

## SFA Research Corner

Banks Pull Back on Credit Card Loans for Some Borrowers as Demand Grows

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### Banks Pull Back on Credit Card Loans for Some Borrowers as Demand Grows

In its monthly survey of senior bank loan officers, the FED reported that demand for credit card loans has become stronger as banks tighten access to credit for borrowers with lower credit scores. The Senior Loan Officer Opinion Survey on Bank Lending Practices ([SLOOS](#)), released on November 7, reveals that applicants with weaker credit scores (FICO equivalent of 680 or less) are less likely to have their credit card loan approved today than they were at the beginning of the year. On the other hand, applicants with excellent credit scores (720 or higher) are slightly more likely to have their applications approved than they were in January.

Likelihood of Credit Card Application Approval (November versus January 2022)					
	Much Less likely	Somewhat Less likely	Somewhat More likely	Much More likely	About as likely
FICO 620	19.1%	14.9%	2.1%	0.0%	63.8%
FICO 680	4.2%	16.3%	6.1%	0.0%	73.5%
FICO 720	0.0%	0.0%	2.0%	4.1%	93.9%

Source: Federal Reserve SLOOS Report, November 7, 2022

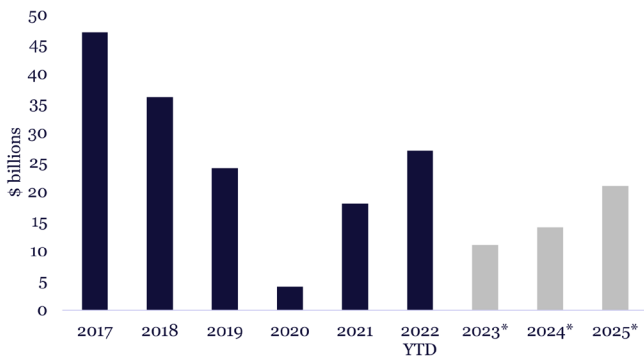
Looking at broader credit card lending policies, 18.8% of banks surveyed said that lending standard thresholds in aggregate had tightened over the past three months. Some banks also have reduced credit limits (10.9%), increased the risk spread charged on outstanding balances (13%), and/or raised their minimum credit score thresholds (8.7%). Banks also reported that they were less flexible about approving an exception for borrowers who did not meet these thresholds—2.2% responded that their exception standard had tightened considerably, 8.7% said it tightened somewhat.

TransUnion's latest [Quarterly Credit Industry Insights Report](#) shows bank card balances increased by 19% from one year ago, to \$866 billion in Q3. Bankcard originations reflected a 10.7% increase year over year and was led by non-prime growth. The number of credit cards increased to 510.9 million during this period, an 8% increase from 2021 and a 16% increase over 2019.

For over three decades, credit card issuers have used securitization as a tool to reduce their funding costs and to diversify their funding sources. [Citi Research](#) estimates that approximately \$57 billion ABS remain outstanding across 13 credit card ABS master trust shelves; 90% of which is expected to mature by 2025. The largest issuers by amount outstanding are American Express (\$12.8 billion), Capital One (\$12.3 billion), Discover (\$11 billion), and Citibank (\$7.3 billion).

So far in 2022, credit card ABS issuance has surpassed \$27 billion compared to \$18 billion for the full year in 2021. Issuance this year has been driven by maturing bonds (a total of \$16 billion) and new receivables stemming from continued robust consumer demand. We expect these same factors to drive issuance in the upcoming years.

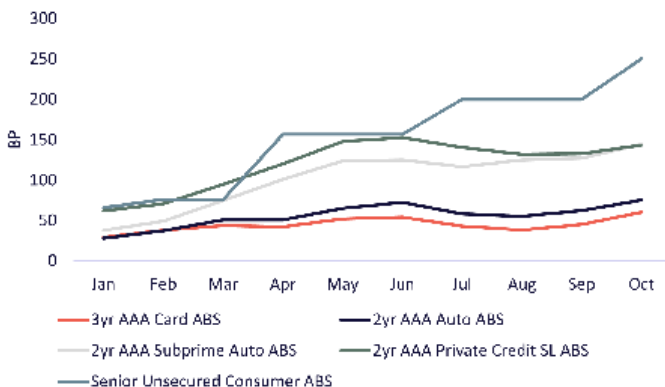
**Credit Card ABS Issuance and Expected Maturities**



\*Denotes expected maturities. Source: SFA Market Compilation

While increased market volatility and inflationary concerns have pushed risk spreads wider and prices lower across all consumer ABS, investor demand for credit card ABS has held steady in part due to its short-duration and high, stable ratings. Although spreads for triple-A credit card ABS have doubled since January, other consumer ABS products are showing spread levels that are 1.5-3x January levels.

