



Macroeconomic Scenario Forecasting, Credit Trends, and Implications

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Macroeconomic scenarios

Credit trends

Macrotrends and implications

Q&A

COVID-19 impact on the US economy



Mohammed Chaudhri

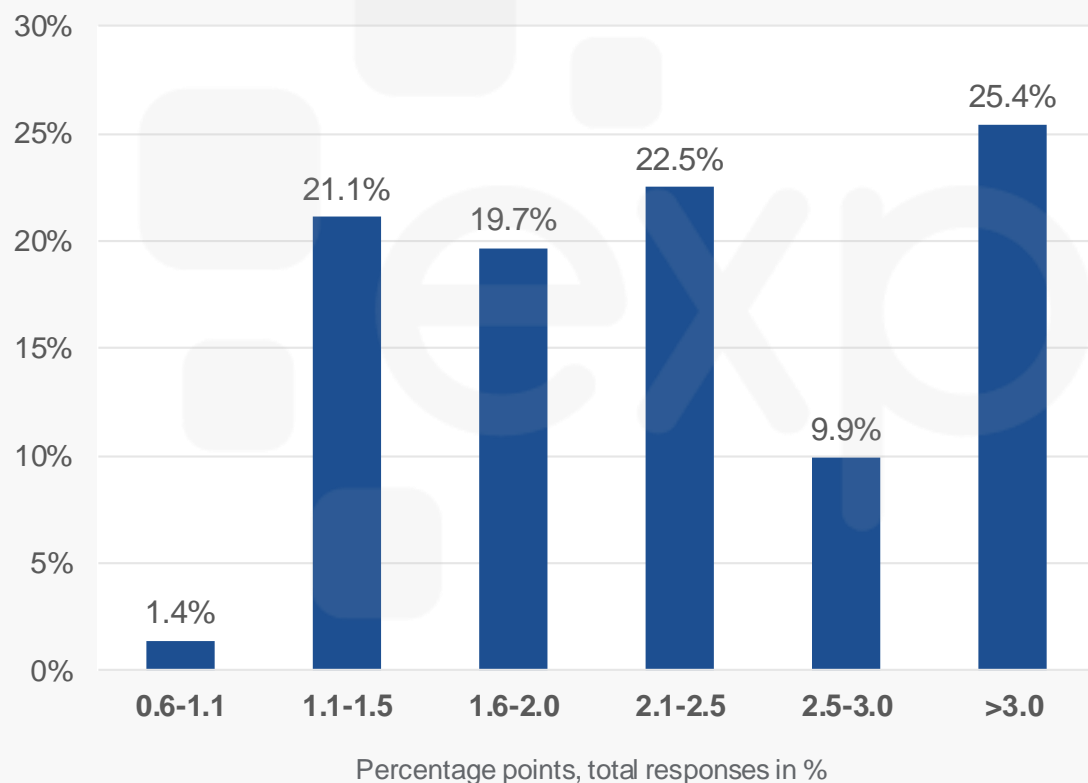
UK Chief Economist



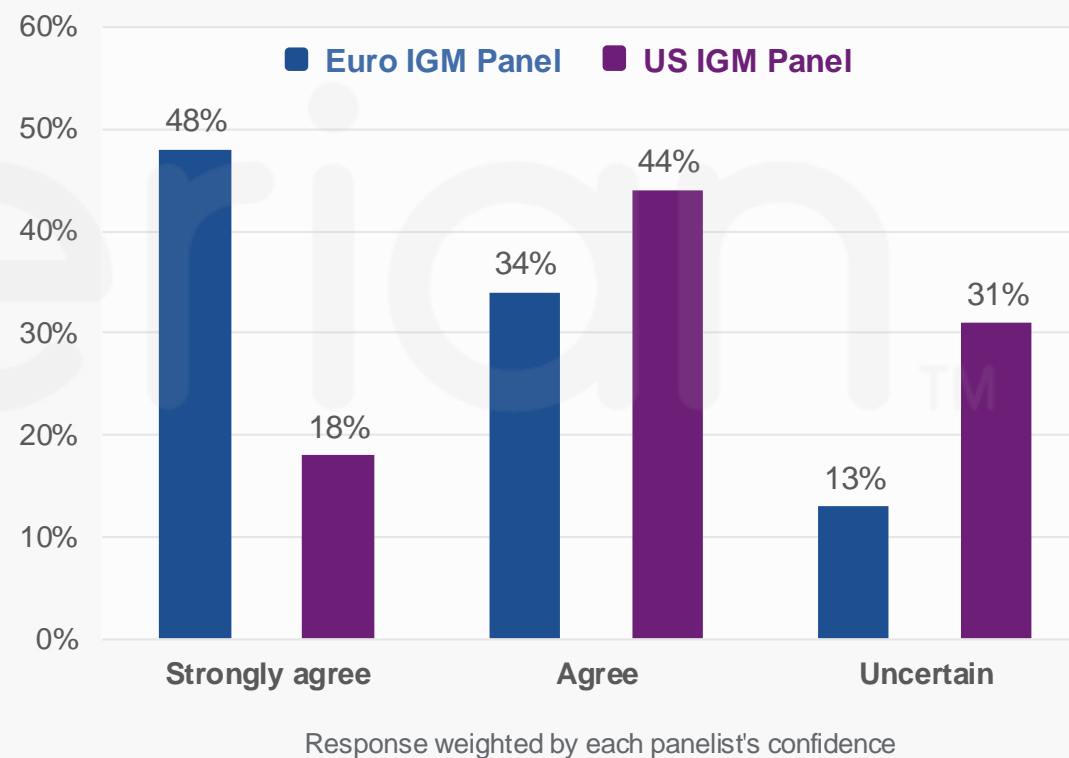


Global recession **unavoidable**

What will be the negative impact of COVID-19 on 2020 global GDP growth in percentage points?



If the mortality of COVID-19 proves to be limited (similar to seasonal flu), is it likely to cause a major recession?

