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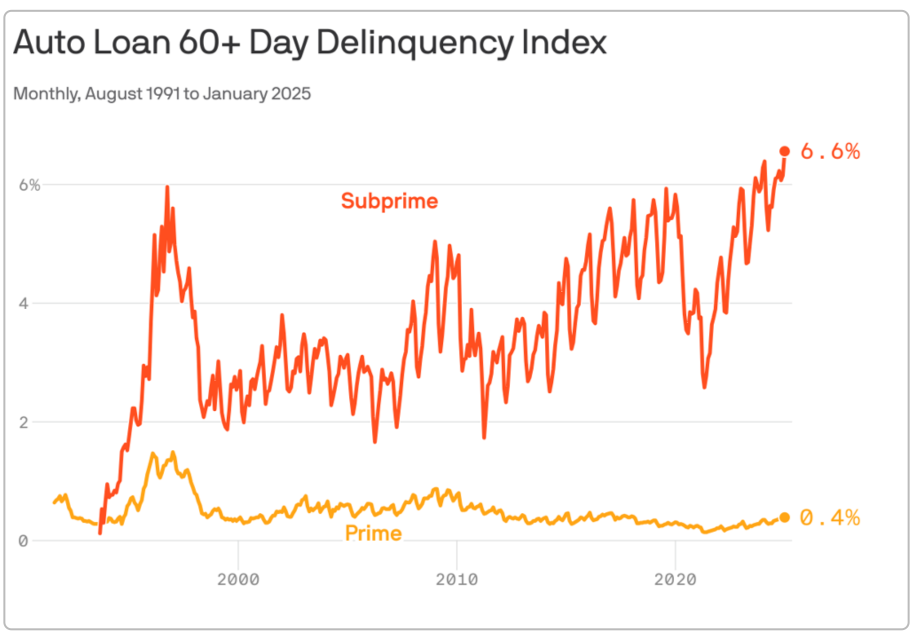
The Looming Subprime Consumer Credit Crisis in the U.S.

Introduction

High interest rates and post-pandemic economic pressures have left U.S. consumers increasingly overextended on **subprime credit** – from auto loans and payday-like personal loans to credit cards and **“Buy Now, Pay Later” (BNPL)** plans. Several parallel trends in 2024–2025 echo the run-up to the 2008 subprime mortgage crisis, as risky consumer debt gets packaged and sold through complex financial instruments. This report analyzes five key segments of subprime consumer credit (auto loans, personal/payday loans, credit cards, student loans, and BNPL) and examines the main players in each cohort, their interactions, and how these debts are originated and **offloaded via asset-backed securities (ABS)** and **credit-linked notes (CLNs)**. We focus on recent data and public companies with large exposures in a potential mass-default scenario (where buying **put options** might be a strategy). The sections below detail each segment and draw parallels to the 2008 Global Financial Crisis (GFC), highlighting structured finance mechanisms and potential points of failure.

Subprime Auto Loans: Record Delinquencies and Repossessions



Subprime auto loan delinquency rates have surged to record highs by early 2025, reaching 6.6% of loans 60+ days past due (red line) [1] *– the worst level since tracking began in the 1990s. Prime auto loans (yellow line) remain near 0.4% delinquent, reflecting the stark gap in performance* [1] *.*

Over-extended auto loans are a major stress point. During 2020–2022, many consumers took on expensive car loans as vehicle prices soared. The average new vehicle costs nearly **$50,000** now, and interest rates exceed **9%** on new car loans (almost **14%** on used car loans) [2]. Loan terms stretched to 6-7 years, and many buyers overpaid during the pandemic supply crunch. As a result, subprime auto borrowers (often with FICO < 600) face **sky-high monthly payments**, rising insurance premiums (+19% YoY), and maintenance costs (+33% since 2020) [2]. It's no surprise that **delinquencies have spiked**: by January 2025, **6.6% of subprime auto loans were 60+ days delinquent**, the highest on record [3] [1]. This surpasses even the worst levels of the Great Recession and far outpaces prime auto loan delinquencies (0.39%) [4]. Major lenders are seeing the impact – for example, **Ally Financial**'s net charge-off rate on retail auto loans more than doubled by 2024 compared to pre-pandemic levels [5]. The **outlook is deteriorating**, with Fitch Ratings warning of further losses ahead for subprime auto ABS pools [6].

Key players in subprime auto lending include specialized finance companies and some banks. Notable public companies heavily exposed are:

- **Credit Acceptance Corp. (CACC)** – focused on deep subprime auto; known for aggressive loan terms.
- **Santander Consumer USA** (private subsidiary of Santander; formerly ticker SC) – a top subprime auto lender/ABS issuer.
- **Ally Financial (ALLY)** – large auto portfolio (formerly GMAC); significant non-prime segment.
- **Capital One (COF)** – major auto lender (and credit card issuer), with a sizable subprime auto book.
- **CarMax (KMX)** – the used-car retailer's finance arm holds subprime auto loans; CarMax has seen rising **loss provisions** as defaults tick up.
- **America's Car-Mart (CRMT)** – small-cap dealer financing used car sales to subprime borrowers, often in-house (high default risk).

These lenders, along with others like OneMain's **Springleaf auto loans** and regional banks, are vulnerable to a wave of **repossessions**. Repos have indeed climbed as borrowers fall behind, and used car values are softening from their peak – meaning lenders recover less at auction. This dynamic resembles the housing bust (negative equity and fire-sales), albeit on a smaller scale.

Securitization of auto loans provides an offloading mechanism. Subprime auto lenders package loans into **auto loan ABS** and sell tranches to investors, just as mortgage lenders did with MBS. For example, firms like Santander and GM Financial issue subprime auto ABS regularly. Fitch's Subprime Auto ABS index shows **60+ day delinquencies at 6.0–6.6% in late 2024**, record highs [1]. Loss severities are worsening as recovery rates fall [7]. Despite this, investor appetite for high-yield ABS has often remained – though spreads have widened to reflect mounting risks. Some lenders also engage in **"originate-to-distribute"** strategies: e.g. **Upstart** (initially an unsecured lender) began originating auto refinance loans and quickly selling them to institutional buyers or ABS trusts. If the music stops (as it did in mortgages in 2007), lenders could be stuck with loans they intended to sell.

