CREDIT CARD MARKET MONITOR

December 2015

Credit Conditions Through the Eyes of Consumers

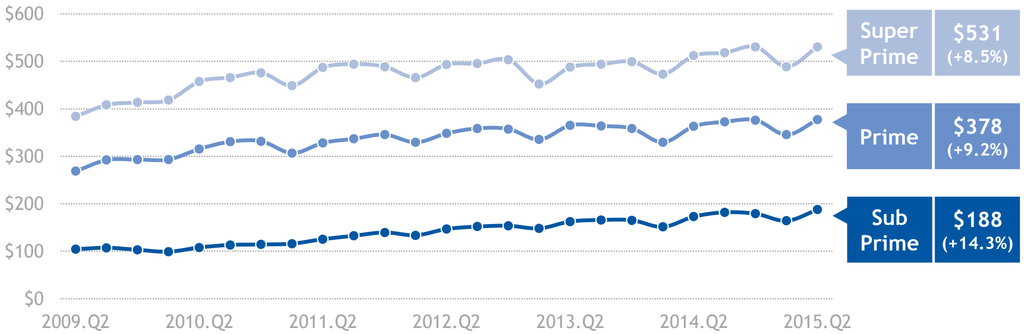
Overview

The U.S. economy grew at a solid 3.9 percent in Q2 2015 after a disappointing Q1, and the credit card market similarly expanded. Overall, the data suggest consumers are increasing their spending while also meeting their financial obligations.

1) Monthly purchase volumes in Q2 rebounded to all-time highs across risk groups, including a 14.3 percent quarterly increase among sub-prime accounts. On a year-over-year basis, purchase volumes are up 8.5 percent (subprime), 3.9 percent (prime) and 3.6 percent (super-prime).
2) The effective finance charge yield hit a new post-recession low of 11.07 percent in Q2, while the share of Revolvers (i.e., consumers who carry a monthly balance) fell to 41.0 percent, also a post-recession low. This ongoing trend suggests that more consumers are managing credit well.

Monthly Purchase Volume, by Risk Type

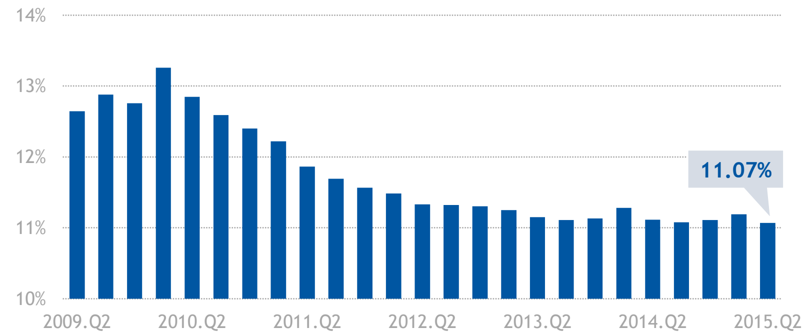
Monthly purchase volumes rebounded in Q2 following seasonal declines in Q1. Year-over-year purchase volumes are up 8.5 percent (subprime), 3.9 percent (prime) and 3.6 percent (super-prime).



Source: Argus Information & Advisory Services LLC.

