

Wilary Winn University 2026: Macroeconomic Update & Credit Loss Indicators



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Objectives & Resources

Session details, objectives, and reference materials

- 1 Identify current macroeconomic forces shaping credit performance across asset classes
- 2 Analyze early warning signals including delinquency rates and charge-off trends.
- 3 Apply cross-asset findings to show what these trends may signal for future risk, reserve adequacy, and strategic decision-making.

Polling questions will be included throughout the session.

Session Agenda

01

Macroeconomic Landscape

Unemployment, Housing,
Inflation, Fed Funds, and
their credit risk relevance

02

Asset Class Credit Conditions

Commercial Real Estate,
Residential Real Estate,
Vehicle Lending

03

Synthesis & Strategic Implications

Connecting signals to
forward-looking risk and
strategic decisions

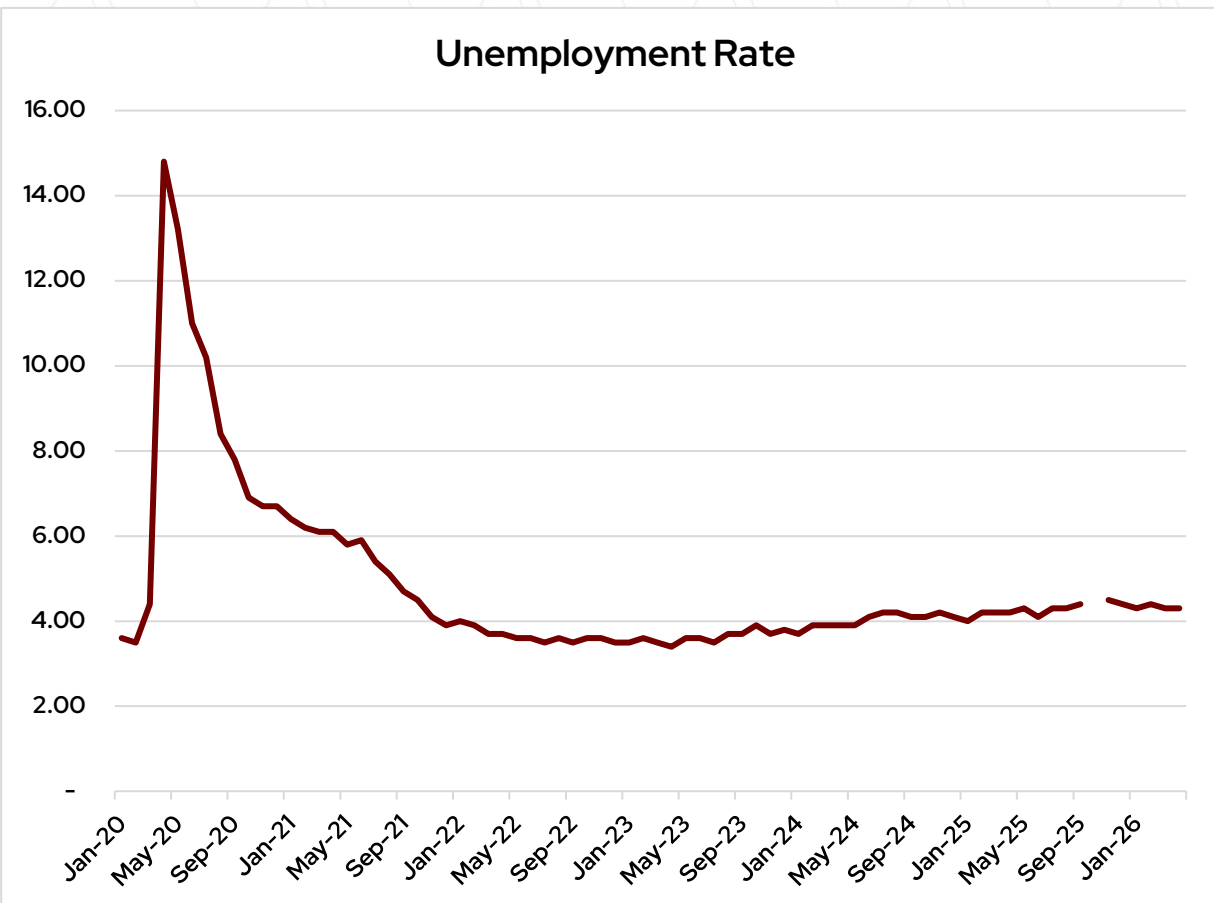
SECTION 01

Macroeconomic Landscape

Understanding the economic backdrop that drives credit behavior

Unemployment Rate

Macroeconomic Indicator #1



Pandemic Spike & Recovery

Unemployment surged above 14% in April 2020 before falling sharply throughout 2021-2022

