



US CONSUMER CREDIT RISK Trends and Expectations

SECOND QUARTER 2011

- A Survey by the
Professional Risk
Managers' International
Association

June 2011

www.PRMI.org



PRMIA thanks our survey sponsor

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ACKNOWLEDGEMENTS



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PRMIA would like to extend special appreciation to The Center for Decision Sciences at Columbia Business School for their assistance in analyzing the survey responses. The Center for Decision Sciences brings together scholars from a range of fields who share an interest in human decision making. The center facilitates research and understanding on consumer behavior, the implications of decision making on public policy, and the neurological underpinnings of judgment and decision making. The center is housed within Columbia Business School, widely acknowledged as being among the world's top business schools. To learn more, visit <http://decisionsciences.columbia.edu>.

EXECUTIVE SUMMARY

Since the fourth quarter of 2009, PRMIA and FICO have regularly polled credit risk management professionals regarding their predictions for the next six months and the impact of current events on their field. The survey asks risk managers about their expectations for credit supply, credit demand, and risks associated with consumer and small business credit.

During the second quarter of 2011, 272 risk management professionals polled reported similar responses to previous surveys; however, the differences may be telling. Not surprising, many credit risk professionals are still unsure about mortgages and home equity lines, predicting no sign of a decline in the number of delinquencies. However, the outlook on other forms of credit appears brighter. More believed the remainder of this year would bring an increase in interest rates than in previous surveys, and the outlook on small businesses appears slightly tempered from the first quarter of the year. This is most likely in response to a perceived slowing of the economy, which would likely affect small businesses more so than larger organizations.

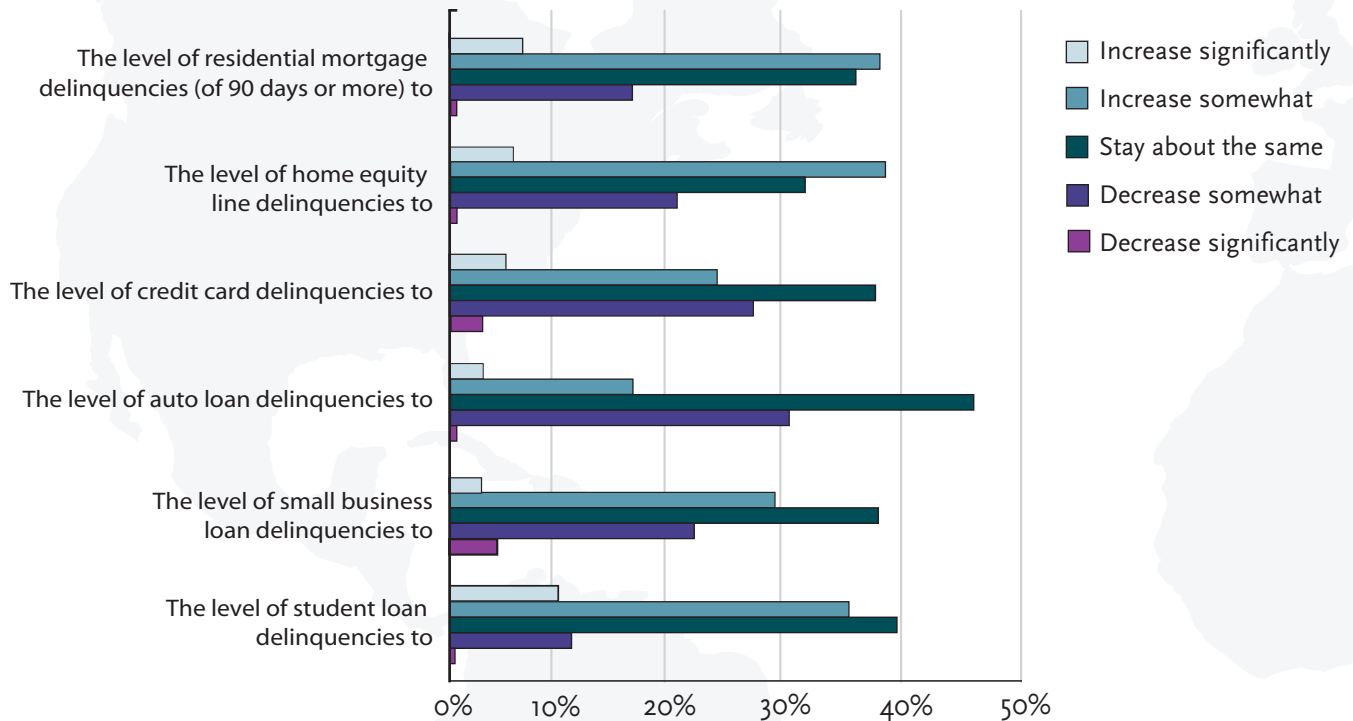
Key Findings and predictions about the next six months:

