OUTLOOK
14 January 2025

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Finance Companies — Global

2025 Outlook – Stable with solid economic activity and easing inflation in most markets

Summary

The global outlook for finance companies is stable for 2025, changed from negative a year ago. Moderating inflation will support a decline in policy rates closer to a neutral stance, improving firms' ability to issue debt in public and private markets. Another key support of the stable outlook is the solid global economy, which should support finance companies' performance over the next 12 months. As Exhibit 1 shows, 11 of 14 subsector outlooks are stable; one positive, for aircraft lessors; and two negative, for US commercial real estate (CRE) lenders and Chinese distressed asset management companies (AMCs).

» **Solid economic activity and comparatively low unemployment will support profitability and ease asset risks.** The global economy has remained resilient following a period of rapidly rising interest rates and ongoing geopolitical volatility. In the US, where most rated finance companies are based, we expect continued solid real GDP growth of 2.0% during 2025. The outlook in emerging markets is similarly solid, with India, Indonesia and some Latin American countries likely to have robust, despite moderating, economic growth. The generally good economic forecast should support earnings and limit credit losses over the course of the next 12 months. However, in China slowing growth presents risks for finance companies. Also, as a new US administration takes office, policy uncertainty, including potentially protectionist policies, could begin to drag on economic growth.

» **Moderating inflation will support funding market access**. High inflation in 2023-24 increased borrowing costs, reducing finance companies' earnings. However, inflation is now approaching central bank targets for most economies globally, which supports the reduction of policy rates toward a neutral stance and improved market access. Lower inflation should also support the repayment capacity of finance companies' borrowers, supporting asset quality.

» **Amid the broadly stable outlook, two subsectors continue to face steeper credit challenges.** The outlooks for US CRE lenders and Chinese distressed AMCs remain negative for 2025. US CRE lenders will contend with broad pressures in the office market, which has weakened dramatically because of remote working arrangements during and since the COVID-19 pandemic. Chinese AMCs will continue to struggle with managing exposures to the domestic property sector, which has slumped and constrained economic growth.

Exhibit 1
Summary of subsector outlooks

Outlook: POSITIVE STABLE NEGATIVE

Subsector	Outlook	Key drivers
Aircraft lessors	Positive	Strong air travel demand and constrained supply will support high lease rates.
US auto finance captives	Stable	Asset quality and profitability will benefit from low unemployment and modest rise in new vehicle sales.
US residential mortgage lenders	Stable	Lower rates will support modestly higher originations and help lenders maintain profitability.
US CRE lenders	Negative	Asset quality and earnings will remain under pressure as industry struggles with glut of office supply.
US BDCs	Stable	Lower interest rates and economic growth ease cash flow pressure on borrowers, containing asset risk; net investment income/average assets will moderate as rates decline; and funding and liquidity will remain solid.
US and Canada non-prime consumer lenders	Stable	Solid economies will support stable earnings and asset quality.
Debt purchasers	Stable	Lower financing costs and improved market access will support profitability.
Chinese distressed AMCs	Negative	Weak operating environment will weigh on asset quality and profitability.
Chinese leasing firms	Stable	Lower funding costs and recovery in aviation will support earnings.
Korean finance companies	Stable	Declining funding costs and stable capitalization, aided by new prudential measures, support financial performance, offsetting pressure on consumers from still elevated rates
Indian finance companies	Stable	Robust economic growth and moderating loan growth will support lenders' performance.
Indonesian auto finance companies	Stable	Strong economic growth will drive solid performance, somewhat offset by enduring asset risks from recent product expansion.
Vietnamese finance companies	Stable	Asset quality risks will moderate and profitability improve moderately as economic growth supports continued recovery.
Latin American finance companies	Stable	Stable macroeconomic conditions will contain asset risks, though competitive environment remains challenging.

CRE = commercial real estate, BDC = business development company, AMC = asset management company
Source: Moody's Ratings

Outlook definition

The stable outlook reflects our view of credit fundamentals in the global non-bank finance companies sector over the next 12 months. Sector outlooks are distinct from rating outlooks, which, in addition to sector dynamics, also reflect issuers' specific characteristics and actions.

A sector outlook does not represent a sum of upgrades, downgrades or ratings under review, or an average of rating outlooks.

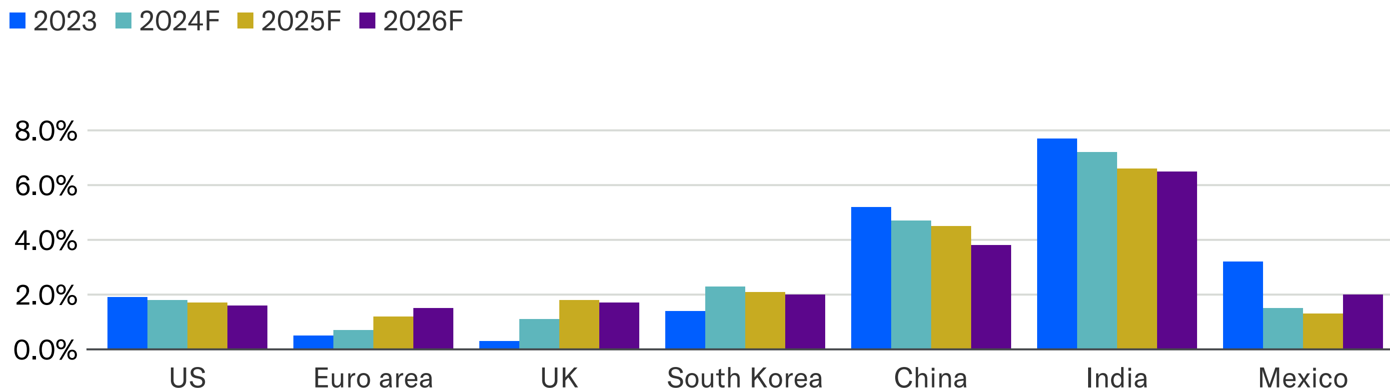
Solid economic growth and employment will support credit fundamentals

We expect broadly positive real economic growth across both developed and emerging economies in 2025 (Exhibits 2 and 3), which should drive improved profitability and support asset quality for most finance companies globally. In the US, where most rated finance companies are domiciled, we expect 2.0% real GDP growth, which will continue to lead developed economies, and about 4.3% unemployment, which is close to full employment. Though we expect softer growth of around 1.2% in the euro area, that is an improvement from 0.7% growth in 2024 and we also expect solid performance in other developed economies. Among developing economies, we expect continued robust performance in India and Indonesia, while in China real GDP growth will continue to moderate.

However, despite this solid macro outlook, companies will contend with both policy and geopolitical uncertainty. A new US administration could implement protectionist trade policies that trigger retaliatory policies from other countries, with negative implications for global growth. Our current forecasts capture a modest drag from these factors, but there is significant uncertainty over the magnitude of any policy shifts. Further, though the global economy has remained resilient in the face of global conflicts in 2024, new geopolitical pressures could result in commodity price shocks, supply chain disruptions, or other adverse effects not currently captured in our forecasts.

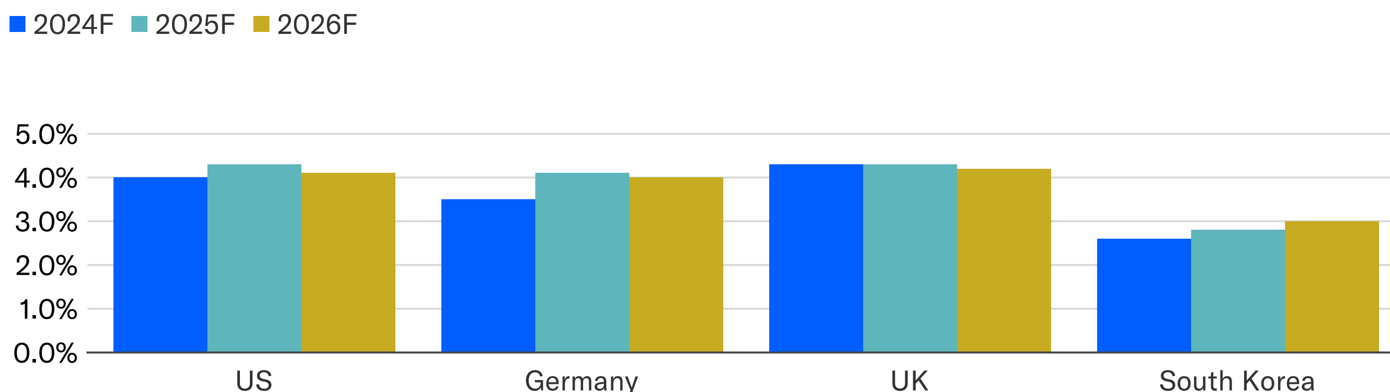
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Exhibit 2
Outlook for real GDP growth of select G-20 economies



Source: Moody's Ratings

Exhibit 3
Outlook for unemployment of select G-20 economies



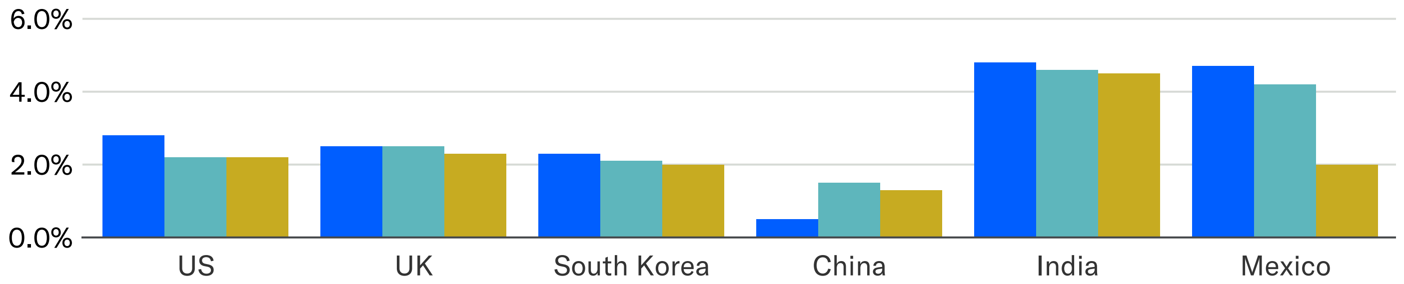
Source: Moody's Ratings

Moderating inflation will support funding market access, a positive for finance companies

Finance companies have struggled with increasing borrowing costs and constrained market access amid rising interest rates in recent years. We expect core inflation will decline to near central bank targets by mid-2025, facilitating movement of policy rates toward neutral stances (Exhibit 4). We do not expect a significant decline in long-term rates in 2025, but a more stable interest rate environment should nonetheless support stronger market access for finance companies. Further, declining inflation should support borrowers' ability to service debt obligations, helping limit credit costs for non-bank lenders and lessors.

However, as with real GDP growth forecasts, there is considerable policy uncertainty with respect to inflation. Changes to fiscal, immigration or trade policies in the US and other global economies could cause inflation to rise once again, reversing some of the gains made over the past year.

Exhibit 4
Outlook for inflation of select G-20 economies



Source: Moody's Ratings

Amid broadly stable outlook for finance companies globally, two subsectors face steeper challenges

Unless otherwise noted, ratings in the x-axis labels of exhibits in the following sections refer either to the long-term issuer rating (for investment-grade companies) or the corporate family rating (for speculative-grade companies).

As detailed below, there are stable outlooks on 11 of 14 non-bank finance subsectors we cover globally, and one positive outlook for aircraft lessors. The outlooks for US commercial real estate lenders and Chinese distressed asset management companies remain on negative outlook for 2025, reflecting ongoing dislocation in those industries.

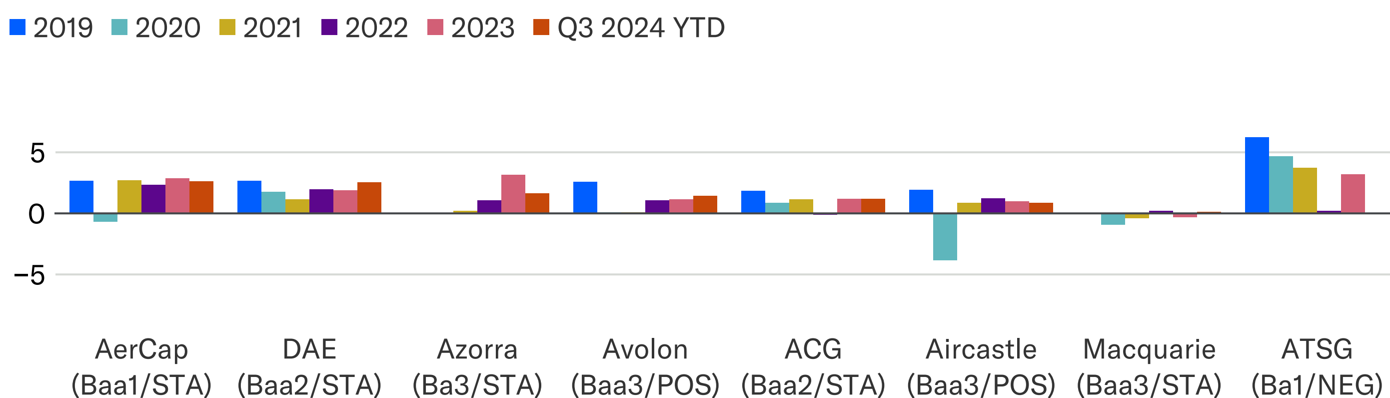
Aircraft lessors – positive, as strong air travel demand and constrained supply support high lease rates

Our 2025 outlook for the aircraft leasing sector continues to be positive, having been revised from stable in June 2024. Lease rates for passenger aircraft have been driven higher over the past two years by strong demand for leased aircraft from airlines serving growing air travel markets amid constrained new aircraft supply. According to the International Air Transport Association (IATA), average passenger aircraft load factors (the percentage of available seats occupied by passengers) reached 83% in November 2024, exceeding already strong 2023 and 2022 levels, as air travel demand has exceeded growth in airline seat capacity. Revenue passenger kilometers, a measure of air travel volumes, rose 10.6% in 2024 (through November), while available seat kilometers grew 8.9%.