**Credit Card ABS Risk Spread to Benchmark vs. Other Consumer ABS (Monthly Average, BP)**



Source: SFA Market Compilation

**The Revolving Master Trust**

Most credit card ABS transactions use the master trust structure where multiple discrete securities are issued from one master trust financing vehicle. Each series has an undivided interest in the assets of the trust, which in this case are the receivables generated by credit card accounts.

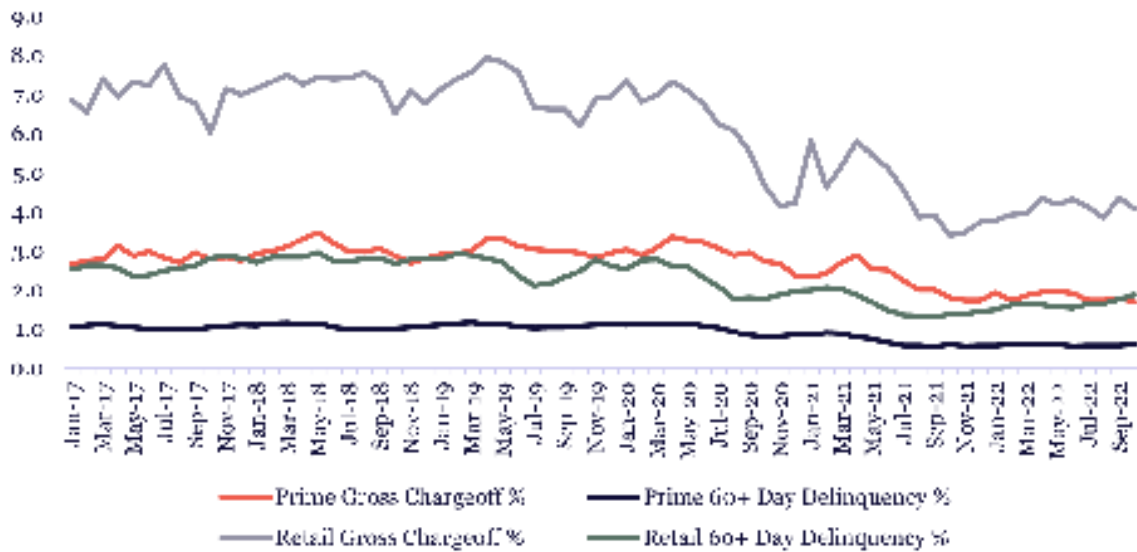
**Revolving Period:** it is typically an interest-only period in which the bondholders receive only interest payments, and no principal payments —During the revolving period principal collections are used to purchase new receivables instead of repaying principal to bondholders —Revolving period can be terminated early if the performance of the credit card receivables is below established levels.

**Accumulation Period:** principal payments are diverted to dedicated accounts for the paydown of the outstanding bonds —Since the master trust structure allows for the sharing of principal collections the accumulation periods are short, typically 1-3 months —Bondholders typically receive principal in a lump sum

**Soft Bullet Payments:** on a set maturity date, the final principal payment is to be made (but this date is not guaranteed). If there is a shortfall in the accumulation period, then the maturity phase could be extended.

One reason for this has been the credit quality of the loans—receivables come from bank and charge card accounts which are predominately made to prime borrowers—which has resulted in a strong performance history. According to Fitch’s Credit Card ABS Chargeoff and Delinquency Index, today’s chargeoff and delinquency levels are well below the historical average. Prime chargeoffs stand at 1.69% versus the 2.67% historical average. Prime delinquencies today are 0.61% versus a historical average of 0.92%. Retail card ABS made to lower quality borrowers have reflected deterioration in recent months but remain well below historical performance (chargeoff 4.08% versus 6.08%; delinquency 1.88% versus 2.26%).

**Credit Card ABS Performance Has Been Strong and Is Well-Positioned If Economy Weakens**



Source: Fitch Credit ABS Chargeoff and Delinquency Index