Effective Finance Charge Yield

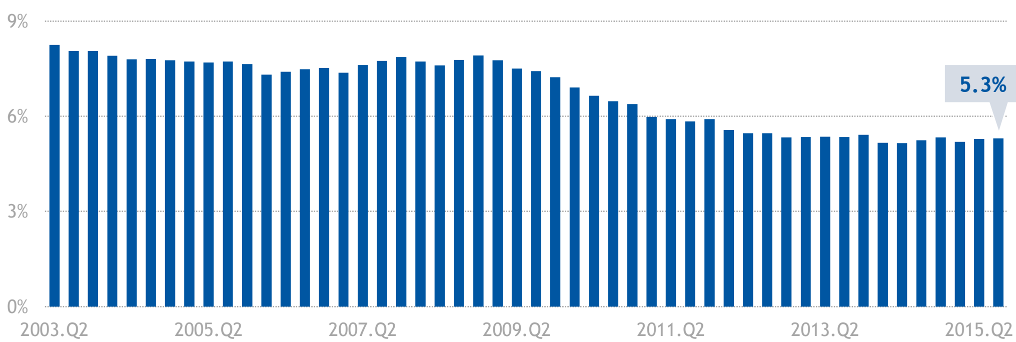
The effective finance charge yield for all accounts fell by 12 basis points in Q2 2015, a new post-recession low.



Source: Argus Information & Advisory Services LLC.

Credit Card Credit Outstanding as a Share of Disposable Income

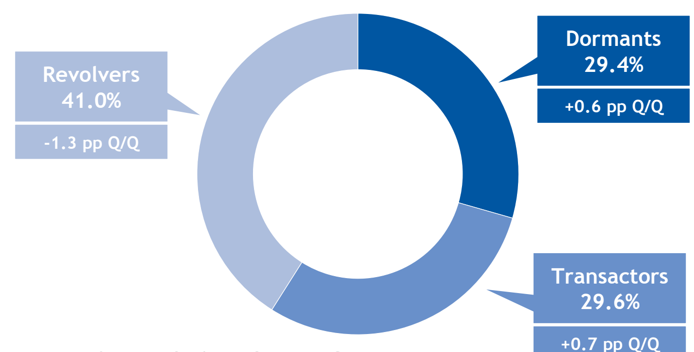
As a share of disposable income, credit card credit outstanding held steady at 5.3 percent in Q3 2015, remaining near historic lows.



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

Distribution of Accounts by Behavior Type

Transactor accounts reached a new post-recession high, increasing with dormant accounts at the expense of revolvers (which fell to a post-recession low).



Source: Argus Information & Advisory Services LLC.

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December 2015

Broader Credit Market Conditions

Overview

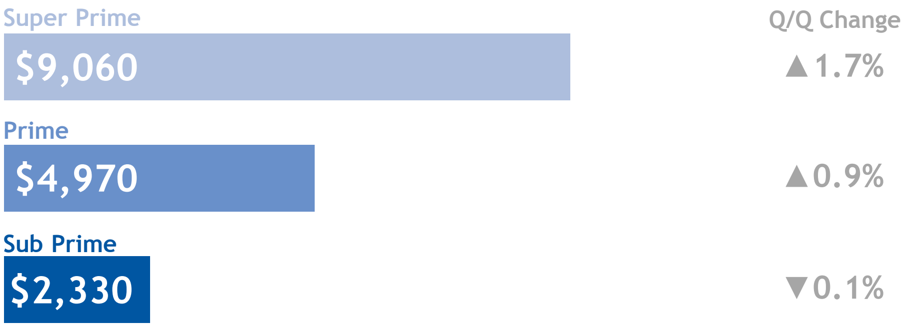
Lender and borrower confidence increased in Q2 2015 amid elevated consumer sentiment, solid spending gains and improving credit conditions.

1) New accounts jumped to 76.6 million (up 16 percent from a year ago), including a 32 percent year-over-year jump in new subprime accounts — although subprime account growth is well below 2008 levels. Issuers appear increasingly willing to extend credit to borrowers with lower credit scores or limited credit history, but in smaller initial amounts that may rise over time as consumers demonstrate good use of credit.

2) Among all accounts, credit lines ticked down, while the total number of open accounts (318 million) reached a new post-recession high.