Synthetic risk transfer has also entered the auto loan space. In 2023–2024, U.S. banks – especially regionals – embraced **credit-linked notes (CLNs)** to offload auto loan risk from their balance sheets. For instance, **Huntington National Bank** completed multiple **synthetic securitizations of prime auto portfolios**, issuing ~$3–4 billion of CLNs that transfer credit risk of a reference pool of auto loans to investors [8] [9]. These deals, often done for regulatory capital relief under Basel III, mimic the synthetic CDOs of the pre-2008 era (though referencing consumer loans now instead of mortgages). The Fed explicitly acknowledged in 2023 that **CLN transactions can effectively transfer credit risk** and count as Significant Risk Transfer (SRT) for capital purposes [10]. By selling off the risk (via CLN investors who earn interest but take any credit losses), banks like Huntington free up capital – but it means third-party investors (often hedge funds or insurance firms) are insuring those loan portfolios. This echoes how **AIG and monoline insurers** sold credit protection on mortgage CDOs before 2008. Today's counterparties – e.g. **alternative asset managers and reinsurers** – may be more diversified, but a large-scale consumer default wave could still leave someone holding the bag (and potentially unable to pay out insurance, as happened with AIG). In short, the subprime auto sector is showing **clear signs of stress**, and the risk has been widely dispersed through ABS and synthetic trades. If unemployment rises or the economy slips, losses will surge and **public companies like Ally, Capital One, Credit Acceptance, Carvana/CarMax, etc., would face severe earnings hits**, alongside investors in their securitizations.

Personal Loans & Payday Fintechs: Upstart, Oportun, Enova and More

Another locus of subprime exposure is **unsecured personal lending**, including short-term installment and payday-like loans often facilitated by fintechs. During the fintech boom of 2018–2021, companies like **Upstart (UPST)**, **Oportun (OPRT)**, **Enova International (ENVA)**, **OppFi (OPFI)**, and **LendingClub (LC)** (among others) aggressively expanded credit to non-prime consumers. They utilized AI-driven underwriting (Upstart), alternative data, or high-interest small-dollar products to serve borrowers with modest credit scores. As of 2022–2023, **delinquencies and charge-offs in this segment have climbed sharply**, forcing many lenders to tighten standards and reduce originations.

- **Upstart** – which partners with banks to originate unsecured personal loans (often to near-prime borrowers) – saw its model severely tested once the Fed hiked rates. In 2022, funding from banks and credit investors dried up as default forecasts rose; Upstart's loan originations fell **34% year-over-year by Q3 2023** [11]. Upstart had to retain more loans on its balance sheet, and its results suffered as **borrowers defaulted at higher-than-expected rates**. The company has since tightened credit (approving far fewer subprime applicants) and introduced an internal "Upstart Macro Index" to adjust for economic conditions, but investor confidence was shaken. Upstart's stock – once over $400 in 2021 – collapsed to double-digits by 2023, reflecting fears of credit losses.

- **Oportun** – a lender focused on Latino and low-income communities – also hit turbulence. In 2022, Oportun's net charge-off rates spiked above **12%**, far above historical levels [12]. Delinquencies rose to ~5.9% (30+ day) at the end of 2022 [13]. The company responded by tightening underwriting in mid-2022 and again late-2022, and by pivoting toward **secured personal loans (using auto titles as collateral)**. By Q1 2025, Oportun reported some improvement: its 30+ day delinquency fell to 4.8% (end of 2024) from 5.9%, and newer vintages (loans originated after the tightening) are performing closer to 2019 norms [12]. Nonetheless, Oportun is under strain – it faced a **proxy fight in 2023–2024** from its largest shareholder demanding governance changes and the removal of an interest rate cap [14] [15], highlighting the pressure to boost profitability amid credit woes. Oportun also relies on selling loans (7% of Q1 2025 originations were sold to partners) [16], and **Fitch Ratings noted** that Oportun's recent securitizations still carry elevated cumulative loss expectations due to the spike in defaults in late 2022 [17].

- **Enova International** – a seasoned subprime online lender (brands include CashNetUSA, NetCredit) – actually grew volumes through 2023–24, but at the cost of high charge-offs. Enova's consumer loan charge-off rate was **16.1% in Q4 2022** (annualized) and remained around **8–9%** in 2023 [18] [19] (the discrepancy is because Enova reports a combined metric for installment and lines of credit, and improved as it shifted to longer-term loans). By Q1 2025, Enova's net charge-offs in consumer lending were up **123 bps year-on-year** [19] [20]. Still, Enova's management claimed credit performance was *stabilizing*, and strong demand (enabled by a robust job market) let them grow originations ~22% YoY [21]. Enova's stock held up relatively well, but if unemployment rises, its high-APR loans (34% to 200%+ APR products) could see **default waves**. Notably, **OppFi**, another subprime lender (average APR ~136% [22]), had *annualized net charge-offs of ~55% in Q3 2023* – extremely high, yet slightly improved from 66% a year prior after credit tightening [23]. These figures underscore just how fragile these loan portfolios are in downturns.

- **OneMain Financial (OMF)** – a traditional subprime installment lender (formerly Springleaf, branches nationwide) – maintained tighter credit standards but still saw **net charge-offs rise ~66% by 2024 vs. 2019 levels** [24]. OneMain's stock and bonds indicate investor concern that losses will continue climbing as consumers' debt burdens grow. (OneMain focuses on loans often secured by smaller collateral or unsecured, to borrowers with below-prime credit – a segment likely to default if recession hits.)