Constraints on the increase in new aircraft production rates due to supply chain challenges have contributed to a shortage of the most desirable new vintage, efficient aircraft. Though supply chain constraints will likely ease across aerospace over the next two years, aircraft lessors continue to expect that the aircraft supply imbalance will extend toward the end of this decade, providing sustained support to their lease rates, revenue and profits. Prospects for air cargo volume growth are fueled by continued penetration of e-commerce in the retail sector. Net income to average assets profitability for lessors of passenger aircraft, which declined during the coronavirus-led downturn to 0%-0.5%, has either already recovered to, or is improving toward, the pre-pandemic range of 2%-3.5%, in part reflecting growing revenue strength (Exhibit 5). A downside risk is the susceptibility of air travel volumes to unexpected deceleration in economic growth and to geopolitical events, which could in turn dampen airlines' performance and the need for additional leased aircraft capacity. Additionally, higher funding costs could dampen improving profitability trends, especially for smaller lessors with limited access to lower cost funding sources.

Exhibit 5

Aircraft lessors' earnings prospects reflect rising lease rates and trading gains
Net income / average managed assets (%)



Above and in other exhibits in this section, we show along the horizontal axis the unsecured debt rating and issuer outlook of the relevant firms. AerCap refers to AerCap Holdings N.V.; DAE refers to Dubai Aerospace Enterprise Ltd; Azorra refers to Azorra Aviation Holdings, LLC; Avolon refers to Avolon Holdings Limited; ACG refers to Aviation Capital Group LLC; Aircastle refers to Aircastle Limited; Macquarie refers to Macquarie AirFinance Holdings Limited, ATSG refers to Air Transport Services Group, Inc.
Source: Moody's Ratings, company filings

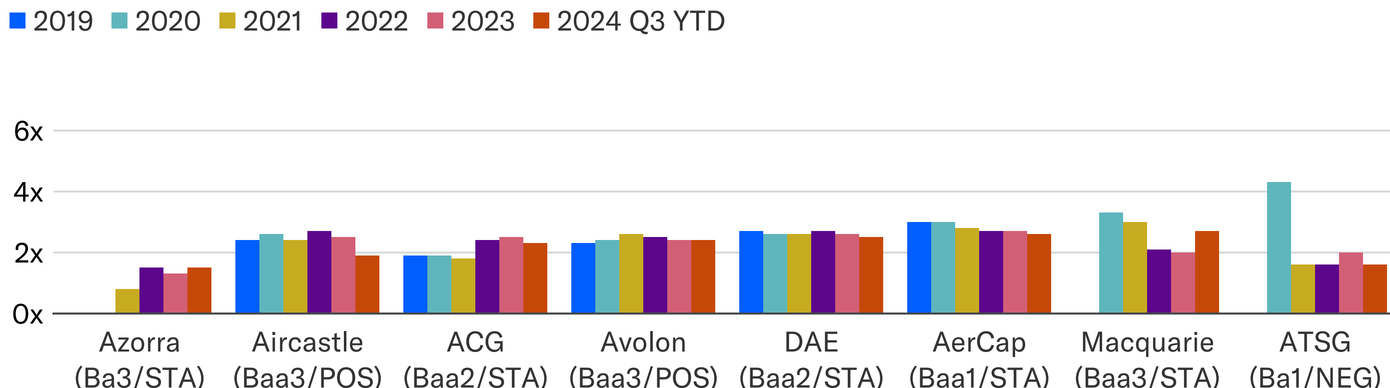
Higher aircraft values and lease rates have helped to revive aircraft trading activity, leading aircraft lessors to report strong sale gains. Though a less core source of income than leasing, aircraft trading is nevertheless allowing lessors to improve fleet composition from both a risk and return perspective. At the same time, a narrowing of credit spreads over the past year has eased pressure on funding costs for most lessors. Airlines are poised for stable-to-improving performance over the next year, though with downside risks relating

to capacity and expense management. But we expect that airlines will continue to timely repay pandemic-related deferred rentals and payables owed to lessors, significantly reducing these balances over the next year.

Aircraft lessors' debt-to-tangible net worth leverage is currently well inside our 3x expectation for maintaining an adequate capital buffer (Exhibit 6). Debt-funded fleet investment could lead leverage to rise moderately, though remaining below the 3x level for most issuers. Debt-to-EBITDA leverage has improved on stronger revenue (Exhibit 7).

Exhibit 6

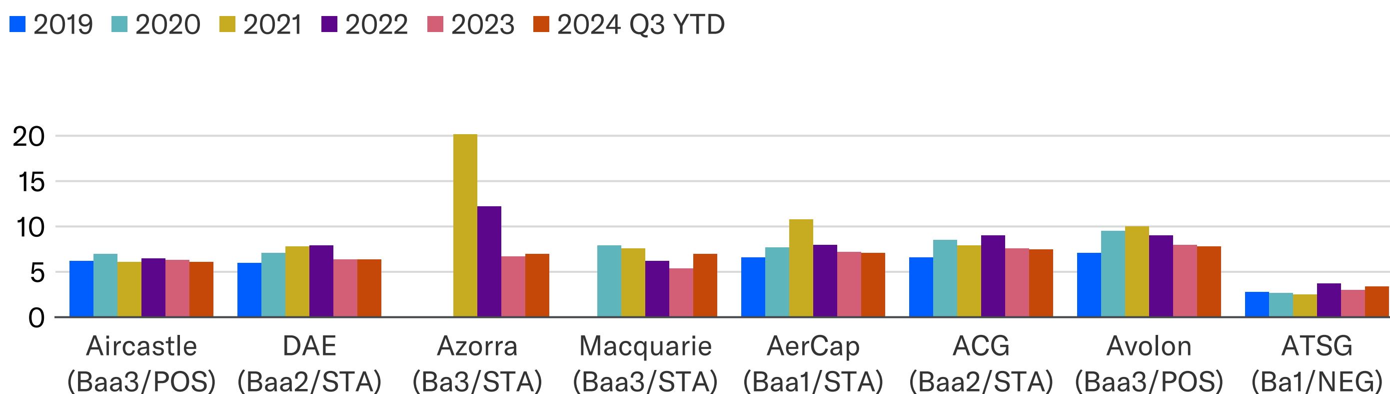
Debt / tangible net worth is relatively stable, providing strong buffer for reduced asset risks
Net debt to tangible net worth



Source: Moody's Ratings, company filings

Exhibit 7

Debt-to-EBITDA leverage has declined on stronger revenue performance
Debt-to-EBITDA leverage (x)



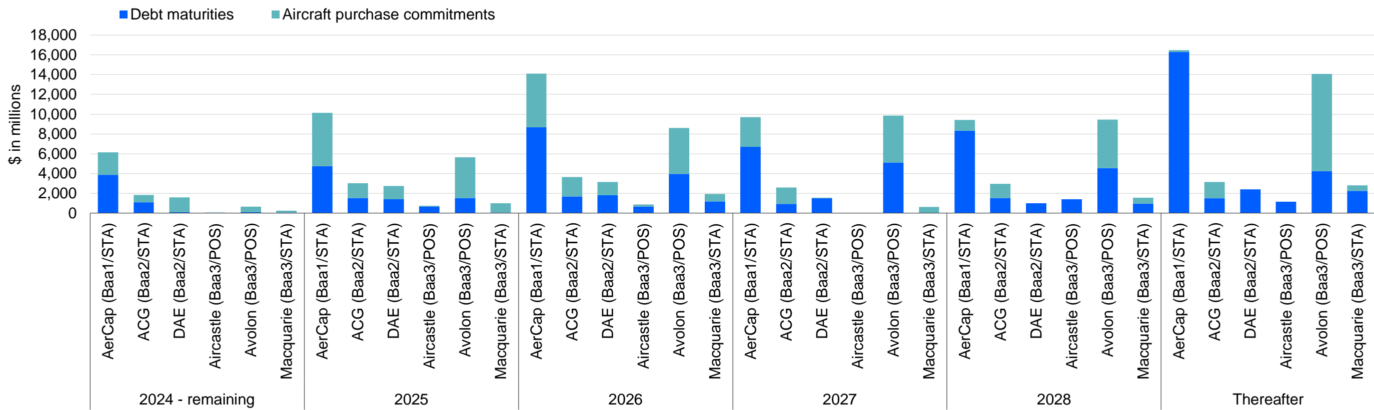
Source: Moody's Ratings, company filings

Investment-grade aircraft lessors have maintained liquidity coverage well above 120%[1], our threshold for investment grade liquidity strength. Liquidity demands may rise moderately because of lessors' debt-refinancing needs and aircraft acquisitions, but will be covered by ample liquidity resources (Exhibit 8).

Exhibit 8

Liquidity demands are rising but well distributed

Debt maturities and aircraft purchase commitments



Source: Moody's Ratings, company filings

US auto finance captives – stable, as net charge-offs near peak and profitability returns to historical levels

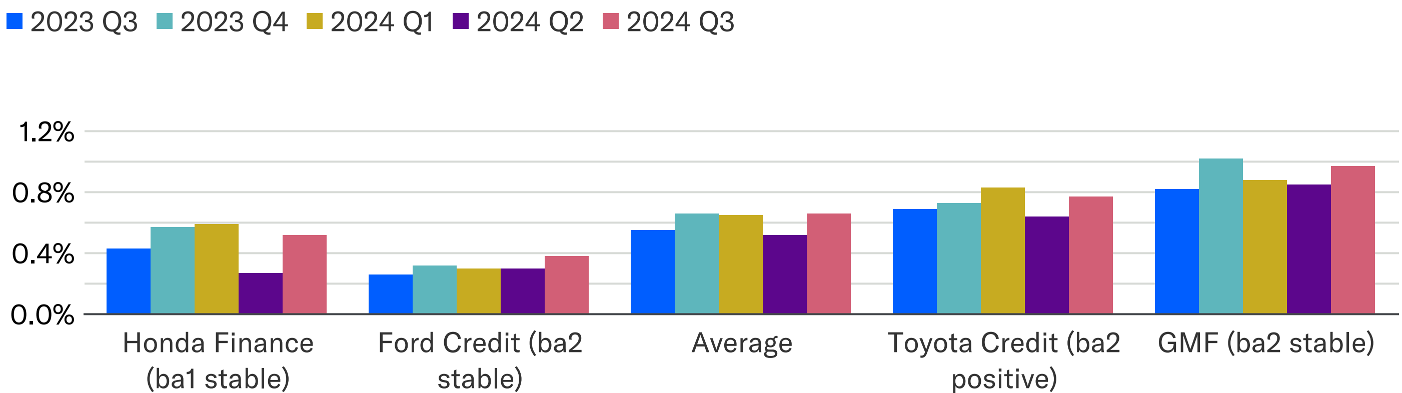
The stable outlook for the US auto finance captives sector reflects our expectation that net charge-offs are near a peak and will stabilize in 2025 (Exhibit 9). Consumer demand for auto loans may be below historical levels, but an ongoing increase in captives' participation in the loan market will support business volumes. We also anticipate that US new vehicle sales will rise 1.9% to 16.0 million units in 2025, following a moderate 0.9% increase in sales in 2024.

We forecast the US unemployment rate will stay around current levels this year, keeping asset quality fairly stable in 2025. This assumes a more moderate benefit to loan recoveries from used car values, since we expect used car prices will decline by a low-single digit percentage through 2025. Recoveries are typically tied to used car prices since the lender uses the value of the collateral to offset some of the loss from the defaulted loan.