- Most felt that the level of mortgage and home equity line delinquencies would rise or stay the same.
- Most predicted that shorter-term credit and loan delinquencies (of credit card, auto loans, small business loans, and student loans) would decrease or stay the same.
- Many (62.3%) respondents expected interest rates to rise, an increase over previous quarters.
- Half of respondents (52.4%) predicted an increase in the amount of credit or loans requested by consumers; 42% felt that the amount of credit extended to consumers would rise.
- Nearly half of respondents (48.6%) felt that the number of existing customers who would request a credit-line increase would rise.
- Only 28.4% of respondents believed that interest rates on 30-year fixed-rate mortgages in the U.S. would go above 6% this year.
- Many (73.8%) believed the amount of credit requested by small businesses would increase; however, slightly under half expected the amount of credit extended to rise.
- If the economy is slowing, it does not appear to have significantly impacted risk managers' predictions overall from Q1 to Q2 of 2011, suggesting that rather than predicting growth, risk management professionals may simply be taking a wait-and-see attitude.

KEY FINDINGS AND ANALYSIS

Delinquency Predictions Show Sharp Delineation

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



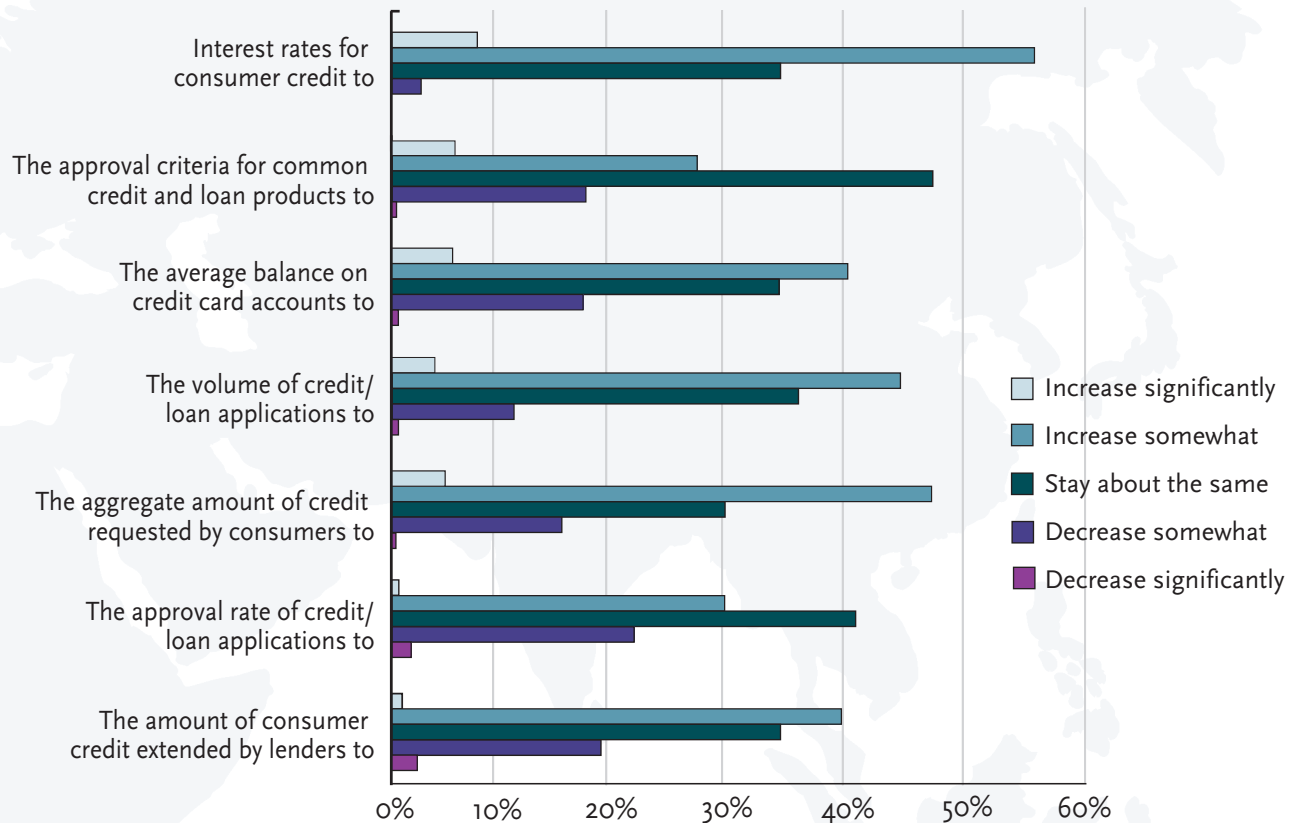
As in previous quarters, reactions remain mixed regarding delinquencies, and while a plurality of respondents felt that the number of credit card, auto loan, small business, and student loan delinquencies would stay about the same over the next six months, they felt differently about mortgages and home equity lines.

Within mortgages, slightly less than half (45.6%) felt that delinquencies would increase, while only 18.3% felt a decrease was likely. Home equity line delinquency predictions followed the same trend, however, respondents were slightly more optimistic, with 22.2% predicting a decrease.

