



US CONSUMER CREDIT RISK Trends and Expectations

4TH QUARTER 2010

- A Survey by the
Professional Risk
Managers' International
Association

November 2010

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ACKNOWLEDGEMENTS



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ZELL CENTER FOR RISK RESEARCH

PRMIA would like to extend special appreciation to The Zell Center for Risk Research at The Kellogg School of Management for their assistance in analyzing the survey responses and writing the report.

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.



EXECUTIVE SUMMARY

This quarterly survey of consumer credit trends was conducted in October 2010 with 230 risk professionals in the U.S. Those who participated represent financial firms from all asset divisions, with over half representing either national or global firms.

The survey covered myriad areas regarding the respondent's institution and/or professional opinion concerning short-term forecasts for (1) consumer and small business credit (2) bank profits (3) delinquencies, and (4) institutions' priority on risk. The survey also asked about the respondent's expectations of their institution's risk management practices.

Results of the survey indicate the gap between consumer demand for credit and the actual supply of credit, which has hindered U.S. consumer spending, is likely to continue well into 2011. Lenders are also unlikely to meet the credit demands of small businesses in the near term. However, survey respondents were slightly less pessimistic this quarter than last quarter regarding expected delinquency rates for credit cards, residential mortgages and car loans.

Demand and Supply of Consumer Credit moving toward an Equilibrium

Credit markets appear to be stabilizing somewhat with responses overall less negative regarding credit markets, even though unmet demand for credit will remain. In general, most polled believe consumers will attempt to grow their credit card balances somewhat (35%) but strong figures say these will remain level (29%). Opinion is more split regarding levels of new credit applications between increasing somewhat (38%) or remaining the same (37%). Nevertheless, lenders will remain unwilling to adjust current levels for the amount of credit extended (36%), approval rates (40%), or approval criteria (47%). However, in each of those questions, one-third of respondents suggested credit extended and approval rates would increase somewhat, while approval criteria would fall somewhat.



EXECUTIVE SUMMARY CONTINUED

Similar outlooks are apparent for small businesses – while the amount of credit they request is expected to increase, the credit extended to them will most likely remain the same (44%). Approval criteria will also remain unchanged, with a little more than one-third of respondents expecting continuation of the status quo (37%). Nearly one-third expect interest rates for consumers to rise somewhat, although most expect them to remain the same (43%).

Banks Have a Tough Road Ahead

Negative sentiments were captured surrounding bank revenues and the new Consumer Financial Protection Bureau. First, around one-third see fee revenues falling for consumer credit products. Second, a strong number predict banks are not out of the woods yet, and they expect the number of banks on the FDIC's Problem Bank List will grow somewhat (47%). Finally, nearly 80% of respondents believe the new Consumer Financial Protection Bureau will reduce bank profits: 15% said "significantly" while 65% said "somewhat."

Delinquencies also Showing Emerging Signs of Stability

Delinquencies appear to have stabilized, except for residential mortgage delinquencies, which will continue to increase somewhat. Other categories measured (auto loan, student loan, and credit cards) will remain the same. Opinions regarding the level of home equity line delinquencies and small business loan delinquencies are mixed, between increase somewhat (38%, 35%) or remain the same (40%, 39%).

Priority on Risk Management Still Increasing

While numbers have fallen from previous quarters, over 60% of institutions are looking to either increase the priority placed on risk management significantly (20%) or somewhat (41%). In prior quarters, this figure was 68 percent (either "significantly" or "somewhat"). The answer "stay about the same" continues to increase in popularity and currently stands at (35%).

KEY FINDINGS AND ANALYSIS

Supply and Demand

- Opinions are mixed regarding interest rates, with most of those polled believing interest rates will remain the same (43%) with one-third believing they may increase somewhat.
- Approval criteria for common credit/loan products will most likely remain the same (47%) or increase slightly (32%).
- Predictions are split as to whether credit card balances will increase somewhat (35%), stay about the same (29%) or decrease somewhat (32%).
- Similar numbers of those polled believe the volume of credit applications will either increase somewhat (38%) or remain the same (37%), figures approximately parallel to sentiment regarding aggregate credit requested.
- The approval rate for credit/loan applications will most likely remain the same (40%) or decrease somewhat (33%).
- It is unclear whether lenders will extend more credit, although most polled believe current trends will continue (36%).

Looking at the industry as a whole, over the next six months, do you expect:
(check all that apply to your business)

