MOODY'S INVESTORS SERVICE

SECTOR COMMENT

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Banks - US: Q3 consumer loan performance update

Charge-offs drop materially, but delinquencies begin to inch up

In this report[1], we provide key take-aways from the quarterly consumer loan performance of the largest US retail banks[2].

The large banks' credit card charge-offs declined very materially in Q3 2021 from Q2 2021 and their auto loan and residential mortgage charge-offs were largely flat sequentially. However, as the effect of consumer support measures wanes, delinquencies are beginning to inch up. The large banks' year-over-year card balances were flat, auto loan balances were up materially and mortgage balances down materially **(Exhibits 1-8)**.

» **Credit card charge-offs were only 1.60% in Q3 2021, down 1.75% from Q3 2019.** High consumer savings and reduced travel and entertainment (T&E) spending suppressed growth in credit card balances, which were down 0.2% from Q3 2020.

» **Bank auto loan charge-offs declined 0.77% from Q3 2019 to just 0.09%.** Strong car demand drove very high annual loan growth, with loan balances at the large banks up 12.8% from Q3 2020.

» **The large banks' residential mortgage charge-offs were largely unchanged in Q3 2020 from Q3 2019 and remain very low.** The large banks continue to lose market share to non-banks, with mortgage balances down 10.2% from Q3 2020.

We expect bank credit card and auto loan charge-offs will peak in late 2022 to early 2023. Card charge-offs will peak modestly above 2019 levels of around 3.5% and auto loan charge-offs modestly below 2019 levels of around 0.75%[3]. Residential mortgage asset quality will deteriorate only modestly.

Looking at the aggregate consumer loan market, in September revolving loan[4] balance growth slowed and rapid nonrevolving loan[5] growth has slowed. Conversely, residential mortgage balance growth accelerated in Q2 **(Exhibits 9-11)**. Credit card balances will continue to grow modestly as T&E spending further recovers and consumers' excess savings decline. However, the popularity of new buy-now-pay-later offerings from fintech competitors will be a headwind to growth. Aggregate auto loans and mortgages will grow at around the rate of nominal GDP, as low inventory and high prices slow previous rapid growth. Elevated used car and home prices support strong asset quality **(Exhibits 12-15)**.

On the macroeconomic front, improving employment will support solid asset quality as consumer support measures recede. However, the end of eviction moratoriums is pressuring renters **(Exhibits 16-29)**.

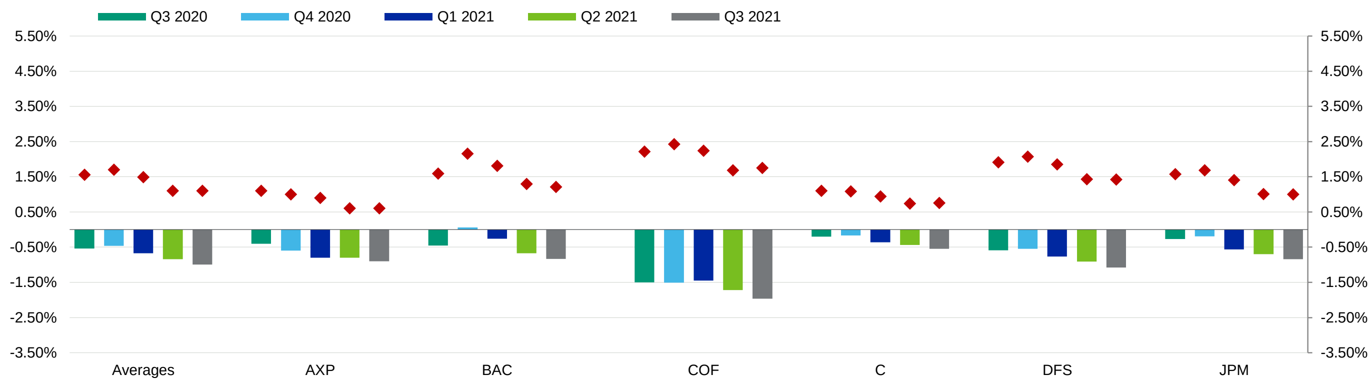
Bank-specific quarterly performance: charge-offs decline materially, but delinquencies begin to inch up

Low delinquencies reflect strong consumer financial health and improving employment as consumer support measures begin to recede

Exhibit 1

Low levels of credit card delinquencies continue; however, delinquencies begin to inch up and will increase over coming quarters as consumer support measures wane

Credit card 30+ day delinquency % (diamonds) and year-over-year change (Q2 and Q3 versus 2019) for selected large bank credit card lenders



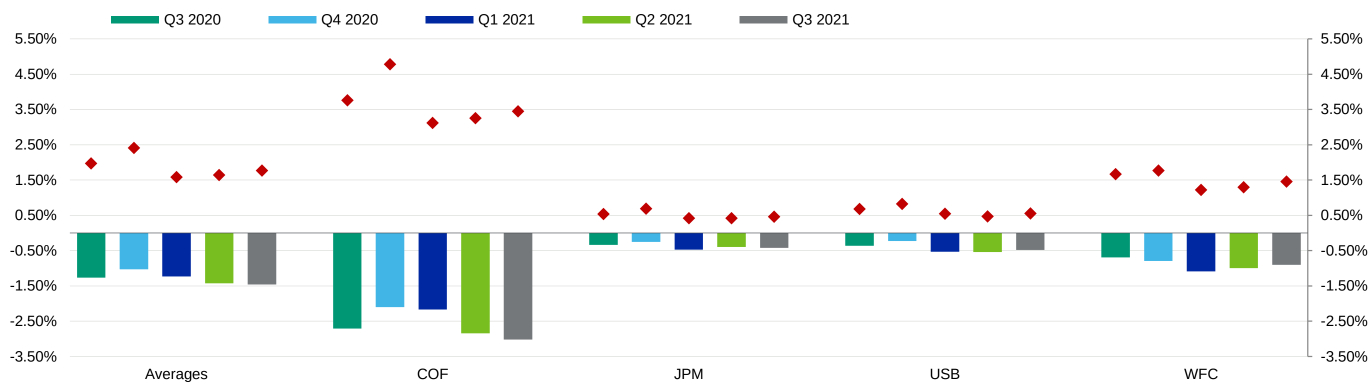
1) AXP includes US card member loans only. 2) COF includes domestic credit card only. 3) Q2 and Q3 2021 are comparing versus 2019, all other periods are year-over-year comparisons; 4) Q3 2021 for AXP, COF and DFS includes July and August 2021 data only.

Source: Company disclosures, Moody's Investors Service

Exhibit 2

Low levels of auto loan delinquencies continue; however, delinquencies begin to inch up and will increase modestly over coming quarters as consumer support measures wane

Auto loan 30+ day delinquency % (diamonds) and year-over-year change (Q2 and Q3 versus 2019) for selected large auto loan lenders



1) Q2 and Q3 2021 are comparing versus 2019, all other periods are year-over-year comparisons; 2) COF includes July and August 2021 data only.

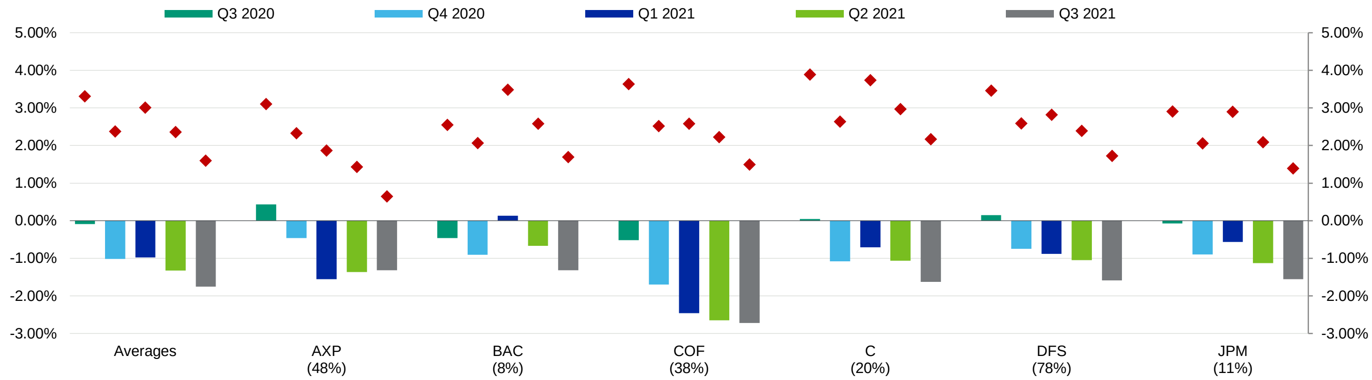
Source: Company disclosures, Moody's Investors Service