Historic Lows

Rate reached 3.4–3.7% in 2023 – a multi-decade low, supporting consumer credit performance

Gradual Softening

Modest uptick in 2024 and continued upward trend signals potential normalization; still near full employment

Credit Risk Link

Rising unemployment is the single strongest leading indicator of consumer delinquency and default

1. Which macroeconomic variable do you think has the strongest influence on future credit loss performance?
 - a. Unemployment
 - b. Interest rates
 - c. Inflation
 - d. Home prices

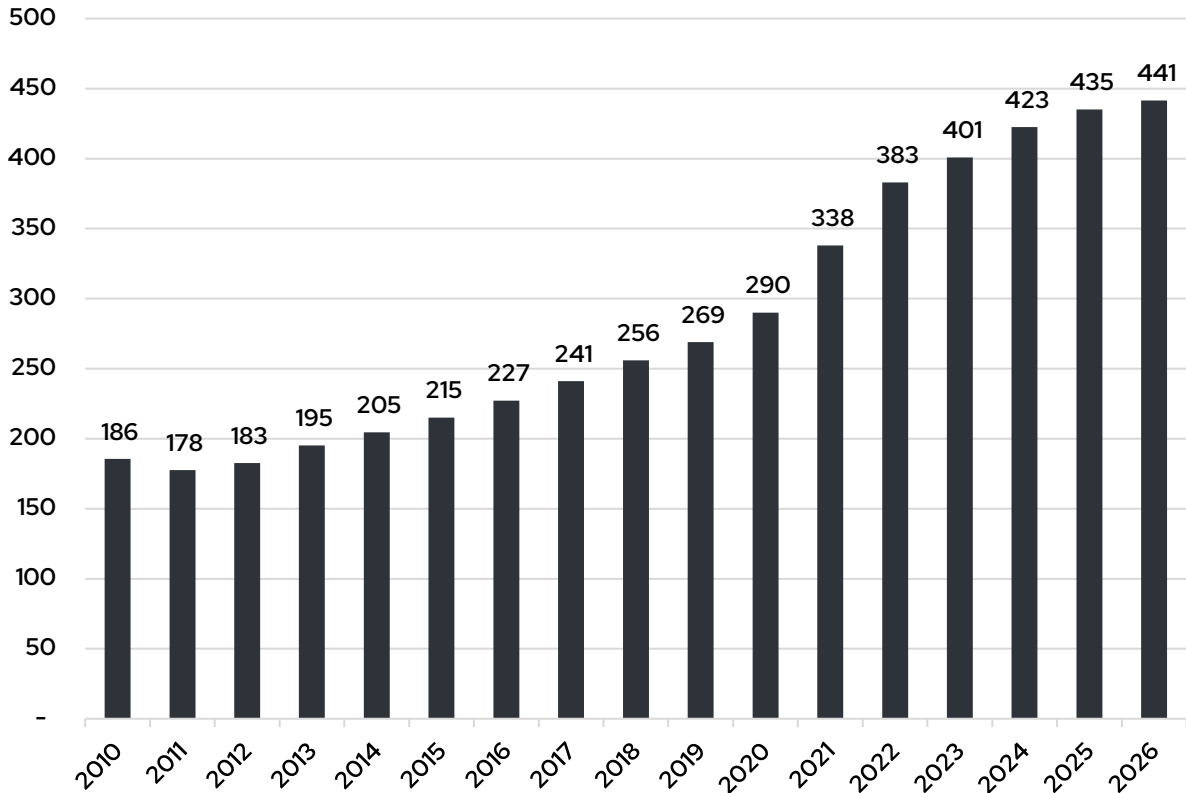


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Housing Price Index (HPI)

Macroeconomic Indicator #2

FHFA Purchase Only House Price Index



Sustained Appreciation

National HPI rose 40%+ from 2020–2022, dramatically improving LTV ratios on existing mortgage portfolios