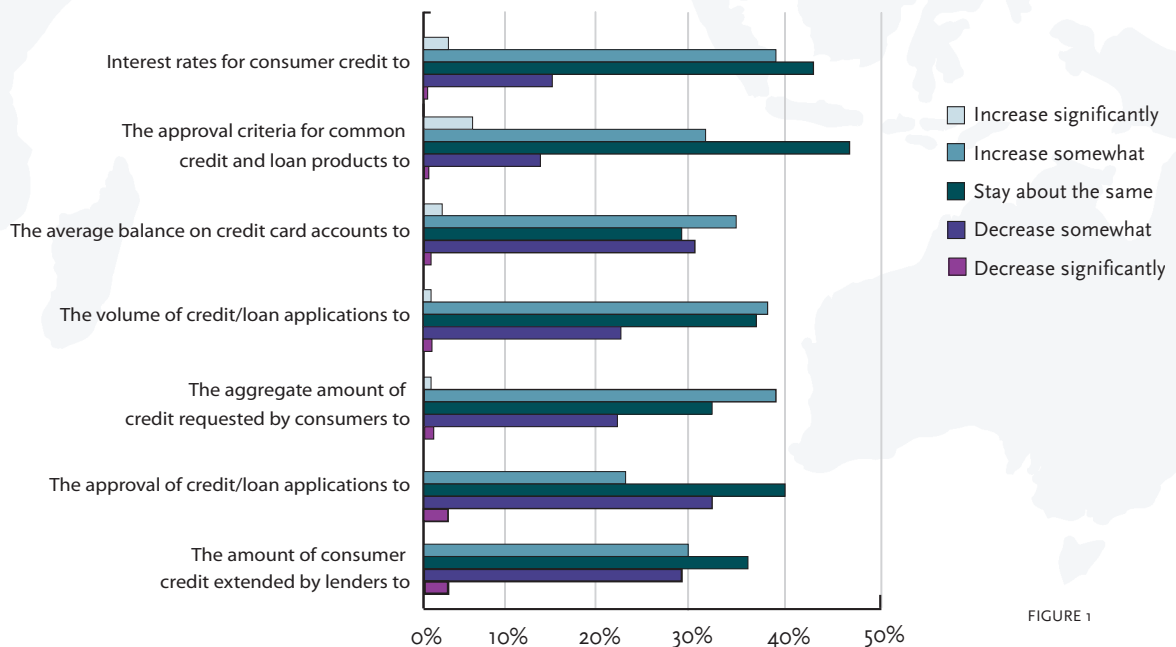


FIGURE 1

Topical Issue 1

- Nearly eighty percent believe the new Consumer Financial Protection Bureau will reduce bank profits.

Looking ahead to 2011, do you expect:

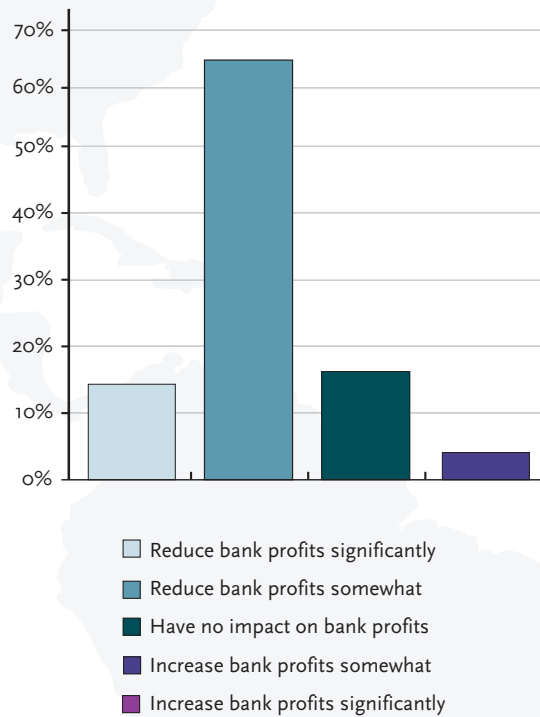


FIGURE 2

Topical Issue 2

- A strong number of those polled think the number of banks on the problem asset list will increase somewhat (47%).
- One-third of respondents believe fee revenue will fall although a strong showing of respondents think it will remain unchanged (26%) or increase somewhat (30%).
- Most polled think that small businesses will request more credit but the amount of credit extended will most likely remain the same (44%), with only one-third forecasting a slight increase.
- Opinions are mixed regarding credit approval rates for small businesses but most foresee continuation of the status quo (37%).

Looking ahead to 2011, do you expect:

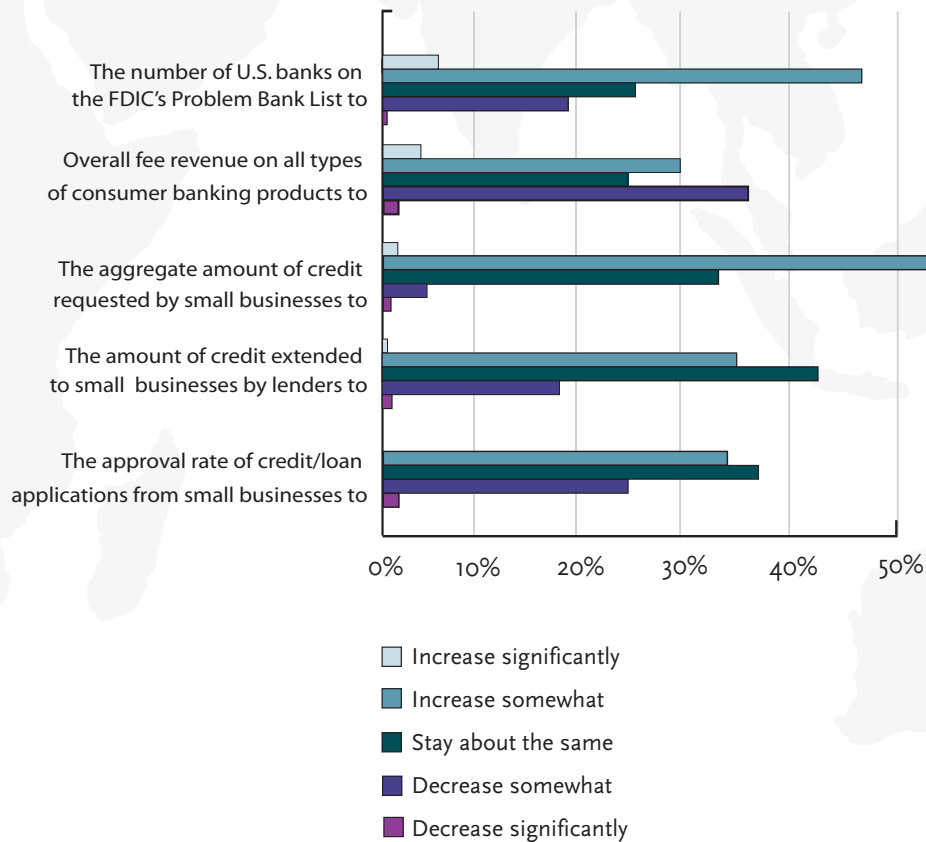
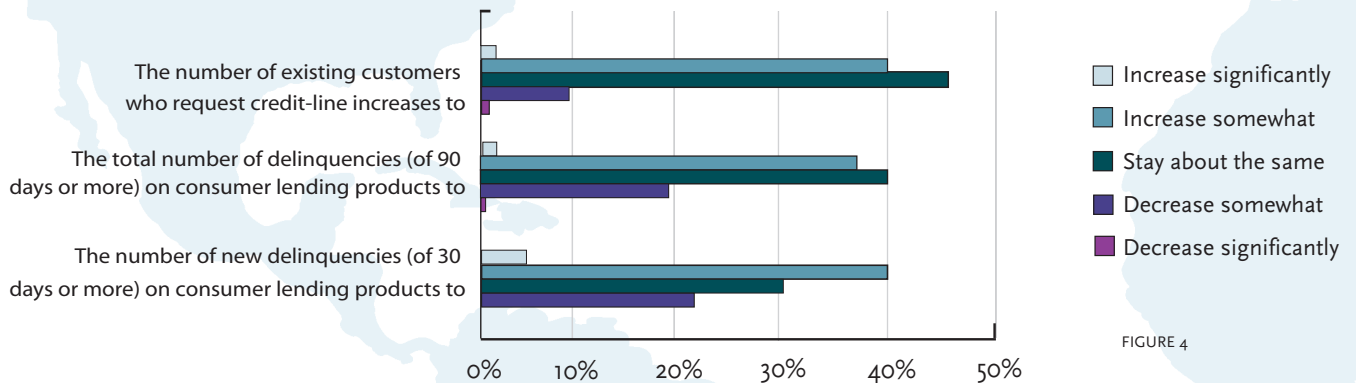