Low delinquency formation keeps charge-offs exceptionally low; however, as delinquencies rise over coming quarters so will charge-offs

Exhibit 3

Q3 2021 credit card charge-offs have decreased more than 50% to just 1.60% from 3.35% in Q3 2019 but will begin increasing over coming quarters and peak in late 2022/early 2023

Credit card charge-off % (diamonds) and year-over-year change (Q2 and Q3 versus 2019) for selected large US bank credit card lenders

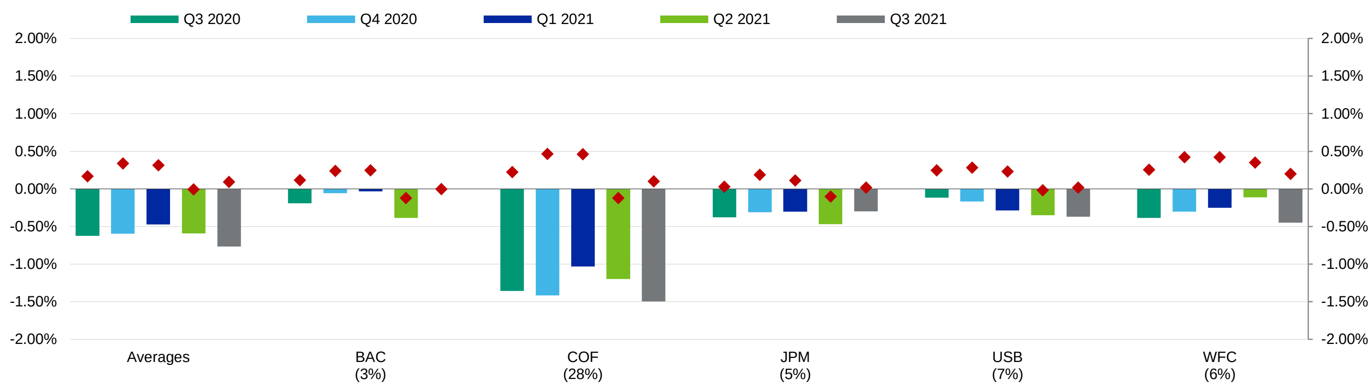


1) The percentages in the X-axis represent card receivables as a proportion of total loans as of first quarter 2021; 2) Q2 and Q3 2021 are comparing versus 2019, all other periods are year-over-year comparisons; 3) AXP, COF and DFS results only include July and August data.
Source: Company disclosures, Moody's Investors Service

Exhibit 4

Q3 2021 auto loan charge-offs were 0.09%, as exceptionally high used car prices resulted in very high recoveries; charge-offs will begin increasing over coming quarters as delinquencies rise and used car prices soften and peak in late 2022/early 2023

Auto loan charge-off % (diamonds) and year-over-year change (Q2 and Q3 versus 2019) for selected large bank auto loan lenders

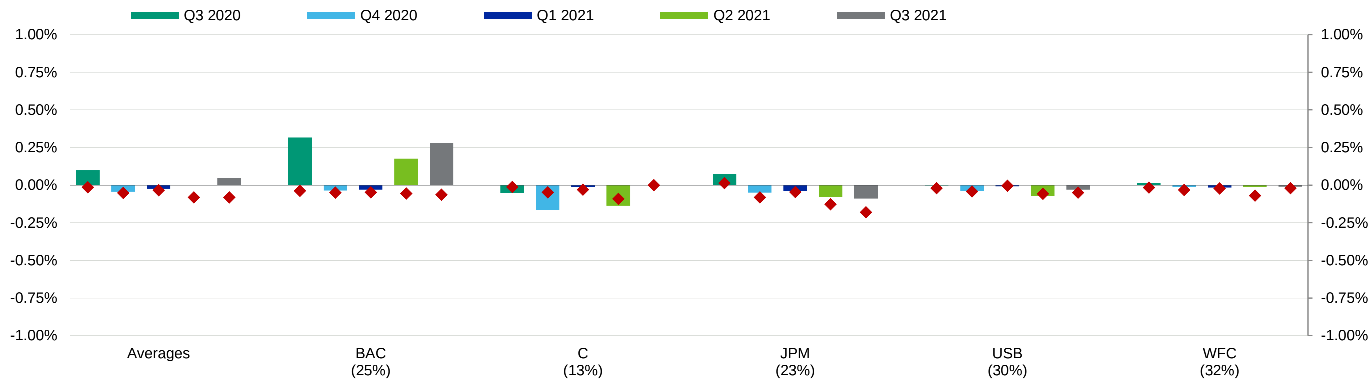


1) The percentages in the X-axis represent consumer auto loans as a proportion of total loans; 2) Q2 and Q3 2021 are comparing versus 2019, all other periods are year-over-year comparisons; 3) COF's results only include July and August data.
Source: Company disclosures, Moody's Investors Service

Exhibit 5

Q3 2021 residential mortgage charge-offs were largely unchanged year-over-year and remain very low; performance will deteriorate, but only modestly given solid underwriting and exceptionally strong home price appreciation

Residential mortgage charge-off % (diamonds) and year-over-year change (Q2 and Q3 versus 2019) for selected large bank residential mortgage lenders



1) The percentages in the X-axis represent residential mortgage loans as a proportion of total loans. 2) Q2 and Q3 2021 are comparing versus 2019, all other periods are year-over-year comparisons.

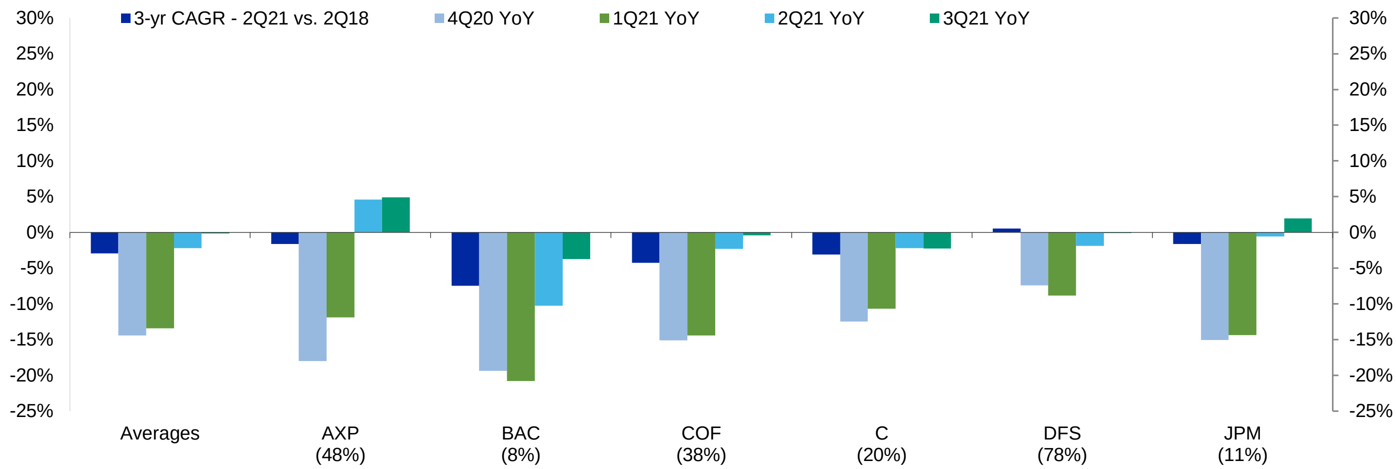
Source: Company disclosures, Moody's Investors Service

Large banks' residential mortgage loan balances declined materially from a year ago, card balances were flat and auto loans grew very materially

Exhibit 6

Credit card balances remain low as still depressed travel and entertainment (T&E) spending and excess savings reduce borrowing to support spending; modest loan growth has resumed as consumer support measures wane and spending picks up; the popularity of new buy-now-pay-later offerings from fintech competitors will be a headwind to growth