- **LendingClub (LC)** – originally a peer-to-peer lender, now a bank holding company – targets a bit higher credit spectrum (often refinancing credit card debt). It actually saw a drop in NCOs in early 2025 (down 39% YoY in Q1) [25] after pulling back on subprime approvals. But as a public fintech lender, it's still exposed if its largely near-prime customers fall behind; LendingClub's decision to obtain a bank charter means it holds more loans on book (vs. selling them), so credit deterioration directly impacts it.

Loan packaging and offloading: Many of these lenders rely on **securitization markets and loan sales** to fund their lending. For example, Upstart, Oportun, LendingClub, Affirm, Pagaya, Prosper – all issue ABS backed by consumer loans. In early 2025, the market for personal loan ABS rebounded, with **$8.0+ billion** in consumer unsecured loan ABS issuance in Jan–April 2025 (up ~58% from 2023) [26] [27]. Investors were hungry for yield: **Affirm**'s February 2025 BNPL loan securitization was 3.6× oversubscribed, and Oportun's January 2025 deal priced at a 6.95% yield (127 bps lower than their prior deal) after being 7× oversubscribed [28]. This suggests that, much like pre-2008, capital markets in 2025 are still willing to absorb subprime risk – perhaps underpricing the true default risk due to optimism or belief in structural enhancements.

However, the cracks are showing: **net charge-offs have surged well above pre-COVID baselines** for most consumer lenders. Compared to Q1 2019, charge-offs in Q1 2025 jumped **+159% for Oportun, +113% for Ally (auto), +83% for Citizens Bank's consumer loans, +71% for Capital One, +66% for OneMain, +65% for Enova, +64% for JPMorgan's card/consumer, +36% for BofA's consumer, +18% for Synchrony** [5]. Only one major lender (PNC) was below 2019 levels [29]. This broad deterioration parallels the 2006–2007 period when subprime mortgage defaults started rising across lenders.

Public companies at risk in this cohort include the dedicated subprime fintech lenders (UPST, OPRT, ENVA, OMF, OPFI, CURO, WRLD, etc.) and **fintech platforms** that securitize loans (LC, Prosper – if public, Pagaya (PGY), etc.). **Regional banks** that partnered in these loans could face indirect exposure – e.g. Cross River Bank and others funded fintech-originated loans. **Insurance companies or funds** that sold credit protection (through CLNs or total return swaps on loan portfolios) are another hidden exposure – though names are less disclosed, specialized **credit hedge funds, private equity credit funds, and reinsurers like Arch Capital** have been known to participate in such risk transfers [30] [10]. If consumer defaults spike, these risk buyers could suffer, just as many protection sellers did in 2008.

Credit Cards: Rising Balances, Rising Delinquencies

Americans' **credit card debt** hit a **record $1.18 trillion** in late 2024 [31], crossing the $1 trillion mark for the first time. This surge was fueled by **high inflation** (households leaning on cards to cover costs) and the post-pandemic spending rebound. As balances swelled, the cracks in repayment are growing: **card delinquencies have risen to their highest levels in over a decade.**

According to the Federal Reserve Bank of Philadelphia, **credit card delinquency rates in Q1 2024 were the worst since at least 2012**, when the Fed's series began [32]. All stages of delinquency (30, 60, 90+ days) increased in early 2024. Notably, **over 2.5% of credit card balances were 60+ days past due by March 2024**, more than double the lows seen during the stimulus-fueled COVID period [32]. By Q3 2024, the 30-day delinquency rate had risen to **3.52%** (roughly double the 2021 trough) [33]. The **New York Fed's data** (Consumer Credit Panel) shows that as of Q1 2025, **12.1% of cardholders** (ages 20–64) had at least one account 30+ days late, up significantly from ~7% in 2021 [34]. About **14.1% of total credit card debt was delinquent** (30+ days) nationally in early 2025, continuing an upward trend since mid-2021 [35] [36]. While these rates remain below the peaks seen in 2009 (when unemployment was higher), the **trend is unmistakably upward** and broad-based – with even high-income areas seeing relative increases [37]. The **pace of deterioration** slowed a bit in early 2024, but delinquency rates are still climbing [38].

Crucially, **credit card borrowers are stretched thin**. The Philadelphia Fed noted a record share of card users making only **minimum payments** (a 12-year high as of 2024) [39] – a classic sign of distress. **Revolving utilization** is up: ~71% of outstanding card balances are being revolved (not paid in full), the highest since 2021 [40]. And interest rates are punishing – the average credit card APR is around **20.7%**, a multi-decade high [41]. So, as people carry balances to cope with high prices, interest piles up and their ability to catch up diminishes. A household with a $5,000 balance at 20% APR, making minimum payments, would take **23+ years and $8,000 in interest** to pay it off [42] – effectively a debt trap if they don't increase payments.

Major players and exposure: The companies most exposed to credit card defaults are the big card issuers, especially those focused on subprime or with large loan portfolios:

- **Capital One (COF)** – one of the largest card issuers, known for serving a broad credit spectrum including subprime. Capital One's net charge-off rate on its domestic credit cards has risen sharply (around 4–5% in 2023, up from ~2.5% in 2021). Its overall consumer charge-offs were **71% higher in early 2025 vs. 2019** [24]. Capital One is essentially a monoline credit card/auto lender, so it is very sensitive to consumer credit cycles.

- **Discover Financial (DFS)** – another monoline issuer (credit cards and personal loans). Discover's card loans similarly saw rising delinquencies; Discover reported its 30+ day delinquency at 3.1% in Q1 2023 vs 1.8% a year prior, and net charge-offs over 4% (roughly double year-ago levels). Discover also has some private student loan exposure.

- **Synchrony Financial (SYF)** – the largest private-label/store card issuer (handles credit cards for retail chains, Amazon store card, etc.). Store card users often have lower credit scores and higher credit stress. Synchrony's net charge-off rate was climbing (likely in the 5–6% range by 2023). Even so, by Q1 2025 Synchrony's consumer NCOs were "only" ~18% above 2019 levels [24] (better than some peers), but it is a pure-play card lender that would be hit hard by a consumer downturn.