Exhibit 9

Charge-offs near peak and should stabilize in 2025

Rated North American auto finance captives: net charge-offs (discrete, annualized)/average gross loans (%)



Above we reflect the firms' standalone assessments. Ford Credit refers to Ford Motor Credit Company LLC, GMF refers to General Motors Financial Company, Inc., Toyota Credit refers to Toyota Motor Credit Corporation, and Honda Finance refers to American Honda Finance Corporation. Quarters and years in the exhibit refer to calendar quarters and years.
Source: Moody's Ratings, company filings

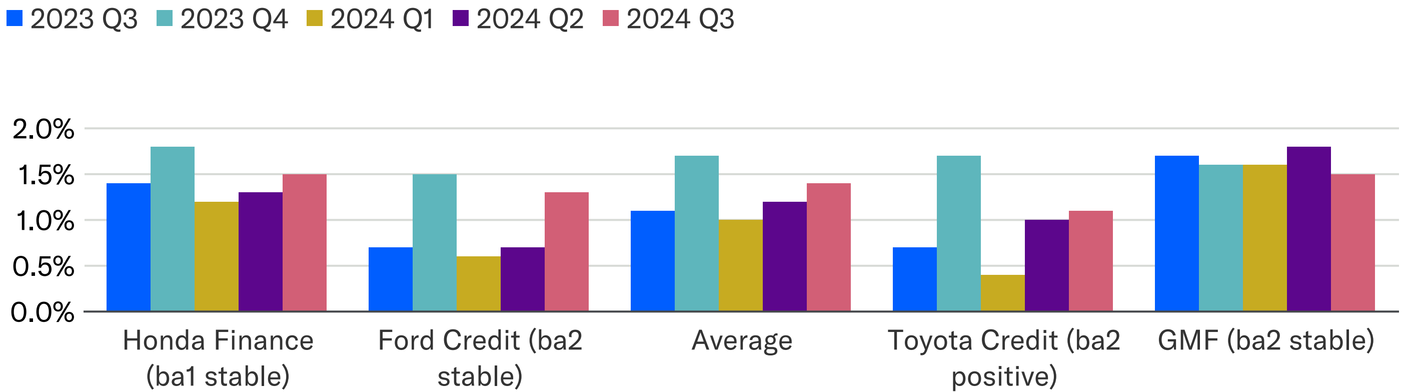
Captives remain fairly active, and volumes should benefit from increased incentive spending by auto manufacturers. Captives' market share of financing was 29.1% in the third quarter of 2024, compared with 30% for the same period in 2023, and closer to historical levels. Additionally, access to capital markets remains open for auto captives as the providers of the most liquid and granular auto financing to high-quality customers.

Also, captives' profitability has returned to historical levels of about 1.0% - 1.5% (Exhibit 10), especially in the quarter ending 30 September 2024, as they return to contract pricing in a more manageable interest rate environment, following a period in which they could not raise product prices enough to match the increase in their cost of capital. For some captives, profitability was lower in the last 18 months as they contended with rapidly rising financing costs.

Exhibit 10

Profitability of captives returns to historical levels

Rated North American auto finance captives: net income (discrete, annualized)/average managed assets



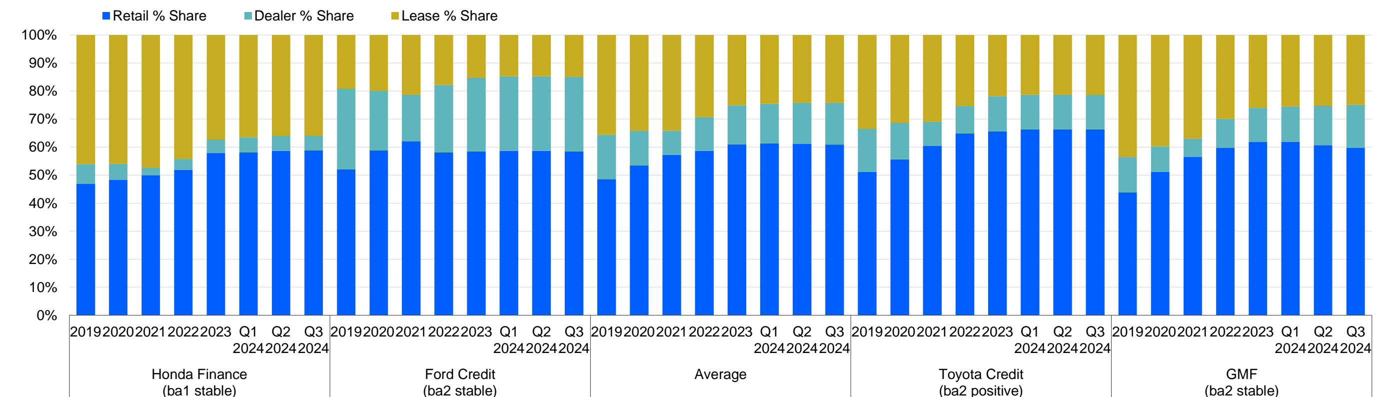
Source: Moody's Ratings, company filings

Captives also have large lease portfolios (Exhibit 11), which makes them vulnerable to fluctuations in used car prices because, once the lease contract expires, captives typically sell the returned vehicle at the market price, which can vary from the estimated price previous to sale, potentially resulting in incurred losses. We estimate that used car prices will decline by a low single-digit percentage in 2025, which should allow captives to effectively manage their used vehicle fleet.

Exhibit 11

Leases make up a significant part of captives' portfolios, exposing them to residual value risk

Rated North American auto finance captives: operating portfolio breakdown in percentage terms



Source: Moody's Ratings, company filings

There are several factors that allow US captives to effectively manage residual value risk. Foremost is a deep used car market in the US with more predictable price performance through a range of economic cycles. Also important is a captive's experience managing vehicle financing through the life cycle, as well as the ability of its parent to provide support, if needed. Additional buffers of residual value risk include inflation, keeping short loan books (three-year average) and consistent marking to market.

US residential mortgage lenders – stable, as higher origination volumes will drive modestly higher profitability and flat capitalization

The outlook on the US residential mortgage lending sector is stable, reflecting our expectation that profitability will improve modestly in 2025 as origination volumes increase to around $1.8 trillion versus around $1.7 trillion in 2024. We expect mortgage rates will end 2025 around 6.5%, down from a bit over 7.0% currently and from a cycle peak of around 8.0% in the fall of 2024.

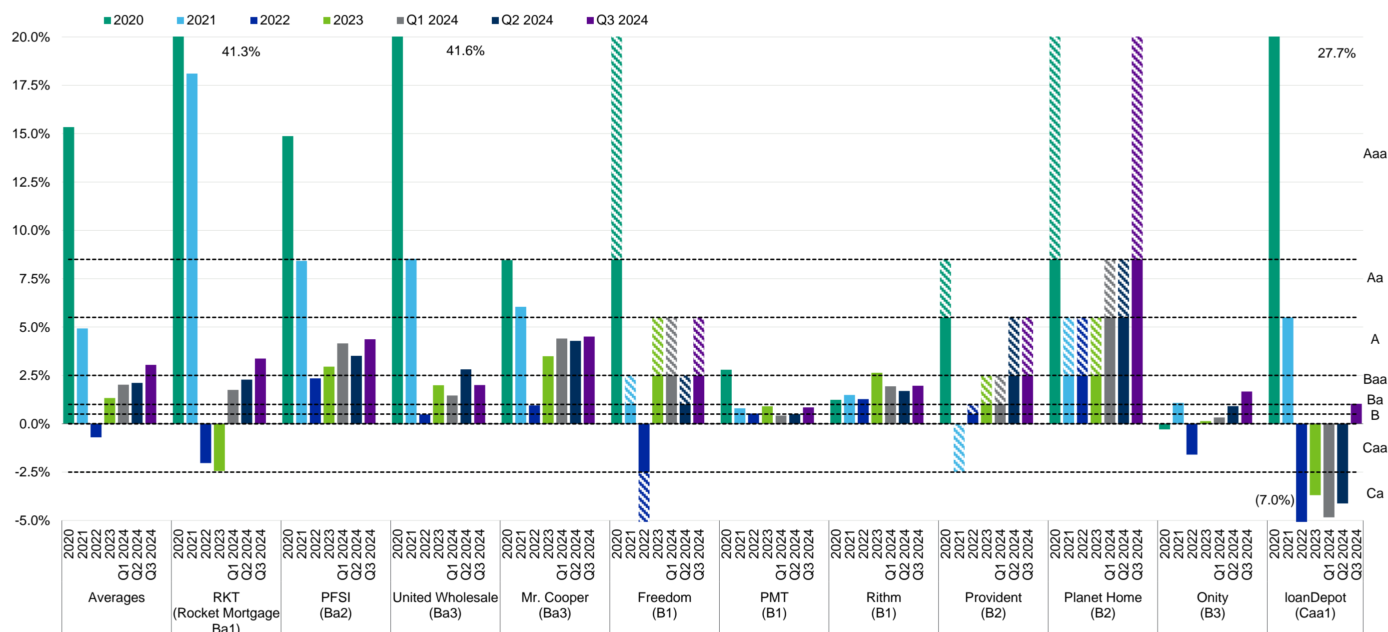
We expect refinance originations will increase in 2025 from the very low levels of 2024, but only moderately since a very large percentage of existing mortgages have rates below 5%. Purchase originations should also increase but will remain modest, since home listings will continue to be low, with homeowners still reluctant to give up the low fixed-rate mortgages they obtained in 2020 and 2021.

With the modest increase in origination volumes at the non-bank mortgage companies, we expect a modest improvement in core profitability (excluding mortgage servicing rights [MSR] fair value changes and non-recurring items) of around 2.0% to 2.25% of average adjusted tangible managed assets, moderately below the historical average for the group (Exhibit 12). For the nine months ended 30 September 2024, average annualized core profitability for residential mortgage lenders we rate was 1.6%, compared with -0.8% for all of 2022. Unless there is a recession, and if mortgage rates decrease in 2025 from current rates of around 7.25% to around 6.0% or lower, origination volume will likely only increase modestly to around $1.8 trillion, leading to a modest increase in the core profitability of mortgage companies. While growth in head count from historically low levels will drive moderately higher operating expenses, other cost-cutting efforts and efficiency gains over the past few years will likely produce very high levels of operating leverage as origination volumes increase.

Exhibit 12

Residential mortgage companies' core profitability will likely increase to around 2.0% to 2.25%, somewhat below the historical average for the group

Rated US residential mortgage lenders: core income/average adjusted tangible managed assets



The dashed horizontal black lines indicate Moody's Finance Companies Rating Methodology scoring ranges for this ratio. See endnote for further information.[2]

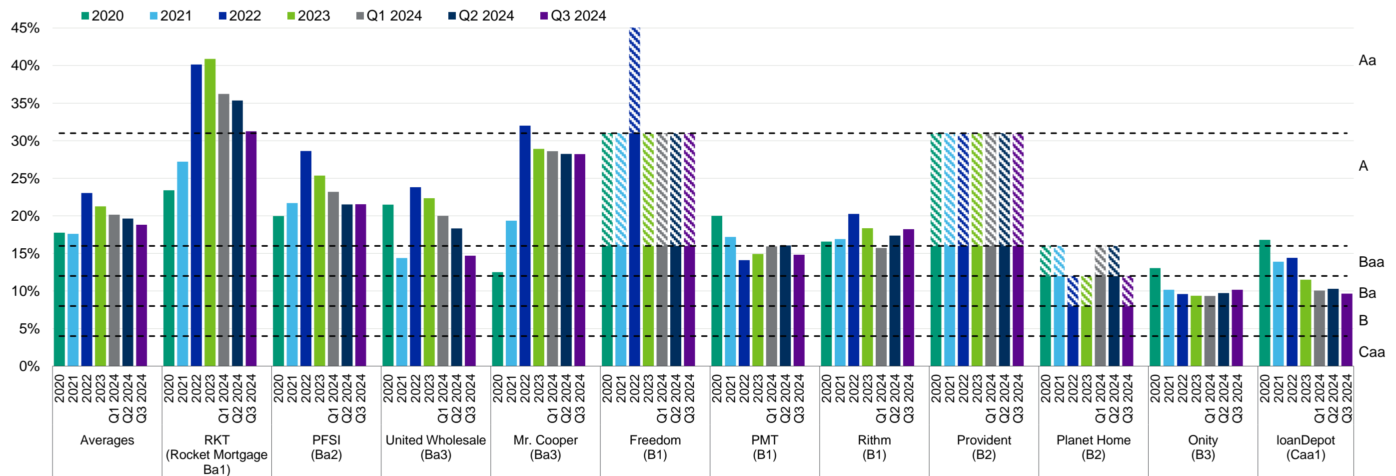
Source: Moody's Ratings, company filings

A partial offset of improved profitability in 2025 will be a likely decline in the capitalization of the residential mortgage lenders, since gains in retained earnings will lag the rise in origination volumes (Exhibit 13). MSR write-downs will also be a headwind to capital accretion since they will constrain earnings. Capitalization averaged a solid 18.8% for the group as of 30 September 2024 but has fallen modestly from the peak average of 23.0% as of 31 December 2022, when loans held for sale were at their lowest levels.

