

Credit Conditions Through the Eyes of Consumers

Overview

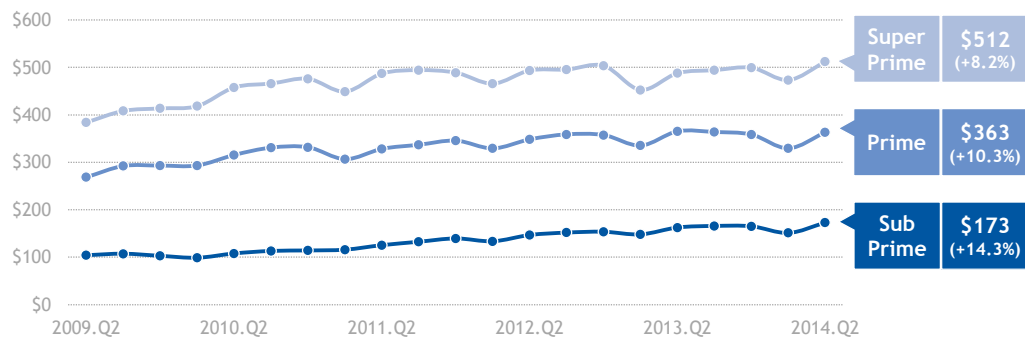


Following a sharp contraction in Q1 2014, the economy expanded a solid 4.6% in the second quarter, putting the credit card market back on track towards stabilization. Several long-term trends were temporarily halted in Q1, but resumed in Q2. Specifically:

- 1) Monthly purchase volumes bounced back for all risk types after declining in Q1.
- 2) The effective finance charge yield fell below year-over-year levels.
- 3) The distribution of accounts shifted towards Transactors and Dormants, as a smaller share of accounts carried balances from month to month.
- 4) After declining in Q1, credit card credit outstanding as a share of disposable income was largely unchanged in Q2.

Monthly Purchase Volume, by Risk Type

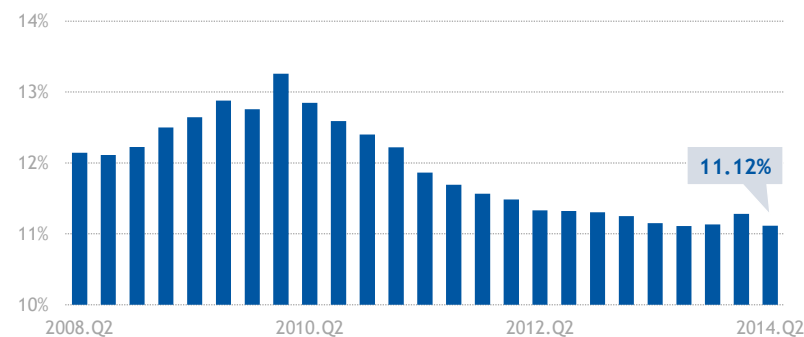
Monthly purchase volumes rose for all three risk categories in Q2 2014 following declines in Q1. Purchase volumes are up year-over-year for sub- and super-prime accounts, but down slightly for prime accounts.



Source: Argus.

Effective Finance Charge Yield

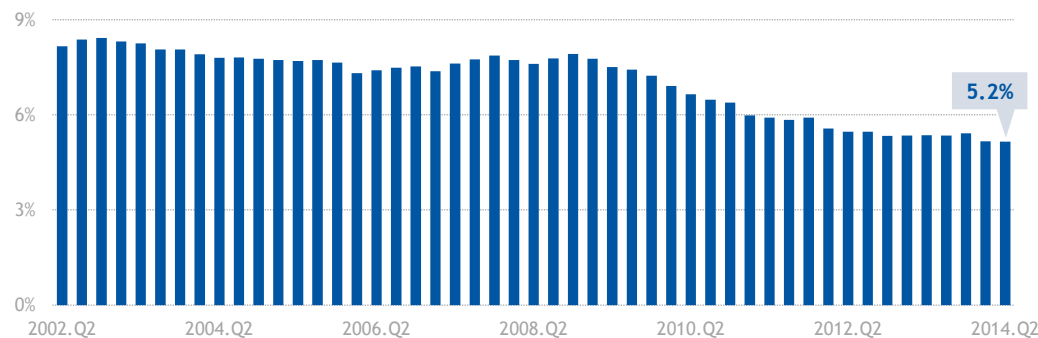
Following two consecutive increases, the effective finance charge yield for all accounts fell 17 basis points in Q2 2014.



Source: Argus.

