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Broader measures of consumers' health aren't showing major weakness. MARTY BICEK/ ZUMA PRESS

Consumer Loans Get Harder to Tally

Having trouble trying to figure out how the U.S. consumer is doing lately? You aren't alone. Now, the migration of consumer lending to less-visible parts of the financial system is adding to the difficulty.

Note

Private credit is exploding onto the scene in what is known as alternative consumer lending. Analysts at KBW tallied up new private- credit funding deals this year for financial-technology firms in consumer lending and estimated those deals could support nearly $140 billion in lending globally over the next few years. That is a big surge from under $10 billion in 2024, the analysts estimated.

Note

This lending includes things like buy now, pay later arrangements, as well as other kinds of personal loans. And if more lending is funded by private deals, it could start to change how investors should think about data on consumer debt.

The usual places people look for status updates on borrower health— like the monthly performance of publicly available pools of creditcard or other loans, or regulatory tracking based on bank data—might miss what is happening with the types of borrowers who rely on privately funded kinds of lending. Note

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Many banks that issue credit cards have sought to focus on higher-credit or wealthier borrowers. That is reflected in part by shrinking card lending by banks: Across U.S. commercial banks, average balances on credit-card and other revolving consumer loans were down almost 2% in the third quarter from a year earlier, according to Federal Reserve data.

So getting more credit into the hands of people left behind by that shift can provide a boost to the economy. For instance, with lots of home equity locked up by mortgages at superlow rates, finding a bit of extra borrowing might be what some consumers need to stay afloat between jobs, or to keep up with last year's holiday spending.

But broadening the funding channels for lending increases the risk that if there was trouble brewing in the future, investors might not spot it as readily. Looking at consumer data "becomes a lot more fragmented, and therefore harder to get a complete picture without doing a lot of legwork," KBW analyst Sanjay Sakhrani says. "And even then it may not be complete."

Segmenting of consumers' credit use could help explain some recent conflicting signals. For example, banks' reports of strong consumer-credit performance have been a contrast to retailers' reports of seeing more customers trading down or struggling to keep up. It may just be that the groups in focus don't overlap as much as they did in the past.

Thus far, even broader measures of consumers' health aren't showing major weakness. Researchers at the Bank of America Institute, which analyzes anonymized bank data, found that while spending in October was growing more slowly year over year for lower-income households than wealthier ones, their checking and savings deposit balances remain above inflationadjusted 2019 levels. Many consumers could start seeing additional tax savings next year.

Still, the uncertainty has become an issue for investors. Even with limited or mixed signs of consumer weakness or broad credit weakening, shares of many companies in the lending business trailed large banks this year, as measured by the KBW Nasdaq Bank index.

Lenders include big buy now, pay later providers such as **Affirm, Block, Klarna Group** and **PayPal ,** but also some major players in the card business, such as **Synchrony Financial** and **Bread Financial Holdings.** Large managers of private- credit vehicles that could fund consumer lending, such as **Apollo Global Management, Ares Management** and KKR, also lagged behind.

Any clouding effect of private lending has been magnified by delays in government statistics including— crucially for consumer lending—monthly reports on jobs and wages. The uncertainty alone means the chances of unpleasant surprises popping up in the credit landscape in 2026 can't be ignored.

—Telis Demos