One-year and three-year growth rates for selected large bank credit card lenders



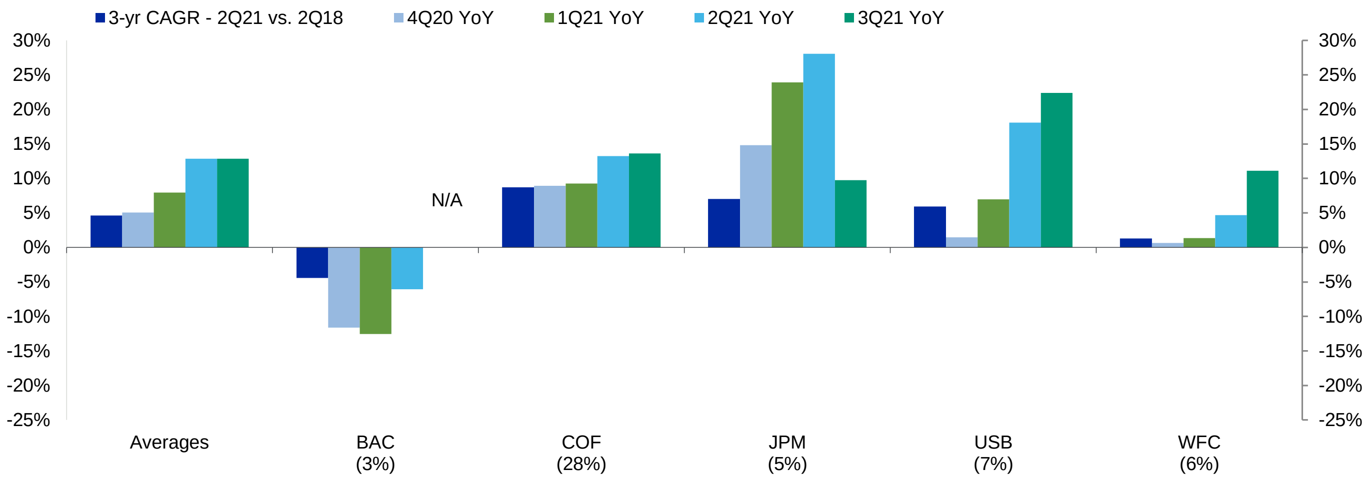
1) The percentages in the X-axis represent card receivables as a proportion of total loans as of the third quarter; for AXP it includes only credit cards; 2) AXP, COF and DFS Q3 results only include July and August results; 3) COF's three-year growth rate is adjusted for the $8.1 billion Walmart co-brand and private label portfolio.

Source: Company disclosures, Moody's Investors Service

Exhibit 7

Strong demand for vehicles drives rapid year-over-year auto loan growth

One-year and three-year growth rates for selected large bank auto loan lenders

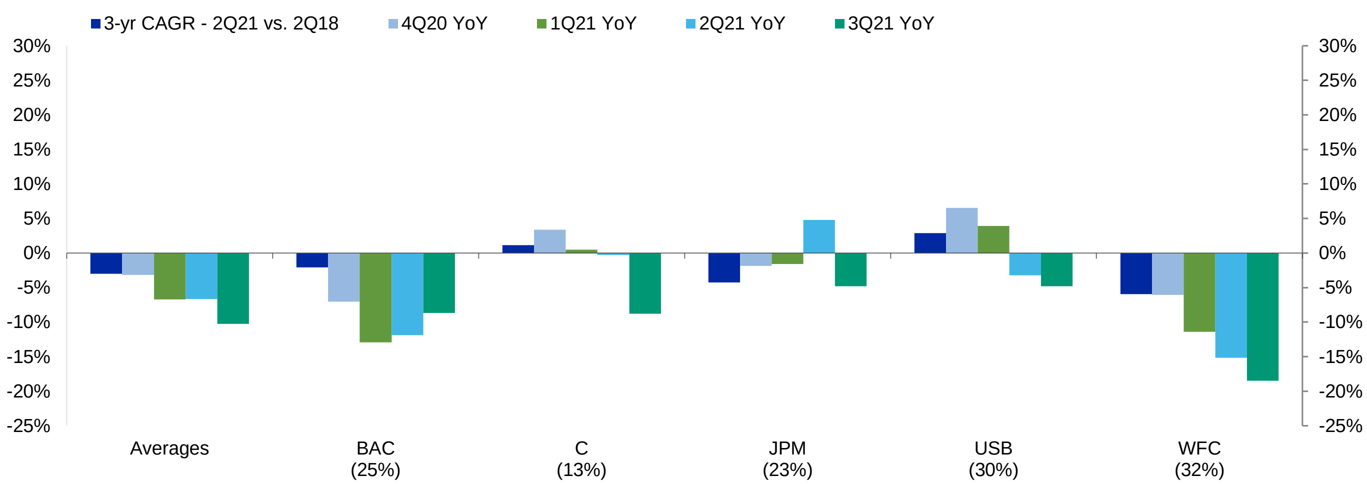


1) The percentages in the X-axis represent consumer auto loans as a proportion of total loans; 2) COF's results only include July and August results.
Source: Company disclosures, Moody's Investors Service

Exhibit 8

Banks' residential mortgage loan portfolios continue to decline as non-bank mortgage companies take market share

One-year and three-year growth rates for selected large bank residential mortgage lenders



1) The percentages in the X-axis represent residential mortgage loans as a proportion of total loans; 2) Citi does not disclose residential mortgages held outside their global consumer banking segment in their earnings release; 3) JPM does not disclose residential mortgages held outside their consumer and community banking segment in their earnings release.
Source: Company disclosures, Moody's Investors Service

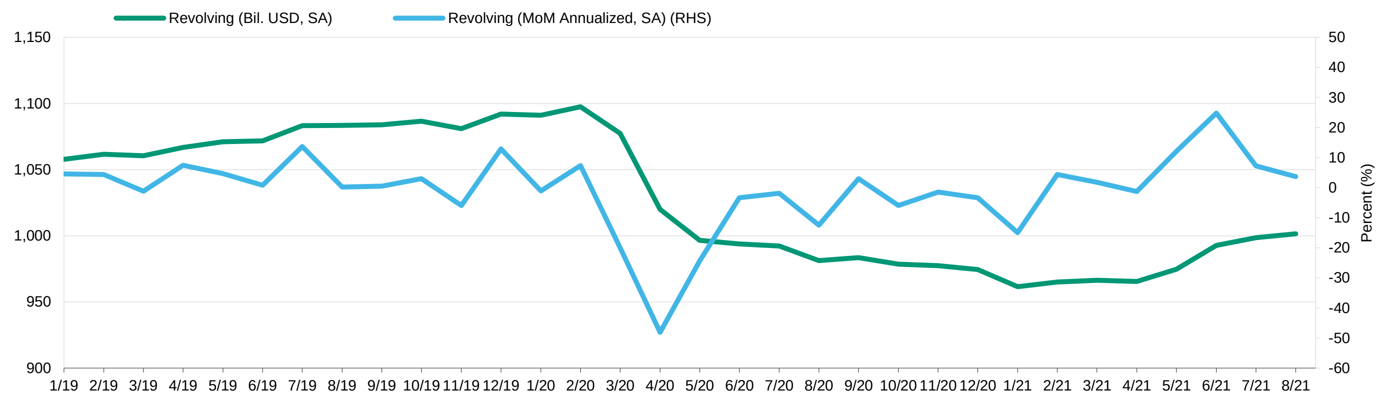
Aggregate consumer credit overview: credit card balance growth slows, slower auto loan growth continues, and residential mortgage growth accelerates; high used car and home prices support strong asset quality

Slower credit card balance growth is partly due to the rise in Delta variant cases, which impeded travel and entertainment spend; slower auto loan growth continued, and seasonal demand drove an increase in residential mortgage balance growth

Exhibit 9

Seasonally adjusted August revolving loan balance growth (such as credit cards) was modest, driven by a slowdown in travel and entertainment spend; growth will continue as travel and leisure spending further recovers and consumers' excess savings decline; however, the popularity of new buy-now-pay-later offerings from fintech competitors will be a headwind to growth