FIGURE 3

Delinquencies and Supply and Demand

- The number of customers requesting credit-line increases will likely remain the same (46%) or increase somewhat (40%).
- A little less than half of those polled (47%) predict that **new** consumer delinquencies of 30 days or more will increase either significantly (6%) or somewhat (41%).
- Respondents are divided on whether the total number of delinquencies will either increase somewhat (37%) or remain the same (40%).

Looking at the industry as a whole, over the next six months, do you expect:



Delinquencies

- Most respondents think the level of residential mortgage delinquencies will increase somewhat (41%) although over one-third think they will remain the same.
- Opinions regarding the level of home equity line delinquencies and small business loan delinquencies are mixed between increase somewhat or remain the same.
- Respondents predict the level of credit card delinquencies will remain the same (42%).
- Half of those polled believe auto loan delinquencies have stabilized.
- While a plurality (45%) predict the level of student loan delinquencies will stay the same, more than a third (35%) think they will increase somewhat.

SEE GRAPH ON NEXT PAGE.

DELINQUENCIES CONTINUED:

**Looking at the industry as a whole, over the next six months, do you expect:
(check all that apply to your business)**

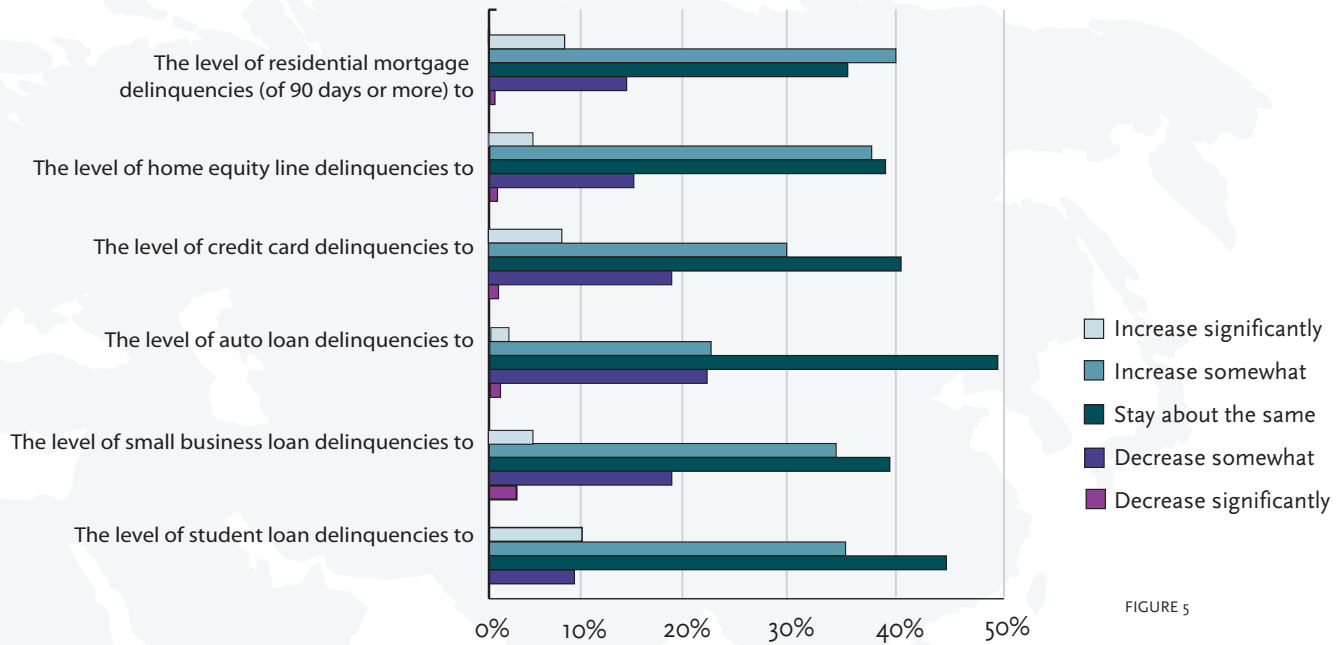
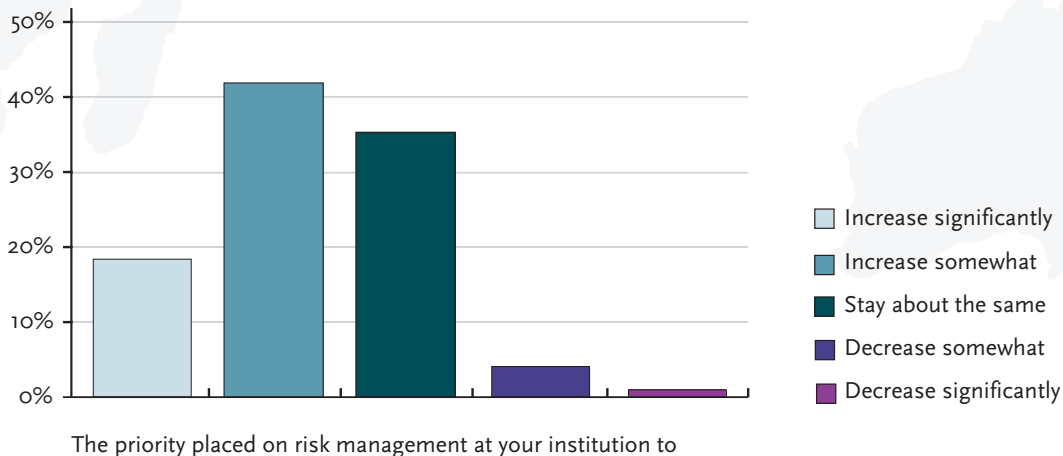