Other forms of delinquency, as noted above, were viewed more positively than mortgages and home equity lines. On average, about 41% felt that the level of delinquencies in these loan categories (credit card, auto, small business, and student loan) would stay about the same. Notably, predictions of auto loan delinquencies were markedly different than those of the other three categories. 78.8% of respondents predicted these would decrease or stay the same, compared to an average of 60% for the other three types. Auto loan delinquency predictions are fairly similar from Q1 to Q2 of 2011, compared to Q1 of 2010, where only 56.2% of respondents predicted these would decrease or stay the same.

Rates Increase as Consumers Seek and Acquire More Credit

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



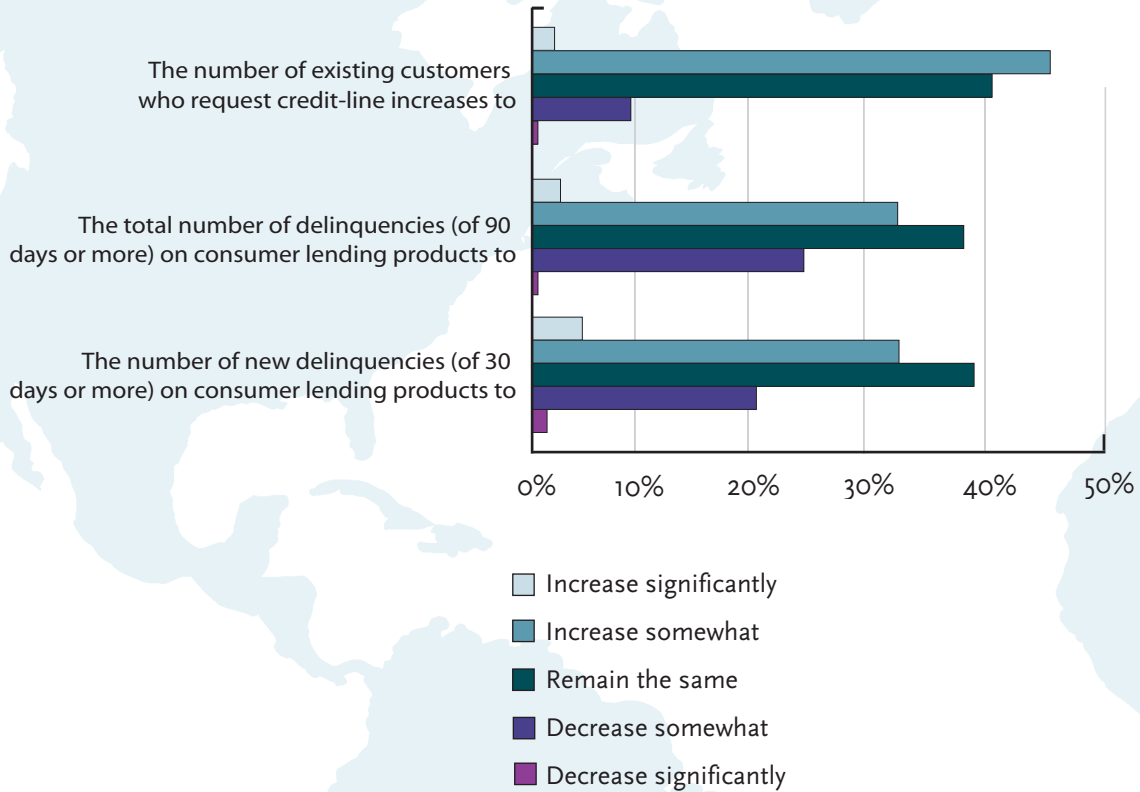
Turning now to underwriting predictions, a majority of respondents predicted that interest rates for consumer credit would increase (62.3%), with only 3.1% predicting any sort of decrease to rates. In line with these expectations, nearly half (46.9%) believed the average balance on credit cards would increase, although a sizable minority (18.5%) believed that the average balance would decrease.

While many believed rates and balances would increase, most (65.1%) believed approval criteria for credit and loan products would decrease or stay the same. Many (86.3%) believed that the volume of credit or loan applications would increase or stay the same.

Finally, while most (52.4%) believed that the aggregate amount of credit requested by consumers would stay the same or increase, 42.2% believed the approval rate for credit and loans would stay the same, with 31.3% predicting that approval rates would increase. In line with this expectation, 42% of respondents predicted that the amount of consumer credit extended by lenders would increase, a positive sign for the overall economy.