Consumer credit: revolving - owned and securitized - seasonally adjusted

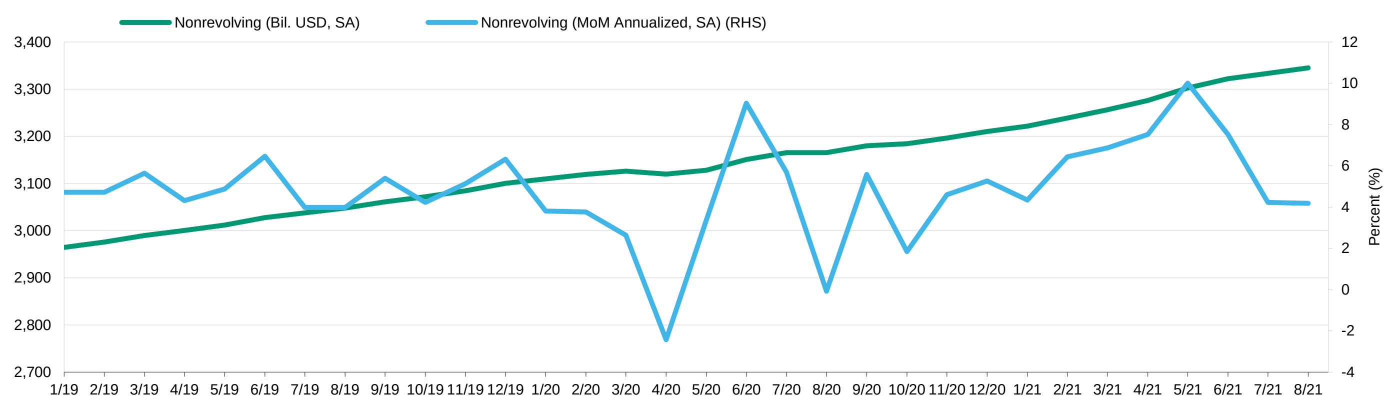


Source: U.S. Board of Governors of the Federal Reserve System, Moody's Investors Service

Exhibit 10

Chip shortages continue to materially slow new auto sales, moderating previously high auto loan growth; over coming months, auto loan growth should remain around current levels, with solid demand offset by low new car sales, high used car prices and a shift to spending on services

Consumer credit: nonrevolving - owned and securitized - seasonally adjusted

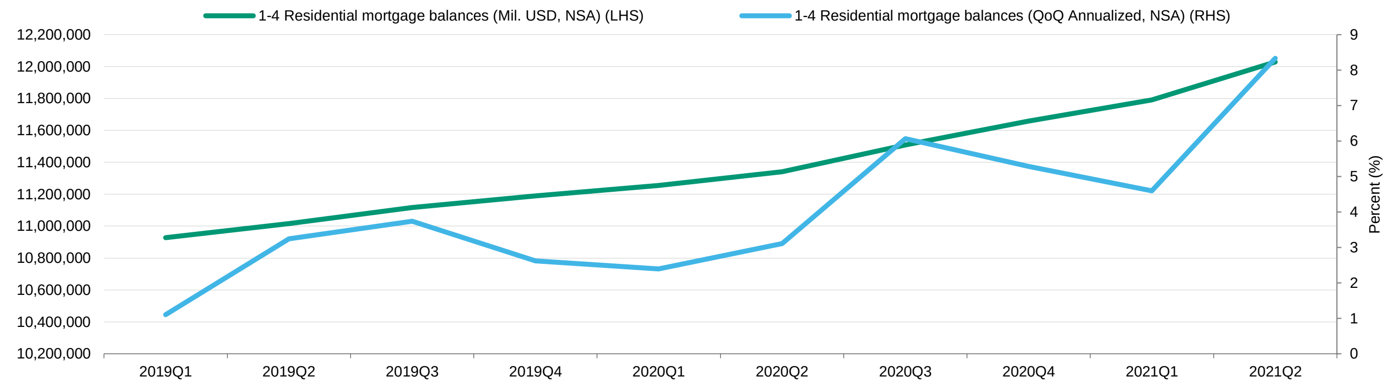


Source: U.S. Board of Governors of the Federal Reserve System, Moody's Investors Service

Exhibit 11

Residential mortgage balance growth accelerated in Q2, driven by seasonal pickup in home sales; high home prices and a lack of inventory will slow balance growth over the coming quarters

1 - 4 family residential mortgage balances



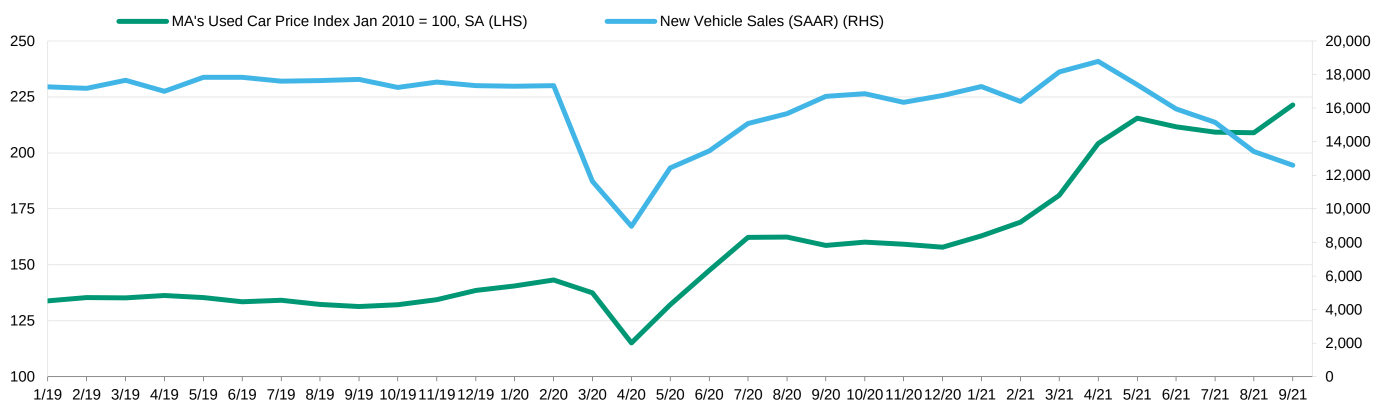
Source: U.S. Board of Governors of the Federal Reserve System, Moody's Investors Service

Steep increase in used car prices and home prices supports strong auto loan and residential mortgage asset quality

Exhibit 12

Exceptional demand along with supply constraints have driven a huge increase in used car prices to record highs, which supports very strong auto loan asset quality

Used car price index and new vehicle sales

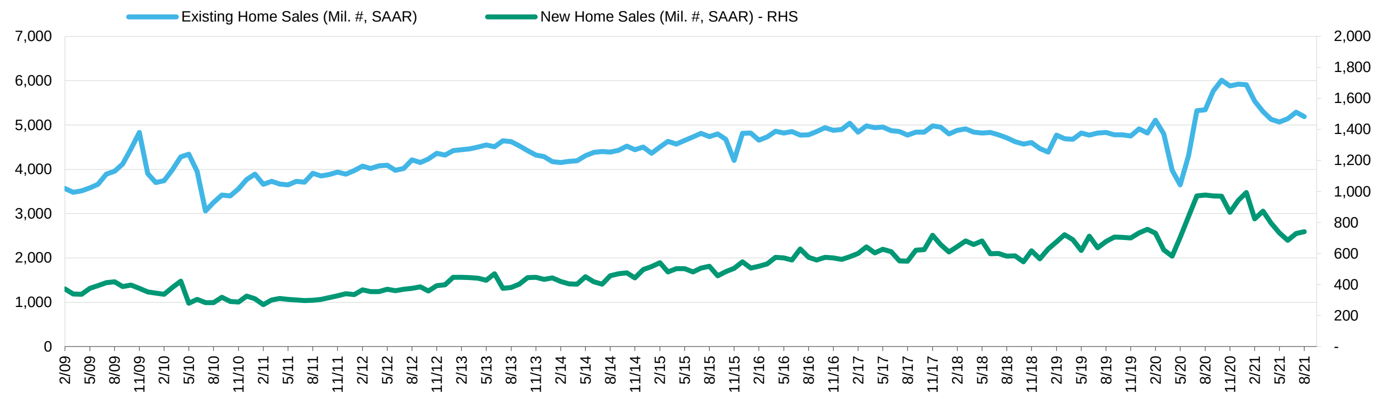


Source: U.S. Bureau of Economic Analysis (BEA), Moody's Analytics; AUTOFOR; Moody's Investors Service

Exhibit 13

Low interest rates and shifting home preferences drove home sales to post 2007-08 financial crisis peak; high prices, lack of inventory and easing of pent-up demand have slowed the pace over last several months