Exhibit 13

Capitalization levels will decrease in 2025 as retained earnings lag the rise in origination volumes

Rated US residential mortgage lenders: adjusted tangible common equity/adjusted tangible managed assets



The dashed horizontal black lines indicate Moody's Finance Company Rating Methodology scoring ranges for this ratio.[3]

Source: Moody's Ratings, company filings

Liquidity remains adequate for most residential mortgage lenders we rate, supported by the companies' ability to monetize MSRs as needed. Additionally, rated residential mortgage lenders have well-laddered unsecured debt maturities, with only 8% of rated unsecured debt among the peer group maturing in 2025. As profitability rebounded moderately in 2024, the market for unsecured bond issuance became more receptive, a credit positive. With the prospect of higher origination volumes and a decline in mortgage rates, we expect that more companies will again tap the unsecured bond market.

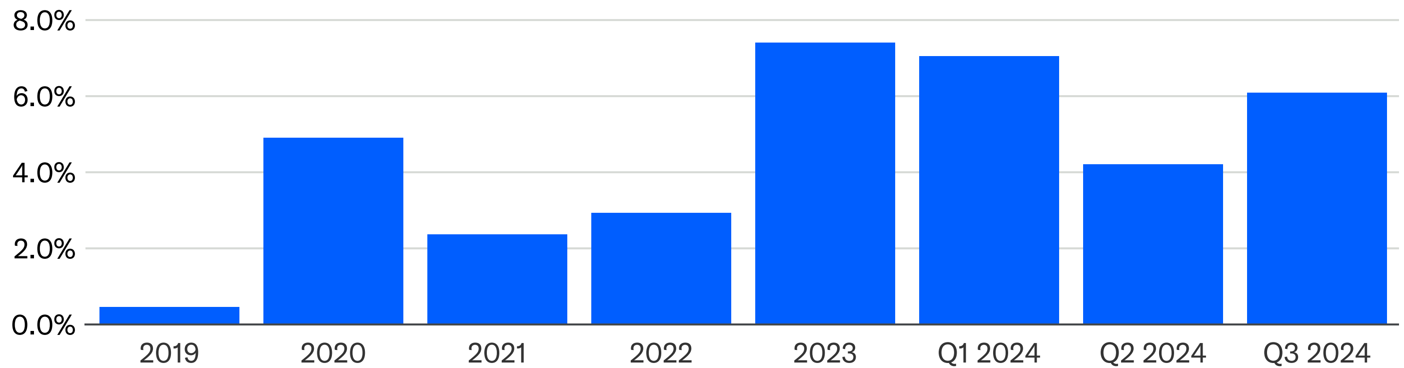
US commercial real estate lenders – negative, as weak office performance remains a drag on asset quality and earnings

We maintain a negative outlook on the US non-bank CRE lending sector, reflecting our expectation that lenders will continue to incur losses in 2025 driven by nonperforming office and multifamily loans, even as the cumulative impact of interest rate cuts offers some relief to borrowers later in the year. Moderating GDP and employment growth in 2025 will be a headwind for leasing activity and property valuations, but will also support the Federal Reserve's case for further interest rate cuts. A decrease in short-term rates will offer much-needed support to borrowers' debt service coverage ratios. However, we do not expect a significant decrease in long-term bond yields, which are frequently a reference for capitalization rates for property valuations.

Migration of additional loans into CRE lenders' weakest risk-rating category (i.e., 5) will be the largest driver of loan-loss provisions this year, because accounting for losses under the current expected credit losses (CECL) standard will shift to the more conservative asset-specific CECL reserve from a general CECL reserve. Office loans make up 52% of the weakest rated loans, followed by multifamily loans at 21%.

Though improving financing conditions will help resolve nonperforming loans (NPLs) tied to multifamily properties, loans tied to office buildings will continue to drive losses in 2025. Nonetheless, we expect high levels of NPLs (Exhibit 14) to begin declining over the next 12 months through sales, discounted payoffs or foreclosures. The recent deceleration of risk-rating downgrades suggests a potential market trough in the second half of 2025.

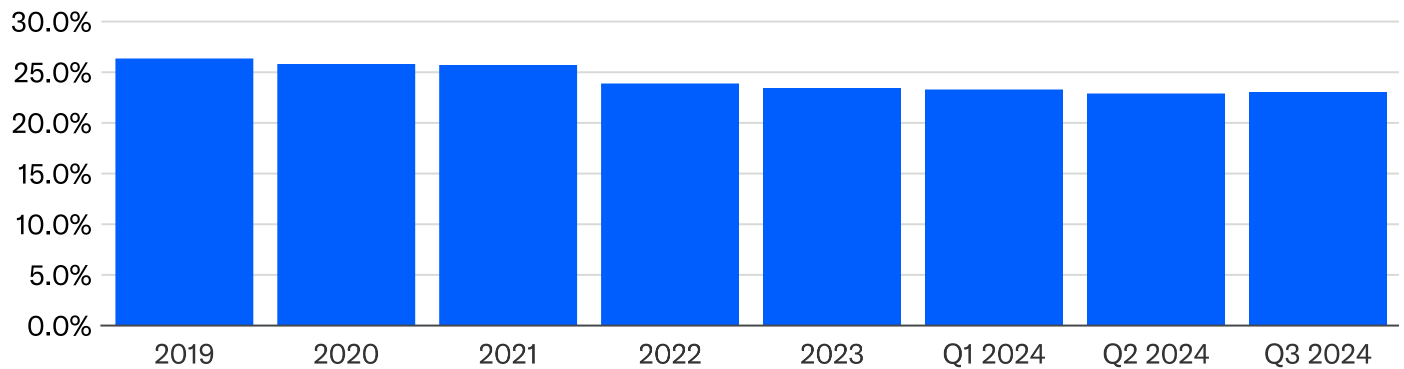
Exhibit 14
High level of nonperforming CRE loans should begin to decline over next 12 months
Rated US CRE lenders: median problem loans to gross loans



Source: Moody's Ratings, company filings

CRE lenders maintain solid capitalization (Exhibit 15), with a median tangible common equity to tangible managed assets (TCE/TMA) ratio of 23.0% as of 30 September 2024, down only slightly from 23.8% a year earlier. Over the same period, CECL reserves to absorb expected losses increased to 3.2% of gross loans from 2.1% (Exhibit 16).

Exhibit 15
CRE lenders' capitalization is solid
Rated US CRE lenders: median TCE/TMA

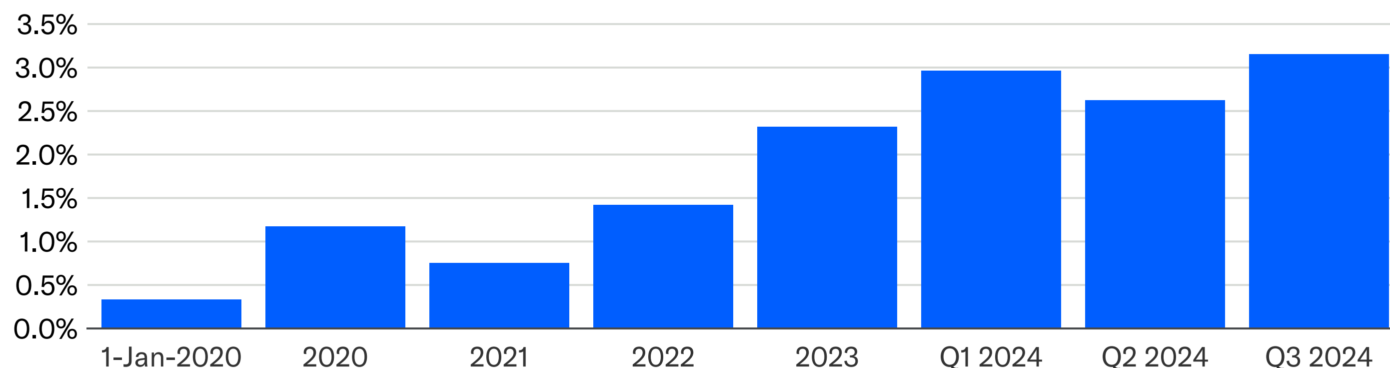


Source: Moody's Ratings, company filings

Exhibit 16

Lenders increase reserves to absorb expected loan losses

Rated US CRE lenders: median CECL reserve to gross loans



Source: Moody's Ratings, company filings

CRE lenders' earnings will likely remain under pressure from elevated provisions and net interest margin compression attributable to declining loan balances and high NPLs. However, CRE lenders are beginning to originate new loans following eight quarters of declining loan balances. Total gross loans for the sector declined to $64.4 billion as of 30 September 2024 from a peak of $75.0 billion at the end of 2022. It may take several quarters for balances to start growing again because of ongoing payoffs of performing loans, but new loans will generate strong earnings and enhance lenders' loss-absorption capacity for existing loans. Additionally, newly originated loans are being underwritten to more conservative standards with better credit protections, and are likely to result in lower expected losses.

US business development companies – stable, as lower interest rates and economic growth ease pressure on borrowers, while net investment income/average assets will moderate

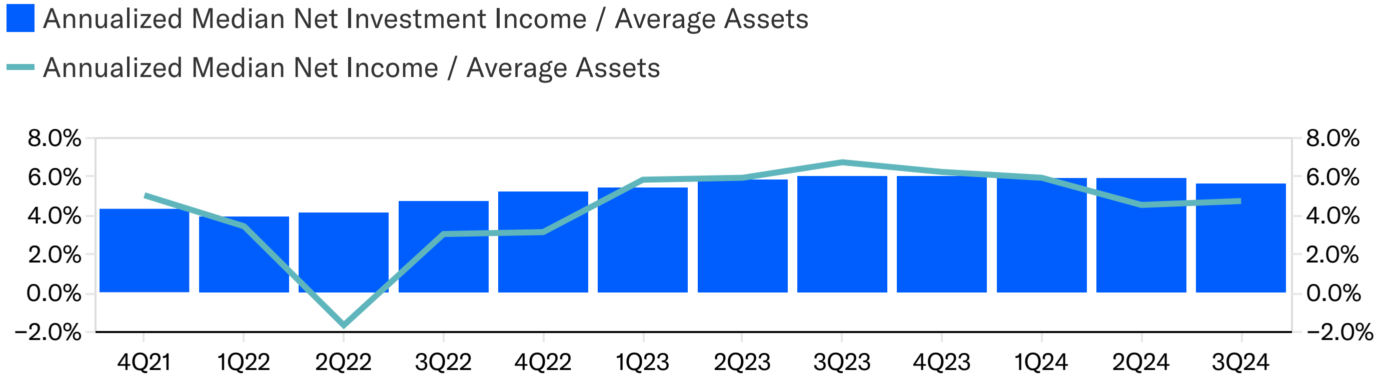
Our outlook on the US business development companies sector remains stable. Asset quality pressures should remain contained, with the US forecast to have solid GDP growth, despite a deceleration, and interest rates declining. The highly leveraged, floating-rate borrowers in BDCs' portfolios may start to feel less squeezed, and any issues that arise will largely reflect poor credit selection and sporadic idiosyncratic factors.

However, BDCs' net investment income will also continue a moderate decline that began in 2024 (Exhibit 17). Spreads have already tightened, but the impact of rate declines is still largely to come. This will partially reverse a benefit that BDCs enjoyed through a unique market period, with higher rates driving increased net investment income, but does not indicate stress in the sector.

Exhibit 17

Net investment income / average assets is off peak levels and set to moderate further in 2025

Rated BDCs: Annualized net investment income/average assets and net income/average assets (median)



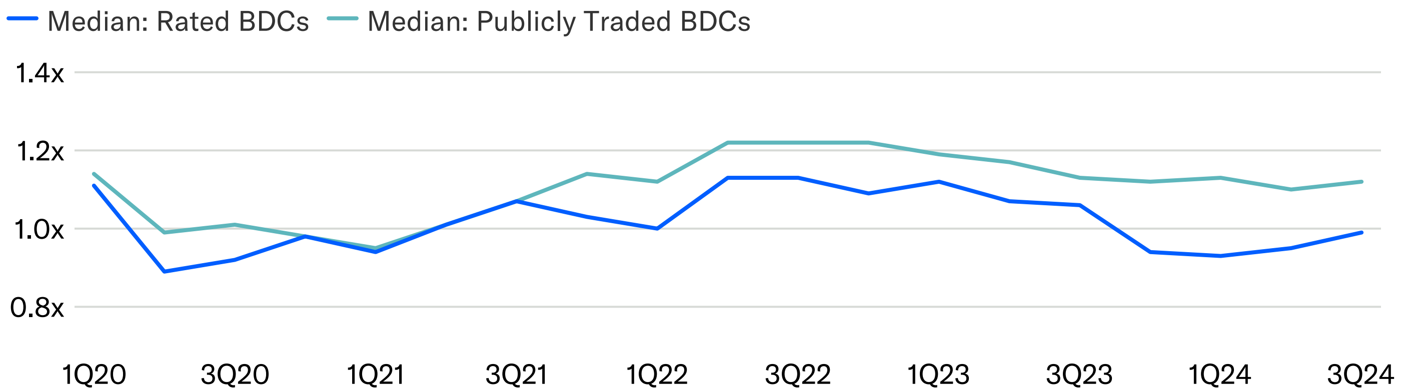
Net investment income is adjusted for capital gains incentive fees for the ratio net investment income/average assets.
Source: Moody's Ratings, company filings

There are high hopes for increased M&A in 2025 based on management commentary. The economic and rate backdrop will likely boost sponsors' inclination to deploy capital and transact with existing portfolio companies. This may increase BDCs' leverage appetite, as they respond to increased demand for financing, but we do not expect overall tolerances to change. BDCs will continue to operate within a tight leverage range that protects creditors from the risk of a downturn (Exhibit 18). Additionally, many have capacity within current target ranges, including perpetual non-traded BDCs, which have largely been operating with debt-to-equity leverage below 1.0x. BDCs could shift their portfolio mix to more junior investments to boost return on equity, but we expect any such shift to be modest.

