TruVision™

QUICK GUIDE

Identifying Resilient Consumers Amidst Rising Inflation

The US annual inflation rate continues to remain elevated, and consumer wage levels haven't been able to keep up. In an already volatile market, today's consumers are experiencing increased pressure on their wallets due to sharply higher prices on essential purchases, coupled with rising debt service levels.

In order to understand how well consumers are absorbing the impact of this inflation, TransUnion conducted a study that sought to answer the following questions:

- How are consumers doing under the current high-inflation environment?
- How can we estimate the impact of elevated inflation on consumer performance under different scenarios?
- How can lenders use these insights to manage and grow their portfolios?

Released in May of 2022, the TransUnion study – Identifying Resilient Consumers Amidst Rising Inflation – revealed how origination, balance and delinquency volumes have changed since the onset of the pandemic and following the sharp increase in inflation in Q2 2021. TransUnion's 2021 End of Year Forecast was updated at a risk tier level to test sensitivity of different tiers to inflation. This data fed into the study, which examined the percentage of bankcard consumers who were forecast to become 90 or more days past due, as well as the percentage of auto and unsecured personal loan (UPL) consumers who were forecast to become 60+ days past due. For a more actionable picture, the study also split these consumers into risk tiers (non-prime, prime, and prime plus) and three inflation scenarios (low-inflation, baseline/expected and high-inflation).

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What are the key findings?

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- Consumers who recently originated loans are falling into delinquency at a faster pace, and non-prime borrowers are more vulnerable to a high inflationary environment.
- While the current elevated inflation environment negatively impacts many consumers, non- prime borrowers are more vulnerable to increased delinquencies under the high inflation scenario. This group generally is less likely to have the financial capacity to absorb sharply higher cost-of-living increases.
- UPL delinquencies appear sensitive to higher inflation across all risk tiers, with levels under the high-inflation scenario slightly above pre-pandemic.
- Bankcard delinquencies are forecast to have higher delinquencies in non-prime and prime tiers under the high inflation scenario, but still remain below pre-pandemic levels.
- For auto borrowers, only the non-prime tier is sensitive under the high inflation scenario. But even the baseline forecast for non-prime auto shows rising delinquencies over the next year.

How can lenders achieve safe growth and portfolio management in high inflationary times?

In this unpredictable economy, lenders are concerned consumers won't be able to keep up with cost increases and debt load. However, the TransUnion study shows even within credit tiers, many consumers are financially resilient and have the capacity to absorb the impacts of inflation. This proves that while some consumers are feeling the effects of a strained wallet, there are also consumers — even in high-risk tiers — who are not as vulnerable. Plus, lenders will find credit scores remain highly effective at rank-ordering risk.

TransUnion TruVision Premium Attributes and Algorithm solutions, including Aggregated Excess Payment Algorithm (AEP), help lenders pinpoint consumer resiliency — or in other words, helps identify consumers whose payment behaviors indicate greater resilience and capacity to absorb rapidly rising costs of living. Incorporating trended credit data algorithms and scores into acquisition and account management strategies can enhance the ability for lenders to distinguish between vulnerable and resilient consumers across the risk spectrum, enabling safer and scalable lending practices.

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