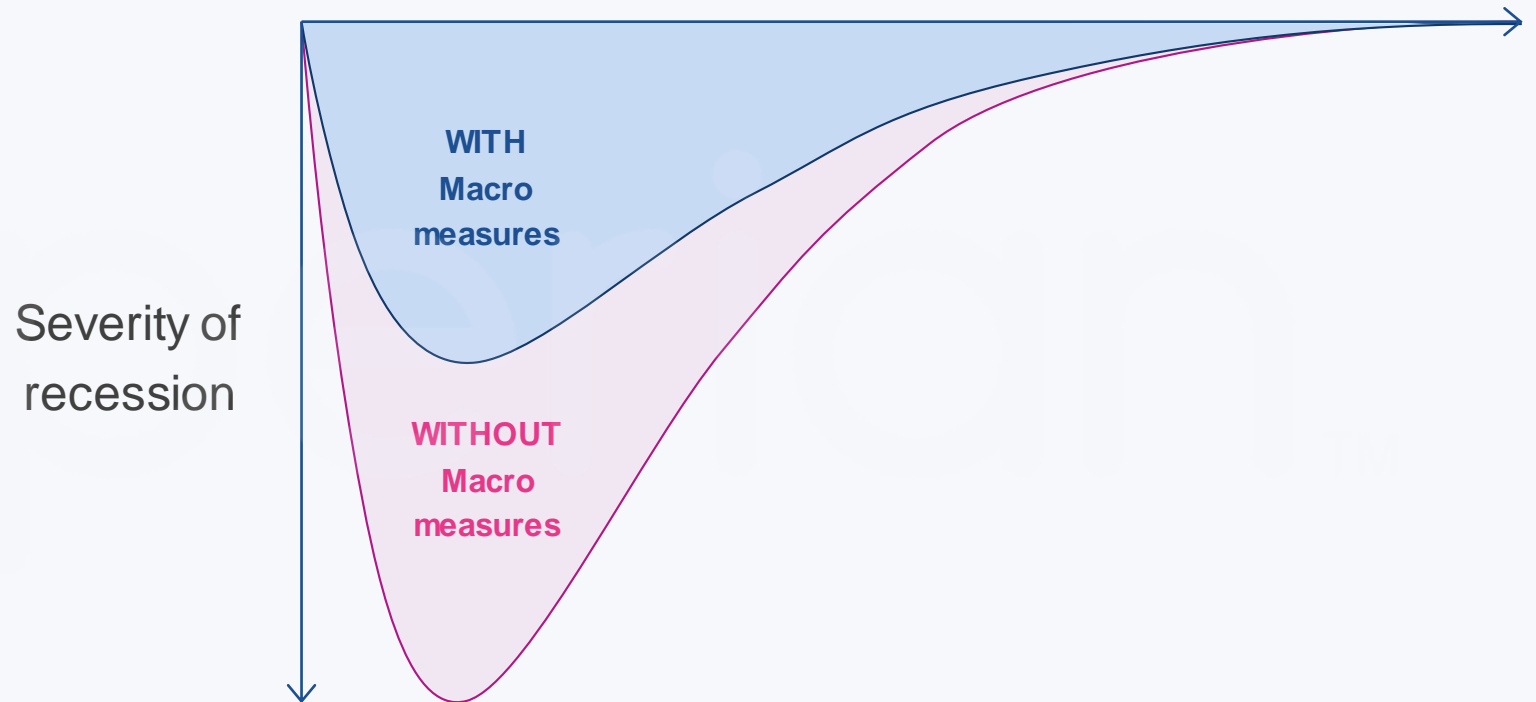


Flattening the recession curve

Short-run trade-off between flattening the epidemic curve and the size of the recession.

Slowing down the peak of infections is likely to prolong the time that the economy is not at full capacity.

Time of first COVID-19 case





Interest rates

Direct household stimulus

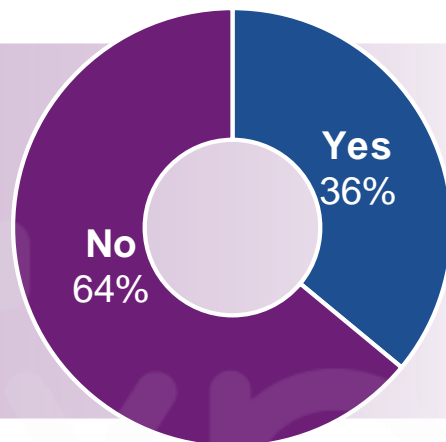
Employment income support

Business loan support

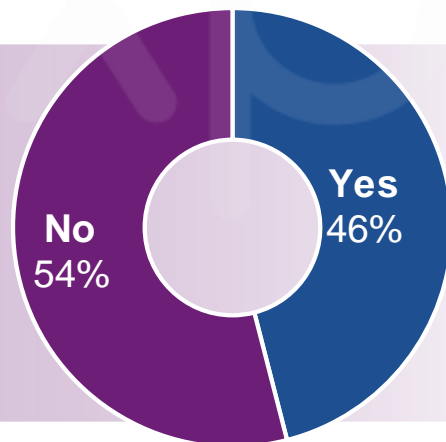
Forbearance

Key assumptions

Are current stimulus measures enough to avoid lasting economic damage?



Will the COVID-19 slump morph into a broader financial crisis?



- How successful the government measures are in mitigating the economic impact on households and businesses?
- Timing and speed of the recovery – V, U, W shaped
- Global backdrop
 - Trade & supply chain impacts on industry
 - Financial markets performance and credit conditions