Exhibit 18

Median leverage has fallen since 2022, but is likely to move higher in 2025

Rated BDCs: Median debt/equity ratio for all BDCs and publicly traded BDCs



Source: Moody's Ratings, company filings

Tighter spreads and a risk-on environment are beneficial to BDCs' liability management and funding. Markets for both unsecured and secured funding (e.g., collateralized loan obligations) were hot in 2024, and show no signs of abating early on in 2025, supporting BDCs' liquidity. Flows into perpetual non-traded BDCs have also been substantial, keeping leverage and liquidity risk contained, and are likely to continue even as returns ebb. This influx of new capital will drive intense competition, a credit negative, but an expanding M&A pie is an offset to these pressures.

US and Canada non-prime consumer lenders – stable, as asset quality pressures moderate, though financing costs remain high

We have changed the outlook on US and Canada non-prime consumer lenders to stable for 2025 from negative for 2024. Loan losses and delinquencies have moderated for most firms (Exhibits 19 and 20) and we expect they will decline toward historical averages during 2025, particularly as 2022 vintages continue to run off from most portfolios. The solid economies in the US and Canada, along with easing inflation, should support the performance of more recent loan vintages. Furthermore, most firms remain adequately capitalized, which will help them absorb higher losses (Exhibit 21).

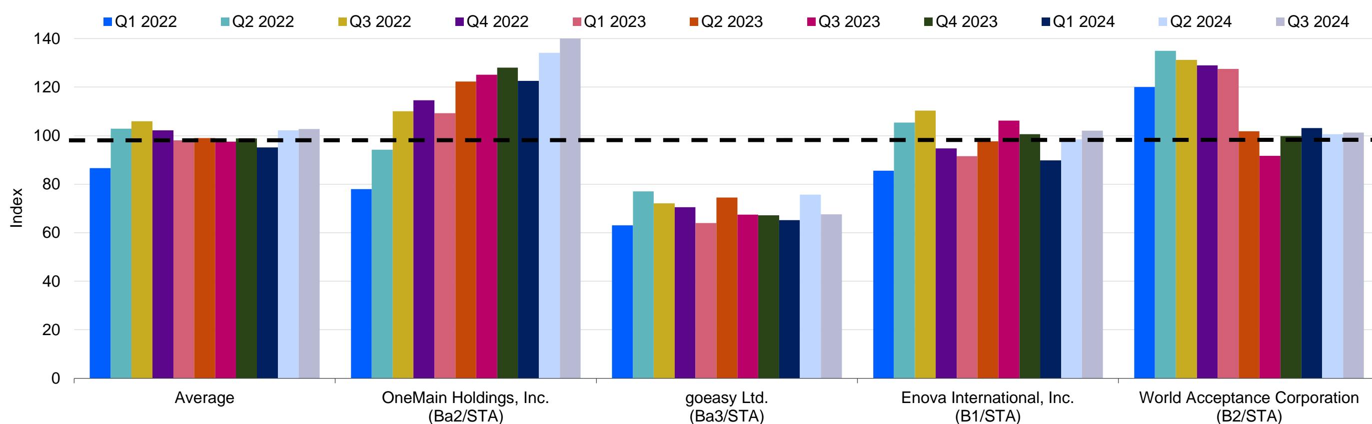
This sector has struggled with rising loan losses during the recent period of high inflation because non-prime consumers spend a disproportionate amount of income on items that are particularly prone to cost increases, such as rent, gasoline and groceries. Most lenders began tightening underwriting in the middle of 2022 and have kept these new standards mostly unchanged. The 2022 loan vintage has significantly underperformed the historical norm for most companies, and the 2023 vintage has also had losses above historical averages. Lenders have also contended with higher financing costs, which many firms are not able to offset with increased interest and fee revenue given both state and federal regulations and the high-cost nature of these loan products.

A rise in unemployment or resurgent inflation could lead to higher losses in recent loan vintages and lower profitability. However, most new loans have been originated under tighter underwriting standards, so it is unlikely such a shock would be as acute as in 2022-23.

Exhibit 19

Losses have largely stabilized for most of the peer group and remain around 2019 levels

Net charge-offs/average gross loans, indexed to the corresponding period in 2019 (2019 corresponding period = 100)

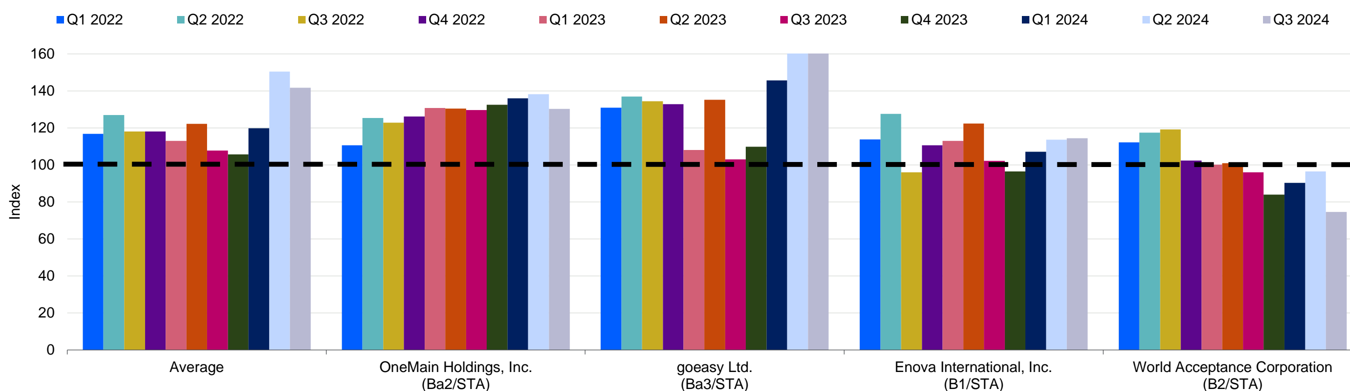


Enova's figures include US consumer loan net charge-offs only. OneMain's Q2 2024 metrics are adjusted for the acquisition of Foursight in April 2024.
Source: Moody's Ratings, company filings

Exhibit 20

OneMain, goeasy and Enova report a rise in seasonally adjusted delinquencies, while World Acceptance experiences year-over-year improvements

Loans 30+ days delinquent/gross loans, indexed to the corresponding period in 2019 (2019 corresponding period = 100)



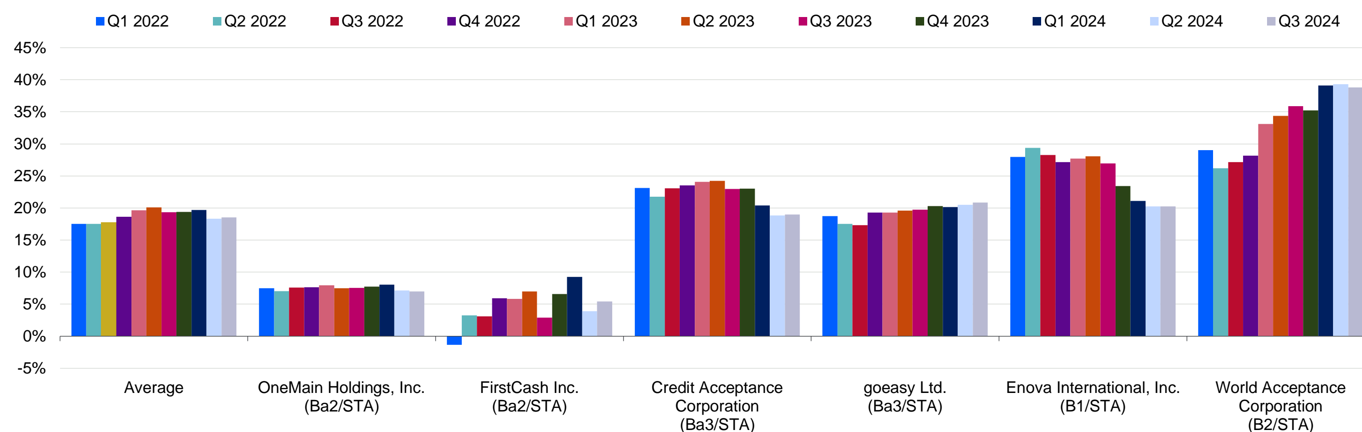
Enova's figures include US consumer metrics only. goeasy's Q2 2024 and Q3 2024 figures are off the axis at roughly 253 and 248. The spike is related in part to a change in the firm's recognition of delinquent accounts.

Source: Moody's Ratings, company filings

Exhibit 21

Maintaining a robust capital buffer remains essential for safeguarding against unforeseen credit losses

TCE/TMA, Q1 2020 - Q3 2024



Source: Moody's Ratings, company filings

Debt purchasers – stable, as lower interest rates will improve profitability and borrowers' debt-servicing capacity

We have changed our outlook on the debt purchasing sector to stable from negative, reflecting our expectation of improved profitability, cash flow and debt-servicing capacity for these firms in a declining interest rate environment. We also expect that debt issuances will be executed at lower coupons (for firms not in financial distress), as rates decline and investor sentiment improves in the high-yield market, reducing these companies' refinancing risk. A stable supply of NPLs will support portfolio income and the collections of debt purchasers that have funding capacity to pursue these investments. Portfolio write-downs are still a risk, if reduced consumer debt-repayment capacity results in low collections, but a decline in interest rates should ease the pressure on borrowers and improve collections.

The supply of NPLs should remain broadly stable, but will likely vary by region. Specifically, we expect that NPL volumes will stabilize at a comparatively higher level in the US than Western Europe, with stronger growth in Central and Eastern Europe. Higher NPL volumes typically lead to more favorable acquisition pricing on portfolios; however, pricing on these NPL portfolios also depends on prevailing interest rates, banks' willingness to sell NPLs, and the availability of capital in the sector and from alternative sources. We expect

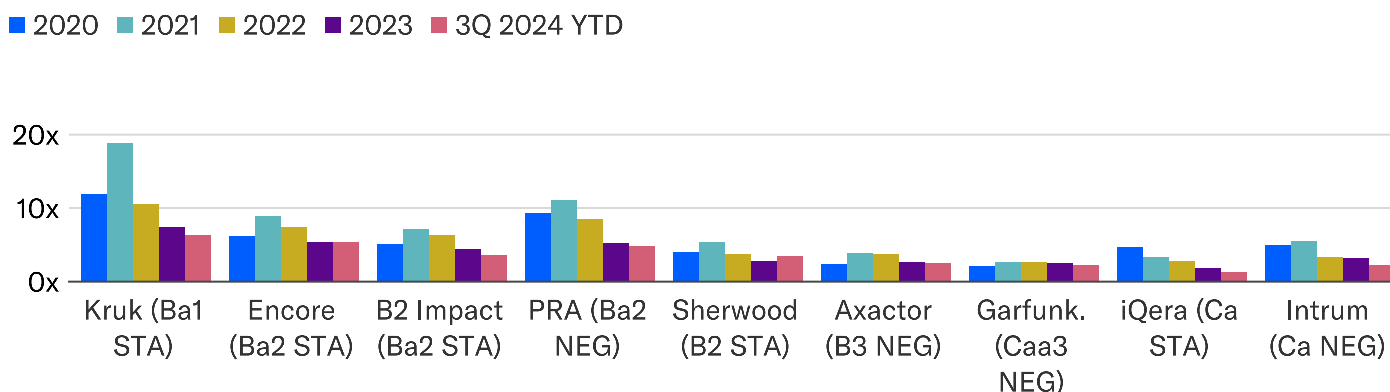
pricing in the debt purchasing sector will remain competitive given the abundance of available capital, including from alternative providers, such as asset management firms. This is despite a retraction from the core debt purchasing business by firms currently pursuing debt restructurings and corporate and strategic transformations: Intrum AB[4] (Ca negative) and iQera Group SAS[5] (Ca stable). Debt purchasers with reduced financial flexibility, such as Garfunkelux Holdco 2 S.A.[6] (Caa3 negative) would also need to balance the pursuit of investments to support its franchise against its liquidity and funding needs. Conversely, we expect firms with solid liquidity reserves to remain active buyers of NPLs. These firms include KRUK S.A. (Ba1 stable), Encore Capital Group, Inc. (Ba2 stable), B2 Impact ASA (Ba2 stable), PRA Group Inc. (Ba2 negative) and Sherwood Parentco Limited (B2 stable).