The Industry as a Whole

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

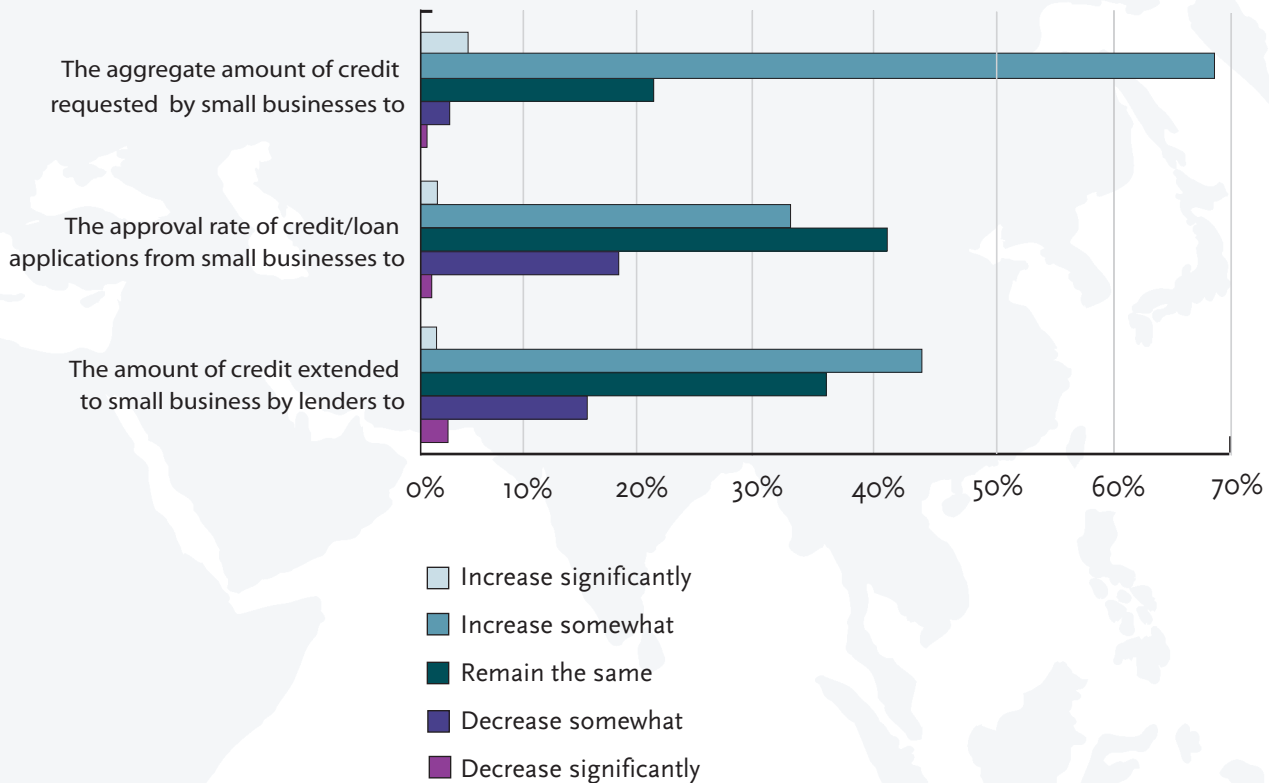


Perhaps not surprisingly, as predictions of the amount of consumer credit extended point toward an increase, so do predictions of credit line increases. Somewhat re-assuring, however, are predictions regarding delinquencies.

Of those polled, nearly half (48.6%) felt that the number of existing customers who would request a credit-line increase would rise. A sizable amount (41.4%) favored the prediction that these credit-line increases would stay about the same. In a positive twist, however, most (63.8%) felt that the total number of delinquencies on consumer lending would stay the same or decrease. A similar number (61.6%) felt this applied to new delinquencies as well. And while about 1/3 (33.1% and 33.6%, respectively) felt that these delinquencies would increase somewhat, the overall outlook appears optimistic.

The Outlook on Small Businesses

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



In regards to small businesses, many (73.8%) believed the amount of credit requested by small businesses would increase, which while positive, is down from the previous quarter. Similarly, slightly under half (46%) of respondents look for the amount of credit extended to small businesses to increase, down from a majority in previous quarters.

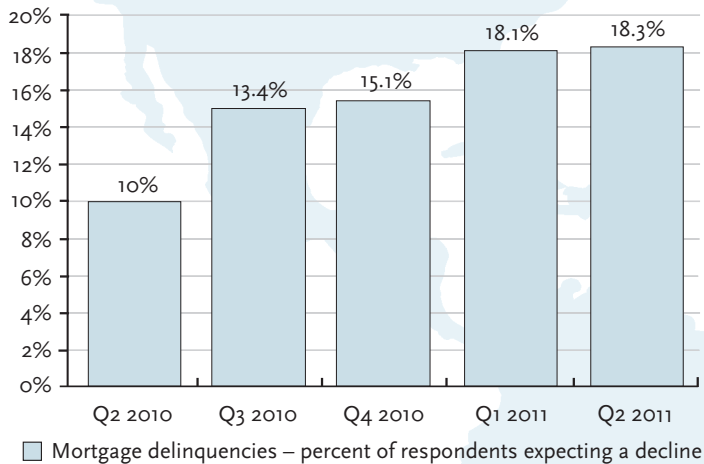
In terms of approval rates for small business credit and loan applications, most (60%) believed approval rates would remain the same or decrease. Overall this quarter's results suggest that the optimism regarding small businesses in previous quarters may have tapered slightly, while the overall outlook is still positive.