- **Bread Financial (BFH)** – formerly Alliance Data/Comenity, another big private-label card issuer (for brands like Victoria's Secret, Sephora, etc.). Bread's customers are often subprime. It saw a jump in late payments in 2022–23 and has tightened some underwriting. As a smaller player, it's perhaps even more vulnerable to a spike in defaults (as it lacks a diversified banking arm).

- **Big banks (JPMorgan Chase, Citigroup, Bank of America)** – each have large credit card businesses. Citigroup, for example, had over $160B in card loans (including a big chunk of subprime via legacy issuers it acquired). **JPMorgan's card charge-offs were up ~64% vs. 2019** by early 2025 [24] ; **BofA's up ~36%** [24] . While these banks are diversified and can absorb higher losses, their earnings will still feel it – and in a true recession scenario, card losses could triple from current levels, pressuring their capital. **American Express (AXP)** focuses on more prime customers, and indeed its loss rates remain low relative to others; however, even AmEx has noted rising write-offs in its small lending segment.

- **Fintechs in the card space**: For example, **Upgrade** and **Chime** offer quasi-cards or credit builder lines; **Apple Card (Goldman Sachs' venture)** saw higher-than-expected losses leading Goldman to retrench from consumer finance in 2023 [43] . **Goldman Sachs** actually tried to sell its Apple Card and GM Card portfolios due to mounting losses and strategic pivot [43] . This underscores how even sophisticated institutions misjudged consumer credit risk when entering the space.

ABS and offloading: Credit card debt has long been securitized via **credit card ABS trusts** (such as Capital One's CCMT, Citibank's CCCIT, etc.). These trusts issue bonds backed by pools of credit card receivables. Thus far, credit card ABS have built-in cushions (excess spread, reserve accounts) and have seen relatively low losses post-2008. But if delinquencies keep rising, ABS investors will demand higher yields and could become wary, cutting off a funding source. Already, we see **account-based delinquency metrics at or near record highs** in late 2024 for credit card ABS trusts [44] . Any disruption in the ABS market would force issuers to retain more receivables on balance sheet or pay more for funding. In 2008, some credit card ABS trusts hit triggers that trapped cash to protect bondholders, squeezing bank issuers. A similar scenario could occur if charge-offs surge now.

Another angle: **Significant Risk Transfer via CLNs** is less common for credit cards than for auto or corporate loans, but banks could explore it. Given that regulators have clarified CLN use, a bank like Citi or Chase could hypothetically issue a synthetic deal to offload a chunk of card portfolio risk (though public info on such specific trades is scarce). What we do know is banks are actively considering all tools: the **KKR SRT report** noted U.S. banks' pressure to reduce capital on consumer loans, given Basel III Endgame rules, and even a 1% shed of exposure via SRT could translate to ~$7B of CLNs issued [45] . **Insurance companies or hedge funds** might quietly be selling protection on parts of card portfolios – if so, they are effectively playing the role of AIG selling CDS on CDOs, which is unnerving if history is any guide.

In summary, **credit cards are a ticking time bomb** for consumer finance companies. The **massive growth in balances, double-digit rates, and now rising default rates** paint a picture much like subprime mortgages in 2006: consumers leveraged to the hilt, using one form of debt to pay another. Indeed, many

Americans have turned to **BNPL and personal loans to refinance or keep up with card debt**, just as subprime borrowers in 2006 used new loans or teaser-rate refis to delay the reckoning. Public companies most at risk of a credit card default spike include **Capital One, Discover, Synchrony, Bread Financial**, and to a lesser extent the big banks (which could weather it but still see sizable losses). These would be prime candidates for hedging via PUTs or credit default swaps if one anticipates a consumer credit bust.

Student Loans: The Payment Resumption and Garnishment Squeeze

After a three-year freeze, **federal student loan payments** have resumed – and this could be a shock that tips many already-strained borrowers into default across other credit. The CARES Act forbearance (March 2020 – Aug 2023) meant about 43 million Americans didn't have to pay their student loans, freeing up cash. But as of **October 2023**, those bills are back, and the situation is fraught:

- The U.S. Department of Education reported in April 2025 that roughly **42.7 million borrowers owe $1.6 trillion** in federal student debt [46]. By mid-2025, they projected **nearly 25% of these borrowers (around 10 million people) could end up in default** in the coming months [46]. Why? Because **5+ million borrowers hadn't made a payment in over a year** and were already in default (many even before the pandemic), and an additional **4 million were 91–180 days delinquent** as of spring 2025 [46]. Only **38% of borrowers are currently in repayment and current** [47] – a startlingly low fraction. Many others are in deferment, forbearance, or the new "on-ramp" (a temporary leniency period).

- Starting **May 2025**, the Department of Education has **resumed collections on defaulted loans**, including **activating the Treasury Offset Program** to seize tax refunds and other federal payments from defaulters [48] [49]. Later in summer 2025, they plan to begin **administrative wage garnishment** for those who remain in default [49]. This means millions of workers could see up to 15% of their paychecks taken for student loans – essentially a new tax hitting them, on top of inflation and other debts.

- The "**student loan cliff**" is expected to further crimp household finances. A typical borrower might now have a few hundred dollars per month in payments. Surveys suggest a significant share of borrowers were using that money during the pause to cover other expenses or debts; now they must resume payments or eventually face default. The **New York Fed estimated** that the payment resumption would cut consumer spending and could **push up delinquency rates** on other debt, as some borrowers prioritize student loans (especially with the threat of garnishment) while others ignore student debt and let it default (which ultimately will hurt their credit and finances once collections hit).