Macroeconomic scenarios

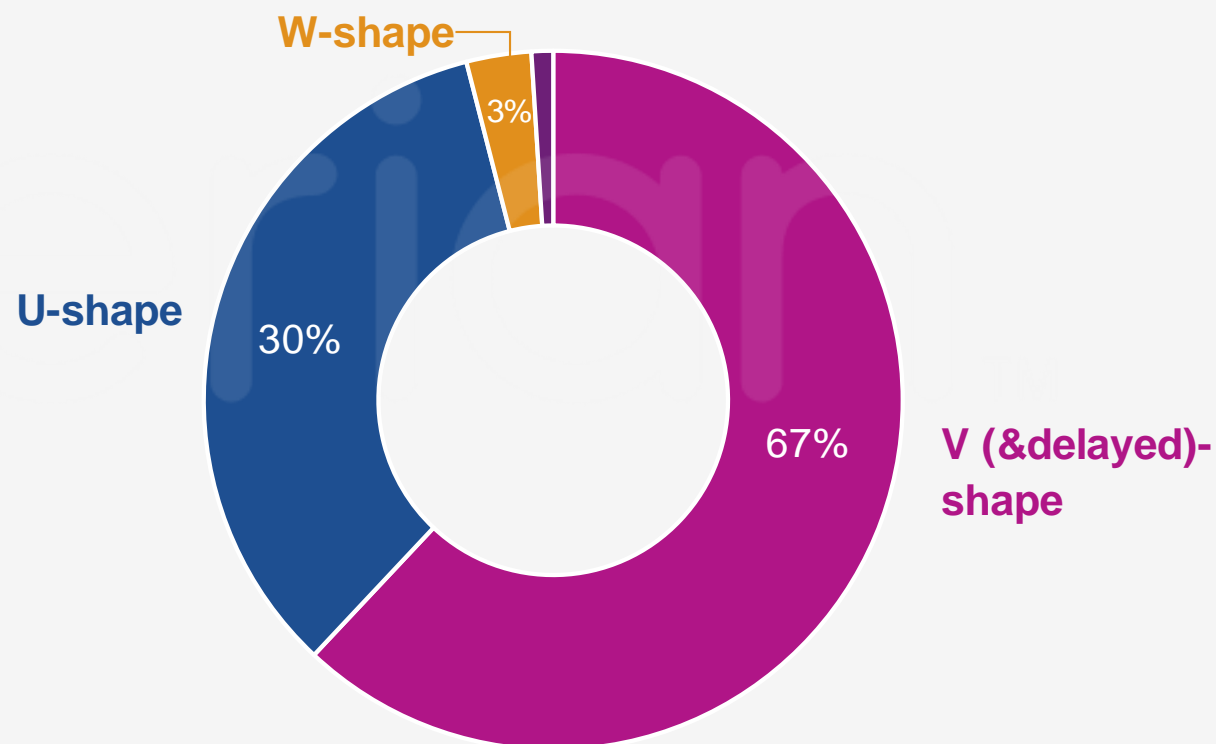
V-shape

**Delayed
V-shape**

U-shape
Severe case

W-shape
Very severe case

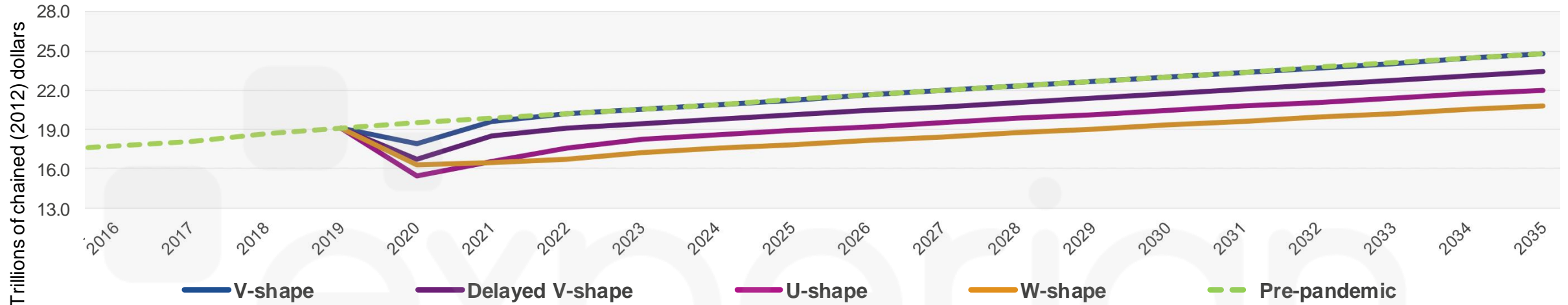
What will be the shape of the global economic downturn?



