

## **Consumer Demand for Credit Up, But Lenders Still Cautious**

A recent survey of credit risk professionals, sponsored by the Fair Issac Co. (FICO) and the Professional Risk Manager's International Association (PRMIA) provided an unparalleled opportunity to study the outlooks of leading lenders. Dr. Russell Walker, Assistant Director of the Zell Center for Risk Research led the analysis of survey responses and has provided commentary on what can be expected from consumer lenders.

The survey, conducted in March 2010, found that while bankers generally expected consumers to pursue more new credit as well as spend more against their existing credit lines, most lenders are likely to strengthen risk management criteria and stay conservative on lending. Of the 127 bank risk professionals surveyed, 92 percent said they don't expect to see an easing of lending standards in this quarter, 95 percent expected interest rates for consumer credit to stay at current levels or move higher, and 83 percent expected the average credit limit for new credit cards to be lower than in the past. All of this suggests that consumer credit should remain difficult to acquire for borrowers.

With the credit losses mounting at banks and unemployment still high across the US, banks are expected to remain concerned about credit losses, investing more in prevention and working to reduce risk across mortgage and credit card portfolios. The CARD Act throws another wrinkle into the equation, driving banks to expect portfolio losses under a new set of regulations and a reduce set of risk management options.

### **Delinquencies Expected to Increase**

When asked about expected delinquency rates for several types of consumer credit, the majority of bankers said they expected delinquencies to increase in the short term. This includes home mortgages (60 percent of respondents expected a rise in delinquencies), credit cards (59 percent), and home equity lines of credit (56 percent). Even when asked about small business loans, 63 percent of lenders expected to see an increase in

delinquencies. With this mind, it appears that we have not seen the worst of the delinquencies.

### **Risk Management Becoming a Higher Priority in Banks**

In a particularly telling result, 66 percent of bankers expected their institutions to increase the priority placed on risk management. Meanwhile, 34 percent expected the priority given to risk management to remain at its current level, and not a single respondent expected risk management to become a lower priority.

“Risk management hasn’t always been treated strategically, but that’s starting to change in a significant way,” said Dr. Russell Walker of the Zell Center for Risk Research at Northwestern University’s Kellogg School of Management. “Financial institutions have come to realize how vulnerable their businesses are to macro-economic forces and I expect to see much more emphasis placed on proactive, systematic risk management and loss prevention than we’ve seen in the past.”

### **Risk Managers Almost Universally Pessimistic about Impact of CARD Act**

While the recently implemented CARD Act was designed to protect credit cardholders from objectionable lending practices, the survey found it is likely to contribute to the gap between credit supply and credit demand. Of those survey respondents who work in the credit card industry, over 85 percent expected the CARD Act to result in higher interest rates for consumers and lower credit limits for new accounts. These respondents also expected the law to result in similar or lower acceptance rates for credit applications, indicating that tougher regulations and the ongoing struggle by credit card issuers to regain profitability will keep credit tight.

A detailed report of the survey results is available at <http://www.prmia.org/PRMIA-News/USConsumerCreditRisk.pdf>. This survey is expected to be held quarterly, offering a unique snapshot on the outlook of consumer credit risk professionals.

## **About PRMIA**

The Professional Risk Managers' International Association (PRMIA) is a higher standard for risk professionals, with 60 chapters around the world and more than 67,000 members from 198 countries. A non-profit, member-led association, PRMIA is dedicated to defining and implementing the best practices of risk management through education, including the Professional Risk Manager (PRM) designation and Associate PRM certificate; webinar, online, classroom and in-house training; events; networking; and online resources. More information can be found at [www.PRMIA.org](http://www.PRMIA.org).

## **About the Zell Center for Risk Research**

The Zell Center for Risk Research promotes the study and understanding of the way people perceive risk, the effects of these perceptions, and the management of risk. The center accomplishes these objectives by encouraging academic research in this area, and through the communication of research findings to a wide audience of academics, students and practitioners. The center is housed within the Kellogg School of Management at Northwestern University, a widely-recognized global leader in management education. The school, located just outside of Chicago, is home to a renowned, research-based faculty and MBA students from around the globe. To learn more, visit [www.kellogg.northwestern.edu](http://www.kellogg.northwestern.edu).

## **About FICO**

FICO (NYSE:FICO) transforms business by making every decision count. FICO's Decision Management solutions combine trusted advice, world-class analytics and innovative applications to give organizations the power to automate, improve and connect decisions across their business. Clients in 80 countries work with FICO to increase customer loyalty and profitability, cut fraud losses, manage credit risk, meet regulatory and competitive demands, and rapidly build market share. FICO also helps millions of individuals manage their credit health through the [www.myFICO.com](http://www.myFICO.com) website. Learn more about FICO at [www.fico.com](http://www.fico.com).