Who is exposed? Federal student loans themselves are owed to the government (the Department of Education/Federal Student Aid), so the direct credit risk is borne by the U.S. taxpayer. But the indirect effects and some private-sector exposures include:

- **Servicers and guarantors**: Companies like **Nelnet (NNI)** and **Navient (NAVI)** service federal loans (Nelnet) or have legacy portfolios and collection businesses (Navient). If a wave of defaults hits, servicers face higher costs (managing IDR plans, processing defaults) and potentially lost revenue (they earn servicing fees, which can actually increase for delinquent accounts to a point, but if loans are rehabilitated or forgiven, servicing volume could drop). Navient also holds a portfolio of **private student loans** and some federal loan residual interests. Private student loans (held by SLM/Sallie Mae, Discover, Earnest, etc.) are a smaller fraction – and those borrowers didn't get a payment pause – but if federal payments crowd out other payments, even private loan defaults could rise. Navient's stock could be indirectly pressured as its collection unit tackles government defaults (Navient was previously contracted to help with default collections).

- **SoFi (SOFI)** – SoFi's original business was refinancing federal student loans for high-earning borrowers. That business was crushed during the payment pause (because nobody wanted to refinance 0% interest loans). SoFi has since diversified (into personal loans, banking, etc.), but a chunk of its loan portfolio and revenue still ties to student loan refis. With payments back on, SoFi hoped for a rebound in refinancing volume (as some borrowers would seek to lower their rates). However, refi activity may be muted because federal rates are relatively low for many, and borrowers are hesitant to forfeit federal protections. Moreover, SoFi's personal loan borrowers might be impacted if they now have to resume student loan payments – potentially raising SoFi's own credit losses. **Upstart and other personal lenders** also cited the student loan moratorium as a factor enabling consumers to pay other loans; its end could inversely increase distress.

- **Wage garnishment impacts**: Employers and payroll processors will start deducting portions of pay for defaulted borrowers. That directly reduces disposable income for possibly millions of predominantly subprime consumers (since those defaulting or delinquent likely overlap with other subprime categories). Those with lower take-home pay are **more likely to fall behind on credit cards, auto loans, or rent**. Thus, we could see a chain reaction where student loan collections cause **spikes in other delinquencies**. For instance, someone who hasn't been paying their $300/month student loan may have been just barely managing their $400 car payment and credit card bills; once their wages are garnished for that $300 (or their tax refund seized), they might default on the car or card. Lenders like Capital One, OneMain, Credit Acceptance, etc., could then feel second-order pain from the student loan restart.

- **Debt collectors and collection agencies**: While not public lenders, agencies tasked with federal student loan collections (some are private contractors) will see a huge uptick in business – but also face the challenge of collecting from financially distressed borrowers. Their success or failure will influence how much "cure" happens versus how many defaults remain long-term. A messy, aggressive collection process could also draw political and media fire (it's already a hot issue, given the earlier debates on loan forgiveness).

From a **macro perspective**, the student loan situation is unique: it's a **$1.6T overhang** that was artificially suppressed from defaulting for 3+ years. Now, defaults are simply being *unfrozen*. The government's own numbers anticipate a default rate in the federal loan portfolio that is extraordinarily high – perhaps on the order of 1 in 4 borrowers. By comparison, even at the height of the subprime mortgage crisis, around 15% of subprime mortgages were 90+ days delinquent (and ~25% in foreclosure for certain vintages) – so 25% default on student loans is catastrophic (albeit student loans don't default all at once; many will be rehabilitated eventually, etc.).

However, **unlike 2008, this "bubble" bursts on the government's books primarily**, not banks. The shock to markets is indirect – through reduced consumer spending and higher losses on other consumer credit.

For public companies, the theme is **consumer discretionary companies** could suffer (less spending as payments resume) and **consumer lenders** suffer (higher defaults as discussed). In a way, it's as if a **$300/month drag** has been placed on millions of households all at once in 2024–2025. That is why some analysts call the resumption a form of "fiscal tightening" equivalent to a few basis points of interest rate hikes in terms of its effect on the economy.

Lastly, there were attempts at broad debt forgiveness (which would have mitigated this risk), but the Supreme Court struck down the Biden Administration's forgiveness plan in mid-2023. So no relief came, except a temporary **"on-ramp" period** through Sept 2024 during which credit reporting of missed payments was paused. But that on-ramp ended, and now delinquencies will hit credit reports, and defaults will trigger collections. Thus, by summer 2025, we are entering the phase where **millions will have loans in collection, wages garnished, etc.** This could be the catalyst that breaks the camel's back for the **"multi-borrowed" subprime consumer** who until now juggled auto, credit card, personal loan, and BNPL obligations.

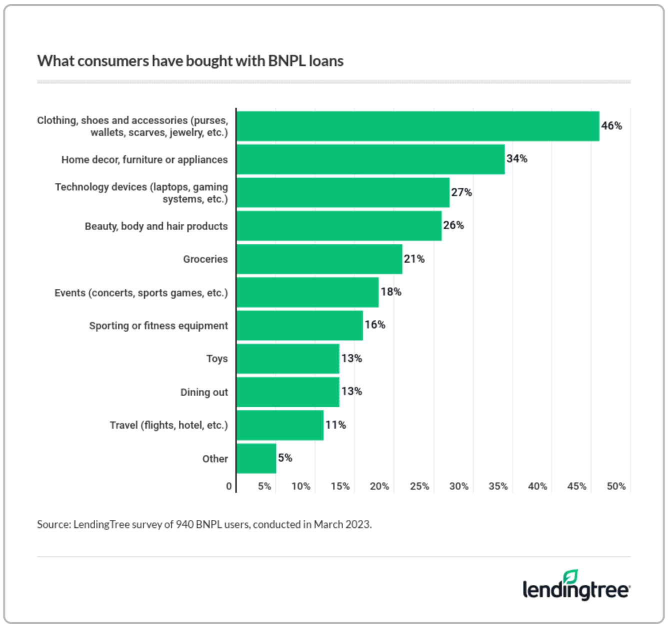
Buy Now, Pay Later (BNPL): Last-Resort Credit and a Ticking Time Bomb

In the past few years, **Buy Now, Pay Later** services – short-term installment plans offered at the point of sale – have exploded in popularity. Providers like **Affirm (AFRM)**, **Afterpay (acquired by Block/Square)**, **Klarna**, **PayPal's Pay-in-4**, **Zip**, and **Sezzle** enabled consumers (often with thin or poor credit histories) to split purchases into 4 or more installments, usually interest-free for the short term. BNPL was initially marketed for retail shopping (clothes, gadgets), but it has increasingly become a **financing tool of necessity** for many Americans, effectively a "last resort" form of credit once credit cards are maxed out [50] [51].