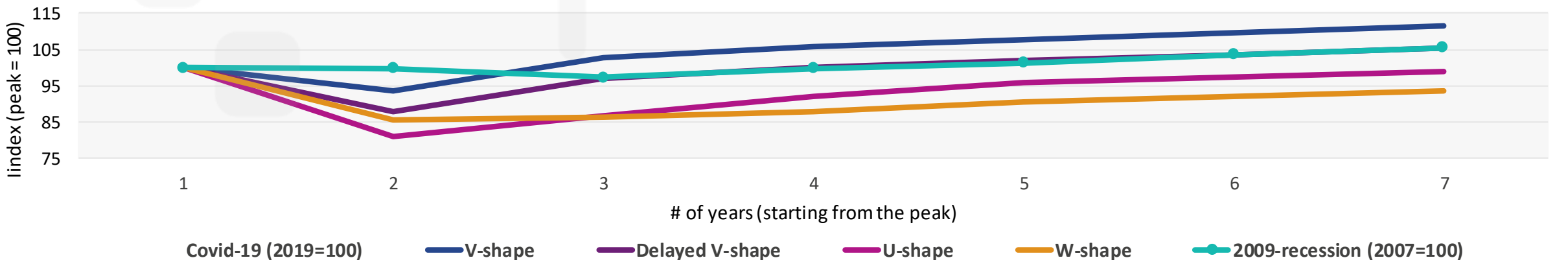


Year-over-year shifts to GDP

GDP Level



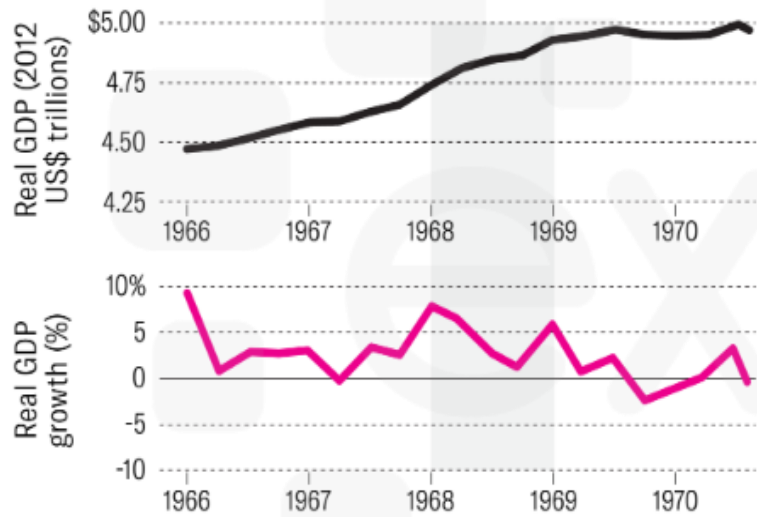
GDP y-on-y%



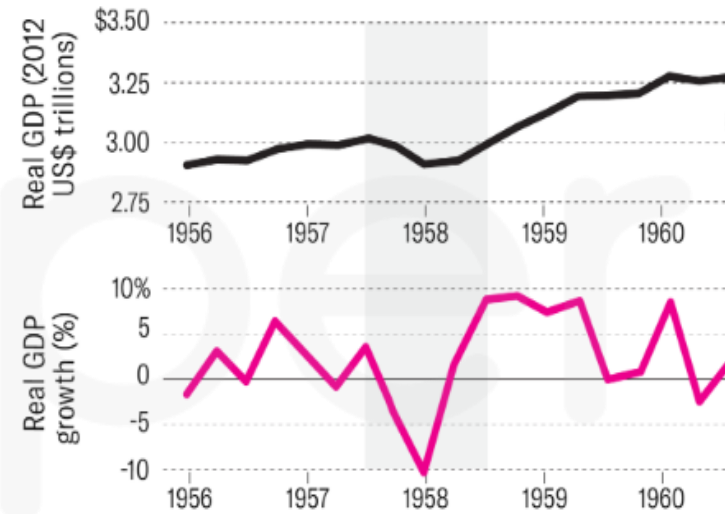


Prior pandemics haven't been v-shaped

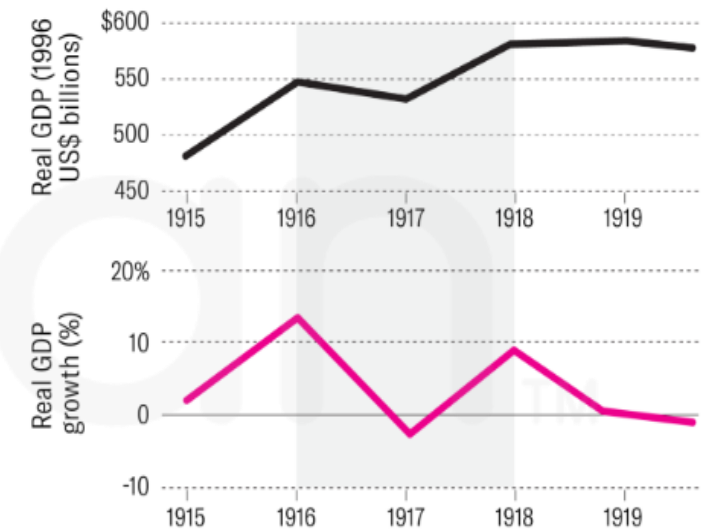
1968 H3N2 ("Hong Kong") flu – 100,000 U.S. deaths



1958 H2N2 ("Asian") flu – 116,000 U.S. deaths



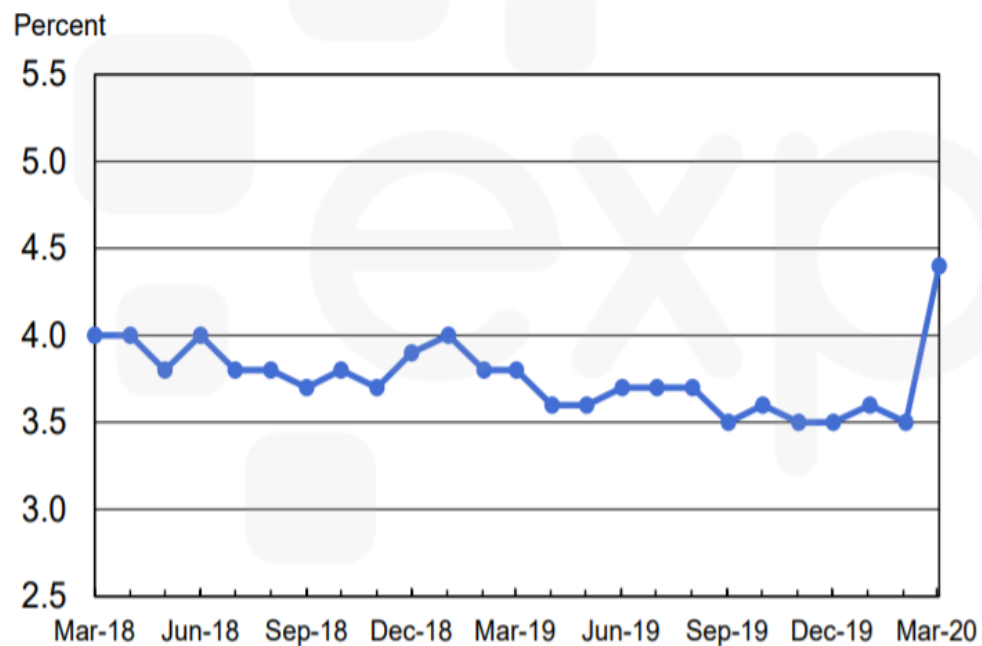
1918 Spanish flu – 675,000 U.S. deaths



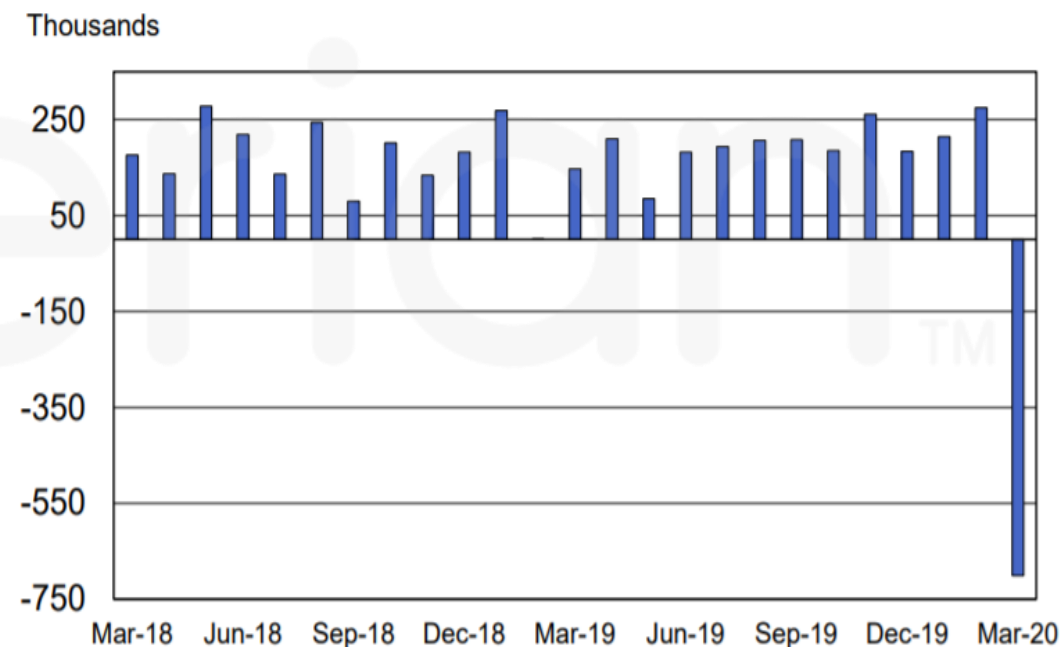


Uncertainty continues to build

Unemployment rate, seasonally adjusted, March 2018 – March 2020 (BLS)

