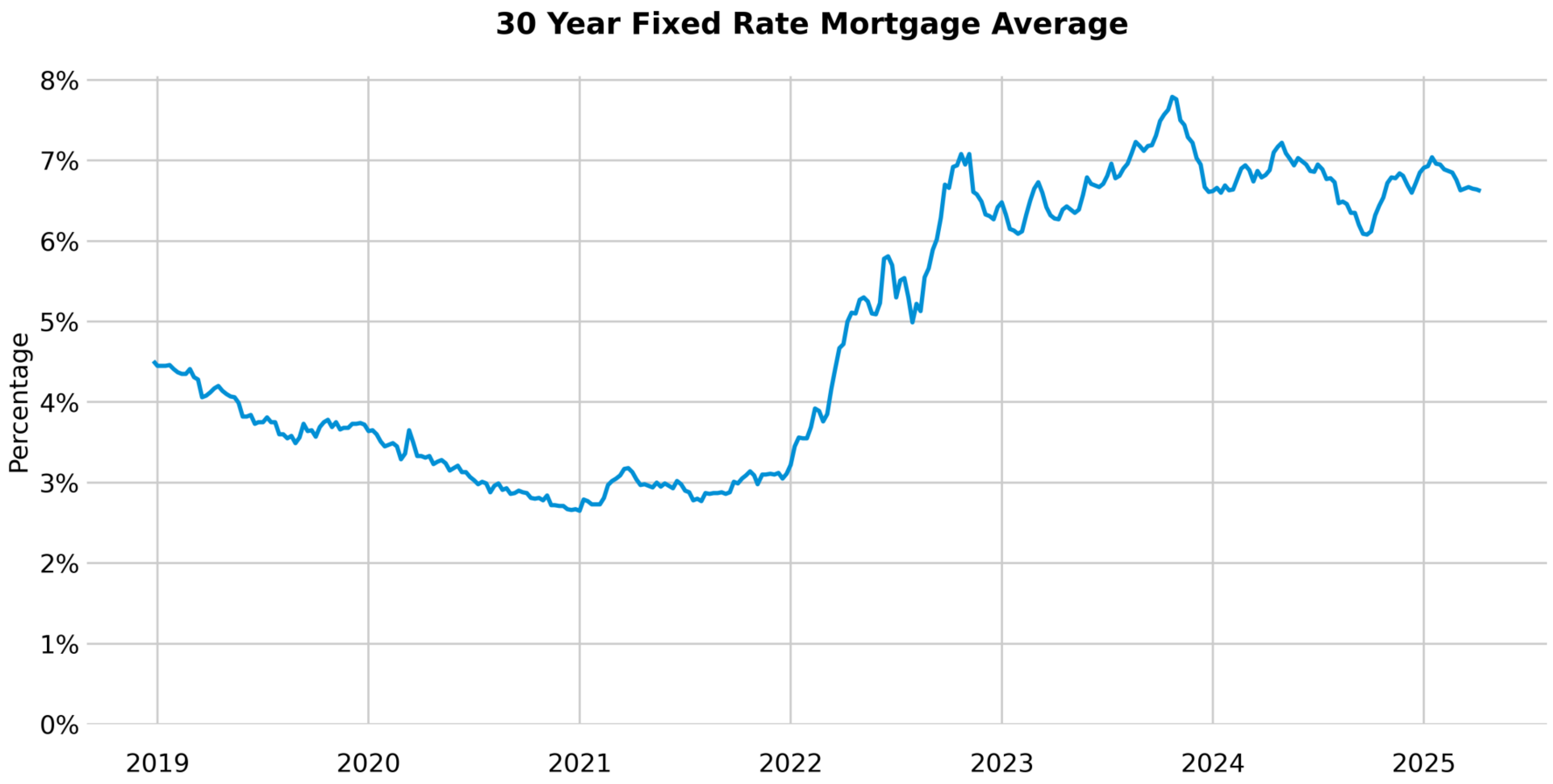
Utilization and Credit Limit

Utilization Rate in %; NSA
Credit Limit in $Trillions; NSA



Source: Equifax. Data as of Feb. 28th, 2025

The average mortgage rate saw a slight downtick this quarter after approximately 100bp increase in Q4 2024