Credit Card Credit Outstanding as a Share of Disposable Income

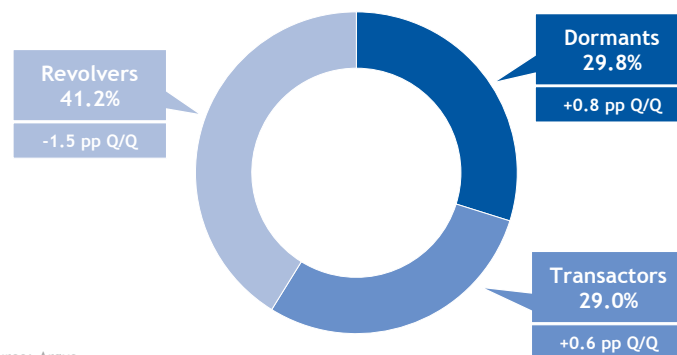
As a share of disposable income, credit card credit outstanding was little changed at 5.2% in Q2 2014 and remains at a 15-year low.



Source: Federal Reserve Bank of New York, Bureau of Economic Analysis.

Distribution of Accounts by Behavior Type

The distribution of accounts by behavior shifted away from Revolvers, whose share of accounts dropped to an all-time low.



Source: Argus.

Broader Credit Market Conditions

Overview



A strengthening economy and improving consumer confidence may be translating to greater use of credit cards. Specifically:

- 1) The rate of decline in average credit lines (all accounts) appears to be slowing, particularly for sub-prime accounts.
- 2) The number of new accounts has now increased for three consecutive years.
- 3) Average credit lines for new accounts are slowly increasing for super-prime accounts while remaining flat for sub-prime and prime accounts.

Average Credit Line (New Accounts*)

In Q2 2014, average credit lines increased 1.2% for super-prime accounts but were largely unchanged for sub-prime and prime accounts.

Super Prime

\$8,484

Prime

\$4,735

Sub Prime

\$2,356

Q/Q Change

▲ 1.2%

▲ 0.2%

▲ 0.1%

Source: Argus.

Average Credit Line (All Accounts)

In Q2 2014, average credit lines continued to fall across all risk groups, but at slower rates of decline.

Super Prime

\$10,949

Prime

\$7,116

Sub Prime

\$3,660

Q/Q Change

▼ 0.4%

▼ 0.9%

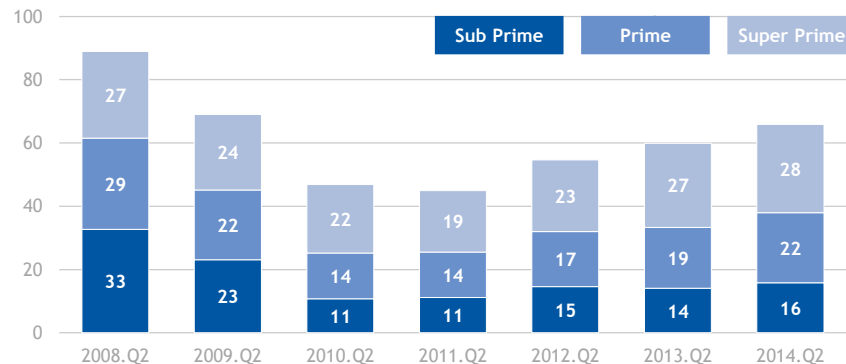
▼ 0.5%

Source: Argus.

*New Accounts include accounts vintage less than 24 months.

Number of New Accounts* (Millions)

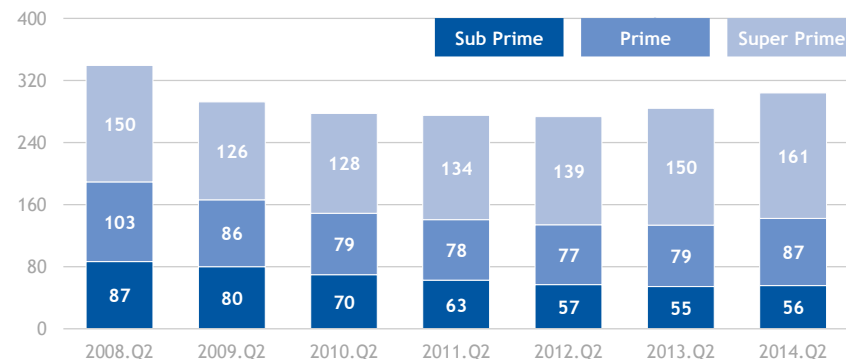
In Q2 2014, new account volume was up 10.0% from a year prior; of the risk types, super-prime increased at the slowest rate.