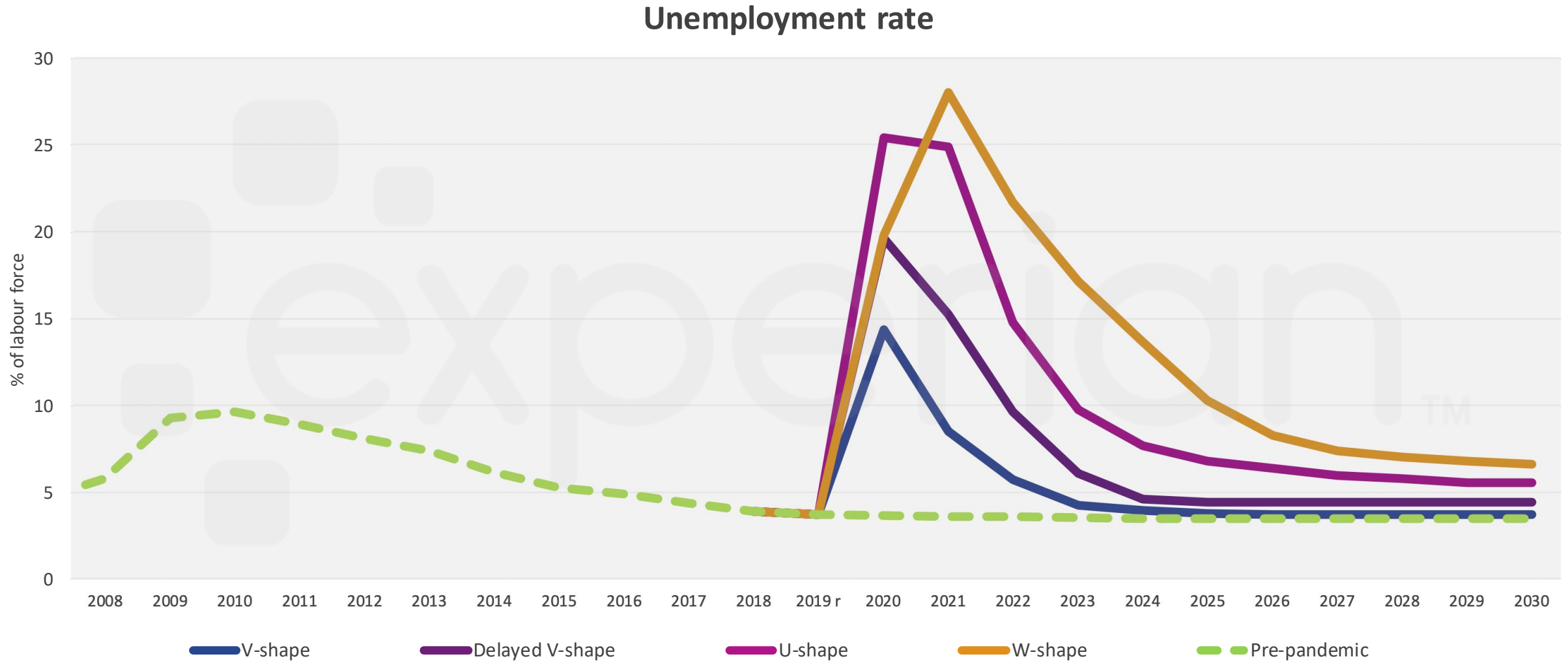


Nonfarm payroll employment over-the-month change, seasonally adjusted, March 2018 – March 2020 (BLS)