Mass adoption and use for essentials: By 2023, **46% of Americans reported using a BNPL loan** at least once [52], up from just 31% in 2021 [52]. Growth is now slowing, but usage is already deeply penetrated, especially among younger and middle-income groups. Crucially, BNPL is no longer just for discretionary splurges:

- A LendingTree survey found **27% of BNPL users rely on it as a bridge to their next paycheck** [51] [52]. In other words, millions are using BNPL to make ends meet in between pay periods. And this wasn't just low-income users – a surprising **32% of BNPL users earning $100k+** said they used it to bridge paychecks [53], the highest rate of any income group (though all income groups were ~25%+). This indicates even higher earners overextended their budgets and leaned on BNPL.

- Perhaps most eye-opening: **21% of BNPL users have used these loans to buy groceries** [51] [54]. Groceries ranked *fifth* among items purchased via BNPL, after clothing, home furnishings, tech, and beauty products [55] [56]. This shows BNPL is being used for basic, recurring necessities – a far cry from the original intent of financing one-off retail buys. Using BNPL for groceries (which are consumed quickly and need to be bought regularly) is a sign of serious financial strain.



BNPL isn't just for gadgets and fashion anymore – consumers are even using it to buy groceries (21% of BNPL users) and other essentials. The chart above from a March 2023 survey shows the types of purchases made with BNPL loans, illustrating how this form of credit has become a lifeline for everyday expenses [54] [57] *.*

- **Repeat usage** is also notable. Many users have multiple BNPL loans at once. A recent analysis found **23% of BNPL users had 3 or more active BNPL loans simultaneously** [58] . This stacking of loans can lead to overcommitment – it's easy to lose track of how much you owe across different BNPL plans, since they aren't traditionally reported on credit bureaus (yet).

- **Misconceptions** abound: 62% of BNPL users (in one survey) thought that on-time BNPL payments help their credit score (they don't, historically) [59] . This false confidence may have led some to overuse BNPL, assuming it was consequence-free.

Credit performance of BNPL: Many BNPL loans are interest-free, short duration (6 weeks for Pay-in-4, or a few months for longer plans), and often for smaller amounts. This means defaults on BNPL manifest quickly if they happen. There is evidence that **late payments are common**: around **40% of BNPL users have paid late at least once** [60] [61] . Younger users (Gen Z) and those with children had even higher late rates ~45-49% [62] [63] . **Affirm**, one of the only public pure-play BNPL providers, reported in late 2023 that while its GMV (gross merchandise volume) was growing, it had to tighten credit a bit – but interestingly noted its delinquency rates on monthly installment loans actually improved slightly year-on-year [64] . This could be due to Affirm pulling back on riskier customers and the strong labor market keeping folks afloat *for now*. Nonetheless, Affirm's stock fell significantly from highs as investors worried about future losses and its profitability (the company has had large losses, and it laid off 20% of staff in 2023 amid "deteriorating credit quality and rising rates" challenges [65] [66]). **Klarna**, a major BNPL player (private), reportedly had very high losses in 2022, forcing it to raise capital at a dramatically lower valuation (from $46B down to $6-7B) [67] . This was partly due to lax underwriting and expansion. Klarna has since retrenched some and even achieved a quarterly profit in 2023 by cutting costs [68] , but credit risk remains a concern.

BNPL ABS and funding: BNPL companies also securitize their receivables. Affirm, for example, issues ABS (the trust might contain thousands of small installment loans). Investor appetite has been decent (as noted, Affirm's Feb 2025 ABS was oversubscribed [28]), but if consumer stresses mount, these ABS could experience fast upticks in charge-offs given the short loan terms. BNPL providers without bank charters rely on capital markets and credit lines to fund loans, making them vulnerable to liquidity crunches if investors get skittish (similar to what Upstart faced). **Cross River Bank** data showed BNPL volumes growing strongly into 2025 (e.g., Sezzle +64% YoY, Affirm +36% YoY GMV in Q1 2025) [69] [70], indicating these companies are still in growth mode – potentially building a larger exposure if the economy turns.

The FICO catalyst – BNPL hits credit reports: A major upcoming change in Fall 2025 could be a **catalyst for a credit crunch**: **FICO announced it will incorporate BNPL data into credit scoring** with new FICO Score 10 models [71] [72]. These will be the first mainstream scores to factor in BNPL loans (which previously were usually invisible on credit reports). Lenders had expressed concern that they couldn't see BNPL obligations – someone might have several BNPL loans, effectively increasing their debt burden, but still appear to have a clean credit report. FICO's new score will aggregate a consumer's BNPL trades and payment history [73]. This **greater transparency could have a double-edged effect**:

- For some consumers, it may *help* if they've used BNPL responsibly (it creates a credit history where maybe there was none). But for many, it could **reveal a hidden debt load**. Consumers who were relying on BNPL as "stealth debt" will suddenly find that lenders factor it in. If, say, a person has $2,000 across BNPL plans that wasn't counted before, their debt-to-income or credit utilization calculations by a bank might worsen.

- **Credit scores might drop** for those who frequently missed BNPL payments or have many open BNPL accounts. FICO implies this change is to help inclusion and better risk assessment [74] [75], but in practice it could tighten credit for those who were overusing BNPL. Lenders "widely agreed" on including BNPL to make more accurate decisions [76] – which likely means some marginal applicants will now be declined or get lower limits once their BNPL habits are visible.