Continued purchases will allow these firms to grow or sustain the size of their investment portfolios and, therefore, their income and collections, supporting EBITDA and interest coverage (Exhibit 22). Profitability will also benefit from a lower expense base resulting from cost-cutting measures at a number of debt purchasers. We also expect that lower interest rates will improve debt purchasers' cost of capital as they finance NPL investments mainly with debt. Firms with more diversified business models, such as Sherwood, which has a sizable investment management platform, will further benefit from fee-based income streams.

Exhibit 22

Interest coverage will improve in 2025 for most debt purchasers

EBITDA/interest expense + preferred dividends, 2020 - Q3 2024 YTD

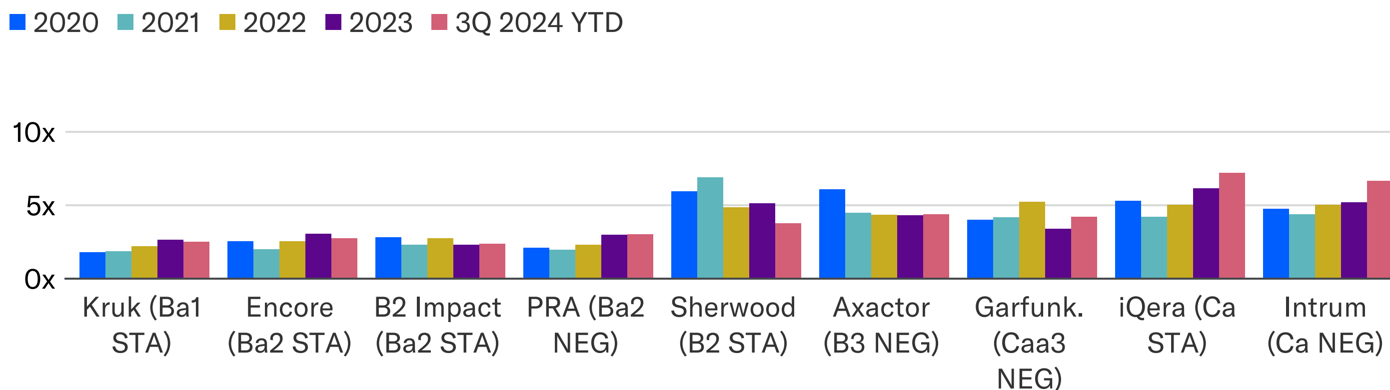


Ratings in the chart above are corporate family ratings. For Sherwood, results before Q4 2021 are for Arrow Global Group Limited (formerly plc), representing the consolidated results of Arrow prior to its acquisition by TDR.

Source: Moody's Ratings, company filings

We expect leverage in the debt purchasers sector to remain broadly stable, with the increased leverage from mostly debt-financed portfolio purchases offset by stronger EBITDA, driven by higher collections (Exhibit 23).

Exhibit 23
Debt/EBITDA leverage is likely to stabilize at current levels as continued investments are offset by growing EBITDA
Debt/EBITDA, 2020 - Q3 2024 YTD



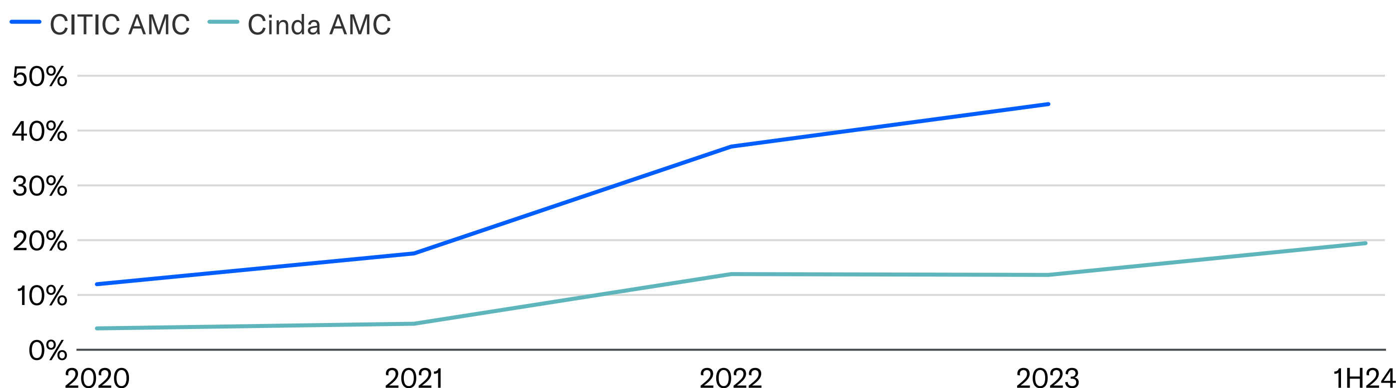
2024 leverage ratios are based on the annualized EBITDA for the first nine months of the year. For Sherwood, results before Q4 2021 are for Arrow Global Group Limited (formerly plc), representing the consolidated results of Arrow prior to its acquisition by TDR.
Source: Moody's Ratings, company filings

Chinese distressed asset management companies – negative, as persistently weak operating environment weighs on asset quality and profitability

Our outlook for distressed AMCs in China remains negative, with the operating environment likely to remain weak in the next 12 months because of China's persistently sluggish property market and slower economic growth. At the same time, these conditions could also provide more opportunities to distressed asset management businesses that rely on market dislocations to source new investment opportunities. Also, some local AMCs with less exposure to property markets may benefit from having a niche focus on local economies.

Asset quality will remain under pressure and weigh on the performance of AMCs' credit exposures. The AMCs still have material exposure to the property market via their businesses restructuring distressed assets, through which they gain a fixed return by entering into a restructuring agreement with the original creditor and the debtor. In addition, some large AMCs have banking and leasing subsidiaries whose asset quality is deteriorating amid China's economic slowdown. The AMCs' Stage 3 assets ratio has increased materially since 2021 (Exhibit 24), and we expect the trend to continue in the next 12 months.

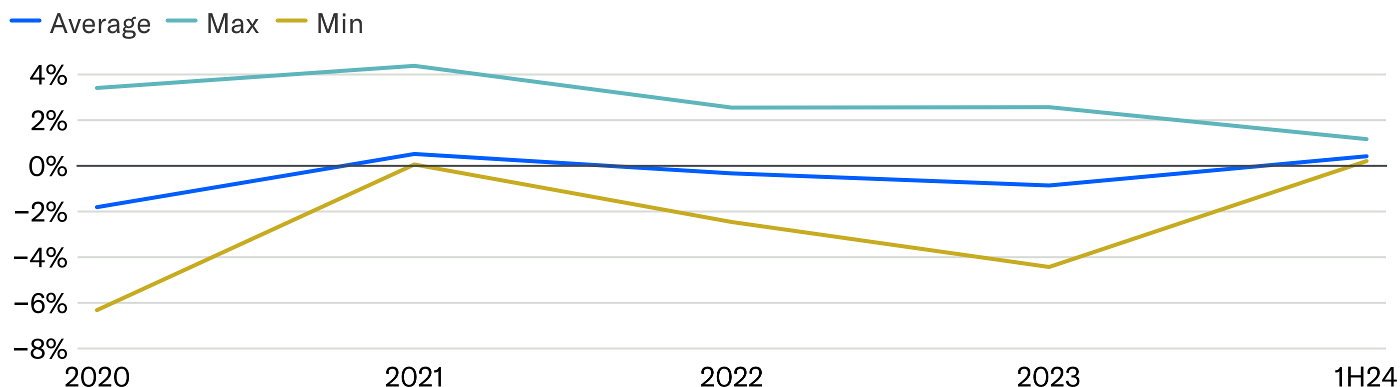
Exhibit 24
AMCs face deteriorating asset quality in their businesses acquiring and restructuring distressed assets
Stage 3 asset ratio for acquisition and restructuring of distressed assets



CITIC AMC = China CITIC Financial Asset Management Co Ltd (Ba1 negative); Cinda AMC = China Cinda Asset Management Co., Ltd. (Baa1 negative). CITIC AMC's data at the end of June 2024 is not available.
Source: Moody's Ratings, company filings

Profitability in the sector will remain under pressure from high credit costs (Exhibit 25). Though potential improvements in capital markets could boost investment income, AMCs now take longer to dispose of distressed assets and collateral, resulting in lower returns under current economic conditions.

Exhibit 25
Rated AMCs' annualized return on average assets has declined
Net income/average managed assets



Source: Moody's Ratings, company filings

AMCs' core equity capital will remain constrained by weak profitability and difficulties raising equity capital in current capital market conditions. However, slower asset growth and issuance of capital instruments could help maintain leverage at current levels.

We also expect the AMCs to be able to maintain adequate funding and liquidity, since most are owned by central or local governments and have access to credit lines from large and local commercial banks in China.

Chinese leasing firms – stable, supported by recovery of aviation industry, lower funding costs and tightened regulations

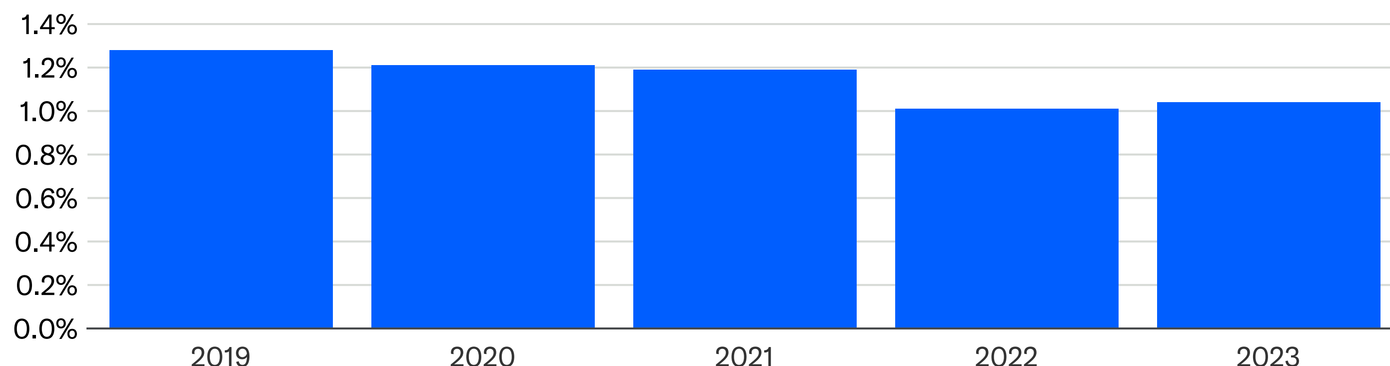
We have revised our outlook on Chinese leasing companies to stable from negative, reflecting steadier operating conditions and profitability in the sector, underpinned by a recovery in the aviation industry and lower funding costs. These supportive factors will mitigate increased asset risk in the infrastructure and equipment leasing businesses amid China's economic slowdown.

In addition, more stringent regulations for financial leasing companies are credit positive, introducing more rigorous shareholder obligations, tightened leasing asset management, and additional financial metrics requirements.

We expect leasing companies' profitability to be largely stable in the next 12 months (Exhibit 26), supported by lower funding costs because of declining onshore and offshore market interest rates. This will ease the pressure on asset yields from increased competition in emerging strategic sectors, such as renewable energy, new infrastructure and high-end equipment manufacturing.

Exhibit 26

Profitability of rated leasing companies in China stabilized in 2023 following decline in 2022
Average net income/average managed assets

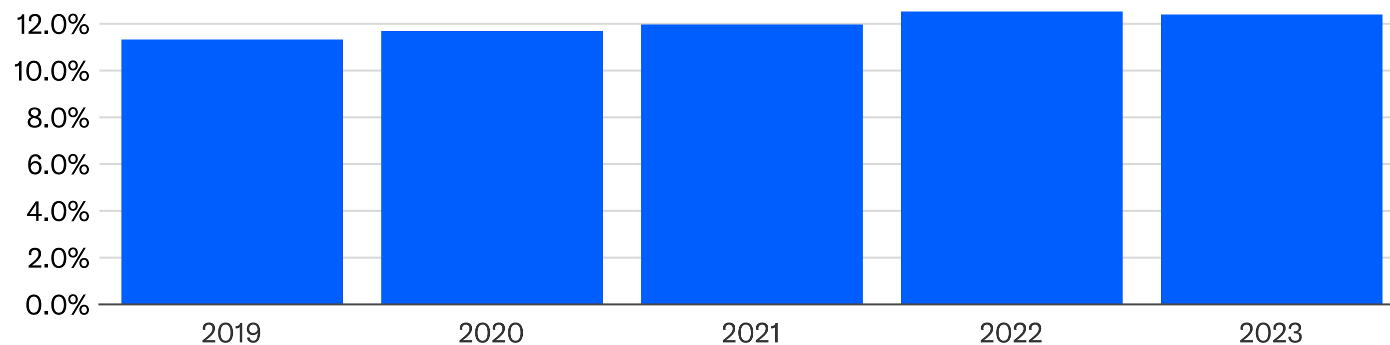


Source: Moody's Ratings, company filings

We expect the leading leasing companies in China to maintain stable capitalization (Exhibit 27), with the leverage ratio below regulatory requirements. For financial leasing companies, we expect the ratio of total assets to net assets to be below 10.0x, and for commercial leasing companies, the ratio of total risk assets to net assets to stay below 8.0x. Stable capitalization mitigates increased asset quality risk from infrastructure and equipment leasing businesses, considering potential spillover from the property and local government financing vehicle sectors to their upstream and downstream sectors.