Affordability challenge

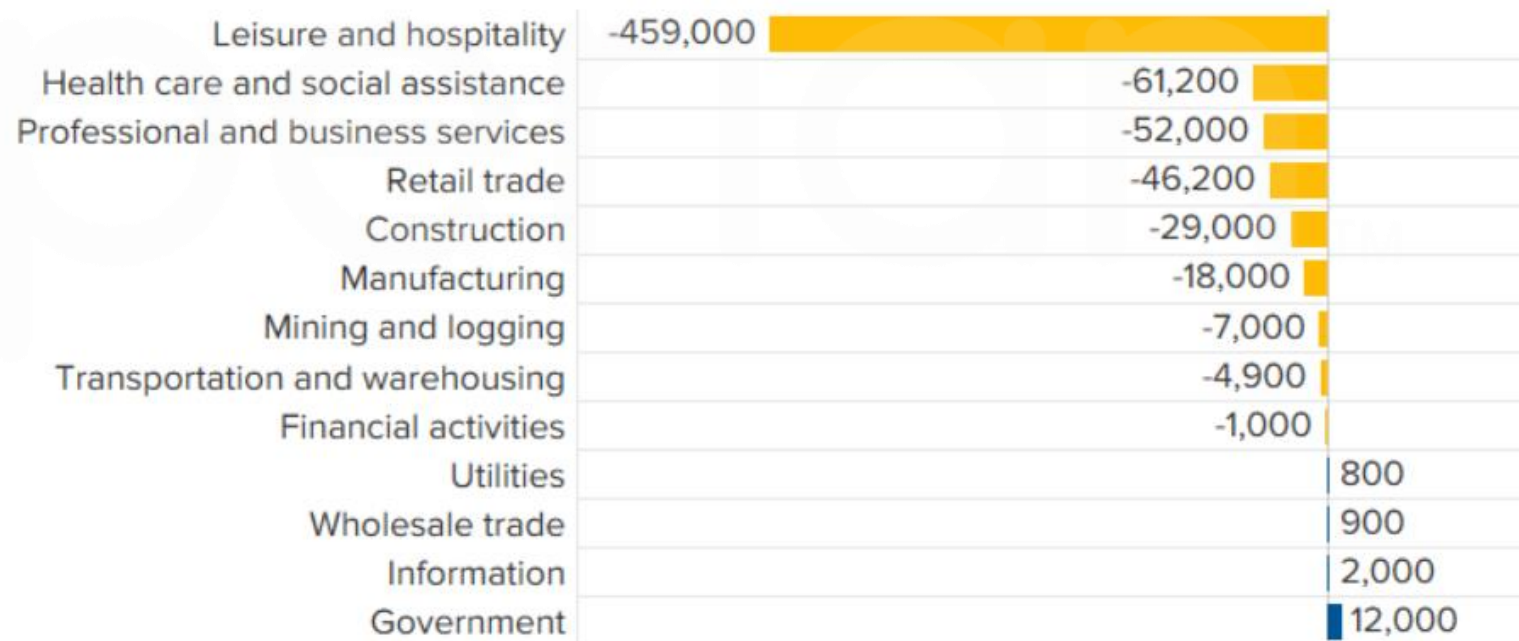


All sectors
are impacted,
but some
more severely

Estimated degree of impact, by duration

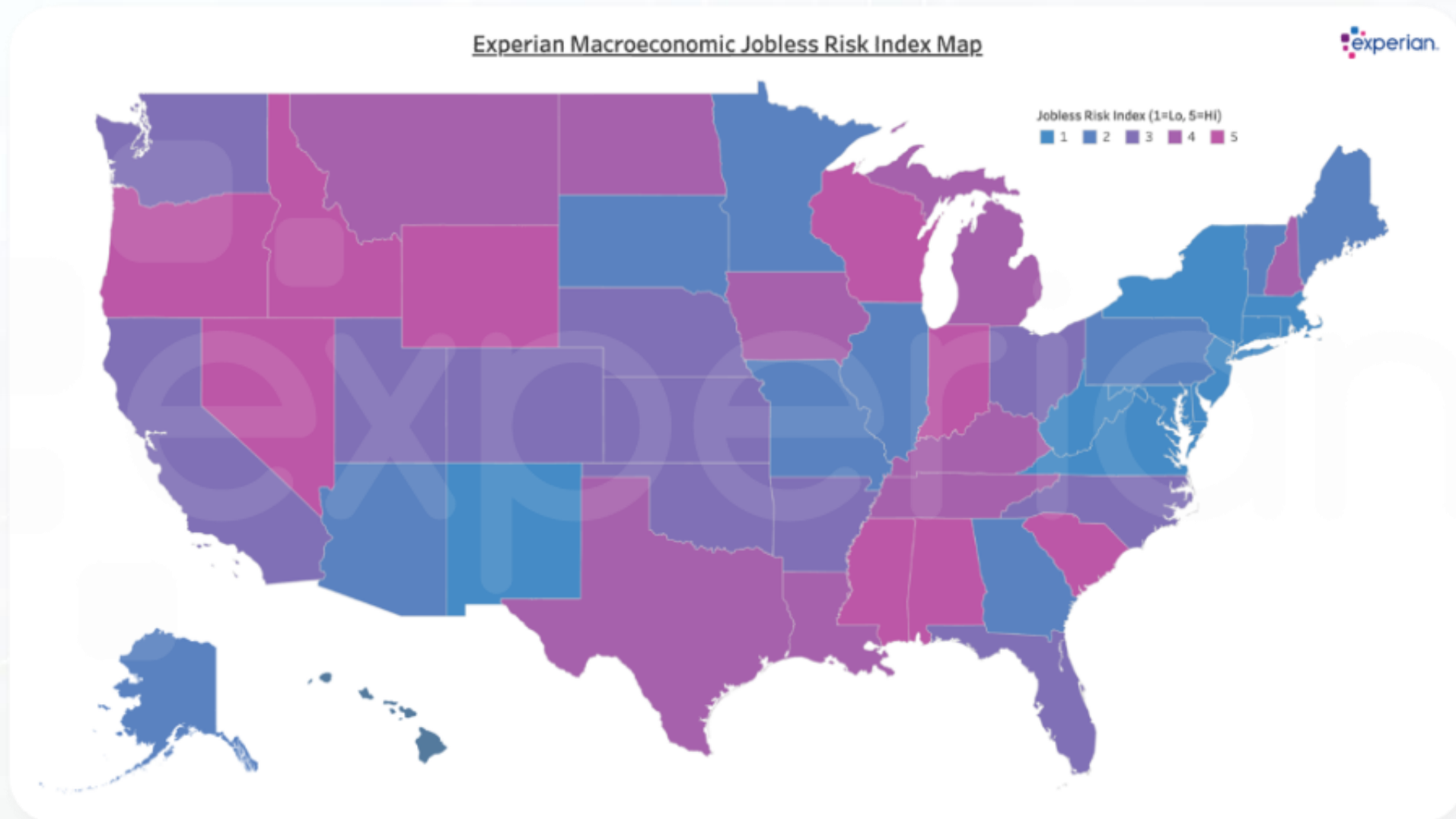


March jobs one-month net change (BLS)





COVID-19 sensitivity





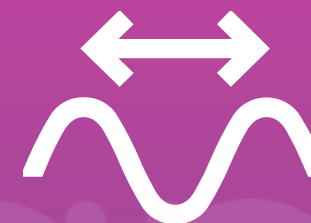
Demographics matter: **unequal** opportunity



More high-skilled individuals can work from home than low-skilled workers.



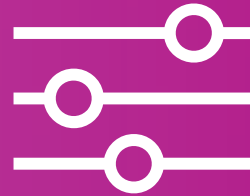
Most workers in manufacturing, retail, leisure, construction and transportation and utilities can hardly work from home.



Skills may correlate with liquidity to sustain brief unemployment spell during the health crisis.



CECL - even more important that CECL is implemented well and on the basis of the most robust, reasonable and supportable assumptions possible in the current environment.



Model adjustments – in exceptional credit conditions, traditional drivers of credit risk, when considered in isolation, tend not provide a complete picture of how credit risk and losses are evolving.



Stress testing – although difficult to forecast the impact of the pandemic due to very limited forward-looking information – there are clear signs that, taken in isolation, economic and credit conditions are worsening.

Consumer credit data









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Expert Analytical Consultant



Overview of Credit Score and Attribute Treatment

	Natural Disaster (AW w/o D)	Deferred (29/AW w/ D) <i>Historically tied to mainly student loans</i>	Forbearance (CP w/ D) <i>Historically tied to student loans and mortgage</i>	No Payment Due with Balance owing (no spcmt)
Credit Risk Scores	Typically no special treatment VantageScore V3&4: exclude negative payment information 	Deferred balance not utilized until repayment resumes.  	Deferred balance not utilized until repayment resumes.  	Some scores may use an estimated scheduled payment 
Attributes <i>Uses include credit scores, decision criteria, account management criteria, prescreen criteria, research</i>	No special treatment <i>Specific attributes will capture behavior.</i>	Main attributes exclude deferred balance until repayment resumes. <i>Specific attributes will include deferred behavior.</i>	Main attributes exclude deferred balance until repayment resumes. <i>Specific attributes will include deferred behavior.</i>	Some attributes estimate scheduled payments <i>Specific attributes will capture this behavior.</i>

Please refer to www.fico.com and www.vantagescore.com for more details.
Be sure to check specific generic and custom models for treatments.



Credit Attribute trends highlights

As of April 22, 2020

The attribute showing the greatest upward shift is the number of trades affected by a natural disaster.

While all states are affected, Michigan, Illinois and New Mexico have the highest increase

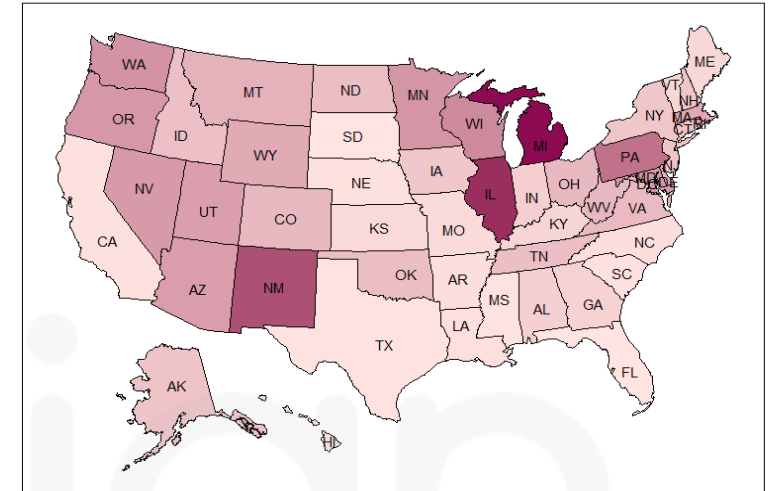
A significant increase in deferred student loans is observed as a result of government loans being automatically deferred for six months.