Rate-Driven Deceleration

Rising rates in 2022–2023 cooled price growth; some regional markets saw modest corrections

Affordability Squeeze

Elevated prices + higher rates = constrained origination volumes; new purchase applications declined sharply

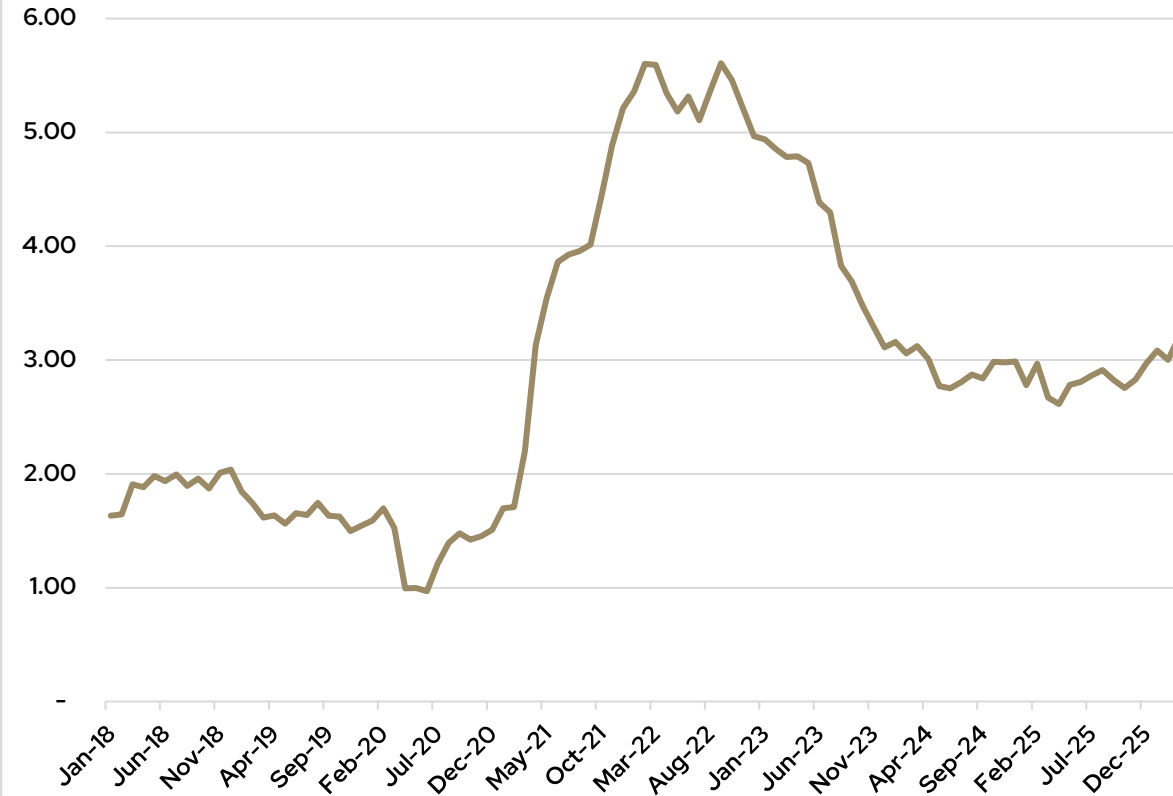
Collateral Cushion

Strong HPI supports real estate coverage, but erodes if unemployment rises and forced sales increase

Inflation Rate(PCE)

Macroeconomic Indicator #3

Personal Consumption Expenditures (PCE)



Peak Inflation Cycle

CPI peaked above 9% in mid-2022 driven by supply chain shocks and stimulus

Disinflation Progress

Inflation has trended down toward the Fed's 2% target, though 'last mile' progress has proven sticky

Consumer Stress

Persistent inflation erodes purchasing power, increasing strain on household budgets and credit repayment capacity

