

Banks grow more optimistic on credit cards in Q2 as consumer spending ramps up

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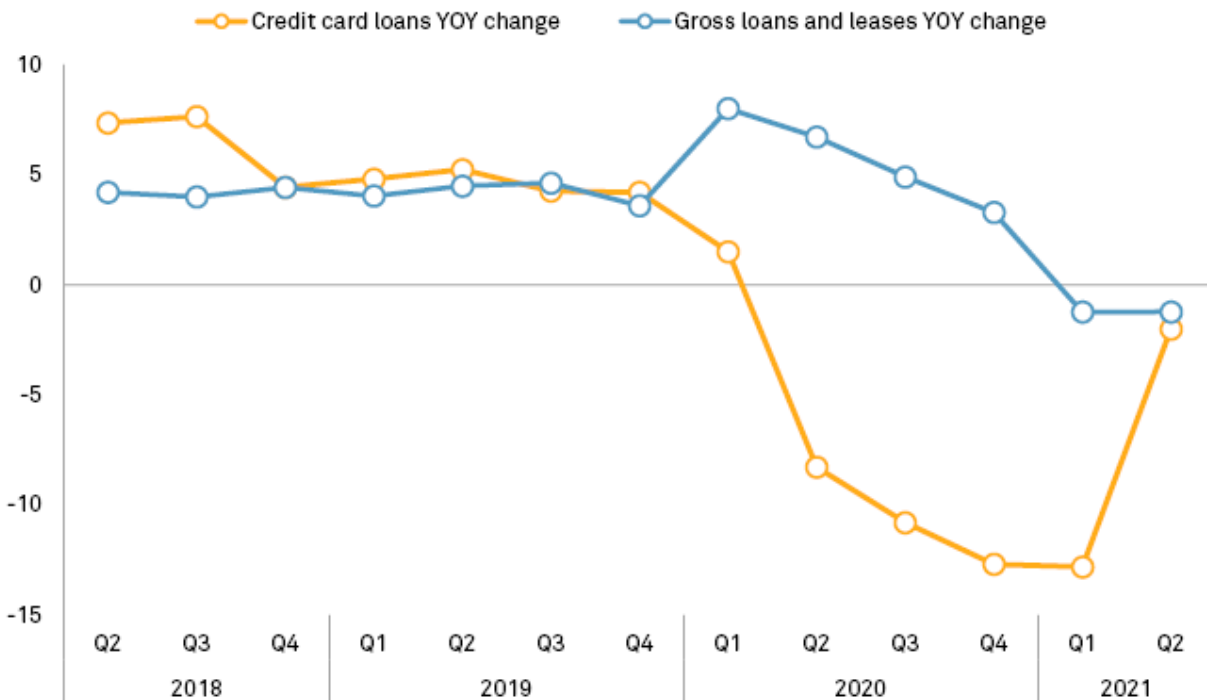
By Rica Dela Cruz and Ronamil Portes
Market Intelligence

Credit card loans at U.S. banks fell just short of growing year over year in the second quarter, a dramatic improvement from the past several quarters, each of which showed credit card portfolios shrinking rapidly.

Credit card loans fell 2.0% year over year, compared to a 12.8% drop in the previous quarter, according to data from S&P Global Market Intelligence. Large card-issuing banks are growing more optimistic as consumer spending accelerates, with some banks pointing to account growth nearing pre-pandemic levels and others expecting to reach loan growth by the end of the year. Banks have struggled with sluggish loan growth for more than a year, due partly to government stimulus inflating deposit levels and allowing more consumers to spend without resorting to credit cards. A return to loan growth would help shore up banks' core revenue source, net interest income.

In an issue brief published in late July, the Consumer Financial Protection Bureau said revolving credit card inquiries, such as new card applications, took the longest to recover from the initial March 2020 decline, until March this year, when inquiries reached their usual levels. The CFPB also said consumers within certain credit score groups still have not recovered or did not fully recover to their pre-pandemic levels, likely in part due to a tightening of credit or because of depressed demand.

Credit card loan trends at US banks (%)



Data compiled Aug. 23, 2021.
Analysis based on regulatory filings by U.S. commercial banks, savings banks, and savings and loan associations. Excludes nondepository trusts and companies with a foreign banking organization charter.
Source: S&P Global Market Intelligence

The current card trends were positive at JPMorgan Chase & Co., where total credit card loans for the second quarter were nearly flat year over year at \$126.13 billion. During a second-quarter earnings call, CFO Jeremy Barnum noted that the quarter was "the acceleration of card spend" and management is upbeat even though card outstandings stayed below pre-pandemic levels.