While all states show an increase in the number of deferred student trades, Utah, Missouri and New York show the most significant increase.

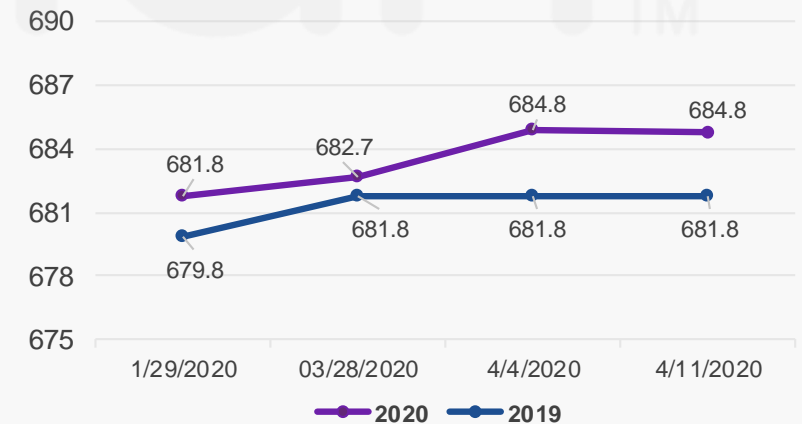
An increase in the number of forbearance trades reported earlier in this month reversed last week and came back closer to earlier counts.

We are seeing a gradual increase in score values, due in part to a decrease in delinquent status being reported on trades during the consumer protection period.