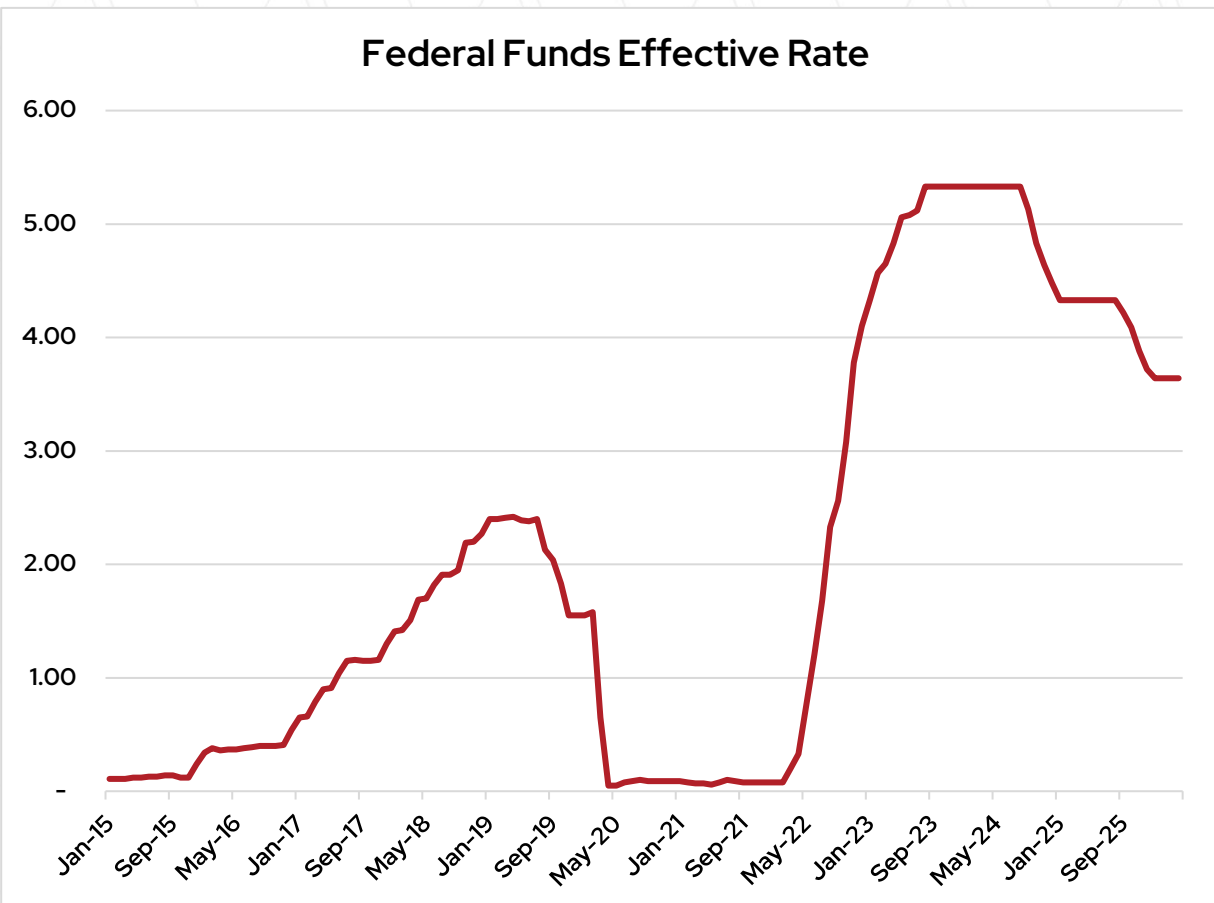
Operational Cost Impact

Higher inflation directly inflates repair/replacement costs, affecting loss severity on auto and property claims

Federal Funds Rate

Macroeconomic Indicator #4

Federal Funds Effective Rate



Sustained Appreciation

National HPI rose 40%+ from 2020–2022, dramatically improving LTV ratios on existing mortgage portfolios

Rate-Driven Deceleration

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Affordability Squeeze

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Collateral Cushion

Strong HPI supports real estate coverage, but erodes if unemployment rises and forced sales increase

Unemployment

Current Trend:
Rising

Credit Signal:

Increased likelihood of default across consumer segments

HPI

Current Trend:
Elevated / Softening

Credit Signal:

Coverage on residential, affordability constrained

Inflation

Current Trend:
Declining but sticky

Credit Signal:

Higher operating costs, upward pressure on loss severity

Federal Funds

Current Trend:
Elevated

Credit Signal:

Increased debt service burden, little refinance relief

Combined, these indicators create a nuanced credit environment: consumer stress is building while institutional collateral buffers remain relatively intact – for now.