"We are quite optimistic that the current spend trends will convert into resumption of loan growth through the end of this year and into next," Barnum said, adding later in the call that card will be the "big driver" in the consumer side of the company.

Wells Fargo & Co.'s second-quarter credit card revenue rose 14% year over year, driven by increased spending, CFO Michael Santomassimo said during a second-quarter earnings call. Consumer credit card spending activity was up 13% as compared to 2019, and the company booked total credit card loans of \$34.94 billion during the period, down 3.0% from a year earlier.

Wells Fargo's credit card point-of-sale purchase volume increased 21% from the first quarter as the economy continued to open. In May, the company recorded its highest monthly spending volume in recent history, though the increased activity has not yet translated into significantly higher balances given that payment rates are still high, according to Santomassimo.

"While it's hard to predict exactly what will happen during the second half of the year and while line utilization rates remain low, we are seeing signs of green shoots with modest growth in period-end balances compared to the first quarter in auto, other consumer, credit card and commercial real estate," Santomassimo said.

Bank of America Corp. reported a roughly 10% decline year over year in card loans, with the total portfolio standing at \$75.60 billion. But management was optimistic about new card customers.

"In [the] consumer [side], we saw credit card loans stabilize for the first time in more than a year as credit spending ramped up and new accounts continued to build across the quarters," Chairman, CEO and President Brian Moynihan said on a call to discuss second-quarter earnings. "Quarterly new account levels are nearly back to 2019 levels."

Top 20 US banks by credit card loans, Q2'21

Company (top-level ticker)	Total assets (\$B)	Total credit card loans		Delinquent and restructured credit card loans as proportion of total credit card loans ¹		
		(\$B)	YOY change (%)	(%)	QOQ change (bps)	YOY change (bps)
Citigroup Inc. (C)	2,327.87	139.59	-2.2	2.84	-54	-71
JPMorgan Chase & Co. (JPM)	3,684.26	126.13	-0.6	1.80	-50	-83
Capital One Financial Corp. (COF)	423.42	96.86	-2.3	2.60	-67	-133
Bank of America Corp. (BAC)	3,029.89	75.60	-10.3	2.06	-56	-31
Synchrony Financial (SYF)	92.02	74.43	-1.2	3.55	-75	-82
Discover Financial Services (DFS)	110.98	68.72	-1.9	3.27	-60	-189
American Express Co. (AXP)	186.97	60.59	4.6	3.57	-56	-33
Wells Fargo & Co. (WFC)	1,946.00	34.94	-3.0	1.47	-55	-64
U.S. Bancorp (USB)	558.89	21.82	2.6	1.42	-43	-88
Barclays US LLC (BARC)	174.10	19.72	-8.7	2.86	-65	-82
United Services Automobile Association	209.22	14.43	-12.0	1.71	-29	-41
TD Group US Holdings LLC (TD)	514.17	12.23	-3.7	2.74	-47	-124
Comenity Bank (ADS) ²	9.13	7.68	-14.0	6.88	-118	-113
Comenity Capital Bank (ADS) ²	8.92	7.67	14.2	5.78	-84	-162
PNC Financial Services Group Inc. (PNC) ³	554.78	5.71	-0.3	2.02	-4	-177
Goldman Sachs Group Inc. (GS)	1,387.93	5.61	103.1	2.37	-38	-118
Truist Financial Corp. (TFC)	521.96	3.26	-9.0	1.44	-38	-18
Merrick Bank Corp.	4.35	2.76	-2.3	7.53	-167	-167
Fifth Third Bancorp (FITB)	205.39	1.79	-18.9	3.14	-94	-103
Citizens Financial Group Inc. (CFG)	185.54	1.49	-7.7	1.84	-27	-47
Industry aggregate⁴		791.99	4.1	2.62	-58	-89

Data compiled Aug. 23, 2021.

Analysis includes top-tier U.S. banks and thrifts with the highest balance of credit card loans as of June 30, 2021.

Data based on regulatory filings.

¹ Delinquent and restructured loans consist of loans 30 to 89 days past due, 90 or more days past due, nonaccrual and restructured.

² Comenity Bank and Comenity Capital Bank are both subsidiaries of Alliance Data Systems Corp. Ultimate parent does not file at the consolidated level.

³ PNC Financial Services Group Inc. completed the acquisition of BBVA USA Bancshares Inc. on June 1, 2021.

⁴ Represents aggregate data for U.S. commercial banks, savings banks, and savings and loan associations as of June 30, 2021.

Excludes nondepository trusts and companies with a foreign banking organization charter.

Tickers based on top-level entities' home country stock exchange.