Accounts Reported with Natural Disaster

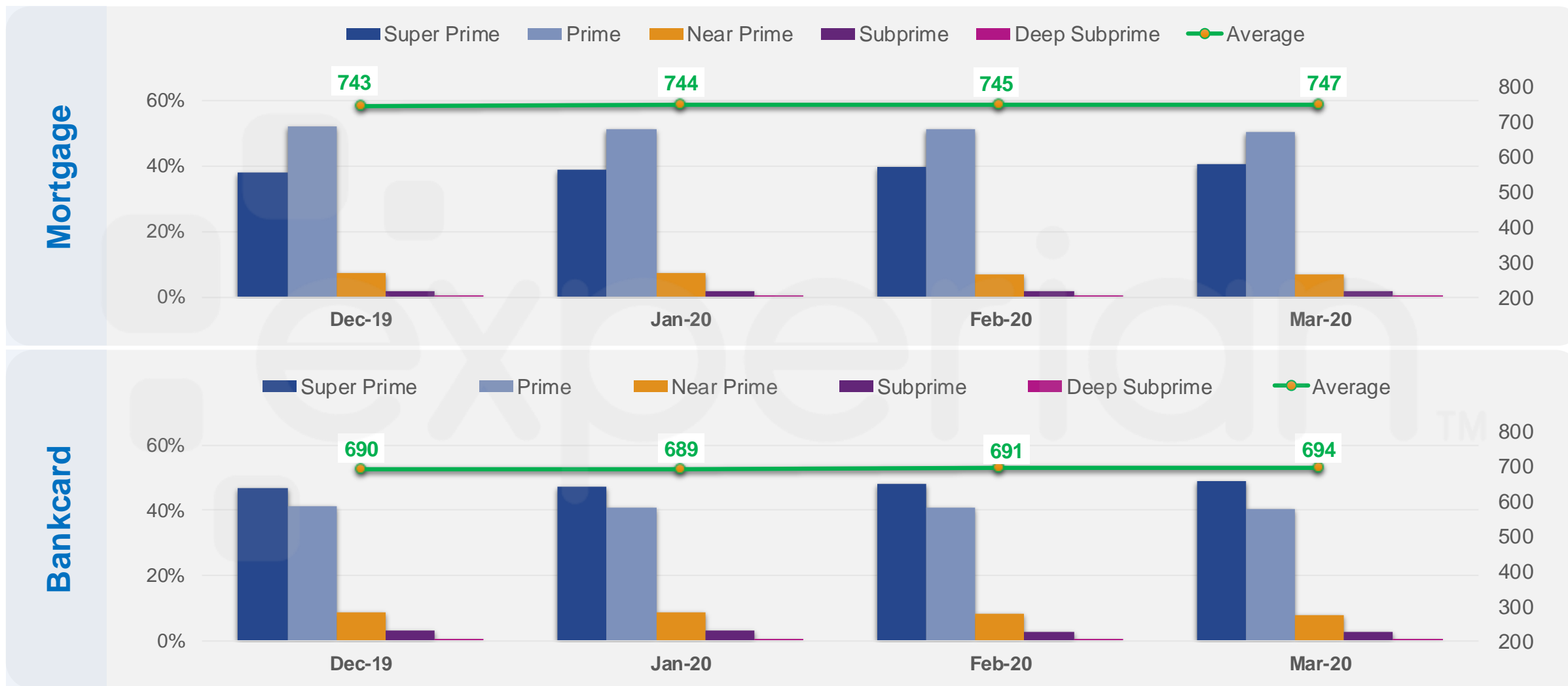


VantageScore 3.0 average score





Distribution of originations by VantageScore

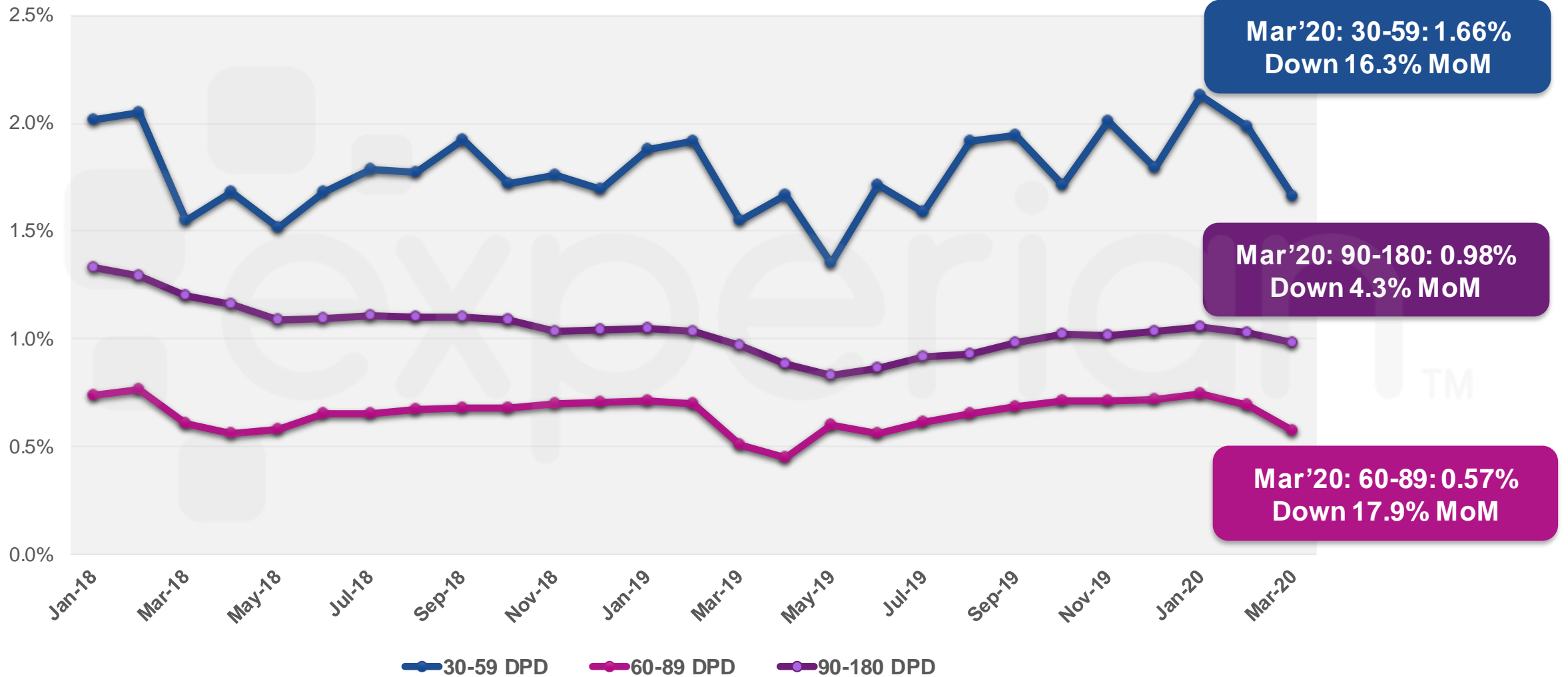


Source: Experian Ascend Sandbox



Mortgage delinquency

Percent of balances delinquent



Macrotrends and implications



Gavin Harding

Senior Business Consultant



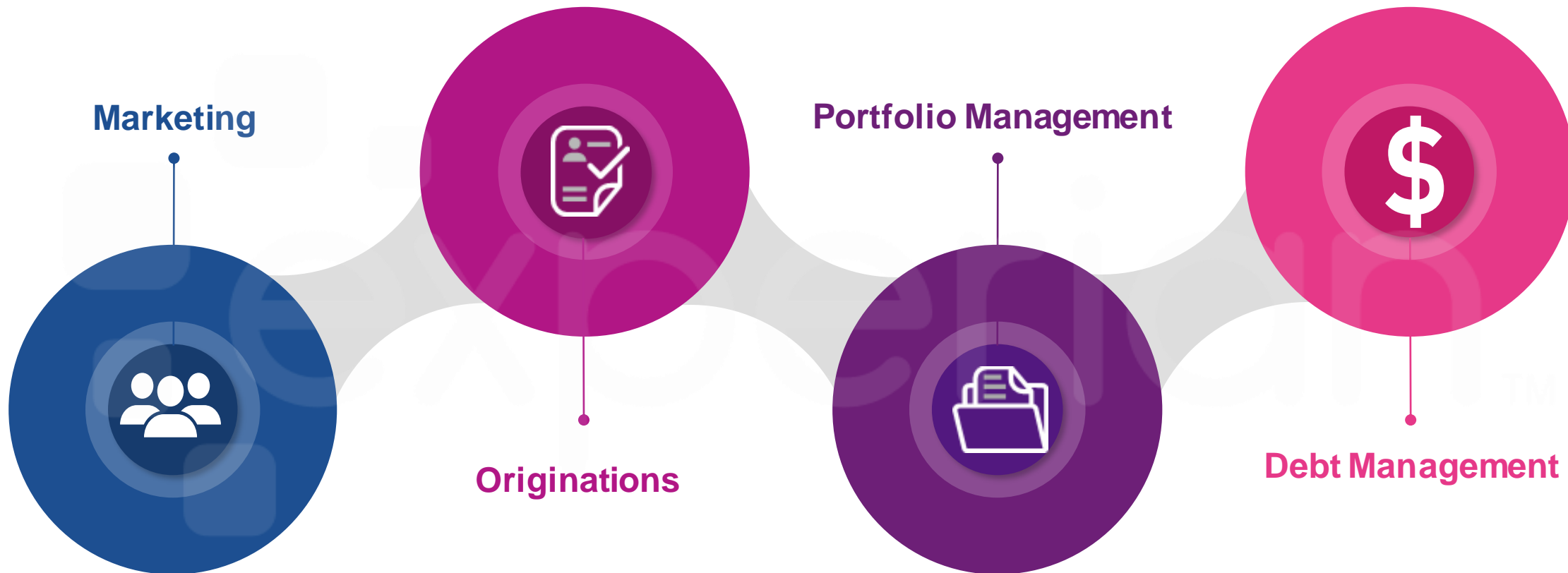
Strategies for right now

As organizations respond to the health crisis and economic volatility, key focus areas should include:

- Reducing and mitigating risk
- Monitoring consumer behavior
- Addressing operational challenges
- Reporting and compliance



Plan across the customer lifecycle





Marketing

Strategies

Reduce Costs

Use Fresh Data

Incorporate Advanced Criteria

Utilize Agile Tools



Marketing

Hone criteria and deploy tools to target the right accounts

Data, attributes and scores

Prescreen

Triggers

Development and deployment

Originations

Strategies

Go digital

Get deeper insights

Use alternative data

Increase fraud protection



Originations

Combine automation and operating efficiencies to update lending strategies

Identity proofing and fraud risk analytics

Verification of income and employment

Instant credit decisioning

Attribute creation and consumption



Portfolio management

Strategies



Benchmark

Forecast scenarios

Revise, reduce, retain

Monitor accounts

Portfolio management

Mitigate portfolio risk and retain your best customers



Portfolio health,
migrations and triggers

Portfolio loss
forecasting

Data, attributes and
scores

Analytics and strategy
design

Debt management

Strategies

Drive efficiency

Increase right party contacts

Ensure compliance

Monitor accounts



Debt management

Make operating changes based on COVID-19 related deferment guidance.

Compliance filters and triggers

Consumer contact and skip tracing

Decision management and optimization

Attribute creation and integration



Connect with us



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Questions?



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The background is a dark blue-to-purple gradient. It features faint, semi-transparent overlays of various financial and scientific motifs: a line graph with multiple peaks and valleys, a candlestick chart with red and blue bars, a DNA double helix, and a stylized virus particle with spikes. In the bottom right corner, there are two circular clock faces. A large, thin white circle is centered on the slide, containing the text "Thank you!".

Thank you!