2. Which credit metric tends to be the most lagging?
- a. Delinquency trends
 - b. Risk rating migration
 - c. Charge-offs
 - d. Borrower cash flow pressure



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SECTION 02

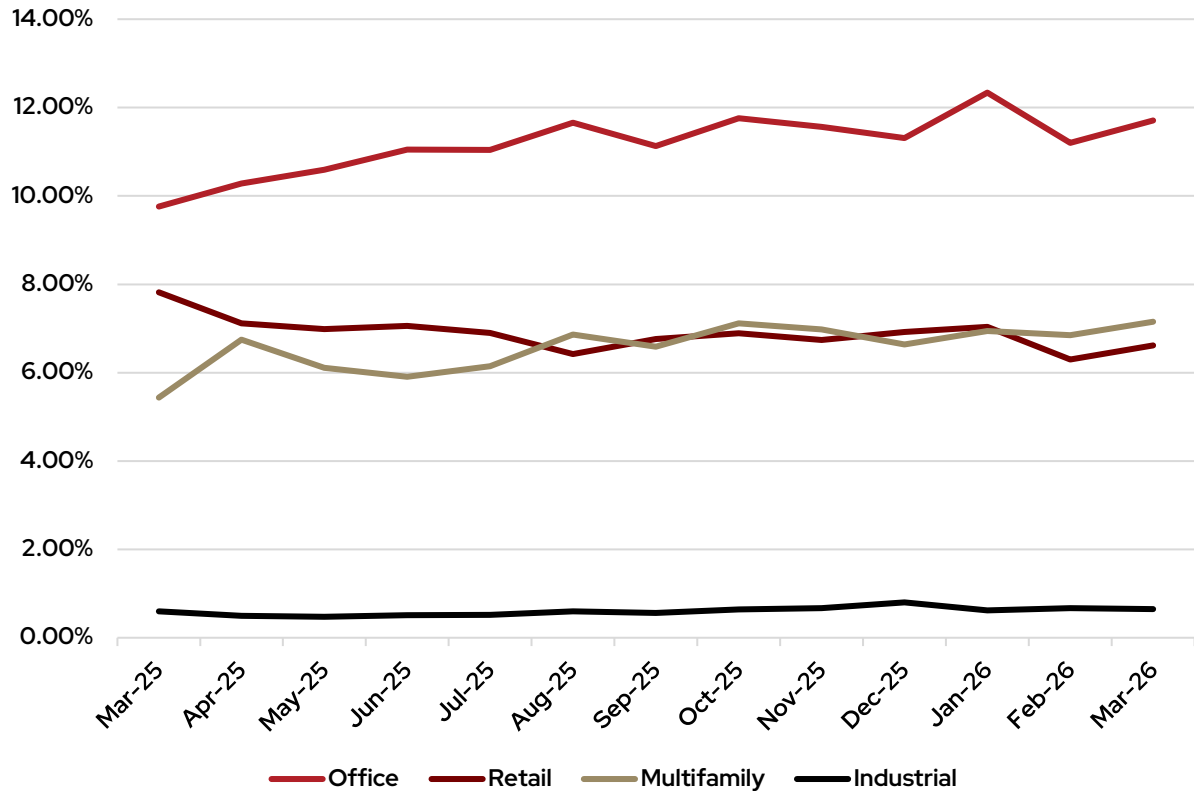
Asset Class Credit Conditions

Commercial Real Estate, Residential Real Estate, Vehicle Lending

Commercial Real Estate

The office sector is repricing structurally, and the maturity wall is arriving.

Delinquency Rate by CRE Property Type



Office Sector – Structural Risk

Remote work has permanently impaired office demand; elevated vacancies driving DSCR stress and rising DQ

Rate Reset Risk

Billions in CRE debt face maturity walls through 2030; refinancing at higher rates is forcing valuations lower

Cap Rate Compression

Rising cap rates (driven by Fed rate hikes) directly compress valuations, challenging exit strategies