Existing home sales and new home sales

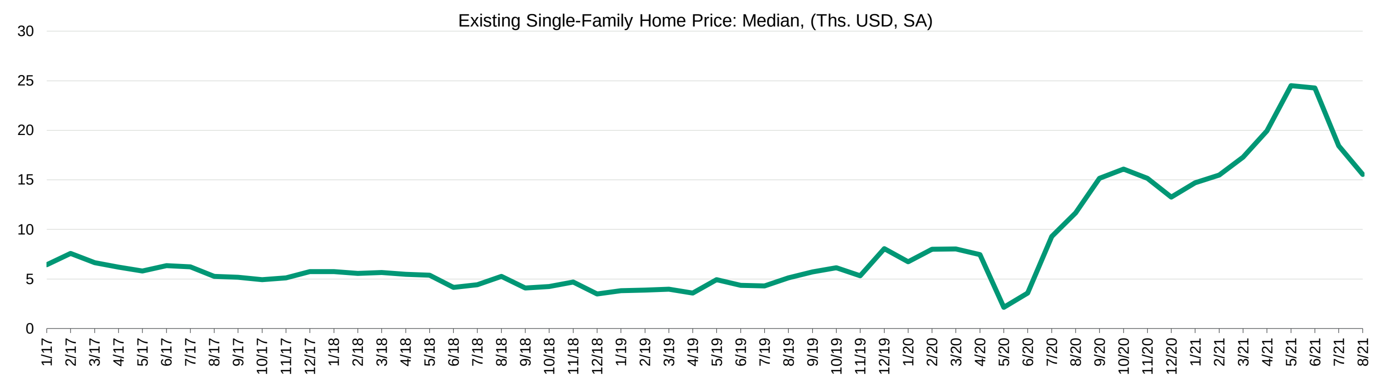


Source: U.S. Census Bureau, National Association of Realtors, Moody's Investors Service

Exhibit 14

Steep price increases and easing of pent-up demand have somewhat moderated exceptional rate of home price appreciation, but price appreciation will still keep the increase in foreclosures modest as well as reduce real estate owned (REO) loss severities in event of foreclosure

Existing Single-Family Home Price Median, (Thousands US$, SA) - year over year %

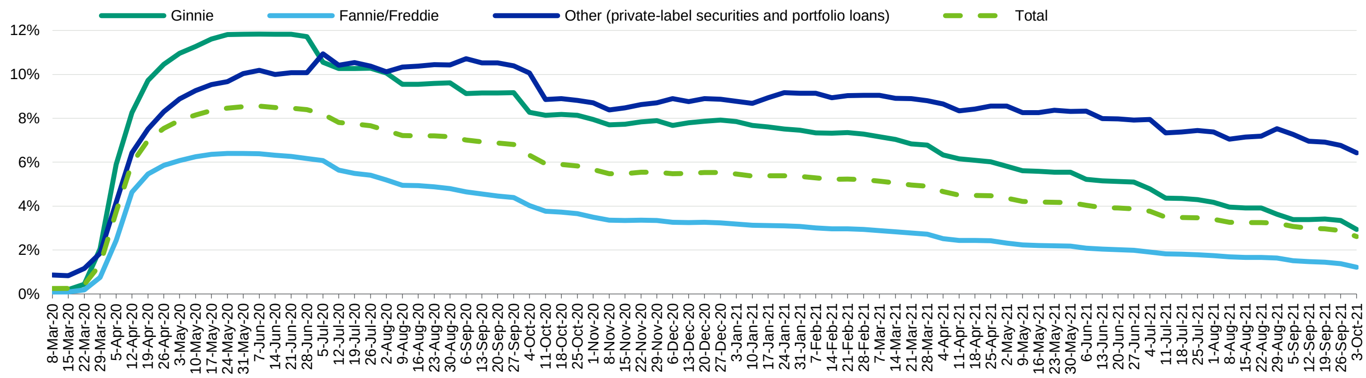


Sources: National Association of Realtors, Moody's Investors Service

Exhibit 15

Improving job market, strong home price appreciation and expiration of forbearance plans continue to drive a rapid decline in residential mortgage forbearance levels

Loans in forbearance as a % of outstanding loan amount



Sources: Mortgage Bankers Association Forbearance and Call Volume Survey, Moody's Investors Service

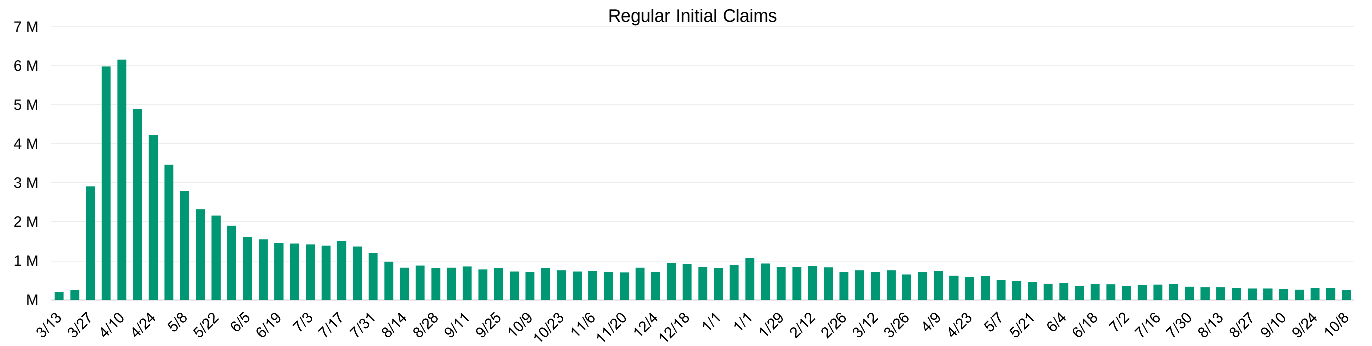
Consumer macroeconomic summary: the jobs recovery will continue; confidence will ebb and flow with the level of COVID cases; the end of the eviction moratorium is pressuring renters; and the savings rate will continue to revert to pre-pandemic levels as the effect of consumer support measures wanes

Unemployment remains high, though average 2021 job growth of 561 thousand per month is strong now that social distancing restrictions have largely been phased out

Exhibit 16

Number of workers applying for unemployment benefits each week will continue to decline as job market recovers, but remains around 100,000 higher than before the pandemic

Weekly initial claims including expanded eligibility - not seasonally adjusted

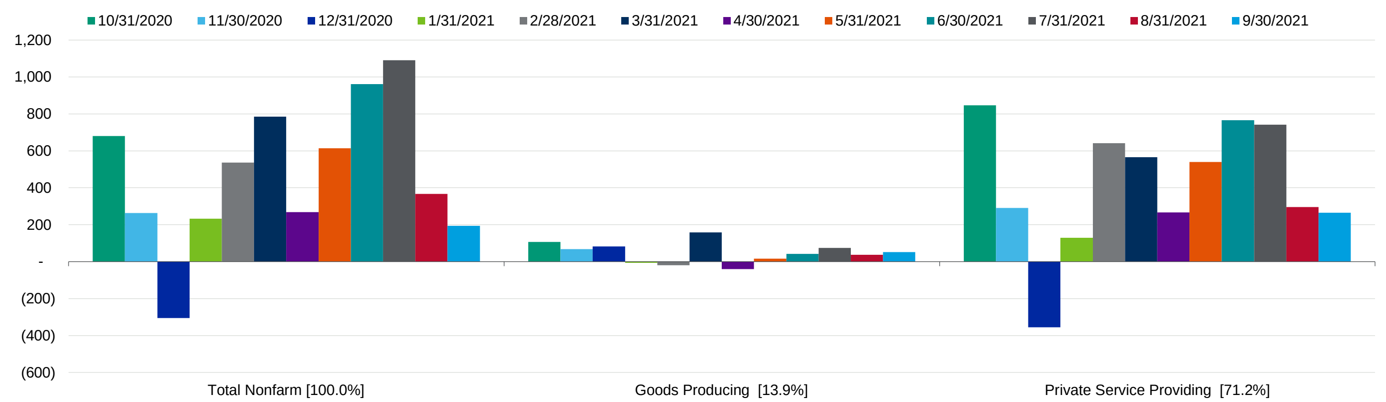


Sources: U.S. Employment & Training Administration (ETA): Unemployment Insurance Weekly Claims Moody's Investors Service

Exhibit 17

Job growth again slowed in September as Delta variant cases kept many from returning to work