- There is fear this could precipitate an "armageddon" for subprime borrowers: if FICO scores drop en masse due to BNPL reporting, many consumers might lose access to other forms of credit or face higher interest rates. It's somewhat analogous to when teaser-rate mortgages reset in 2007 – suddenly borrowers faced tighter conditions. Here, suddenly in late 2025 a borrower might see their score fall below a cutoff because they used BNPL to survive – which then triggers credit card issuers to lower their limits or insurers to raise rates, etc., creating a cascade.

Regulatory scrutiny is also worth noting: BNPL has been under the eye of the CFPB for contributing to consumer over-extension. We might see new rules (like more disclosure, or requiring ability-to-pay analysis similar to credit cards). If BNPL firms have to start reporting and acting more like traditional lenders, some ultra-subprime customers may be cut off anyway.

Public companies exposure: Affirm is the pure play – if a consumer credit crunch hits, Affirm's losses could spike and funding could dry up, potentially devastating the company. **Block (SQ)** which owns Afterpay has indirect exposure (though BNPL is only part of its business). **PayPal (PYPL)** does some BNPL but it's a small piece. **Apple (AAPL)** launched Apple Pay Later (on a limited basis); while Apple can absorb losses easily, it's more a reputational thing for them. **Visa and Mastercard** are not directly exposed to credit risk (they just process payments), so they're safe from defaults (though if spending shifts from credit cards to BNPL or vice versa, that could impact volume). **Retailers** that partner with BNPL (like those who use Affirm or Klarna at checkout) could see sales drop if BNPL becomes less available or if customers hit their limit – this is more of a broad macro impact.

Finally, consider **interactions**: BNPL often is the **last in line** – people use it when credit cards are maxed and savings drained. If those users start defaulting on BNPL, it probably means they've already defaulted elsewhere or soon will. Conversely, if a consumer hits trouble, they might prioritize paying their **credit card (to preserve it for emergencies)** and let a BNPL (which might have no immediate consequence on credit score until now) slide. BNPL's lack of consumer protections (no formal hardship programs, etc.) could mean quicker default for a borrower in trouble, compared to a credit card where they might get a payment plan. So BNPL companies could actually feel acute pain early in a downturn. Their inclusion in credit scoring might actually force consumers to rank BNPL payments equal to other debts, changing that dynamic – another unpredictable twist.

Structured Finance Parallels to 2008 and Systemic Considerations

The above sectors do not exist in isolation – a stressed subprime consumer likely has **multiple** of these credit types concurrently (e.g., a young borrower with student loans now due, who has maxed a credit card, took an Upstart loan, and is splitting groceries on Klarna). The potential for a **cascade of defaults** is real: one obligation triggers a default on another. We are essentially witnessing a modern version of the **subprime mortgage bubble**, but dispersed across various consumer loan products. Key parallels and differences include:

- **Easy Credit and Underestimation of Risk:** In the mid-2000s, lenders gave out mortgages to virtually anyone (NINJA loans) under the assumption home prices would rise and risk could be offloaded. In the late 2010s/early 2020s, **fintech lenders and card issuers extended credit freely**, aided by low interest rates and investors chasing yield. "**Buy now, pay later**" essentially gave shoppers 0% financing with minimal checks. Underwriting models (AI-driven or traditional) hadn't seen high inflation + rising rates in decades, so they likely underpriced the risk of borrower income strain. Just as mortgage default models proved too optimistic in 2008, we may find that **AI credit models** were overly confident until real-world macro stress hit. Upstart actually admitted that if they had today's tools earlier, they could have avoided 55% of the excess defaults observed in the volatile 2022 period [77] – implying their model initially missed the mark in a changing economy.

- **Household Leverage:** Before 2008, U.S. household debt-to-income spiked due to mortgages. Today, mortgage underwriting is tighter, but **consumer credit balances (card, auto, student, personal)** are at record highs. The **debt service ratio** for households is climbing as rates increase. Unlike mortgages (fixed rates long term), most consumer debt is **variable rate or short-term** – meaning the Fed's hikes in 2022–23 fed through quickly via higher APRs on credit cards (now ~21%) and personal loans. Many subprime auto loans originated at high rates (11–19% as noted) [78]. So consumers are paying far more interest now, which is like an adjustable mortgage payment going up. In 2007, resetting mortgage payments shocked borrowers; in 2023, **everyone's "reset" happened as their credit card APR rose and inflation bit**. It's a slower bleed but no less real.

- **Securitization and Offloading of Risk:** The 2008 crisis was amplified by the slicing of mortgages into **MBS and CDOs**, and selling them to investors worldwide, often with **AAA ratings via financial engineering**. Similarly, today **subprime auto loans, personal loans, credit card receivables, and**

even some student loan and BNPL portfolios are being securitized into ABS sold to asset managers, insurers, pension funds, etc. These ABS often carry high grades on senior tranches due to credit enhancement. One could argue we have lots of "CDO-like" structures: e.g., personal loan ABS that pool loans from LendingClub or Marlette; **CLOs** that might contain consumer lender bonds; and the **synthetic CLN deals** transferring consumer loan risk to investors. So the risk is dispersed – which can be good (no single bank holds it all, reducing a singular collapse like Lehman) but also bad (it's harder to track, and many investors may not fully grasp the correlated nature of a consumer downturn). The KKR report suggests U.S. banks are increasingly adopting the European model of risk transfer for consumer assets [30] [79], meaning more opaque risk distribution.