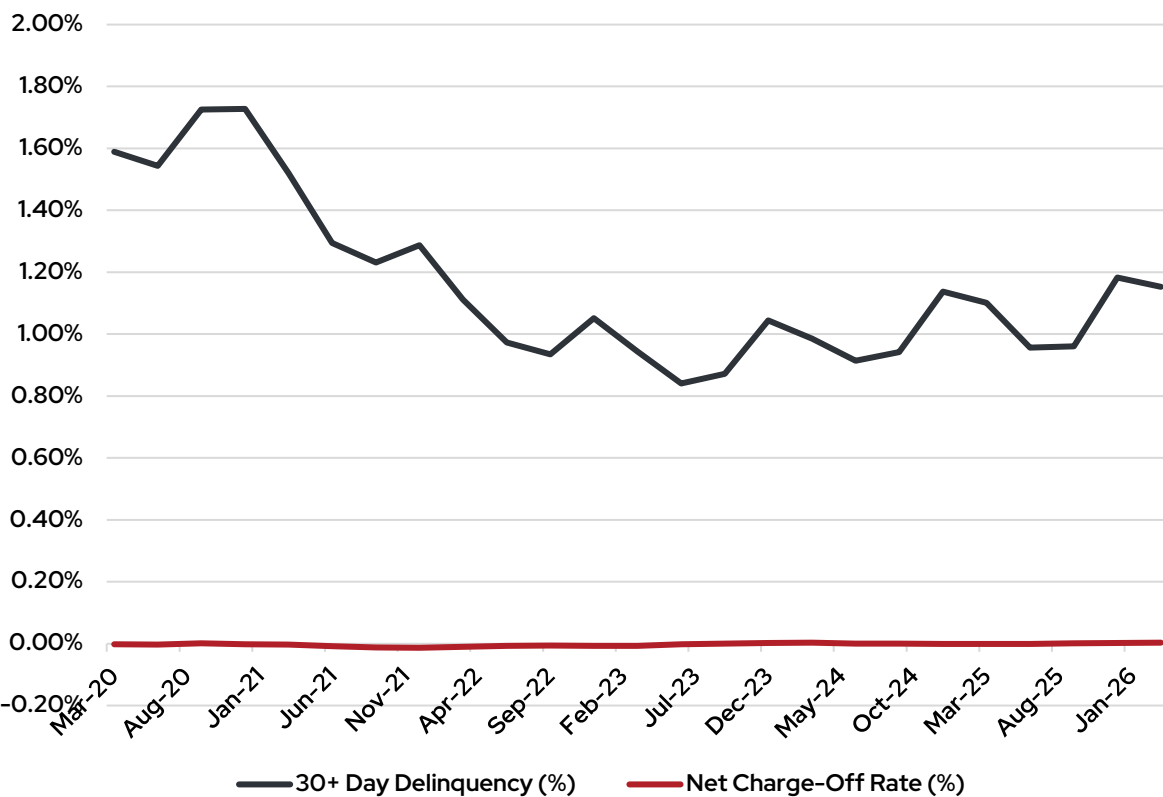
Reserve Implications

Decreased DSCR and muted LTV improvements warrant increased reserves, individual assessment

Residential Real Estate

Existing portfolios remain well-collateralized, but new vintage stress is building.

Residential RE 30+ DQ & Net Charge-Offs



Strong Credit Quality Backdrop

Post-2020 mortgage originations featured strong credit scores and low LTVs

Lock-In Effect

Borrowers with sub-3% mortgages are unwilling to sell, constraining new purchase volume and keeping DQ low

Gradual Delinquency Shift

Modest upward drift in delinquency since 2023 worth monitoring for sustained reversal rather