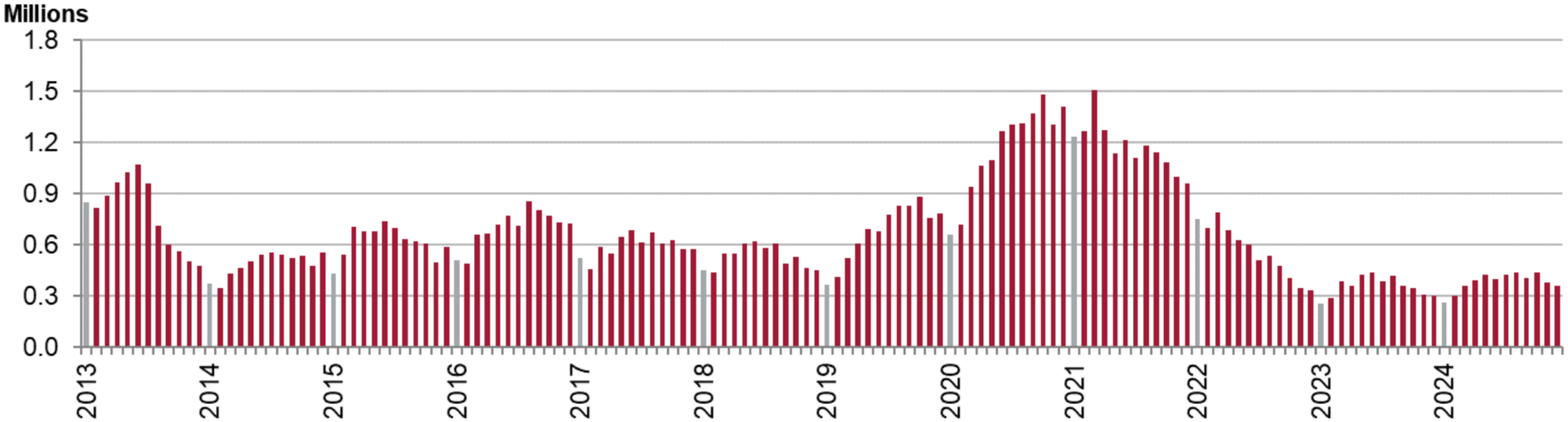


Source: 2OS, FRED. Data as of Mar. 31st, 2025

Mortgage account originations in 2024 mirrored 2023 levels, yet remained below pre-pandemic levels

First Mortgage Originations: Accounts

Number of Accounts in Millions; NSA



Source: Equifax. Data as of Feb. 28th, 2025

Acknowledgments

The authors would like to especially thank Equifax for facilitating the Ignite platform used to generate these views. The authors would also like to thank dv01, Bank of America, Experian, Transunion, and others cited throughout for data used to generate insights in this paper.

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About 2OS

2nd Order Solutions (2OS) is a boutique credit risk advisory firm that specializes in solving the world's most challenging credit problems. 2OS was founded 12 years ago and consults to a wide range of banks, card issuers, fintechs, and specialty finance companies in the US and abroad.

2OS has deep experience with lending businesses across Card, Auto, Small Business, and Personal Loans, at all points in the credit lifecycle. 2OS partners have vast expertise in all aspects of Collections, both as operating executives and as consultants.

For more insights and commentary on the lending industry, visit us at https://2os.com/insights/

Equifax Ignite Definitions

Active Accounts: This includes all accounts that have a reported status in the most recent three months. Accounts categorized as closed are included in the month in which that status was first reported and are excluded from active accounts thereafter.

Credit Cards: Our credit card cohort is limited to what Equifax Ignite categorizes as general purpose bankcards, which excludes Private Label Credit Cards.

Definition of delinquency: For credit car, auto loans, and personal loans, accounts are classified as delinquent at 60+ days past due. Specifically, they are included in 60-90 DPD, 90-120 DPD, and 120+ DPD buckets; charged off/severe derogatory and bankrupt accounts are excluded. For student loans, accounts are classified as delinquent at 90+ DPD. These accounts are included in 90-120 DPD, 120+ DPD and bankruptcy buckets; charged off accounts are excluded. Vintage performance views are cumulative. Due to reporting lags, slight variations in DQ rate may occur between quarterly reports as data is updated.

Definition of Personal Loans: Personal finance installment trades that are non-revolving, non-HELOC, and non-mortgage related are classified as personal loans.

Origination timing: Originations are lagged by 2 months from the current archive date. Hence, the most recent origination datapoint is from January 31st, 2025.

Pre-pandemic average: Where specified on charts, pre-pandemic average is the average from January to December 2019.

Vantage bucket: In any charts where borrowers are split out by Vantage bucket, borrowers without a Vantage score are excluded. They are included in overall views. We did not observe any notable correlation between missing Vantage score and performance.

Vantage bucket timing: To better observe movements within Vantage buckets (and reduce the effect of re-classification of accounts across buckets), the vantage score is observed at a 3-month lag from the current archive date.

Vantage 4.0 Overview

In Q3 2024, 2OS quarterly reports began using Vantage 4.0 instead of Vantage 3.0 as the consumer credit score metric. Despite the score shift between Vantage 4.0 and Vantage 3.0, the credit tiers and their corresponding scores were not changed. We did not observe significant changes to our analysis using Vantage 4.0.

The official statistics on score shift between Vantage 3.0 and Vantage 4.0 is as follows:

Score Range	VantageScore 4.0								
VantageScore 3.0	300-450	451-500	501-550	551-600	601-650	651-700	701-750	751-800	801-850
300-450	51.5%	38.4%	8.9%	1.1%	0.1%	0.0%	0.0%	0.0%	0.0%
451-500	7.5%	41.1%	41.8%	8.8%	0.7%	0.0%	0.0%	0.0%	0.0%
501-550	0.7%	11.7%	45.6%	36.0%	5.7%	0.3%	0.0%	0.0%	0.0%
551-600	0.0%	1.1%	14.6%	48.0%	32.1%	4.1%	0.1%	0.0%	0.0%
601-650	0.0%	0.0%	0.9%	13.6%	48.4%	31.5%	5.3%	0.2%	0.0%
651-700	0.0%	0.0%	0.1%	1.7%	16.2%	47.1%	30.7%	4.0%	0.1%
701-750	0.0%	0.0%	0.0%	0.0%	1.0%	16.6%	52.4%	26.3%	3.7%
751-800	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	15.5%	51.5%	32.0%
801-850	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	23.1%	76.6%

For more information regarding vantage 4.0, please visit VantageScore 4.0 Model

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