FIGURE 5

Risk Management

- Over 60% of respondents’ institutions will increase the priority place on risk management either significantly (20%) or somewhat (41%)
- This is down from the last quarter when 68 % believed this priority would increase either “significantly” or “somewhat”.

During the next budgeting cycle, do you expect:



The priority placed on risk management at your institution to

FIGURE 6

RESPONDENT PROFILE

Your job (select most appropriate)

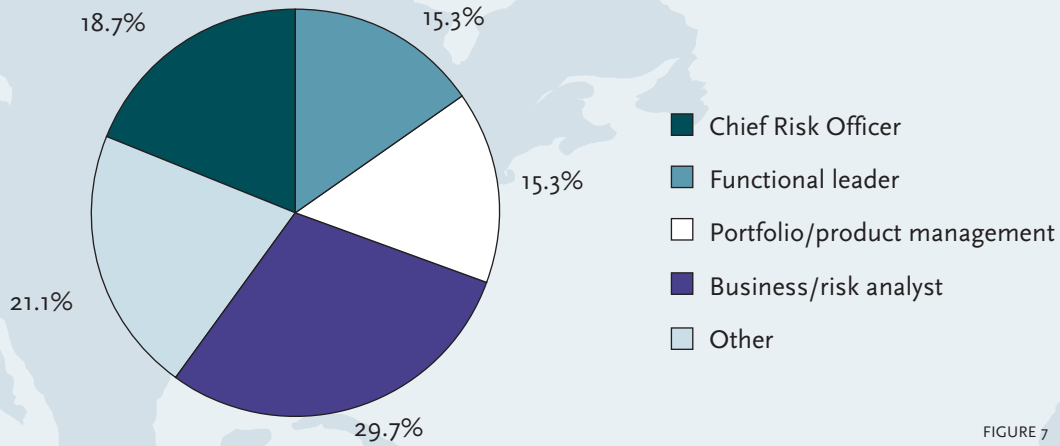


FIGURE 7

What is your area of responsibility (check all that apply)?

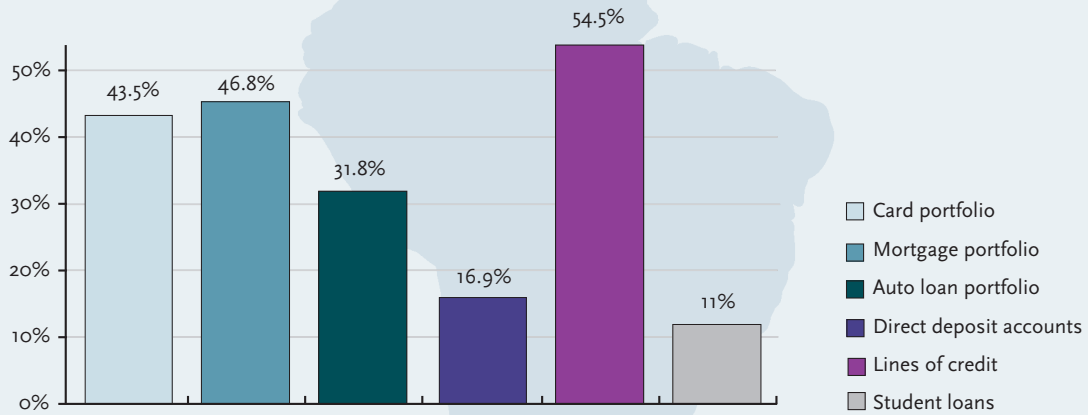


FIGURE 8

Respondents work in a wide variety of positions and represent various levels of seniority. Many have areas of responsibility in several credit portfolios areas (card, mortgage, auto loan, direct deposit, credit lines, and student loans).

What is the business orientation of your institution (select the most appropriate)?

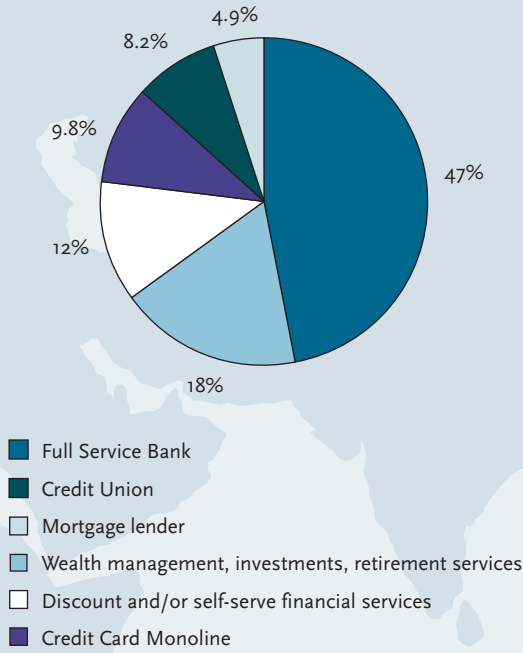


FIGURE 9

What is the size of your institution (by total assets)?