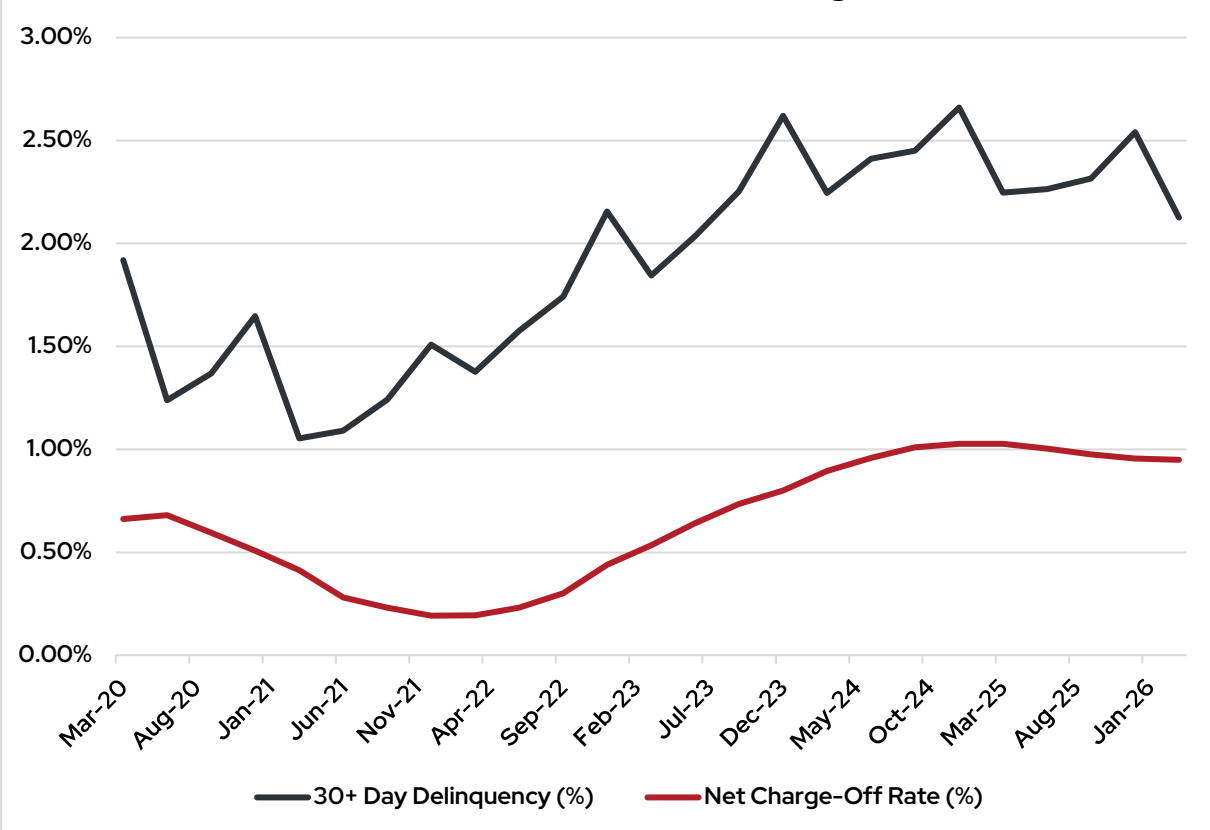
Severity Risk

High HPI limits loss severity today; but affordability stress + potential price corrections = tail risk for newer vintages

Vehicle Lending

Delinquency and charge-offs are rising as collateral values erode and affordability weakens.

Vehicle Loan 30+ DQ & Net Charge-Offs



Delinquency Normalization

Auto delinquency and charge-offs rising from historic 2021 lows; subprime and lower segments most stressed

Used Vehicle Values Declining

Manheim Index decline of 20%+ from peak is increasing loss severity as collateral values erode on repos

Affordability Pressure

Higher rates + elevated vehicle prices = stretched monthly payments; LTV on new originations remain elevated

Vintage Risk

2021-2022 vintage originations (loosened standards + inflated values) are exhibiting the highest stress

Electric Vehicle Loss Severity Spotlight

Battery replacement costs and rapid depreciation are producing increased severity levels.

Why EV Severity is Different

Battery Replacement Cost

EV battery packs can cost \$10,000–\$25,000+ to replace; often exceeding total vehicle collateral value

Total Loss Thresholds

Minor accidents triggering battery damage result in far higher total-loss rates for EVs vs. ICE vehicles

Rapid Depreciation

EV values have declined sharply (30–50% from peak) as new model competition and incentives expand

Repair Network Limitations

Limited certified EV repair shops extend cycle time, increase storage costs, and reduce recovery proceeds

Indicative Severity Comparison

ICE Vehicle Loss Severity

~45-55%

EV Loss Severity

~65-80%+

Portfolio Implications for Financial Institutions

- Review LGD assumptions specifically for EV collateral in CECL models
- Consider EV-specific concentration limits or LTV haircuts at origination
- Monitor repossession timelines and auction recovery rates by vehicle type
- Engage with GAP product pricing teams – current severity data may render existing products underpriced

3. Which factor is most likely to pressure electric vehicle loss severity?

- a. Faster depreciation
- b. Lower interest rates
- c. Higher borrower income
- d. Slower prepayments



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SECTION 03

Synthesis & Strategic Implications

Translating trends into risk decisions, reserve actions, and strategic positioning

