CREDIT CARD MARKET MONITOR

October 2018

Credit Conditions Through the Eyes of Consumers

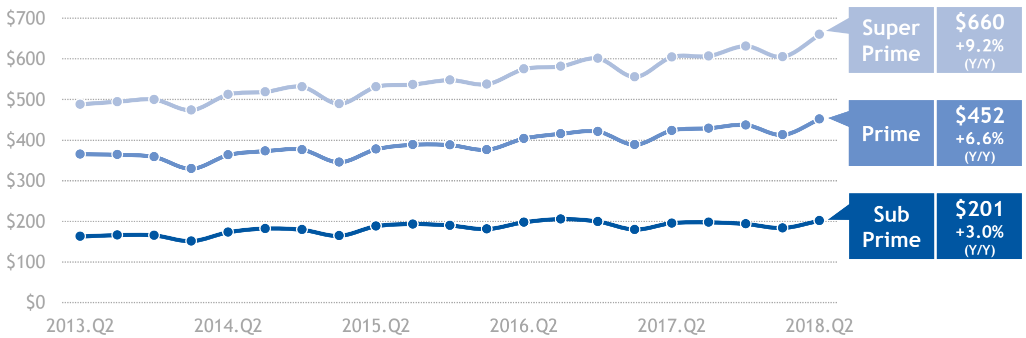
Overview

The credit card market expanded in the second quarter of 2018 after a brief lull in Q1, driven by robust consumer spending and the strongest quarter of economic growth in nearly four years.

1) Purchase volumes increased across risk tiers in Q2, consistent with typical seasonal trends. Prime and super-prime purchase volumes reached new highs, reflecting strong consumer spending across the economy, decades-low unemployment, and improving wage growth.
2) Despite the rise in spending, consumers appear to be prudently managing credit card usage and debt.
   - The share of Revolvers fell 1.0 percentage point in the second quarter, while the share of Transactors increased 1.0 percentage point.
   - Credit card credit outstanding as a share of disposable income rose slightly, but remains in line with post-recession lows.

Monthly Purchase Volume by Risk Type

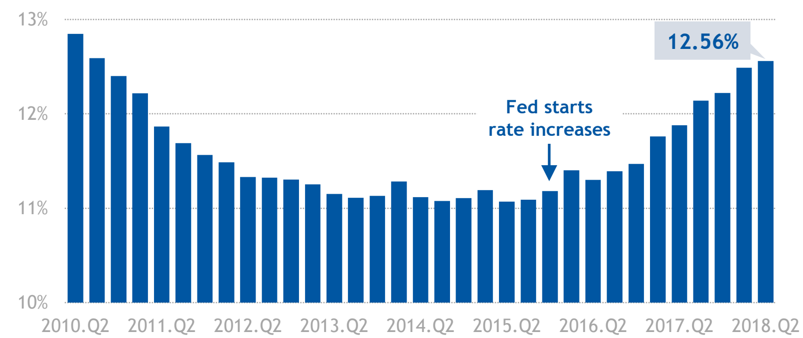
Monthly purchase volumes increased across risk tiers in the second quarter following seasonal declines in Q1. Compared to year-ago levels, purchase volumes rose 9.2 percent for super-prime accounts, 6.6 percent for prime accounts, and 3.0 percent for subprime accounts.



Source: Argus Information & Advisory Services LLC.

Effective Finance Charge Yield

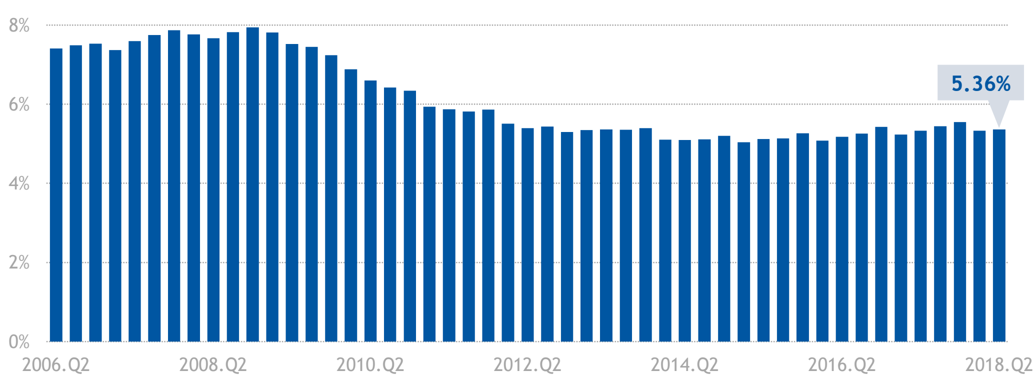
The effective finance charge yield rose 7 basis points to 12.56 percent in Q2, likely reflecting recent federal interest rate hikes which have increased the cost of credit overall. Markets expect the Fed to raise rates once more by year end.



Source: Argus Information & Advisory Services LLC.

Credit Card Credit Outstanding as a Share of Disposable Income

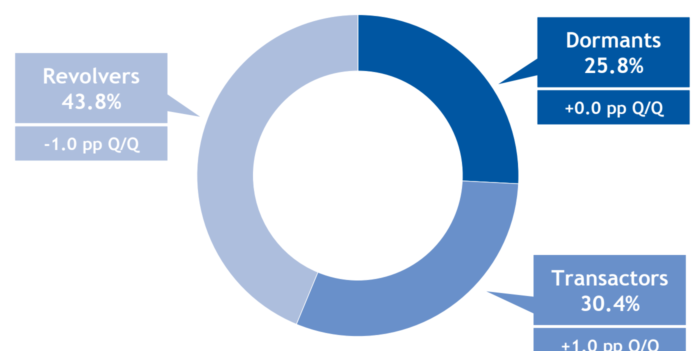
As a share of disposable income, credit card credit outstanding rose 3 basis points to 5.36 percent in Q2, but remains more than 200 basis points below recession-era levels and near post-recession lows.



