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Understanding Loan Default Rates: Definition and Economic Impact

By JULIA KAGAN Updated March 24, 2026

Reviewed by JULIUS MANSA

DEFINITION:

A default rate is a quantitative measure indicating how often lenders lose money due to borrowers failing to repay their loans.

KEY TAKEAWAYS

- A loan is declared in default when the borrower fails to make payments as agreed.
- Default rates are crucial for assessing the creditworthiness of borrowers and the health of a lending institution.
- High default rates may prompt lenders to increase interest rates or tighten credit requirements.
- Standard & Poor's and Experian provide loan default rates.
- Credit card default rates are typically higher than those for other types of loans.

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default rate—also called penalty rate—may also refer to the higher [interest rate](#) imposed on a borrower who has missed regular payments on a loan.

An individual loan is typically declared in default if payment is 270 days late. [Defaulted loans](#) are typically written off from an issuer's financial statements and transferred to a collection agency.

The default rate of banks' loan portfolios, in addition to other indicators—such as the unemployment rate, the rate of inflation, the consumer confidence index, the level of personal bankruptcy filings, and stock market returns, among others—is sometimes used as an overall indicator of economic health.

Analyzing Default Rate Impact on Lenders and Economies

Default rates are an important statistical measure used by lenders to determine their exposure to risk. If a bank is found to have a high default rate in their loan portfolio, they may be forced to reassess their lending procedures in order to reduce their [credit risk](#)—the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. The default rate is also used by economists to evaluate the overall health of the economy.

Standard & Poor's (S&P) and the credit reporting agency Experian jointly produce a number of indexes that track movements over time in the level of default rates on various types of consumer loans, including home mortgages, credit cards. Collectively, these indexes are known as Credit Default Indexes. Specifically, S&P/Experian Consumer Credit Default Index; S&P/Experian Mortgage Default Index; S&P/Experian Auto Default Index; and S&P/Experian Credit Card Default Index.



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The S&P/Experian Consumer Credit Default Composite Index is the most comprehensive of these indexes because it includes data on both first and second [mortgages](#), auto loans, and bank credit cards.

IMPORTANT

A default record stays on the consumer's credit report for six years, even if the amount is eventually paid.

Lenders do not get overly concerned if a missed payment period is passed. If a loan payment is missed (and is thus 60 days past due), the loan is considered [delinquent](#), and the lender may report the delinquency to the credit agencies. Delinquency describes a breach of the contractual obligation to make payments on time.



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credit rating. The lender may also increase the borrower's interest rate as a penalty for late payment.

If the [borrower](#) continues to miss payments, the lender will continue to report the delinquencies until the loan is written off and declared to be in default. For federally-funded loans such as student loans, the default timeframe is approximately 270 days. The timetable for all other loan types is established by state laws.

Default on any kind of consumer debt damages the borrower's [credit score](#), which may make it difficult or impossible to get credit approval in the future.

The Credit Card Accountability, Responsibility, and Disclosure (CARD) Act of 2009 created new rules for the credit card market. Notably, the Act prevents lenders from raising a cardholder's interest rate because the borrower is delinquent on any other outstanding debt. In fact, a lender can only begin charging a higher default rate of interest when an account is 60 days past due.

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Borrowing a lump sum with an agreed schedule for

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 Lender: An organization or person that lends money.

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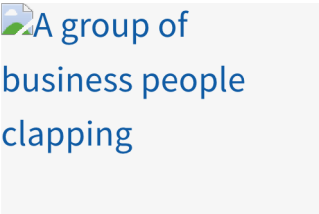


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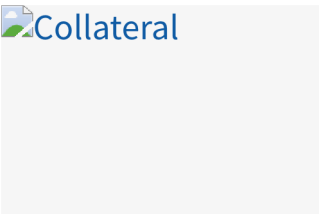
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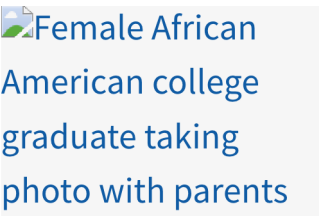
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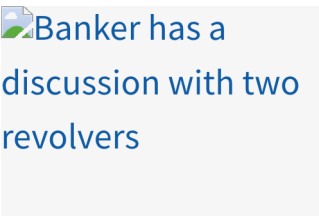
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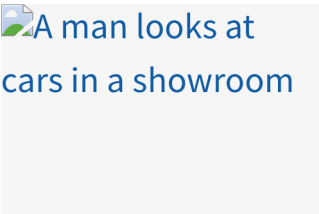
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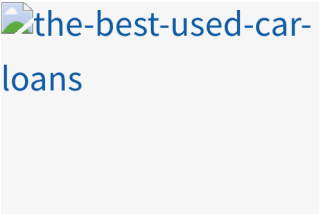


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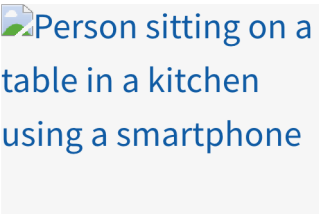
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