PERSONAL, UNSECURED LOANS: COVID-19 IMPACT

Historically, it has not been cost-effective to offer mortgage-style hardship relief for small dollar loans.

Lengthy, manual financial review processes are expensive to staff and often cannot get a sufficient return on the investment, leaving lenders' hands tied and borrowers at high risk of default.

by Constant.ai

MARCH - APRIL

Regulators issued guidance allowing for short-term extensions and forbearance plans without proof of hardship, ability to pay or information about how to sustain payments at the expiration. Collection moratoriums, late fee waivers and suppression of credit reporting hit headlines quickly.

MAY - JUNE

Unemployment is expected to rise despite a slow lifting of stay-at-home rules. Local and state governments face layoffs due to COVID-19-driven budget crises. Hardship relief requests will likely continue.

JUNE - AUGUST

As collection moratoriums are lifted and short-term payment extensions expire, extended relief will likely be needed. Depending on the flexibility of the lender/servicer, delinquency roll rates are likely to accelerate, as credit scores deteriorate.

AUGUST - OCTOBER

The timeline to collect and record a total loss is shorter, as compared to real estate secured loans. As relief options tighten, delinquency worsens and charge offs accelerate. Few relief options exist to restructure and return borrowers to performing. We expect to see the first wave of charge offs for personal loans.

FASTEST GROWING DEBT CATEGORY

Unsecured, personal loan debt is the fastest growing debt category in the U.S. and topped $160 billion, as of Q4 2019. This was largely driven by easy access to credit provided by fintech lenders.