Historical Analysis

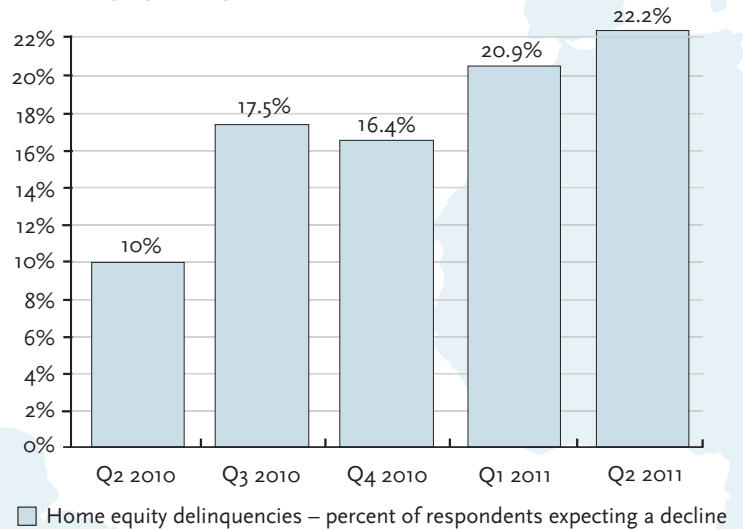
As noted above, risk managers have generally been more positive over the past year, however in this quarter, appeared a bit more cautious, especially concerning small businesses. Findings are discussed in detail above within the context of the issue, however at a glance, over the past year and a half, the following changes have been observed in the survey:

- While respondents are starting to predict decreases in mortgage and home equity line delinquencies, the clear trend is to believe they will either stay the same or increase.
- Respondent's outlook on all other forms of delinquency are more positive, however the predominant answer now compared to 3 months ago seems to be that levels will stay the same.

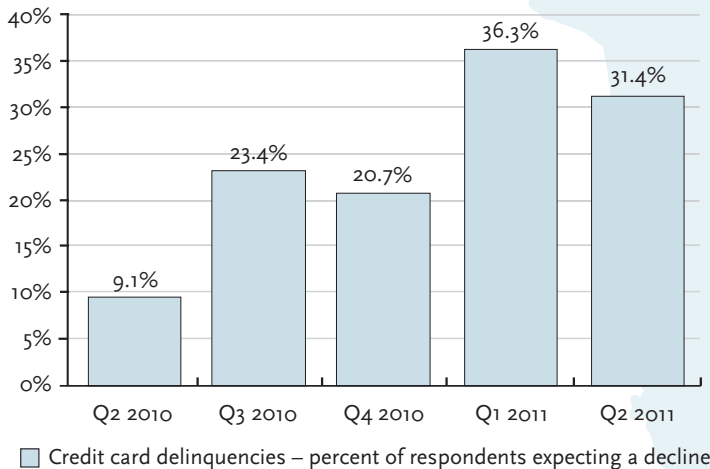
Predictions of a drop in mortgage delinquencies have leveled off somewhat over the past three months.



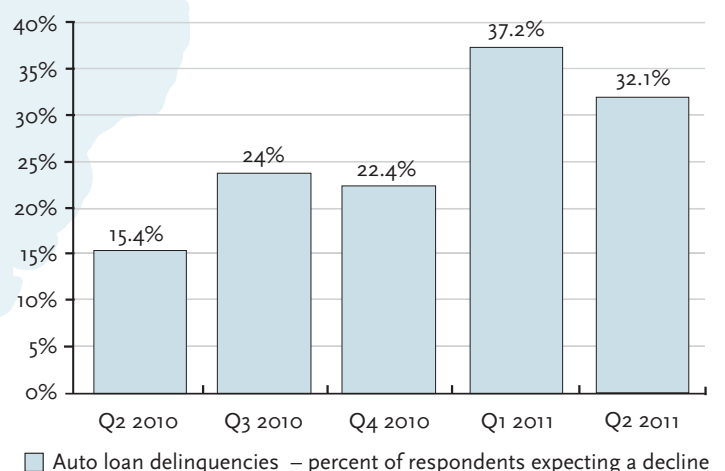
A slight increase in those expecting a drop in home equity delinquencies.