- **Insurance and Derivatives:** Pre-2008, AIG infamously sold credit default swaps (CDS) on subprime CDO tranches, and monoline insurers guaranteed billions of structured products, all under false assumptions of low default correlation. Today, we have signs that **insurers/reinsurers (like Arch, others) and hedge funds are selling credit protection on consumer loan portfolios** through CLNs and other structures [80] [81]. While not as unregulated as AIG's CDS (banks do these under Basel rules now, and collateral is often posted), if consumer defaults skyrocket, those investors could take large losses. For example, a reinsurer that took on an auto loan CLN mezzanine tranche will eat losses if a certain threshold of that loan pool defaults. If multiple sectors (auto, card, personal loans) all go bad together (correlated by a recession), even the best modeling might be overwhelmed (just as CDO models failed when "house prices always go up" proved false). It's worth noting monolines like **Assured Guaranty (AGO)** still operate, insuring some structured deals (though mostly muni and some esoteric ABS). If any have dipped into insuring subprime auto or personal loan ABS tranches for yield, they could face hits (monolines were mostly devastated in 2008 by mortgage exposures [82]).

- **Systemic vs Idiosyncratic Risk:** In 2008, housing was so central that its collapse threatened the banking system. In 2025, consumer credit is significant but perhaps less concentrated. The largest U.S. banks could absorb even doubling of credit card losses, albeit with earnings pain, not insolvency. However, some **specialty lenders could fail** – for instance, a small subprime auto lender might go bankrupt if its financing dries up and defaults spike (similar to mortgage originators imploding in 2007). **Upstart or Oportun** could face solvency concerns if they can't fund new loans and have to mark down existing loans heavily. **Regional banks** heavy in consumer lending could be pressured (though many such as **Synchrony** or **Discover** are actually banks or have bank charters – they'd tighten credit and hunker down, possibly cutting dividends or raising funding). Also, a consumer credit crunch can reverberate: reduced consumer spending, which hits retail and services sectors, potentially leading to job losses that further hurt loan performance – a vicious cycle.

Given all this, **investors looking to short or hedge** might target the most exposed public companies: for example, **Capital One** (large credit card & auto portfolio, trading historically low P/E but for a reason), **Discover**, **Synchrony**, **Ally**, **OneMain**, **Upstart**, **Affirm**, **Navient/SLM (student loan space)**, etc. **Put options or CDS** on these names (if available) would pay off if consumer defaults surge and their equity or debt falls in value. **High-yield ABS tranches** themselves aren't easily shortable for most, but the ABX-equivalent doesn't really exist for consumer loans (there is no widely traded credit card or auto loan ABX index like the ABX for subprime MBS in 2007). However, one could imagine that if the scenario worsens, creative traders might construct something (or short ETFs of consumer finance companies).

Conclusion

The **subprime consumer credit cohort** in the U.S. is under significant strain. **Over-extended auto loans** are defaulting at the highest rates in decades [3], **fintech personal lenders** have seen **loss rates double or triple** vs. pre-pandemic [5], **credit card delinquencies** are at 10+ year highs [32], **student loan payments resumption** threatens to push millions into default [46], and **BNPL usage**, while propping up consumers temporarily, may itself contribute to a reckoning once it's factored into credit decisions [71] [59]. The interconnections mean stress in one area (say, student loans) can cascade into others (credit cards, auto).

Parallels to 2008 are evident in the aggressive **lending and securitization** that preceded this situation. In 2008 it was housing; in 2025 it's the **American consumer's balance sheet**. A key difference is who bears the risk – a mix of banks, specialized finance companies, and capital markets investors, rather than just banks/insurers. Regulators are more alert now, but the risk might be more dispersed in shadow banking.

If unemployment rises meaningfully, we could witness a **wave of consumer defaults** across auto, credit cards, and personal loans, exceeding the 2009 peaks, given the higher leverage and rates. Even without a deep recession, the **cumulative effect of high rates, inflation, and the student loan restart** could slowly grind down consumers, leading to a sustained uptick in delinquencies (a "rolling recession" in household finances). This will likely play out in late 2024 through 2025: creditors will tighten lending (we already see subprime loan originations pulling back), and charge-offs will mount. Lenders will respond by reducing credit lines (we've seen some card issuers cut limits or close inactive accounts, which can further hurt consumer credit scores and spending power).

For investors, identifying **public companies with outsized exposure to subprime consumer credit** is crucial. As detailed, **Capital One, Discover, Synchrony, Ally, OneMain, Credit Acceptance, Upstart, Oportun, Enova, Affirm, SoFi, Navient/SLM** and similar names are on the frontlines. Many of these stocks have already fallen from recent highs as the market anticipates some pain – but they could fall further if the situation deteriorates into a full-blown credit event. On the flip side, **debt collectors or distress investors** might benefit down the line (as in 2009, firms that bought charged-off loans for pennies later profited). But timing is everything.

In sum, the **U.S. subprime consumer** is facing a perfect storm: **car payments, credit cards, personal loans, student loans, and BNPL obligations** all concurrently squeezing budgets, against a backdrop of rising interest costs. Structured finance has so far spread out the risk, preventing any single institution from collapsing early – but it also means a lot of hidden leverage in the system. As we head further into 2025, monitoring these trends is essential. The data already show trouble **reaching levels not seen since the GFC in some categories** [3] [32]. Unless inflation eases substantially and incomes keep pace (or policy steps in with reliefs), this **consumer credit crunch** could very well be the next phase of the financial cycle to reckon with. And much like 2008, those who see the writing on the wall (via hard data from sources like the Fed, OFR, FRED, etc.) and take precautionary actions – whether tightening underwriting or hedging exposures – will fare better than those who ignore the mounting evidence of a subprime consumer debt crisis.

Sources: Recent data and analyses were drawn from reputable sources including the Federal Reserve (New York Fed **Household Debt and Credit** reports, St. Louis Fed research) [83] [37], **Fitch Ratings** (auto ABS delinquency indices) [3], the U.S. Department of Education press releases [46] [49], Philadelphia Fed research on credit cards [32], and industry reports (Cross River Bank's Consumer Lending reviews [5] [11], LendingTree surveys on BNPL usage [51] [54], etc.). These underscore the timeliness and severity of the trends discussed. Each statistic and quote is linked to the source for verification and further reading.

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