Monthly change in employment



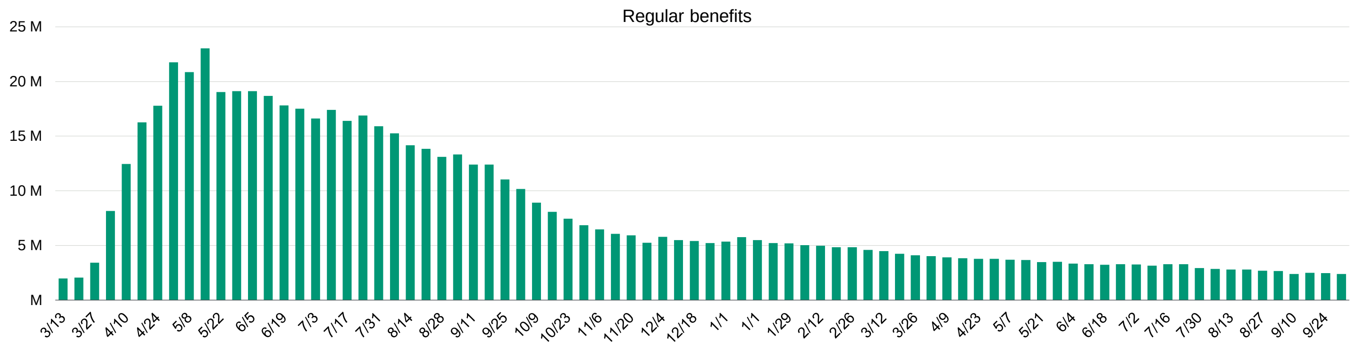
% in [ ] are sector percentages

Sources: U.S. Bureau of Labor Statistics (BLS), Moody's Investors Service

Exhibit 18

Job growth continues to drive decline in individuals collecting unemployment benefits but remains around 900,000 higher on a seasonally adjusted basis than before the pandemic

Number of individuals currently collecting unemployment insurance - not seasonally adjusted

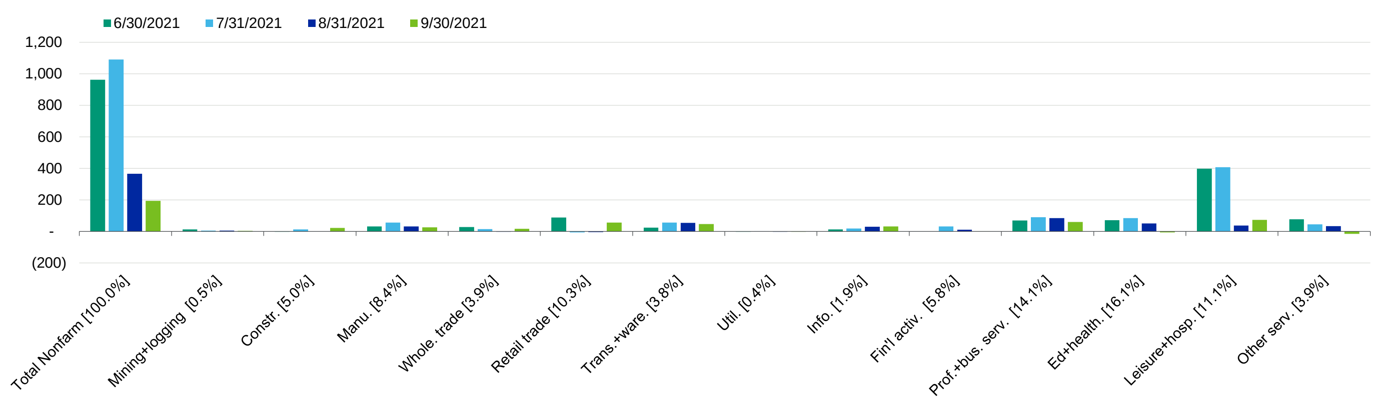


Sources: U.S. Employment & Training Administration (ETA): Unemployment Insurance Weekly Claims, Moody's Investors Service

Exhibit 19

Job growth slows as leisure and hospitality recovery is impeded by spike in Delta variant cases

Monthly change in employment by sector - (Thousands #, SA)



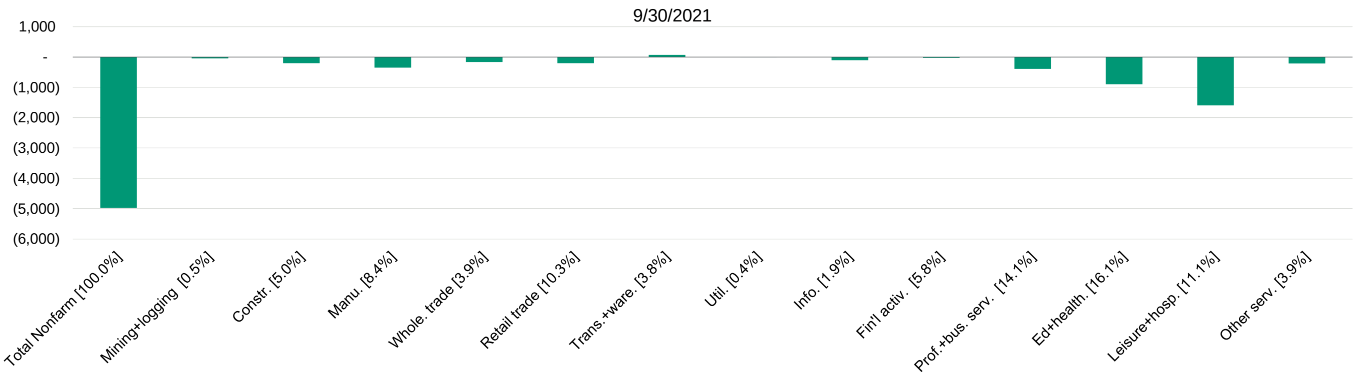
% in [ ] are sector percentages

Sources: U.S. Bureau of Labor Statistics (BLS), Moody's Investors Service

Exhibit 20

Year-to-date job growth has been strong; however, there are 5.0 million fewer jobs now than at start of the pandemic, 32% of which are in leisure and hospitality

Change in number employed by sector from February 2020 - (Thousands #, SA)



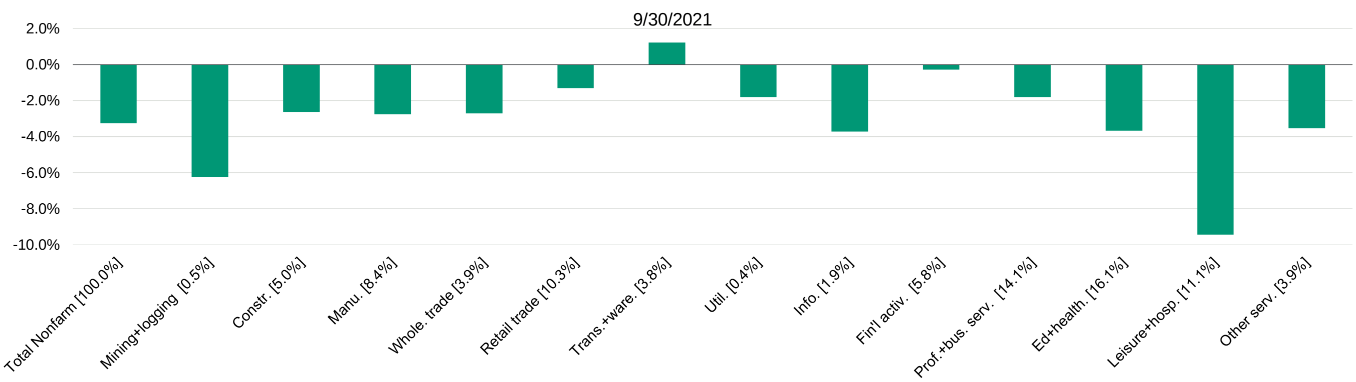
% in [ ] are sector percentages

Sources: U.S. Bureau of Labor Statistics (BLS), Moody's Investors Service

Exhibit 21

Jobs are down 3.3% overall since start of the pandemic; in comparison, the leisure and hospitality sector is now down 9.4%