Exhibit 27

Capital adequacy of Chinese leasing companies has been stable
Average tangible common equity/tangible managed assets



Source: Moody's Ratings, company filings

Liquidity and funding will remain weak because the leasing companies rely on wholesale short-term funding to support long-term assets, which leads to large gaps in asset-liability durations. For financial leasing companies affiliated with banks and for leading commercial leasing companies affiliated with large state-owned enterprises, this risk is mitigated by funding and liquidity support from their parent groups, given strong strategic synergies.

Korean finance companies – stable, with capitalization aided by new prudential measures and lower funding costs helping offset economic pressure on consumers

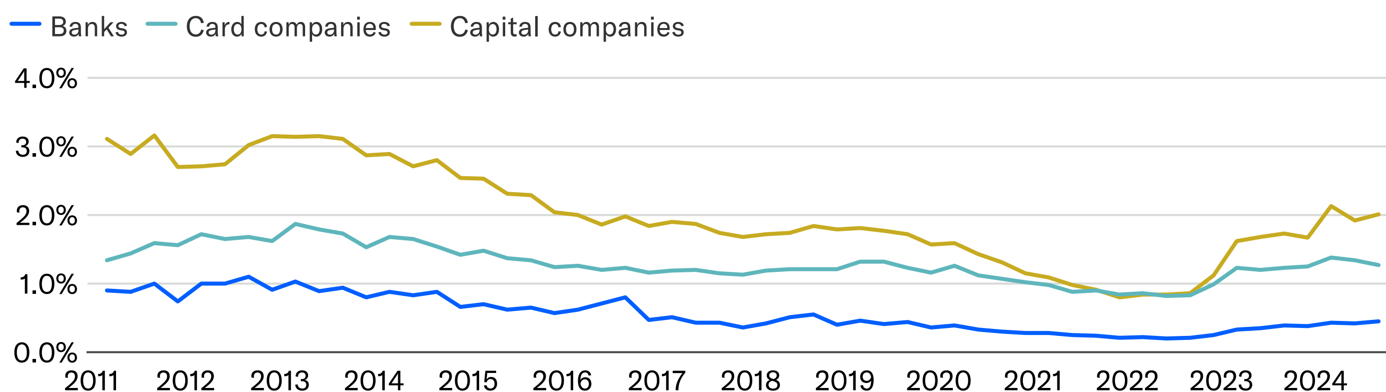
The outlook for Korean finance companies remains stable, with sound capitalization and lower funding costs helping offset the effects of slow economic activity, declining consumption and renewed inflationary pressure stemming from a weaker Korean won and higher

input costs. The Composite Consumer Sentiment Index has also weakened amid heightened political uncertainty that involved a short-lived period of martial law and a motion to impeach the president.

In this context, the Bank of Korea will maintain accommodative monetary policy, which in addition to lowering finance companies' funding costs will ease the pressure on their asset quality. We expect profitability to remain stable, as the full effects of the decline in market interest rates, which began in late 2023, take hold by late 2025.

Housing demand is likely to remain polarized between the strong Seoul metropolitan area market and those in regional provinces, resulting in an increasing delinquency ratio for real estate project financing, especially among capital companies with higher exposures outside of Seoul. The 30-day delinquency ratio of capital companies rose rapidly in 2024, while those for bank and card companies were stable or declining (Exhibit 28). However, in 2025 we expect only a slight increase in credit costs for the capital companies we rate because of the large provisions they have set aside for nonperforming real estate project financing. For card companies, we expect stable credit costs as falling interest rates improve borrowers' debt-service capacity.

Exhibit 28
Delinquencies rise for capital companies, down for card companies and stable for banks
30-day delinquency ratio by lender type



Source: Moody's Ratings, Financial Supervisory Service, Financial Statistics Information System

Capitalization will be supported by finance companies' low growth appetite amid economic and policy uncertainties. New prudential measures will also moderate finance companies' asset growth. For capital companies, the regulatory leverage ratio (total assets/ shareholders' equity) will be capped at 8.0x from January 2025, down from 9.0x previously. In addition, from 1 September 2024, the scope of tighter debt service ratio (DSR) rules was expanded to include mortgage loans for non-bank financial institutions (NBFIs). Under the updated rule, an additional 75 basis points in interest spread will be applied in calculating the DSR cap for mortgage loans from NBFIs.

We expect Korean finance companies to maintain good short-term liquidity and access to the domestic wholesale funding market. Bank-affiliated finance companies can also tap borrowings from their sister banks when necessary. For card companies and non-bank-affiliated finance companies, liquidity will be complemented by their sizable committed credit lines.

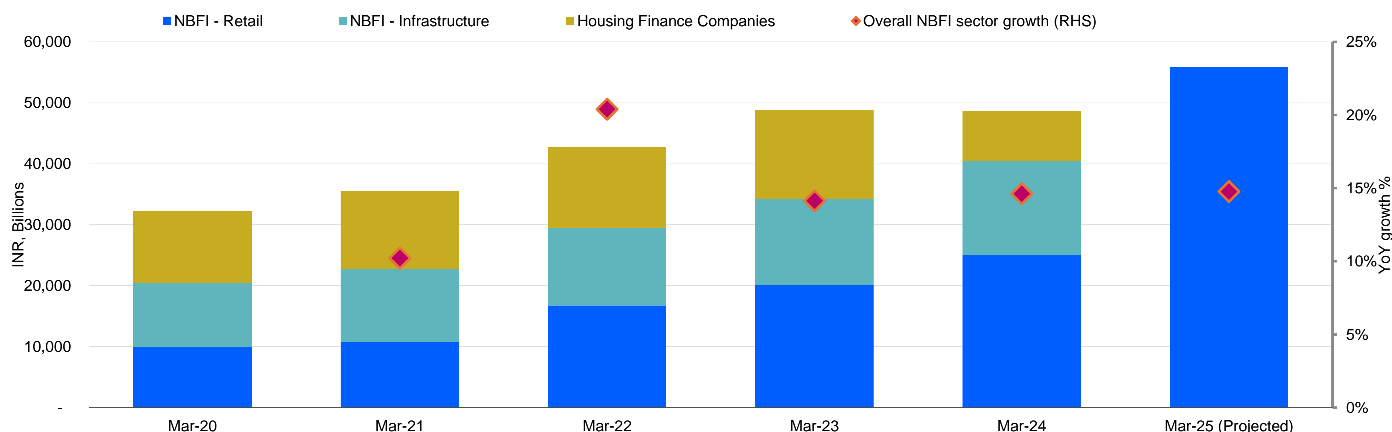
Indian finance companies – stable, as robust economic growth supports credit fundamentals

The stable outlook on Indian non-bank financial institutions reflects India's robust economic growth and the NBFIs' stable credit fundamentals. We expect India's real GDP to grow 7.2% and 6.6% in the fiscal years ended 31 March 2025 (fiscal 2024/25) and 2026 (fiscal 2025/26), the highest among major economies, while interest rates and inflation will moderate in line with global trends.

We expect Indian NBFIs' loan growth to remain solid at around 14%-16% over the next 12 months (Exhibit 29), driven by broad-based expansion across multiple sectors such as lending to infrastructure projects by large government-owned NBFIs and lending to retail customers and small and medium enterprises by privately owned NBFIs. But excessive loan growth in the unsecured retail segment has

moderated following the central bank's cooling measures, including higher risk weights for certain consumer loans and stricter norms for banks' lending to NBFIs.

Exhibit 29
NBFIs' loan growth to remain solid at around 14%-16%
NBFI loan growth trend



1) NBFI-retail includes NBFC-ICC (Investment & Credit Company) and NBFC-MFI (Micro Finance Institution), NBFI infrastructure includes NBFC-IFC (Infrastructure Finance Company) and NBFC-IDF (Infrastructure Debt Fund) as per central bank classification. 2) During fiscal 2023/24, housing finance company HDFC limited merged with HDFC Bank. As such, the year-over-year growth % for March 2024 excludes HDFC limited.
Source: Moody's Ratings, RBI

Asset quality will remain broadly stable. The gross NPL ratio declined to 4.0% as of March 2024 from 6.1% in March 2021 for the NBFI sector. The reported NPL ratios of infrastructure financing NBFIs will decline as legacy NPLs are resolved amid a stable operating environment. Conversely, the NPL ratios of retail-oriented NBFIs will increase moderately, driven by higher delinquencies in unsecured retail loans as the portfolio seasons after years of rapid growth. Nonetheless, asset quality metrics will remain better than historical levels.

We expect Indian NBFIs' profitability to moderate over the next 12 months, with lower net interest margin (NIM) and an increase in credit costs from cyclically low levels. NIM will decline gradually because of a shift toward lower-yielding secured lending products and increased funding costs. The pressure on funding costs will eventually ease along with a gradual decline in domestic and global rates, supported by NBFIs' focus on funding diversification to reduce dependency on bank financing.

Indian NBFIs will remain well capitalized, providing sufficient buffer against unexpected asset quality stress.

Indonesian auto finance companies – stable, as strong economic growth supports performance in face of rising asset risks from product expansion

We maintain a stable outlook on the Indonesian vehicle finance sector, underpinned by strong economic growth, and high barriers to entry. The industry comprises over 100 companies providing financing for four-wheelers, two-wheelers, commercial vehicles and other loans. Despite a downturn in automotive sales in 2024, growth prospects will remain strong because of high demand from the country's large and rapidly growing population, as well as low four-wheeler ownership and consumer preferences to frequently upgrade their existing two-wheelers. The vehicle financing industry is strongly correlated with the Indonesian economy, and as a result is highly cyclical given the country's exposure to exports. We expect Indonesia's nominal GDP to grow 7.6% in both 2024 and 2025.

Asset risks remain elevated in the sector, with risks stemming from the commercial vehicle segment and unseasoned loan risks from the companies' expansion into new lending segments. However, we do not expect a further deterioration in asset quality from current levels since underwriting has tightened for financing to the commercial vehicle segment and new lending segments remain a small portion of the loan portfolio. We expect the combined stage 3 and net charge-off ratio to remain in the range of 4%-9% in 2025.

The sector's strong profitability helps generate more than sufficient buffers against high credit losses. Net income as a percentage of average managed assets will remain largely stable at around 6%-7% in 2025[7]. NIM will be supported by policy rate cuts, which will

alleviate funding costs, while yields are generally not sensitive to policy rate movements. Capital ratios will continue to be robust, with tangible common equity above 20% of managed assets despite high cash dividends.

The sector will maintain high dependence on confidence-sensitive wholesale funding since finance companies in Indonesia cannot accept deposits. The companies maintain very low cash balances relative to assets. However, refinancing risks are mitigated by adequate asset liability management, and for the larger entities strong funding access to domestic and international banks.

Vietnamese finance companies – stable, as improving economic growth will mitigate asset risks

We have changed our outlook on Vietnamese finance companies to stable from negative to reflect our expectation of a moderation in asset risks, as higher economic activity strengthens borrowers' repayment capacity, and a recovery in profitability in 2025. We expect loan delinquencies have peaked and will gradually decline over the next 12 months, supported by weak loan growth over the past two years, which has helped reduce unseasoned risk across the industry.

Nonetheless, asset risks will remain structurally high for consumer finance companies as they adopt a high-risk, high-return strategy by offering unsecured products to low-income individuals. The stock of NPLs remains high across the industry because loan recovery is impeded by ongoing challenges in debt collection due to regulatory restrictions on the time frame and number of repayment reminders finance companies can send to borrowers.

Profitability will recover somewhat in 2025, with increased operating income mostly offset by elevated credit costs and narrowing NIMs. High credit costs will decline only gradually as finance companies write off NPLs that have limited recovery potential because they are largely unsecured.

The capitalization of Vietnamese finance companies will remain stable, with improving internal capital generation offsetting the effect of higher loan growth. The overall capitalization of the industry will also be supported by equity infusions from shareholders, with a sizable proportion of the industry owned by domestic and foreign financial institutions with stronger financial profiles.

Funding and liquidity will remain stable. As with most finance companies globally, funding is a credit weakness of the Vietnamese companies because they rely on confidence-sensitive wholesale funding, such as certificates of deposit and bank borrowings. Such funding is prone to flight during times of market stress or uncertainty, and some companies rely on shareholders to help them through such conditions.

Latin America finance companies – stable, as steady macroeconomic conditions support performance in face of intense competition

Our outlook for Latin American finance companies remains stable for 2025. Generally steady macroeconomic conditions should support financial performance across the region despite significant business model differences among finance companies from country to country.

