LexisNexis® RISK SOLUTIONS

Top Five Credit Risk Assessment Trends in 2025

Predictions, data and insights for navigating the changing landscape of credit risk assessments

The credit risk assessment ecosystem is undergoing a transformation driven by evolving regulatory guidelines, changing customer behaviors and shifting reporting practices. Additionally, 2024 market activity suggests a "K-shaped" recovery from recent economic instability, with different groups experiencing the economy in very different ways; some consumers and businesses are thriving and looking to spend and borrow accordingly, while others face significant financial stress, economic instability and mounting debt.

This dynamic environment will present both challenges and opportunities for financial institutions over the next year. Lenders who prepare effectively based on a clear perspective of the market landscape can position themselves to drive growth with confidence.

Here are our predictions for the top credit risk trends to watch in 2025.

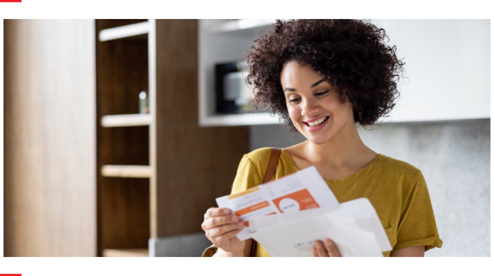
TREND ONE

Prescreen marketing volume will grow

Prescreen volumes are anticipated to grow in a largely cyclical manner, driven by the improving interest rate environment[1] and expanded securitization options for lenders — both of which create favorable conditions for prescreen campaigns.

Organizations must leverage a broader range of data to stay competitive. Incorporating alternative data can:

- Enhance targeting
- Refine segmentation
- Optimize approval strategies



Marketing spend is up for new card origination campaigns[2]:

- 0% offers
- Invitations to apply

Key takeaway

Prescreen competition is fierce — and it will only intensify with the anticipated interest rates drop. Financial institutions looking for a strategic edge will find ways to accelerate discovery of the best prospects. Leveraging advanced alternative data sets and powerful analytics solutions can help lenders optimize prescreen offers — empowering them to identify and swap out their riskiest prospects and customers for often overlooked consumers who better fit the organization's risk profile.

TREND TWO

High first-party fraud rates aren't going away

Financial stress and high default rates can lead to increases in first-party fraud, which is extremely difficult to prevent at time of application.

54%

of total fraud losses at account opening are caused by first-party fraud as reported by U.S. lenders[3]

Americans are financially stressed and pushed to the limits. Many are turning to credit cards to stay afloat.[4]

37% of cardholders have maxed out or almost maxed out a credit card since March 2022[4]

The application rate for credit card limit increases in 2024 was 14.3%, well above the 2019 rate of 12.7%[5]

Key takeaway

In an environment where the risk of first-party fraud is likely to increase, financial institutions need to find effective risk solutions to combat this unique form of fraud. They will need to broaden the scope of their data resources to incorporate FCRA-actionable credit risk assessments. By combining alternative data insights with robust analytical capabilities, lenders can more confidently identify intent to commit first-party fraud at the time of application. Early detection of first-party fraud can save money and resources by reducing manual reviews and enabling quicker decline decisions.

TREND THREE

Increasing demand for credit from consumers and small businesses

The average consumer credit score has dropped for the first time since 2013,[6] but consumers have pent up credit demand, likely from waiting for interest rates to drop. There may also be an increase in consumers looking to leverage untapped home equity as loan rates fall.

Indications of rising demand include:

- 30% increase in credit card demand from January 2022, as of April 2024[7]
- Increase in auto loan demand during that same time[7]
- Consistent volume of small business credit demand since January 2022 (despite a 38% drop in lending)[7]

Recent and anticipated interest rate drops[1] **suggest credit demand will continue to trend up.**

Key takeaway

In light of the K-shaped recovery and the expected increase in credit demand, lenders may want to rethink how they assess risk. It will be important to distinguish between customers who are waiting for interest rates to drop and those who have already fully leveraged their available credit and may be seeking new credit out of financial stress. Incorporating alternative data insights can help lenders identify and serve more creditworthy borrowers while mitigating risk, allowing them to drive long-term growth.

TREND FOUR

Expanding adoption of alternative data across the customer journey

Traditional credit data signals alone may no longer provide a robust representation of true consumer credit health, due to changing regulations, shifting credit reporting practices and increased use of non-reported financial products.

Credit data use for lending decisions has evolved significantly for U.S. lenders compared to the previous year:

88% are more confident using alternative credit data[8]

60% are less confident using traditional credit data alone[8]

Key takeaway

As regulations change, use of non-reported financial products increases and credit reporting practices shift, more lenders are turning to alternative data to supplement traditional credit data. Alternative data insights can help close visibility gaps in understanding consumer credit health, empowering risk managers to acquire and maintain valuable customers who match their organization's risk profile and enable growth.

TREND FIVE

Delinquencies and bankruptcies are on the rise

Pressure is mounting on loan servicing and debt recovery efforts and will only increase with rising levels of household debt[9] and the resumption of federal student loan payments.

Lenders reported an increase in delinquencies in the last 12 months and expect this trend to continue:[8]

- A rising number of consumers are going into third-party collections without prior delinquencies on their credit report[7]
- +15.4% increase in bankruptcies in 2024 compared to previous year[7]
- First deviation of seasonal consumer bankruptcy patterns in 10 years (Continued rise in 2024 bankruptcy filings past March, the typical peak month)[7]

Key takeaway

To mitigate the impact of rising delinquencies, lenders should look for ways to improve their ability to book more good loans at origination. Financial institutions need a clearer, more timely and more holistic view of the customers in their books to better forecast potential risk for such accounts; just because a payer is current on one account doesn't mean they're up to date on all payments across all accounts. Leveraging alternative data and bankruptcy insights can help identify and prioritize collections from account holders who are willing and able to repay their debts.

The credit risk assessment landscape will continue to evolve and ongoing shifts in regulatory priorities will continue to impact how that evolution occurs. Financial institutions should consider expanding their credit risk assessment capabilities to better identify growth opportunities and risk within the anticipated surge in credit demand. Lenders can meet these challenges head on with alternative credit data insights from LexisNexis® Risk Solutions.

Augmenting traditional credit data with alternative data insights can help lenders and service providers build a more comprehensive understanding of account behavior across the customer lifecycle, so they can more effectively match customer credit risk to their organization's risk tolerance at every stage:

Customer acquisition & origination > Account management > Collections and recovery

Contact us to learn how LexisNexis® Risk Solutions can help your organization improve outcomes across the customer life cycle, mitigate risks, maintain portfolio growth and drive profitability.

LEARN MORE

risk.lexisnexis.com/credit-trends

Sources

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