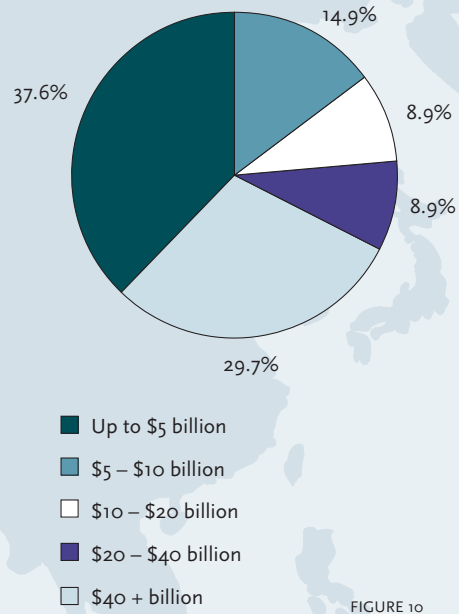


FIGURE 10

A plurality of respondents work in a full-service bank. Institutional size is either on the high end (\$40+ billion in assets) or the low end (less than \$5 billion in assets).

What is the geographic reach of your institution?

Over half of those surveyed work in institutions with either a national or global presence.

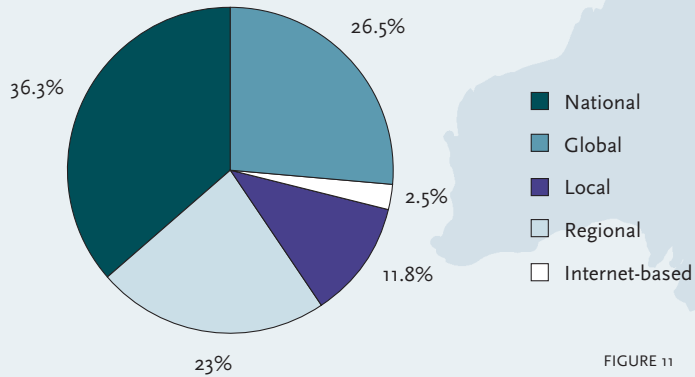


FIGURE 11



Comparison of the Past Three Surveys

Quarter 2, Quarter 3 and Quarter 4

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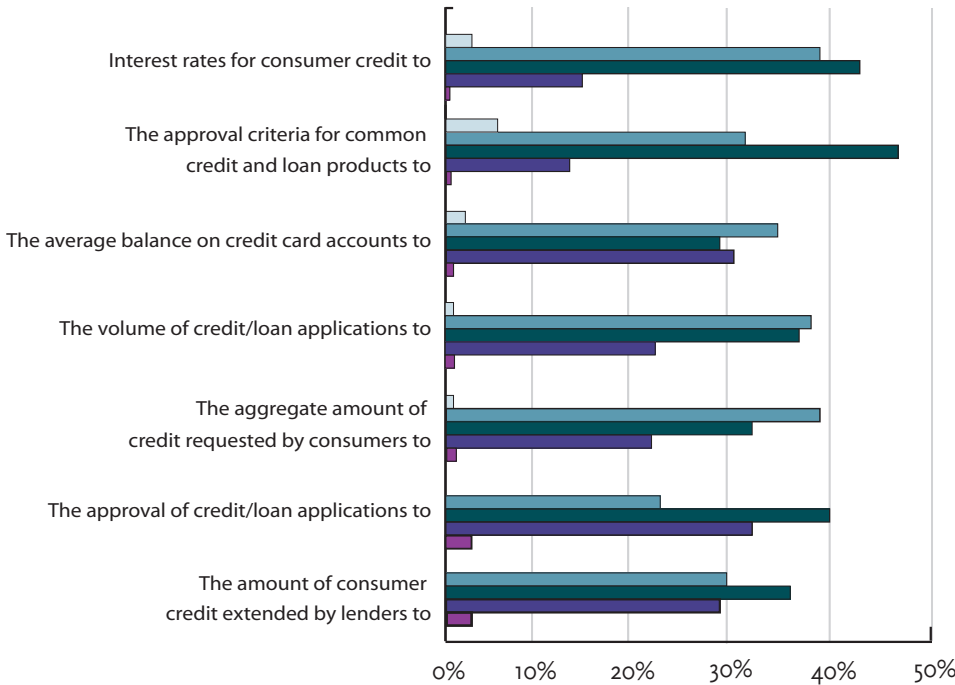
GRAPH COMPARISON

Supply and Demand

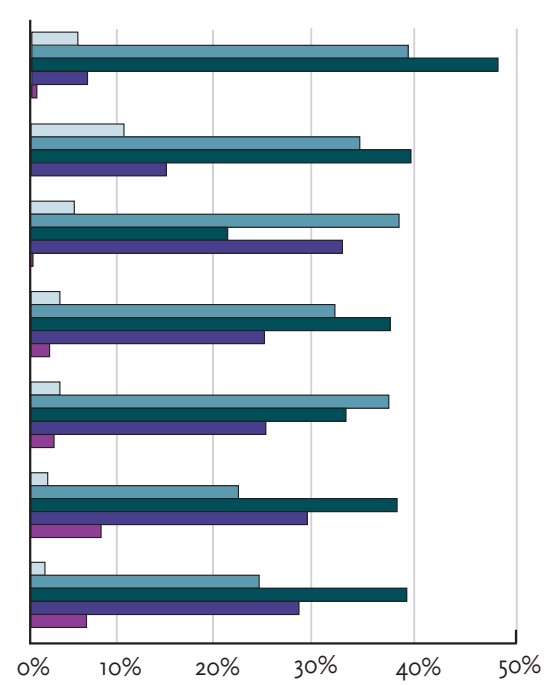
Looking at the industry as a whole, over the next months, do you expect:
(check all that apply to your business)