Source: Argus.

Number of All Accounts (Millions)

In Q2 2014, the number of credit card accounts open increased 7.0% from a year prior, the second straight increase.



Source: Argus.

Frequently Asked Questions: ABA Credit Card Industry Monitor

Q: What is the Credit Car Market Monitor?

The [American Bankers Association](#) (“ABA”) Credit Card Market Monitor (“Monitor”) provides key statistics on industry trends and relevant economic factors affecting the industry. The purpose of the report is for ABA to provide a clear, concise, and fact-driven assessment of credit card market conditions and to place current trends in both a historical and macroeconomic context. Additionally, the Monitor will occasionally be accompanied by a supplemental “Special Report” on a specific key issue in the credit card industry.

Q: How often and when is it released?

The Monitor is published quarterly, with the first report released in September 2013. Supplemental reports will be published 1-2 times per year on dates to be determined.

Q: Who publishes the report?

The report is published by the American Bankers Association. Data is provided by [Argus Information and Advisory Services](#), which serves as the leading provider of information services for U.S. financial institutions. Analytical support is provided by [Keybridge LLC](#), a boutique economic and public policy consulting firm with a diverse clientele of companies, associations, and other institutions that operate at the intersection of economics and public policy.

Q: Where do the data come from?

The data used in the report originate from proprietary industry databases and publicly available government sources. Specifically, the credit card data are taken from a nationally representative sample provided by Argus. Credit card data are presented as national averages for all accounts based on actual credit card account information. No individual account holder’s information or specific financial institution’s data can be identified from the data set. Other data used in the report are taken from various public and private sources, including the Department of Commerce’s Bureau of Economic Analysis and the Federal Reserve.

Q: How current are the data?

In all cases, the Monitor uses the latest available quarterly data, which are typically published several months after the end of each quarter. As a result, there is a time lag between the period of the latest available data and the Monitor’s publication date. Among the figures used in the Monitor, publicly available data (e.g., Federal Reserve data) lag by 1 quarter, while Argus data lag by 2 quarters.

Q: What are the data elements included in the Monitor, and how are they defined?

Page 1 of the Monitor shows credit conditions through the eyes of consumers, while Page 2 depicts broader credit market conditions. Each page consists of four charts and includes an

overview section followed by brief textual descriptions that accompany each chart. In some cases, charts are broken down by risk category (sub-prime, prime, and super-prime). These risk categories are defined by Argus according to the following risk scores: (1) sub-prime <680, (2) prime 680-759, and (3) super-prime >759.

Page 1 Charts

- *Monthly Purchase Volume, by Risk Type:* The average amount of purchases paid for with credit cards per cardholder per month, for each risk category.
- *Credit Card Debt Outstanding as a Share of Disposable Income:* Credit Card Debt-to-Income is a commonly used ratio to indicate cardholders' ability to repay their credit card balances. Outstanding Credit Card Debt measures the aggregate amount of outstanding credit card loans held by U.S. households as reported by the Federal Reserve. Disposable Income is the aggregate amount of money available to individuals after saving and income taxes as reported by the Federal Reserve.
- *Effective Finance Charge Yield:* This credit card rate, sourced from Argus, represents the average effective finance charge yield on all accounts. The effective finance charge yield is the annualized interest income generated by a portfolio expressed as a percentage of a portfolio's assets.
- *Distribution of Accounts by Behavior Type:* The share of credit card accounts by three behavior categories: (1) "Transactors," or accounts that have purchases, fees, and/or a balance during the quarter but have no finance charges (net of reversals) in any month of a quarter; (2) "Revolvers," or accounts for which some percentage of the monthly balance is rolled over to the next month at least once during a quarter; and (3) "Dormants," or accounts that show no activity over the course of the quarter.

Page 2 Charts

- *Average Credit Line (New Accounts):* The average line of credit on accounts opened in the last 24 months, by risk category.
- *Average Credit Line (All Accounts):* The average line of credit on open accounts, by risk category.
- *Number of New Accounts:* The number of accounts opened within the past 24 months of a given quarter, by risk category.
- *Number of All Accounts:* The total number of open accounts in a given quarter, by risk category.

Q: Where can I find past editions of the report, and who is the point of contact?

Past editions of the Monitor are available at ABA's website (www.aba.com). For inquiries related to the Monitor, please contact Jeff Sigmund, ABA VP for Public Relations, at 202-663-5439.

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