Source: S&P Global Market Intelligence

Among the banks in the group that saw total credit card loans rise on a year-over-year basis was Goldman Sachs Group Inc., which logged a 103.1% increase to \$5.61 billion. On a second-quarter earnings call, CFO Stephen Scherr mentioned that the company's consumer banking revenues of \$363 million reflected higher deposit balances and credit card loans.

"The low rate environment, as well as our reduced rate of loan growth in the portfolio over the past 15 months, continues to impact the business, though forward growth should help to offset this," Scherr said.

U.S. Bancorp reported total credit card loans of \$21.82 billion, up 2.6% year over year. During a second-quarter earnings call, Vice Chairman and CFO Terrance Dolan mentioned that the company's average credit card loan balances were "stable" compared with the previous quarter, considering that payment rates remained high as a reflection of a "significant" level of consumer liquidity. However, period-end balances increased 4.5% quarter over quarter as the company saw some pickup in activity, the executive added.

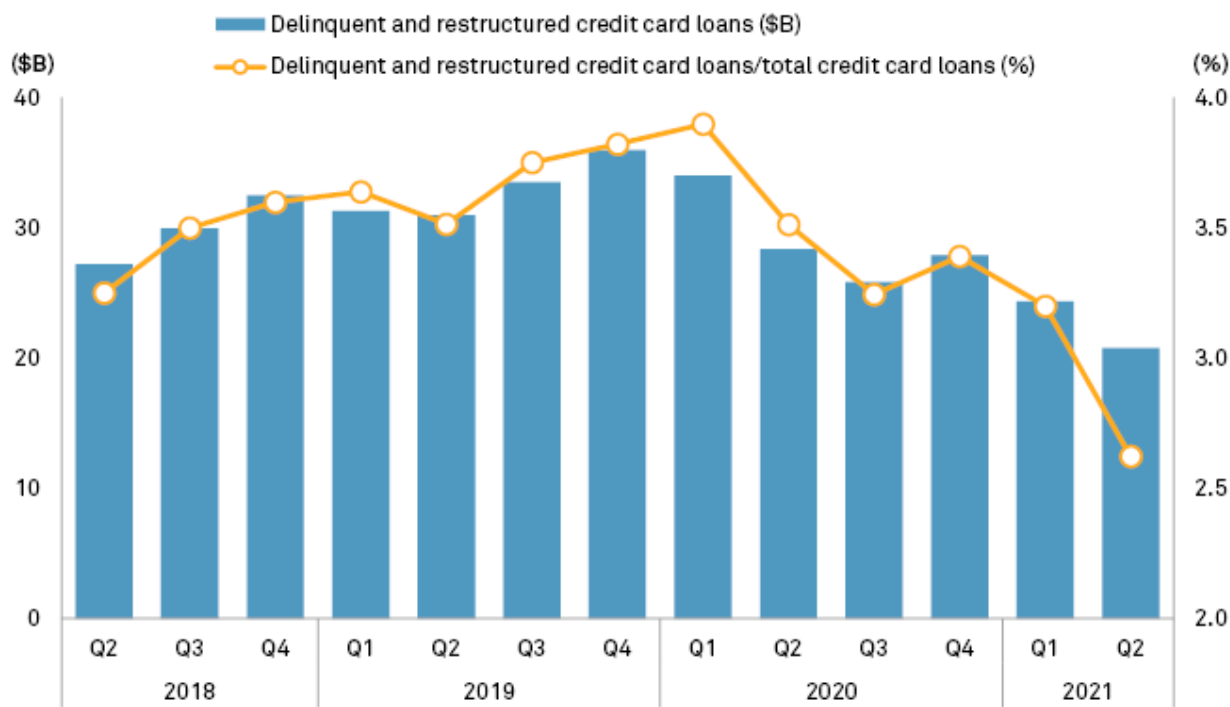
The bank's credit and debit card revenue rose 39.4% year over year due to stronger credit card sales volumes, among other factors, Dolan noted. "Sales volume trends, which are the primary driver of payments revenues, are encouraging," he said.

The credit card delinquency rate continued to decline in the second quarter, extending the trend from prior quarters and hitting a new low in years as more consumers became current on their card payments.

Actual card delinquency levels at Bank of America are continuing to decrease with people going out and "circulating the economy," Moynihan said during the second-quarter earnings call.

Bank of America is expecting card losses to tick down again during the third quarter, considering the "continued low level of late-stage delinquencies in the 180-day pipeline," while for the next few quarters, CFO Paul Donofrio said he anticipates the total net charge-offs to moderate around the current level with lower net recoveries and other products partially offsetting lower card losses.

Credit card delinquency trend at US banks



Data compiled Aug. 23, 2021.

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Source: S&P Global Market Intelligence

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