- Increase significantly
- Increase somewhat
- Stay about the same
- Decrease somewhat
- Decrease significantly

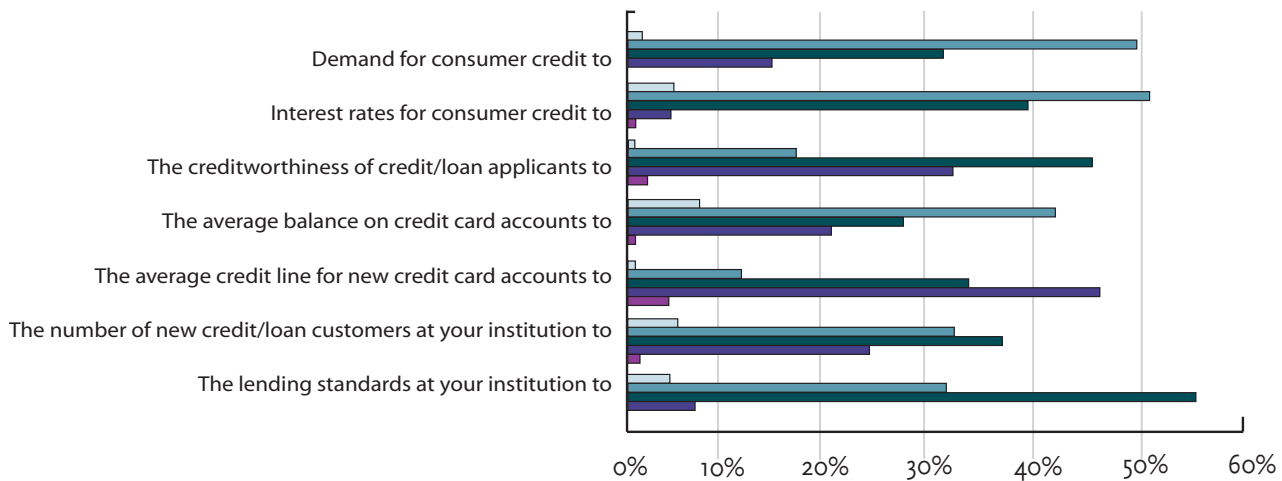
Quarter 4 (6 months)



Quarter 3 (6 months)



Quarter 2 (3 months)



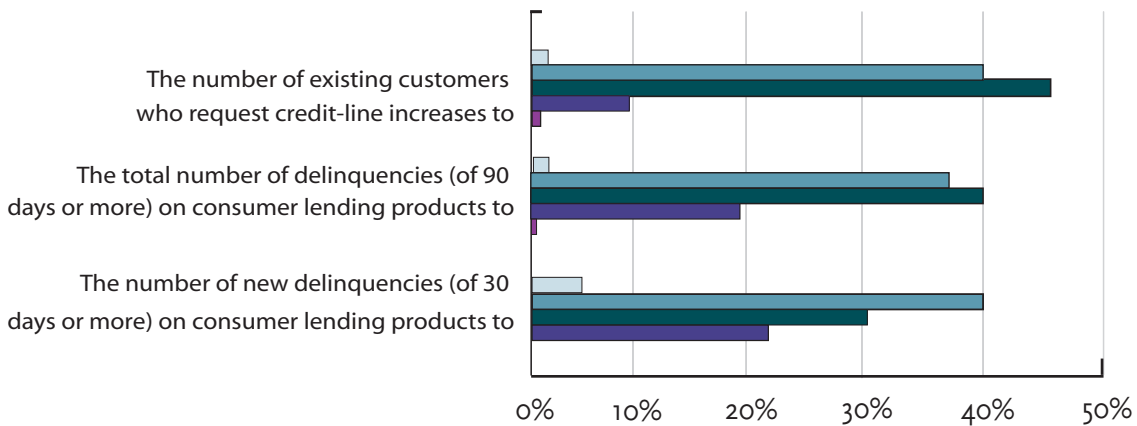
GRAPH COMPARISON

Delinquencies and Supply and Demand

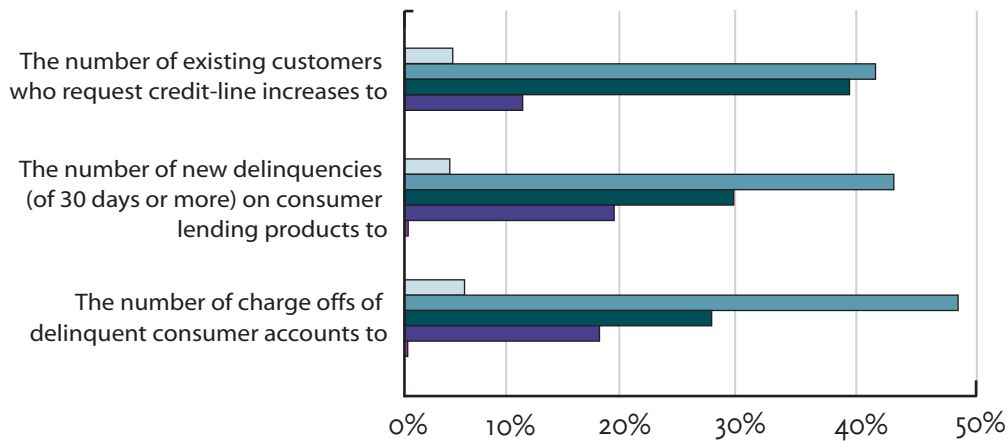
Looking at the industry as a whole, over the next six months, do you expect:

- Increase significantly
- Increase somewhat
- Stay about the same
- Decrease somewhat
- Decrease significantly