Average Credit Line (New Accounts*)

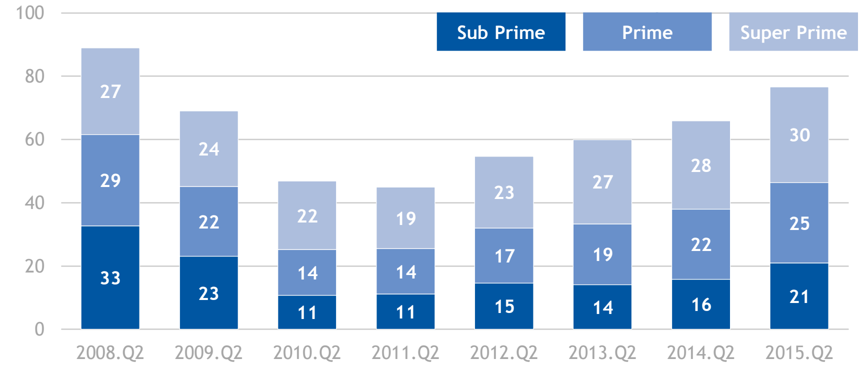
In Q2 2015, average credit lines for new prime and super-prime accounts increased, while credit lines for new subprime accounts slipped. These data are consistent with recent trends.



Source: Argus Information & Advisory Services LLC.

Number of New Accounts* (Millions)

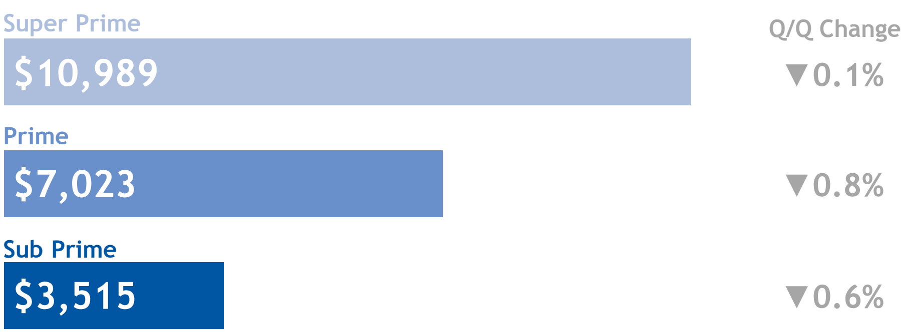
In Q2 2015, new account volume grew 16 percent from a year prior. New subprime accounts grew 32 percent year-over-year, but remain well below pre-recession levels.



Source: Argus Information & Advisory Services LLC.

Average Credit Line (All Accounts)

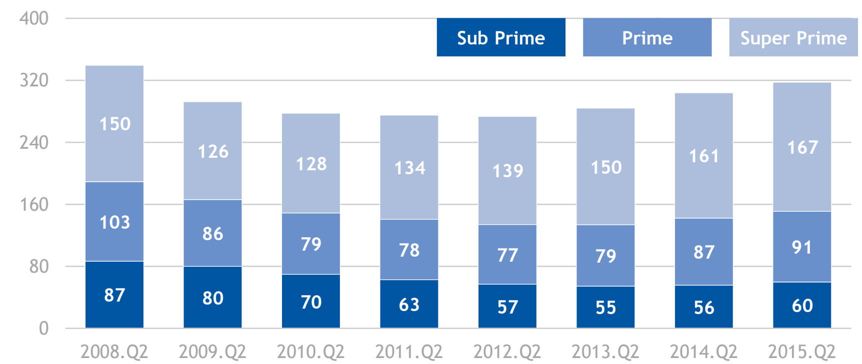
In Q2 2015, average credit lines for all accounts fell across all risk categories, although the decline was smaller than the previous quarter.



Source: Argus Information & Advisory Services LLC.

Number of All Accounts (Millions)

In Q2 2015, the number of open credit card accounts increased from a year prior, driven by moderate gains across all three risk categories.



Source: Argus Information & Advisory Services LLC.

*New Accounts include accounts vintage less than 24 months.

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.

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.

<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 Jeff Sigmund, ABA VP for Public Relations, at 202-663-5439.

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