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

Distribution of Accounts by Behavior Type

Revolvers fell 1.0 percentage point in Q2 while Transactors increased 1.0 percentage point. The share of Dormant accounts held steady at 25.8 percent.



Source: Argus Information & Advisory Services LLC.

CREDIT CARD MARKET MONITOR

October 2018

Broader Credit Market Conditions

Overview

The number of credit card accounts contracted on a quarterly basis in the second quarter of 2018, while growth in average credit lines was mixed.

1) New accounts (i.e., those opened in the previous 24 months) fell to 88 million in Q2, a 3.5 percent year-over-year decline driven by fewer new subprime accounts. Similarly, total accounts moderated 0.2 percent to 365 million in the second quarter.
2) Average credit lines among new accounts increased 0.2 percent for super-prime accounts, but declined 0.4 percent for prime accounts and 1.3 percent for subprime accounts — suggesting that issuers remain disciplined and are responding to consumer payment behavior with corresponding changes in credit access.
3) Among all accounts, average credit lines also fell for prime accounts (-0.1 percent) and subprime accounts (-0.6 percent).

Average Credit Line (New Accounts*)

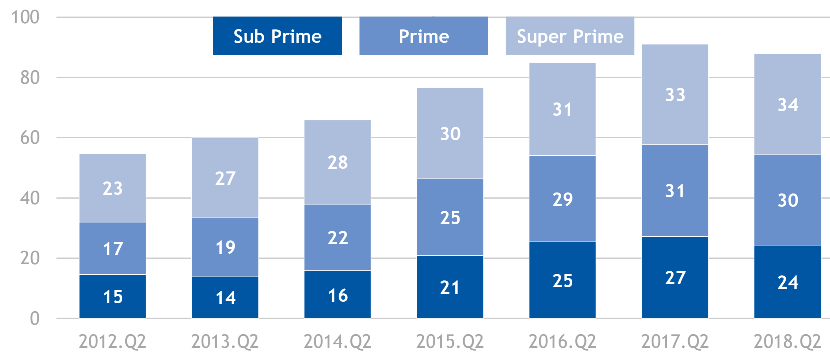
In Q2 2018, average credit lines for accounts opened in the previous 24 months declined 1.3 percent for subprime accounts, the sharpest decrease in nearly seven years. Average credit lines also fell for prime accounts (-0.4 percent), but rose for super-prime accounts (+0.2 percent).

		Q/Q Change
Super Prime	$10,428	▲0.2%
Prime	$5,704	▼0.4%
Sub Prime	$2,608	▼1.3%

Source: Argus Information & Advisory Services LLC.

Number of New Accounts* (Millions)

New account openings fell 2.9 percent in Q2 relative to the previous quarter, the sharpest decline since mid-2010. Compared to a year ago, new account openings decreased 3.5 percent, driven by a sharp drop in new subprime accounts.



Source: Argus Information & Advisory Services LLC.

Average Credit Line (All Accounts)

Average credit lines fell 0.1 percent for prime accounts and 0.6 percent for subprime accounts in the second quarter, the first decline for each account type in a year. Meanwhile, average credit lines rose 0.6 percent for super-prime accounts, reaching the highest level since late 2012.

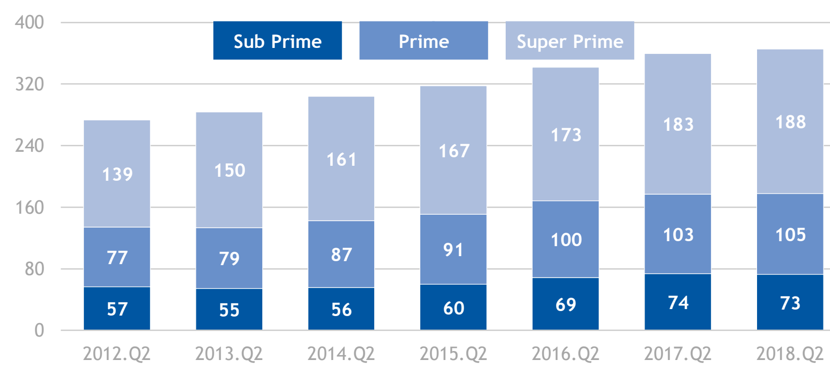
		Q/Q Change
Super Prime	$11,656	▲0.6%
Prime	$7,448	▼0.1%
Sub Prime	$3,693	▼0.6%

Source: Argus Information & Advisory Services LLC.

*New Accounts include accounts vintage less than 24 months.

Number of All Accounts (Millions)

Total open accounts declined 0.2 percent on a quarterly basis, the first contraction in five years. On a year-over-year basis, growth remained positive but at its slowest pace since late 2012.



Source: Argus Information & Advisory Services LLC.

Frequently Asked Questions: ABA Credit Card Industry Monitor

Q: What is the Credit Card 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.

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 weeks 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, data typically lag by 1–2 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.

<u>Page 1 Charts</u>

- *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.

<u>Page 2 Charts</u>

- *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 Mike Townsend, ABA Director of Public Relations, at 202-663-5471.

LAST UPDATED October 25, 2018