

# Consumer credit health stays negative

The TransUnion Consumer Credit Index (CCI) declined to 43.4 in the third quarter from 44.8 in the previous quarter and the latest data reflects a near 3-year downward trend in the index from its highs of 63.6 in 2010



According to TransUnion, the fall in the index reflects deteriorating household cash flow as living costs rise and a weak job market take their toll on income security.

The report also found that the household cash flow situation may be as challenging as it was in early 2009, a recession year. The index has now been below 50.0 for a full year.

The CCI is an indicator of consumer credit health based on a 100-point scale. An index above 50.0 indicates improving credit health, below 50.0 represents deterioration. Credit health refers to the ability of consumers to service existing credit obligations within the constraints of monthly household budgets.

TransUnion's chief executive Geoff Miller, said that consumer credit health continued to deteriorate and that the same trends from the second quarter were still relevant in the current figures.

"Consumer loan defaults continue to rise, distressed borrowing has held steady, but credit card usage remains high and household cash flow is deteriorating. None of these trends are new or particularly surprising," he said.

## Distressed borrowing not going up

Encouragingly the index shows that distressed borrowing is not rising, but there may be other evidence from the TransUnion database that suggests some segments of the market are trying to resort to this type of borrowing behaviour.

"The demand cycle for unsecured lending is extremely robust. With defaults clearly rising and household cash flow weak, this may suggest another form of distressed borrowing not accounted for when looking only at credit card use. This may point to lower income groups experiencing the greatest debt distress," said Miller.

Miller pointed out that riskier conditions were causing credit providers to become more cautious in their lending practices. "Approval rates by credit grantors have slowed, indicating that they are generally applying a more conservative approach to mitigate their rising risks."

Miller said that this was an important trend for credit providers since their older loan portfolios seemed to be deteriorating. "Previously credit standards were more relaxed than they are now, so this should start to reflect in better performing loan portfolios further down the line."

Released on a quarterly basis to the public, the TransUnion CCI measures aggregate consumer loan repayment records; tracks the use of revolving consumer credit facilities as an indicator of distressed borrowing; estimates household cash flow as a means of determining financial pressure/relief; and quantifies the relative cost of servicing outstanding debt.

These aspects are then combined into a single numeric score of consumer credit health. The index is compiled by TransUnion Credit Bureau, with technical support from market intelligence firm ETM Analytics.

For more, visit: <https://www.bizcommunity.com>