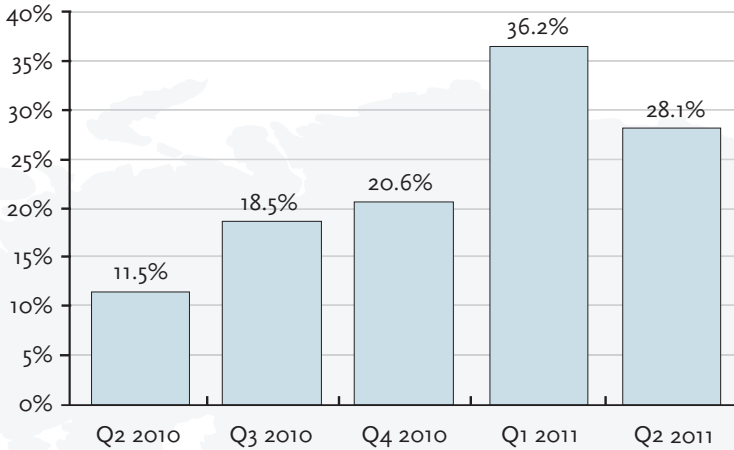
Fewer expect to see a drop in Credit Card delinquencies than in Q1, however still more optimism than Q4 of 2010.



Auto loan delinquencies show a similar trend as in Credit Card delinquencies, with a tapered optimism over the previous quarters.



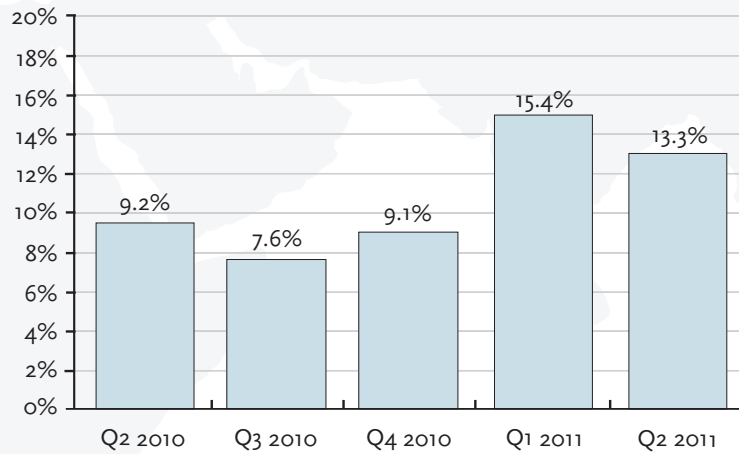
The forecast for small business loan delinquencies has changed, but is still more positive than Q4 2010.



Small business loan delinquencies – percent of respondents expecting a decline

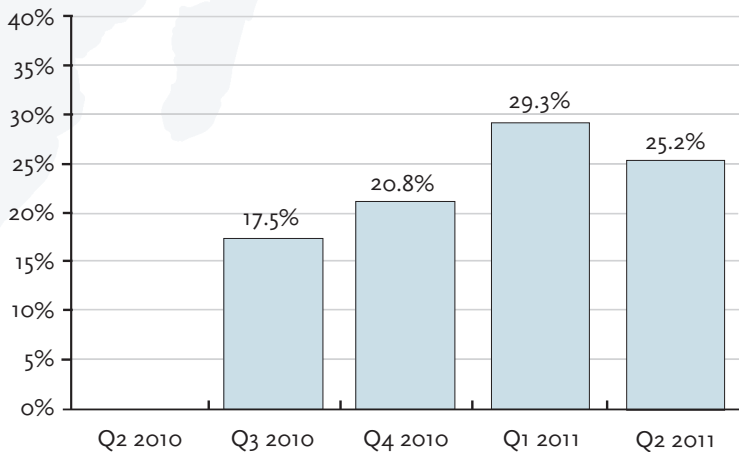
- This cautious tone extends markedly to small business predictions, which while more positive than Q4 2010, are not as positive as Q1 2011.
- There does not appear to be any sign of interest rates going about 6% on 30-year fixed-rate mortgages, a consistent finding over the past 5 quarters.

Student loans, as with other forms of loans, delinquencies are a bit less positive in Q2 than in Q1



Student loan delinquencies – percent of respondents expecting a decline

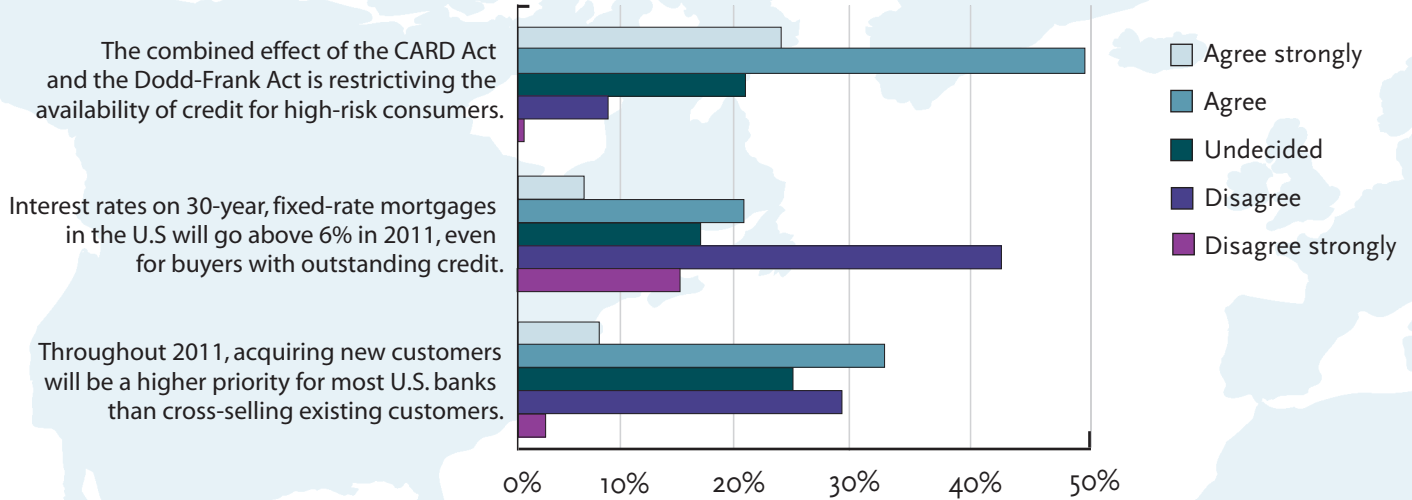
Over a quarter of respondents predict a decrease in loan delinquencies in Q2.