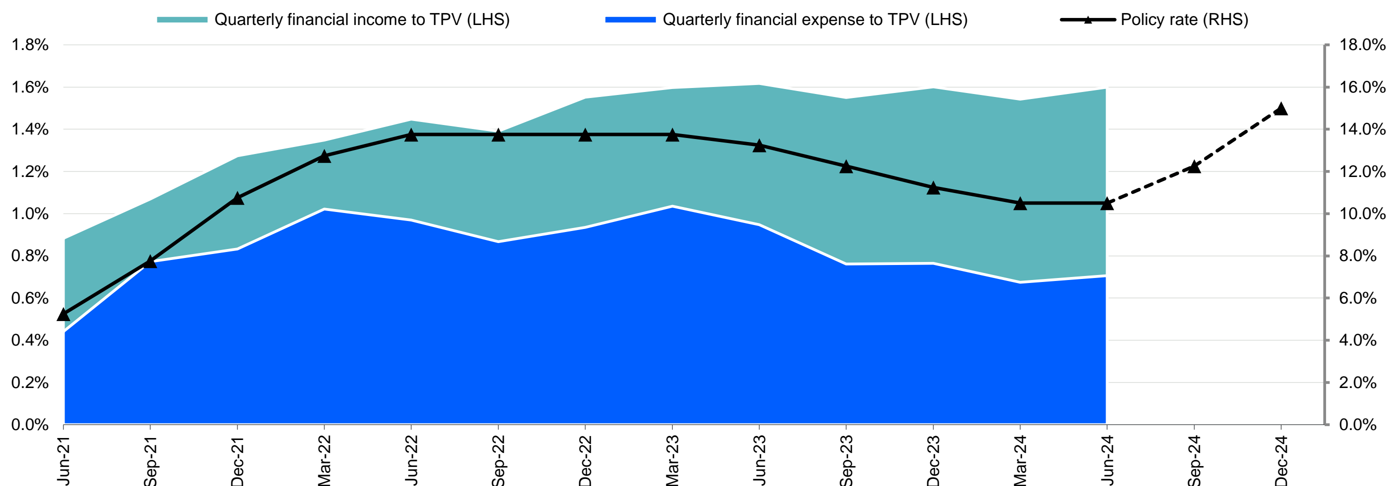
We anticipate only marginal changes in GDP growth among Latin American countries, accompanied by moderate credit demand, supported by relatively strong labor markets and consumer confidence. Interest rate levels will remain elevated throughout 2025, with rate cuts in the region likely to slow in light of heightened geopolitical risks and potential global protectionist measures.

Finance companies that enjoy better market access than their peers or have secured deposit-taking licenses will maintain a competitive edge and, therefore, better growth prospects. Included in this group is StoneCo Ltd. (Stone, Ba2 stable) in Brazil, which will focus on reinforcing its funding structure with deposits from customers, reducing reliance on market-sensitive institutional resources. This shift is particularly important amid the country's tightening monetary policy, unique in the region, and since Stone's funding costs have traditionally been highly sensitive to higher rate scenarios (Exhibit 30). While competition with new digital entrants and traditional banks will continue to intensify in Stone's core markets, the company's potential to further scale its offering of higher-margin products, including software and working capital loans, could compensate for lower transactional volumes and margins.

Exhibit 30

Stone's net interest margins will narrow amid rising rates and stiff competition

Stone's financial Income and Financial Expense as a % of total payment volume (TPV), and policy rates



Source: Moody's Ratings, Stone's financial statements, Central Bank of Brazil

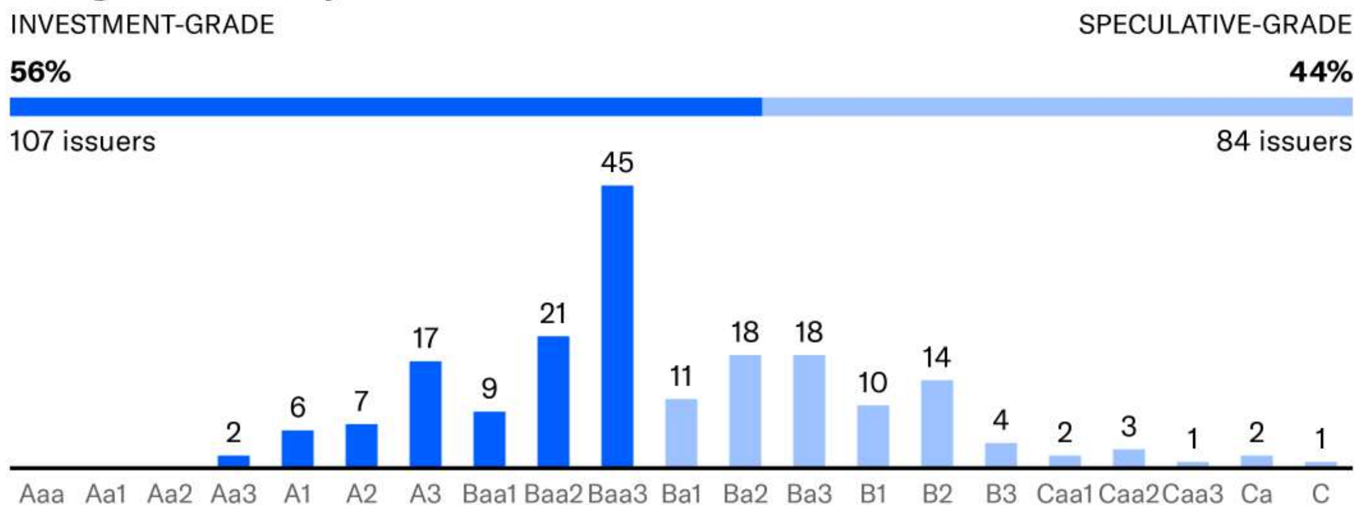
In Colombia, Iris Financial Services (Iris, B2 stable) is likely to focus on strengthening its funding structure via a shift toward lower-cost deposits through its subsidiary Excelcredit. This strategy will allow Iris to navigate the highly competitive retail banking segment in the country and lower its reliance on costly short-term wholesale funding, which has long reduced earnings. Credit costs will remain an issue for 2025, despite lower interest rates and an expected economic rebound in Colombia, and the company's comparatively less risky core payroll loans product.

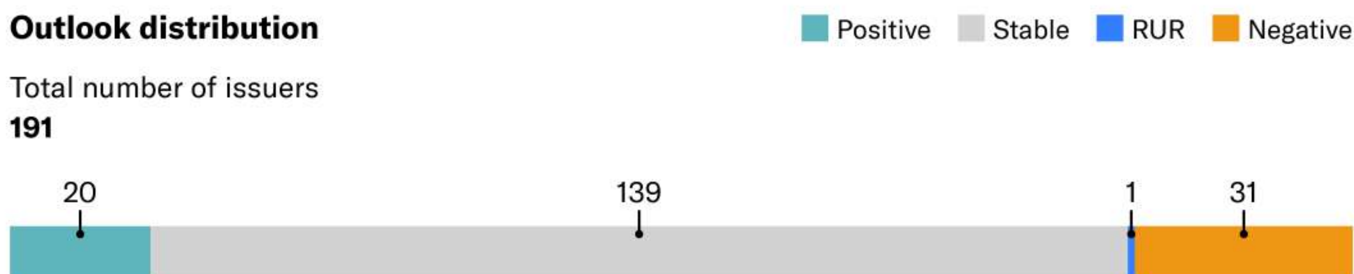
In Mexico, fairly moderate financial services penetration presents a significant growth opportunity for finance companies, but competition with incumbents and the high cost of funding will remain key challenges. Fintechs, tapping into similar underserved client niches to finance companies, have scaled up their strategies and business models, as well as bolstered their funding to keep up with rising competition. Traditional banks have also expedited their digital transformation to cater to the underserved Mexican market. At the same time, after three years of distressed operations across major franchises, finance companies remain focused on enhancing corporate governance practices to restore market confidence.

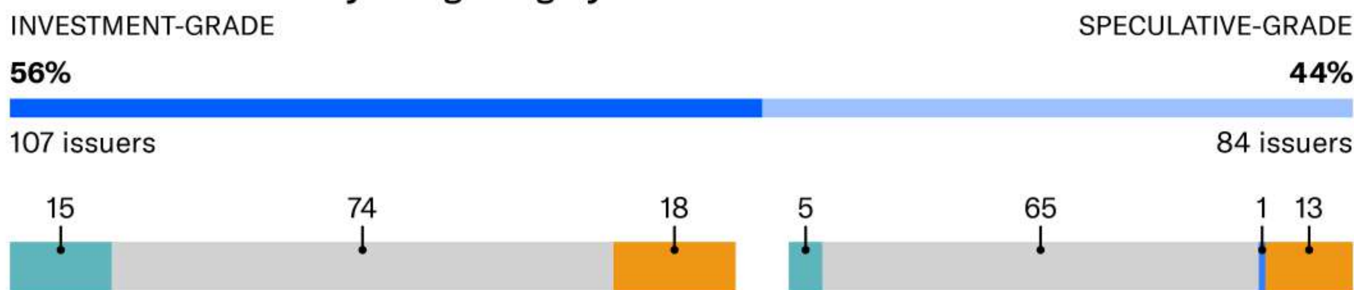
In Uruguay, lower inflation and improved labor markets will further strengthen households' debt-repayment capacity, supporting finance companies' businesses in 2025. Meanwhile, in Central America, forecast GDP growth of 3.4%, on average, will help finance companies with solid market positions to improve their profitability.

Overview of finance company ratings and outlooks as of 31 December 2024

Exhibit 31
Global Finance Companies rating and outlook distribution







Source: Moody's Ratings

Moody's related publications

» Global Macro Outlook 2025-26: Growth, inflation and interest rates to settle at lower, stable levels, 14 November 2024

» Credit conditions – Global: 2025 Outlook – Transitioning to a new normal in a fragile and changing landscape, 12 November 2024

» Finance Companies — Global: 2024 Outlook - Negative on continued asset quality strains and weak profitability, 16 January 2024

Endnotes

1 Refers to the ratio of liquid resources (unrestricted cash + availability under unsecured committed lines of credit + cash flows from operations) divided by the sum of debt maturing over the next 12 months and aircraft purchase commitments over the next 12 months.

2 1) Core profitability is equal to pretax profitability excluding MSR fair value marks and nonrecurring items and a tax adjustment equal to the effective tax rate for the period for each company divided by average TMA. 2) We use the federal statutory tax rate of 21% for Onity (B3), PMT (B1) and for Mr. Cooper's 2019 calculation. 3) For Mr. Cooper's 2018 effective tax rate, we use the predecessor tax rate of 23.8%. 4) Freedom, Planet Home and Provident do not disclose historical financial information and, therefore, their metrics are shown as dashed vertical colored bars indicating the range of performance based on Moody's scorecard. For example, if net income were actually 4%, net income / average managed assets would be assessed at A. The range for an A assessment is from 2.5% to 5.5%. The chart would then show dashed bars between 2.5% and 5.5%. Actual results for private companies for the lowest and highest groupings may be outside of the given range. 5) Rithm's 2022 - Q2 2024 metrics were affected by a recent change in financial reporting: the firm now fully consolidates certain securitizations, which has resulted in an increase in total assets. Rithm's maximum exposure to loss is limited to their retained interest in these structures, which the company had reported in financial disclosures prior to the change.

3 1) Freedom, Planet Home and Provident do not disclose historical financial information and, therefore, their metrics are shown as dashed vertical colored bars indicating the range of performance based on Moody's scorecard. For example, if TCE / TMA were actually 18%, TCE / TMA would be at A. The range for A is 16% - 31%. The chart would then show dashed bars between 16% and 31%. Actual results for private companies for the lowest and highest grouping may be outside the given range. 2) Rithm's 2022 - Q2 2024 metrics were impacted by a recent change in financial reporting: the firm now fully consolidates certain securitizations, which has resulted in an increase in total assets. Rithm's maximum exposure to loss is limited to their retained interest in these structures, which the company had reported in financial disclosures prior to the change.

4 In October 2024, Intrum initiated a prepackaged Chapter 11 process in the US to implement its recapitalization transaction. Previously, the firm announced a strategic shift toward a capital-light business model and has significantly scaled back its NPL investments.

5 In December 2024, iQera announced that it would be entering a debt restructuring through a debt-to-equity exchange of 35% of the outstanding notes. Concurrently, Arrow Credit Opportunities II Fund, owned by Sherwood Parentco Limited (B2 stable), took a majority equity stake in the firm. iQera previously deferred a principal repayment on some of its outstanding bonds due in September 2024.

6 In December 2024, Garfunkelux announced a recapitalisation plan for its existing bonds under which the maturity of existing notes would be extended by three years and noteholders would receive a cash stipend as well as new payment-in-kind holding company notes. The company is also negotiating an extension of its revolving credit facility with banks.

7 Simple average of forecast return on assets for the three Indonesian finance companies we rate

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