What Trends Signal: Forward-Looking Risk

Commercial Real Estate

- Maturity wall into 2030 creates episodic refinancing stress; expect elevated impairments and workout activity
- Office sector likely requires further price discovery; conservative assumptions in stress testing are warranted
- CRE concentrations at community banks and credit unions warrant closer internal capital planning

Residential Real Estate

- Credit quality of existing portfolios remains strong, but delinquency drift warrants monitoring
- Affordability constraints will suppress origination volumes – balance sheet growth from mortgage may lag consumer
- Scenario plan for a 10–15% HPI correction: test reserve adequacy and capital ratios under that shock

Consumer Credit

- Rising delinquency in auto and other consumer segments is an early warning for potential spillover into other products
- Income replacement rate from unemployment may be insufficient to cover elevated monthly obligations (auto + rent/mortgage)
- Watch: labor market softening is the trigger that could convert current stress into a broad credit event

4. Of the following, which type of credit indicator is generally most useful for forward-looking risk assessment?
- a. Advertising expense
 - b. Prior-year origination volume
 - c. Historic branch expansion
 - d. Early-stage delinquency trends



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Reserve Adequacy in the Current Environment

CECL Model Governance

Validate that economic forecast scenarios used in CECL models reflect current macro conditions – not lagged or overly optimistic assumptions. Incorporate unemployment range 4–6% in reasonable/supportable period.

Q-Factor Discipline

Qualitative adjustments should explicitly capture: (1) CRE office sector risk, (2) EV collateral severity, (3) auto vintage deterioration, and (4) general consumer stress from inflation/rates. Document the basis for each.

Scenario & Sensitivity Testing

Run sensitivity on: HPI -10% and -20%, unemployment 5% and 7%, and used vehicle values continuing to decline. Board and ALCO presentations should include these ranges.

Concentration Overlays

Institutions with high CRE or auto concentrations may need portfolio-level overlays until macro visibility improves. Compare reserves to peer data and validate your methodology supports current risk profile.

Strategic Decision-Making Framework

Near-Term (0-6 Months)

- Tighten EV LTV guidelines and review GAP pricing for EV portfolios
- Conduct CRE portfolio review; stress-test office and retail exposures
- Review auto origination details for vintage-level stress signals

Medium-Term (6-18 Months)

- Model HPI correction scenarios for residential portfolio stress
- Prepare for elevated CRE workout activity
- Monitor unemployment indicators as primary leading signal for consumer credit event

Longer-Term / Strategic

- Evaluate CRE concentration strategy in light of structural office market changes
- Assess EV lending appetite vs. severity risk – consider specialized underwriting
- Position portfolio to benefit from rate normalization; manage duration and credit risk

Summary: Credit Risk Signal Dashboard

Indicator	Trend	Default Outlook	Severity Outlook	Risk Signal
Unemployment Rate	↑ Rising	Increasing	Neutral	CAUTION
Housing Price Index	→ Stabilizing	Stable	Favorable	WATCH
Inflation (CPE)	→ Stubborn	Moderate	Elevated	CAUTION
Federal Funds Rate	→ Elevated	High	Elevated	ELEVATED
Commercial Real Estate	↑ Deteriorating	Elevated	High	ELEVATED
Residential Real Estate	→ Normalizing	Low-Moderate	Low	WATCH
Vehicle Lending (ICE)	↑ Rising	Increasing	Increasing	CAUTION
Vehicle Lending (EV)	↑ Rising	Increasing	Very High	ELEVATED

Key Takeaways

- 1 Macro conditions are mixed – near-full employment provides a buffer, but inflation and rates have stressed household finances and CRE fundamentals
- 2 Auto and CRE are the highest near-term credit risk concerns; residential real estate remains strong but requires ongoing monitoring
- 3 Electric vehicle loss severity is a material, often underappreciated risk – review LGD assumptions and origination guidelines now
- 4 Reserve models should reflect current macro uncertainty; Q-factor overlays for concentrated exposures are both defensible and prudent
- 5 Unemployment is the key watchlist indicator. A sustained move above 5% will trigger meaningful delinquency increases across all consumer asset classes



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Questions?

Thank You

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Session Decks & Recordings Available:
Mid-next week



CPE Certificates:
Emailed next week



Watch for our white papers:
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Questions? Reach Out:
We'd love to hear from you



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