Total number of delinquencies – percent of respondents expecting a decline

Looking Ahead

Choose the answer that best describes your sentiment:

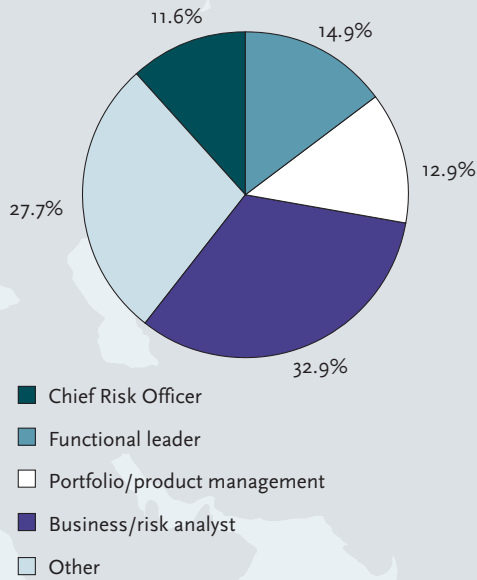


Looking ahead, most (70%) felt that the combined effect of the CARD act and the Dodd-Frank Act would restrict the availability of credit to high-risk consumers. This is slightly less than in the last quarter. While the number of those who disagree has remained relatively stable (a difference of 0.5%), more respondents now felt undecided on the question.

A relatively unlikely event, predicted by only 28.4% of respondents, would be interest rates on 30-year fixed-rate mortgages in the U.S. going above 6% this year. Finally, there appears to be no clear consensus on the direction that banks should take in regards to acquiring new customers or cross-selling existing customers. While 42.1% felt that acquiring new customers should take priority, a quarter (25.1%) are undecided, and 32.7% felt that cross-selling existing customers would be the same priority as acquiring new customers.

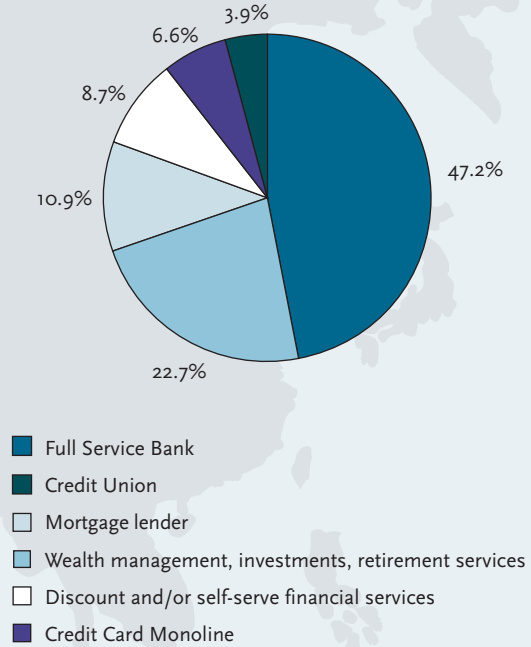
RESPONDENT PROFILE

Your job (select most appropriate)