Quarter 4



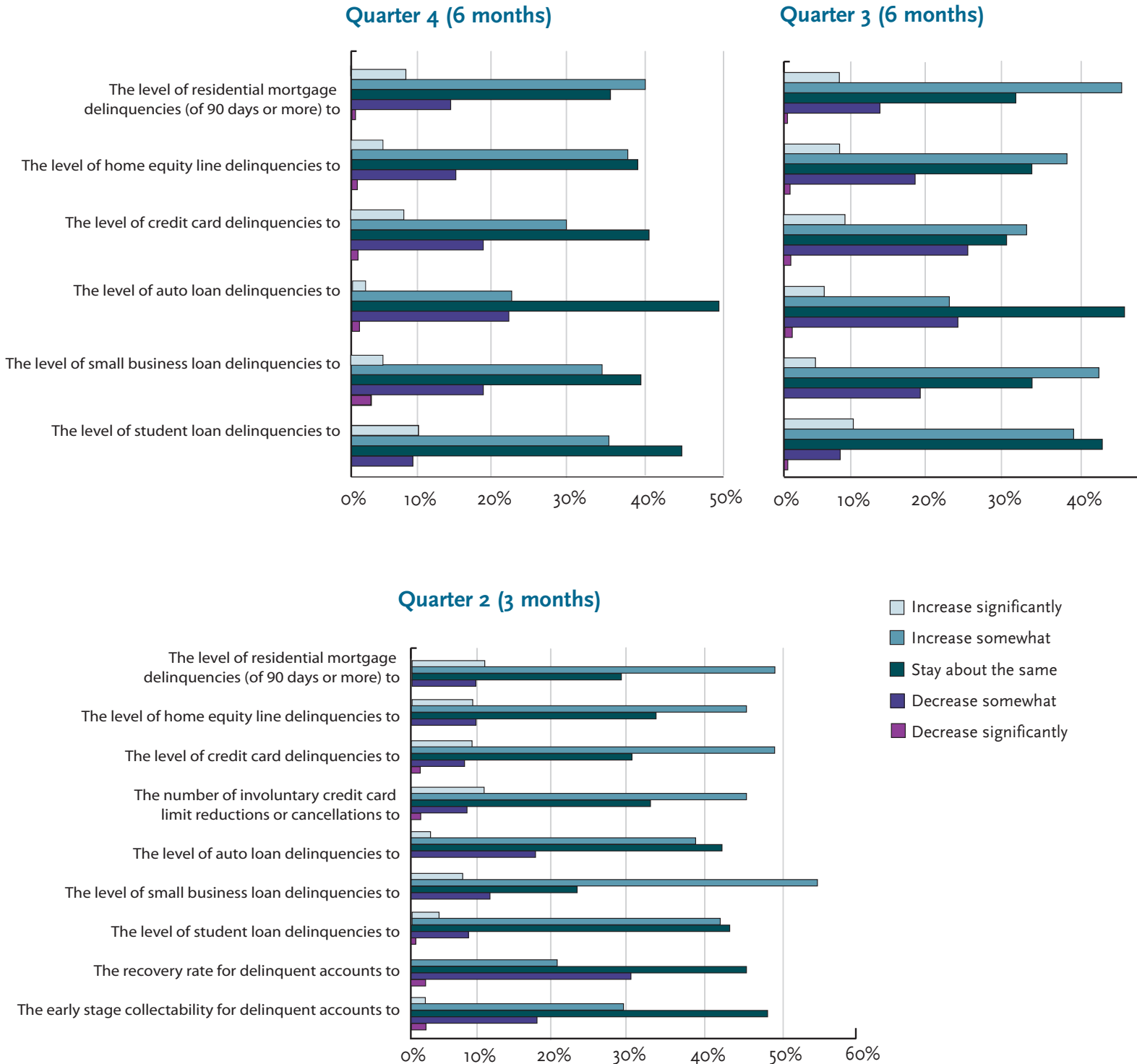
Quarter 3



GRAPH COMPARISON

Delinquencies

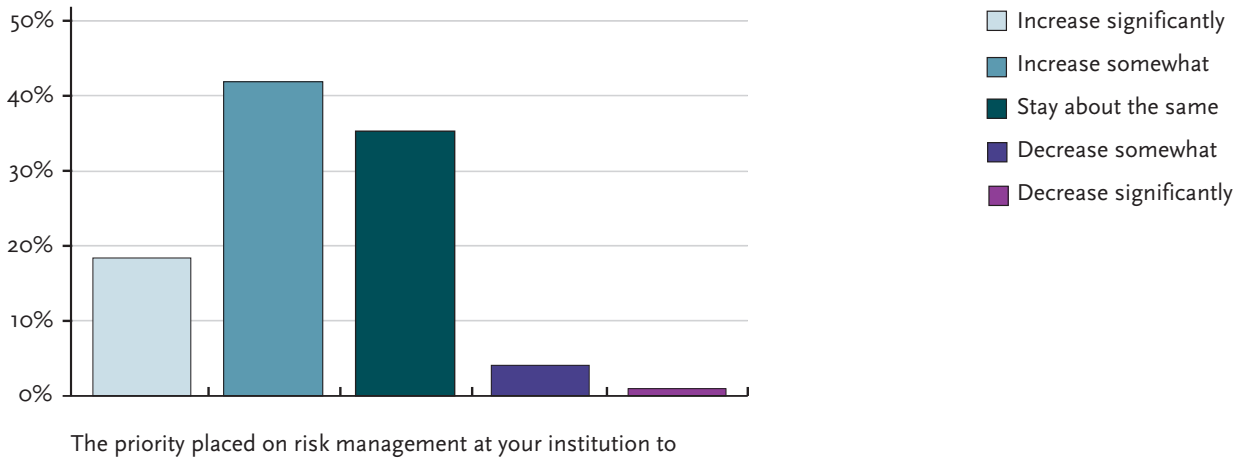
Looking at the industry as a whole, over the next months, do you expect:



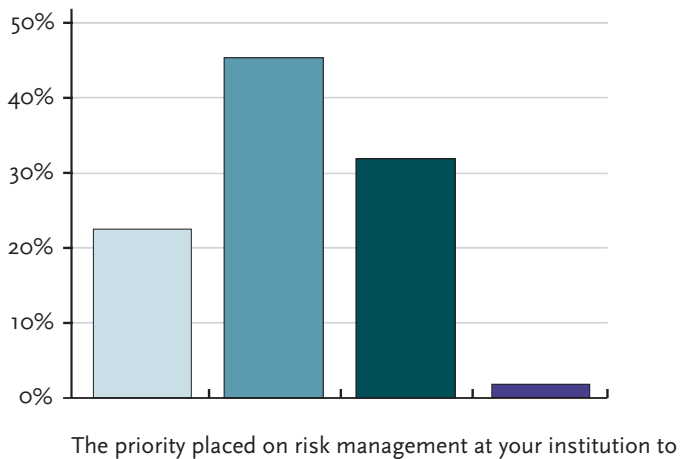
Risk Management

During the next budgeting cycle, do you expect:

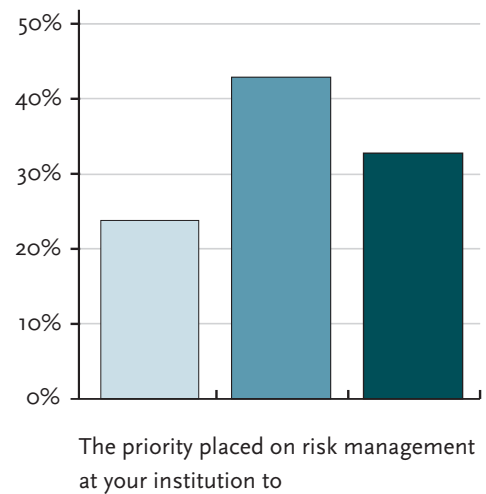
Quarter 4

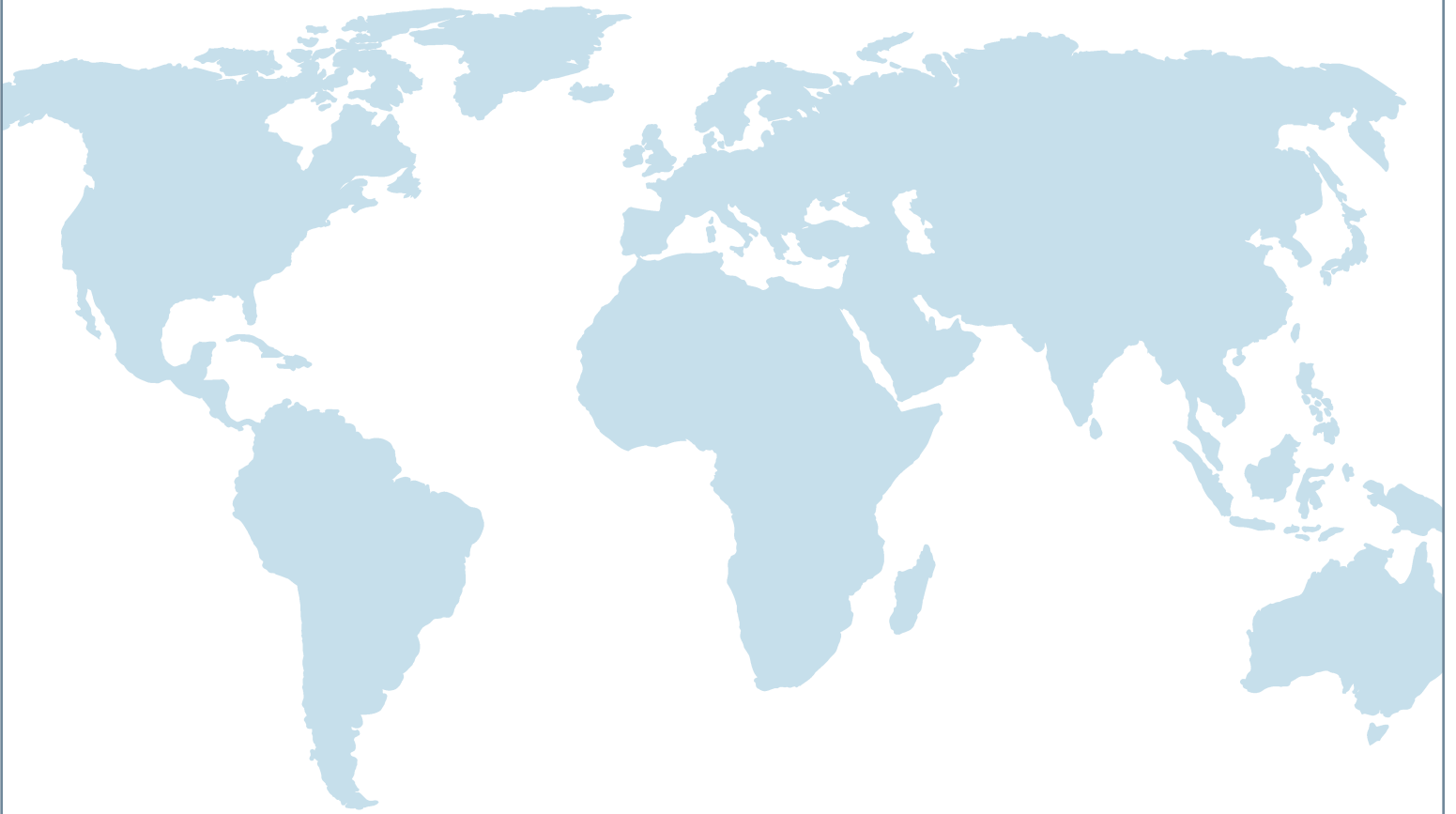


Quarter 3



Quarter 2





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