MODEL AND STRATEGY MANAGEMENT FOR MARKET VOLATILITY

What lenders should do now

For many lenders, changes in the condition of the economy can create disruptions — especially when it comes to their analytical models and lending strategies.

External economic factors that can cause model disruptions

Inflation

Downward movement in inflation is a positive sign that the interest rate hikes from the Federal Reserve are starting to take effect.

Inflation appears to be moderating from its peak but continues to run hot in key household essentials.

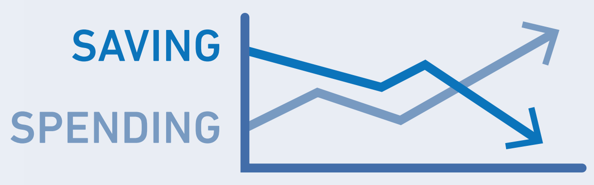
Labor market performance

Unemployment remains near record lows in many states, but there has been a recent surge of layoffs in the technology industry.

Shortages in the service sector have driven up wages for the lower wage groups and for job switchers.

Consumer behavior

In part due to higher levels of spending, the personal savings rate reached a 17-year low of 2.3% in October 2022.*



Volatile market conditions

The recovery has been uneven, and the future remains unpredictable for many organizations across industries.

New home sales have slowed to pre-pandemic levels and homebuilder sentiment has fallen for 11 straight months as affordability has constrained buyers.*

Potential future credit losses

Lower-income consumers — especially those designated as “sensitive” to inflation — are seeing delinquency rates rise.

Together, these factors can disrupt model performance and degrade strategies over time. In order to accurately assess risk and optimize decisioning as the market shifts, **it’s crucial for lenders to implement model risk management strategies, including consistent model health monitoring and recalibration.**

Here are key actions that credit risk executives should take now

Increase monitoring frequency.

With ongoing market shifts, sporadic model and decision strategy monitoring is no longer enough. **Automating the monitoring process allows you to closely follow real-time economic and consumer behavior changes** to meet customer needs and accommodate market fluctuations.

Know exactly where to adjust for quick wins.

Gaining a clear understanding of portfolio performance throughout the entire acquisitions process is crucial. **Pinpointing exactly where there may be a problem allows you to determine adjustments** that can be made quickly and easily for short-term wins.

Set up for rapid recalibration or rebuild of models and decision strategies.

The key to making the best business decisions is consistently adjusting to new macro conditions, as changes in the economic environment will ultimately impact portfolio performance. **It is important to know when to recalibrate or rebuild your models and decision strategies, while also having the ability to deploy them quickly to meet market demands.**

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*Source: 2022 Experian Edge Economic Chartbook; Experian State of the Economy (December 2022)