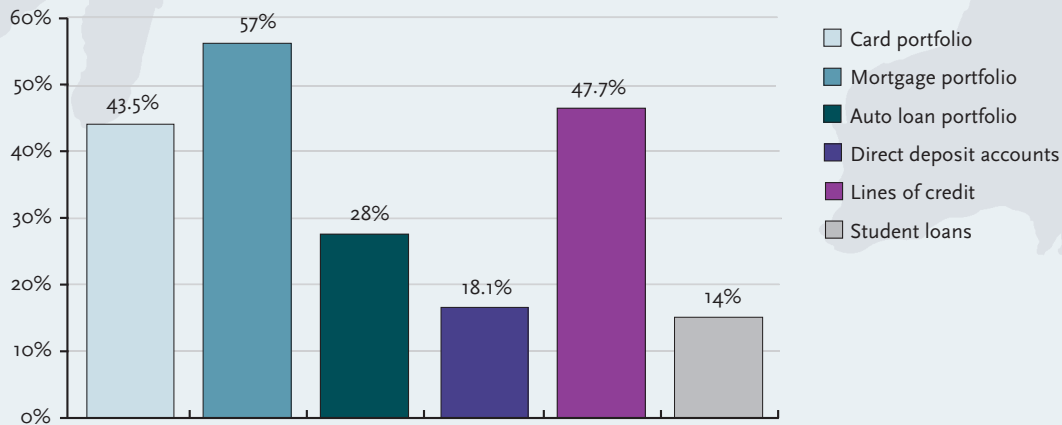


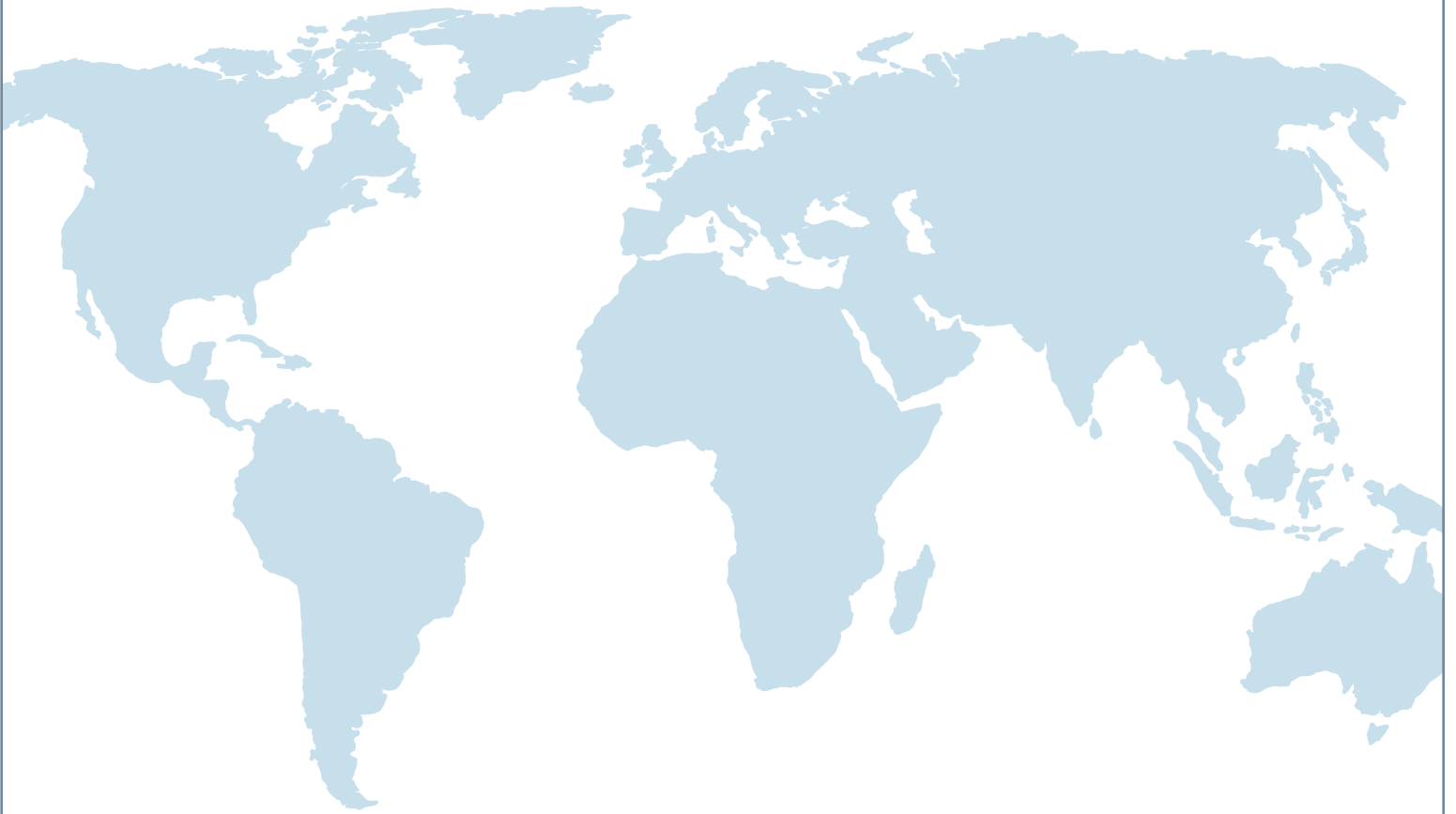
32.9% of respondents identified as a Business or Risk analyst, and 11.6% identified as the Chief Risk Officer of their company (a slight decrease in Chief Risk Officers over the previous quarter). 38.5% work at companies with more than \$40 billion dollars in assets, with a bit less than half (40.1%) working at a smaller firm (up to \$5 billion in assets). Many (47.2%) work at full service banks, and most (64.9%) work for a company with at least national reach.

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



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





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