Percentage change in number employed by sector from February 2020



% in [ ] are sector percentages

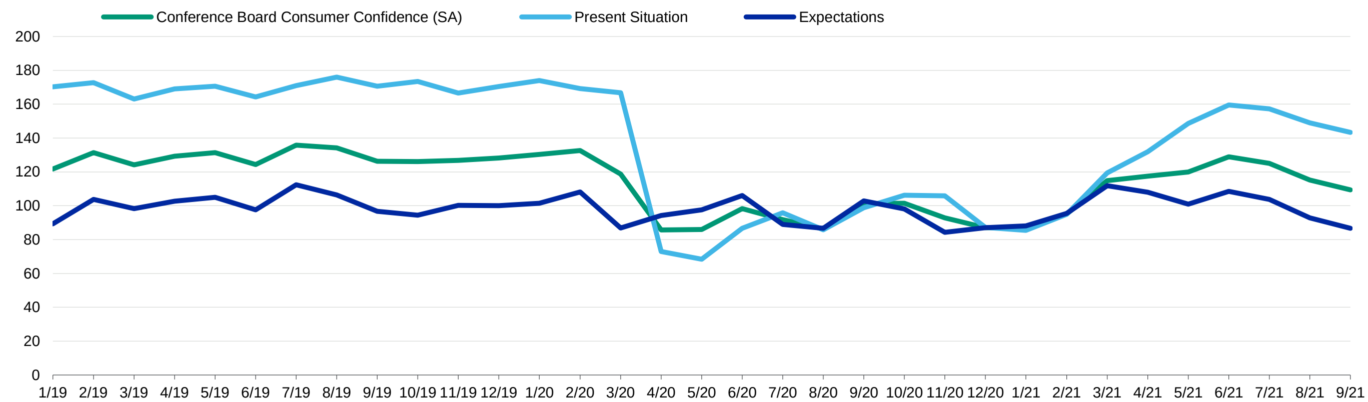
Sources: U.S. Bureau of Labor Statistics (BLS), Moody's Investors Service

Consumer confidence will continue to ebb and flow with the level of COVID-related hospitalizations; job availability remains above pre-pandemic level; consumers will likely shift spending toward services

Exhibit 22

Consumer confidence has dropped materially as COVID cases again spike

Conference Board Consumer Confidence Index

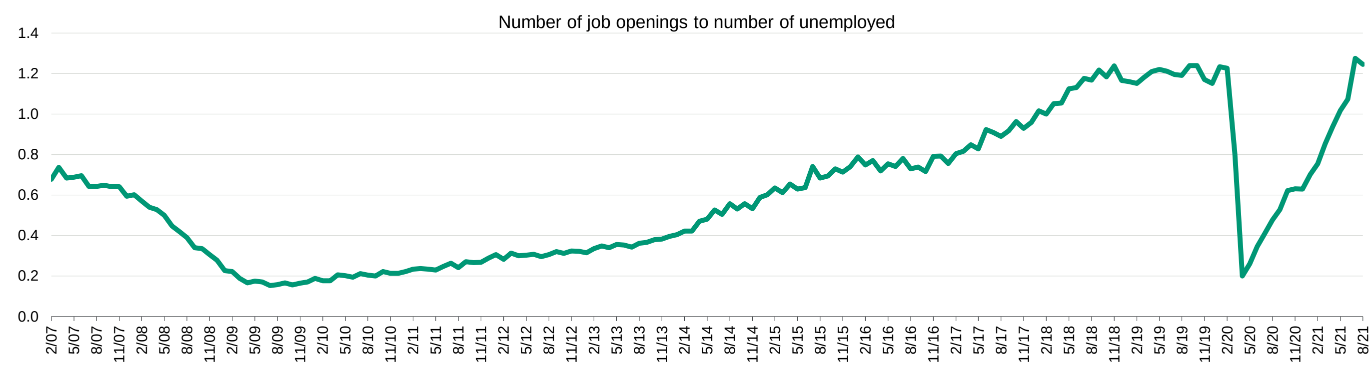


Source: The Conference Board, Moody's Investors Service

Exhibit 23

The ratio of job openings to unemployed declined very slightly and remains above pre-pandemic highs

Number of job openings to number of unemployed

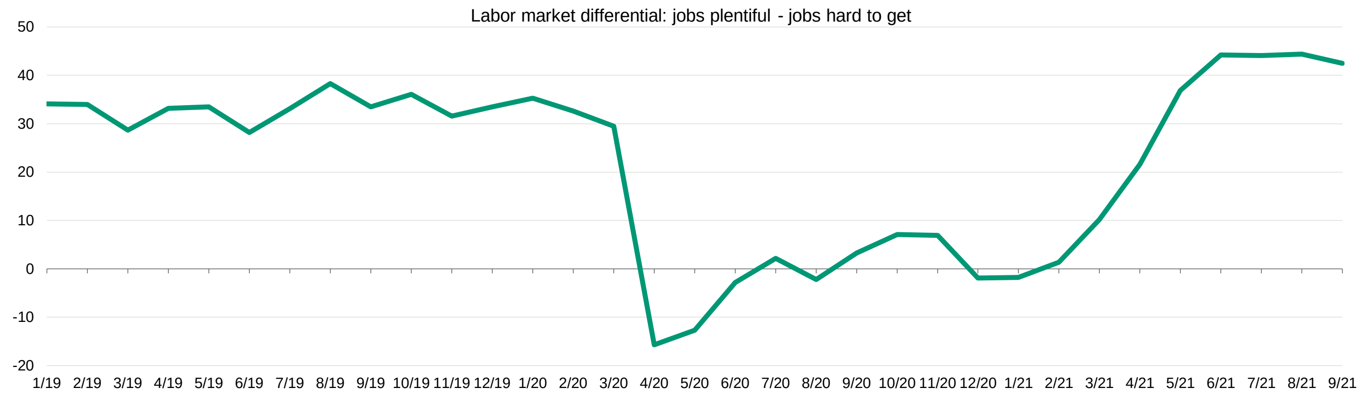


Source: U.S. Bureau of Labor Statistics, Moody's Investors Service

Exhibit 24

Consumers are aware of the abundant availability of jobs

% of respondents who reported jobs were plentiful minus the number who reported jobs were hard to get

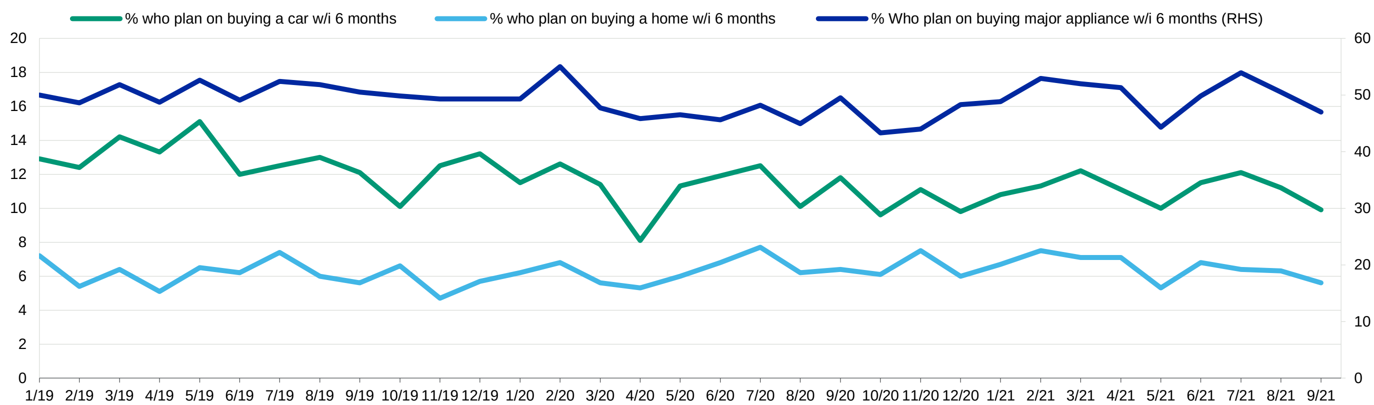


Source: The Conference Board, Moody's Investors Service

Exhibit 25

High home and auto prices, as well as shift in preferences toward services and away from goods, drive decline in consumers planning to buy a car or a home

Plans to buy



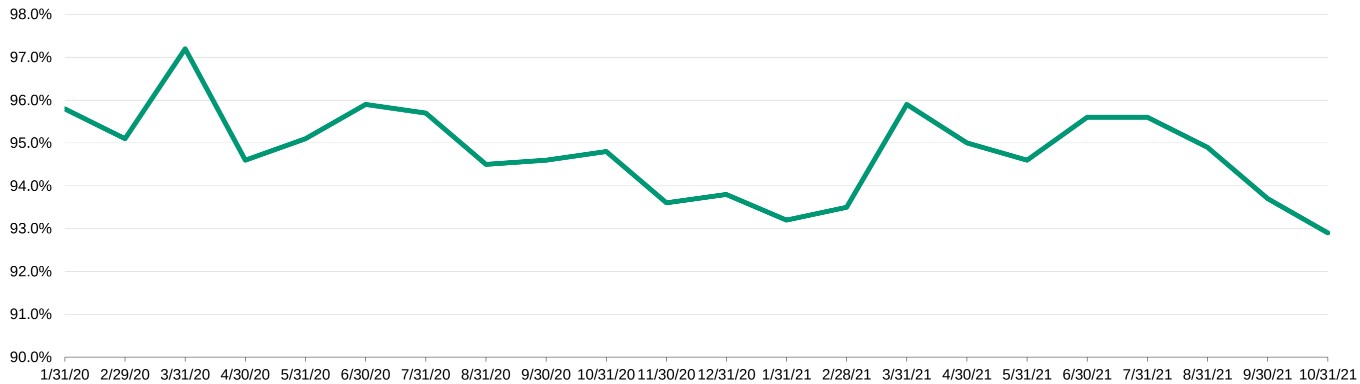
Source: The Conference Board, Moody's Investors Service

Expiration of eviction moratorium is pressuring renters; a modest headwind to credit card and auto loan performance

Exhibit 26

Number of renters late on rent has increased since the summer, driven by the expiration of the eviction moratorium and the spike in COVID cases that has kept some from returning to work

% of rent payments made by the end of each month

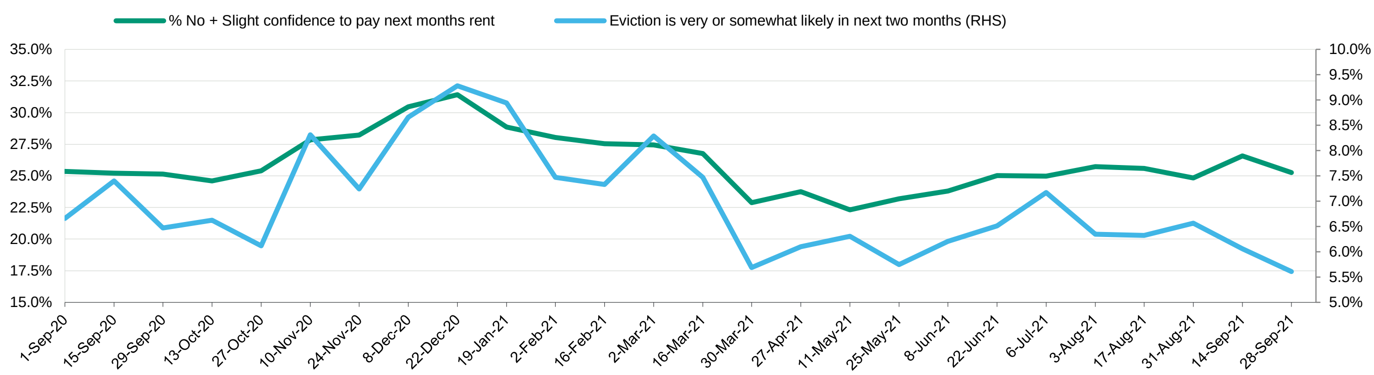


Sources: National Multifamily Housing Council (NMHC), Moody's Investors Service

Exhibit 27

However, share of households fearful of being evicted has declined the last several months and the share of households fearful of not being able to pay rent has only ticked up very modestly

% of renters no or slight confidence to pay rent; % of renters who believe eviction is very or somewhat likely



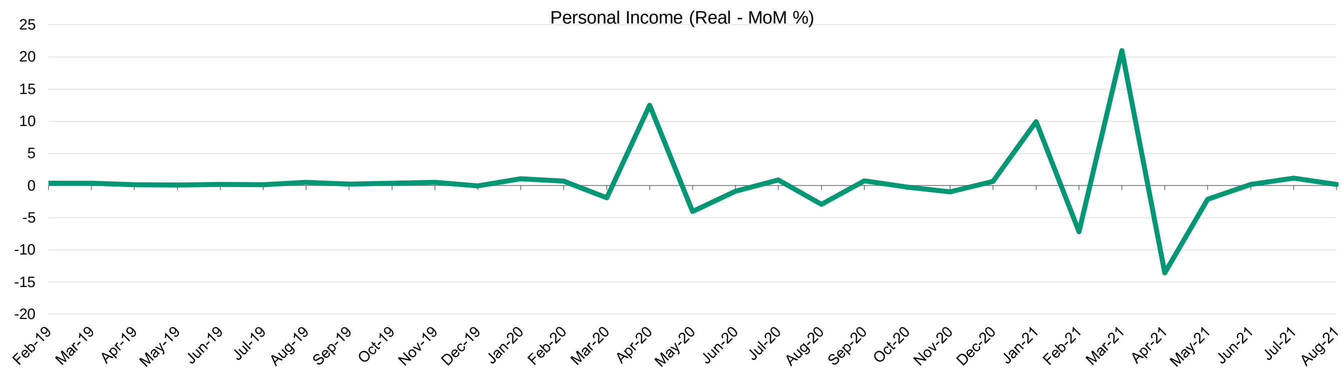
Sources: U.S. Census Bureau (BOC): Household Pulse Survey, Moody's Investors Service

Personal income inched up in July, but the savings rate continues to decline as the impact of fiscal stimulus wanes and opportunities to spend increase

Exhibit 28

August personal income was flat

Change in seasonally adjusted personal income - MoM annualized % Change

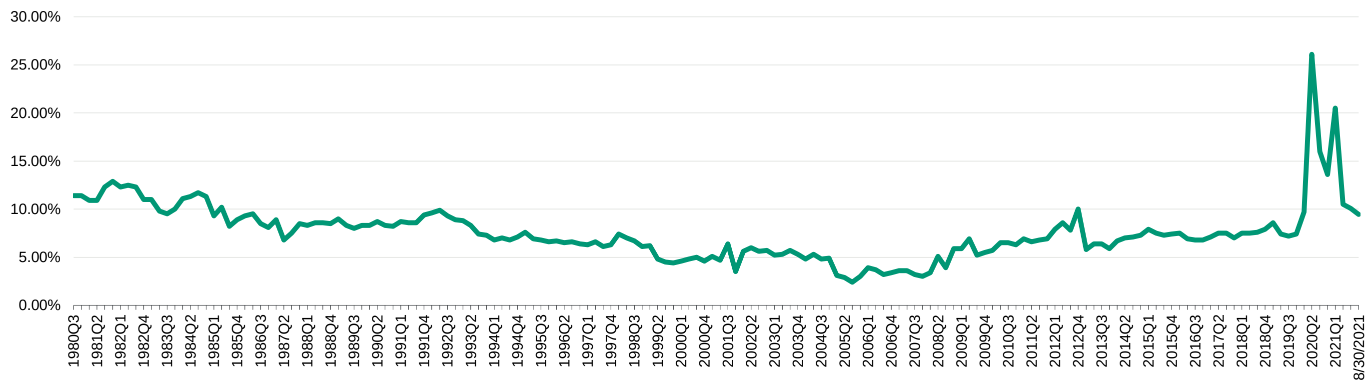


Sources: U.S. Bureau of Economic Analysis (BEA), Moody's Investors Service

Exhibit 29

Savings rate continues to decline as effect of consumer support measures wanes and opportunities to spend increase

Personal saving as a percentage of disposable personal income



Sources: U.S. Bureau of Economic Analysis (BEA), Moody's Investors Service

Moody's related publications

» August consumer loan performance update: Asset quality stays strong, but auto loan and credit card delinquencies begin to rise, 28 September 2021

» July consumer loan performance update: Asset quality stays strong; credit card balances begin to grow again, 1 September 2021

» Q2 Household debt and credit update: Strong home and car demand drives largest increase in consumer loans since 2013, 3 August 2021

» Q2 Senior Loan Officer Survey update: Lenders' material loosening of consumer underwriting standards continues, 2 August 2021

» Q2 consumer loan performance update: Strong asset quality continues to improve; balances remain down except for auto, 19 July 2021

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Endnotes

1 Each quarter we publish three pulse of the US consumer reports analyzing: 1) consumer loan performance in the current quarter for the largest US banks, 2) senior loan officer survey results and 3) the New York Federal Reserve Bank's Household Debt and Credit report results.

2 American Express Company (AXP, A3 stable); Bank of America Corporation (BAC, A2 stable); Capital One Financial Corporation (COF, Baa1 stable); Citigroup Inc. (C, A3 stable); Discover Financial Services (DFS, Baa3 positive); JPMorgan Chase & Co. (JPM, A2 positive); U.S. Bancorp (USB, A2 negative); and Wells Fargo & Company (WFC, A1 negative)

3 0.75% is the average of the large bank auto lenders included in this report.

4 Revolving loans include credit cards.

5 Nonrevolving loans include auto loans and student loans.

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