“A Well Managed Delinquency”
by Charles Wendel

Last week Bloomberg News reported (https://finance.yahoo.com/news/americans-souring-credit-card-debt-110000412.html) that “Americans are projected to fall seriously behind on their credit card bills at the highest rate in a decade as banks push a record number of people to get plastic.” The chart accompanying the article stated, “Card debt that’s 90-days past due is expected to climb to a decade high,” approaching 2.0% but still well below the numbers at the end of the last decade. Worrying, no?

This should be a cause for concern, but not so for a VP of research and consulting at TransUnion, a credit-reporting agency. In his view, as quoted in the same article, “This is a well managed delinquency…It’s still healthy. This uptick is not concerning with the amount that credit has been expanding.” Really? There might be some concern that as Bloomberg reports “Accounts opened in recent years have been souring at faster clips than prior years, suggesting that more new borrowers are struggling to keep up with their minimum payments. For instance, 5.4% of credit cards originated in 2018 were delinquent within nine months, up from 4.5% the year before.” Like in all things financial, segmentation analysis is critical to understanding performance.

In their drive to increase cards outstanding and revenues, some credit card issuers are pushing cards into the hands of people whose ability to repay needs to be viewed with some skepticism. Are these companies providing credit to consumers that traditional banks have ignored for reasons of over conservatism, or are they giving financial heroin to introduce new users to a deadly habit while relying on sophisticated models and “AI” to give them the confidence to lend? In many cases it may be the latter.

A few years ago my credit score dropped precipitously as a result of a mortgage and my accepting four-five no interest financing schemes from stores to buy furniture and electronics to furnish our new home. As my score dropped I began to get two-three mailers per week from banks and non banks offering me lines of credit or credit cards, not despite of but because of the lowered credit score. With those credits paid off my credit score rebounded and the mailers I was receiving disappeared. My credit improved, resulting in fewer credit offers.

My Best Buy purchase of a smart TV continues to require a small monthly payment with a multi-thousand dollar deferred interest charge. If I fail to pay off the debt by 11/20, the deferred charge kicks in. Why do I think the debt issuer (Citibank) hopes I fail to pay attention to this lurking charge?

Those in the consumer business will likely read the above paragraphs and say “of course”; seeking the addicted credit user may be critical to building card income. In fact some banks continue to be hooked on overdraft fees and credit card income as two main revenue sources. The problem for the banks is twofold: in the emerging political environment these fees may be unsustainable and providing credit that hooks people on paying high rates may simply be wrong. Ten years ago, I knew a person who had refinanced their mortgage several times to take advantage of a rapidly rising housing. When the merry-go-round stopped, she could not pay off the mortgage and, along with thousands of others, lost her home. Don't bet on massive bank bailouts the next time this type of lending crisis happens.

Whether it results from the election of Warren or Sanders or another event, banks are likely to have credit card and similar revenues challenged and reduced. For example, this week's article in Politico discusses AOC as a fantasy pick for Secretary of Treasury under Bernie Sanders. Just imagine that for a minute. (https://www.politico.com/news/magazine/2019/12/16/bernie-sanders-first-100-days-president-white-house-administration-084447)

Many of those reading this newsletter may be retired or out of the industry when a more progressive or populist power base takes over, but this change will inevitably come, and like the crisis of a decade ago, its impact on banking will have been self-created by lender arrogance and/or greed.

Most bankers I know are highly ethical and care about their employees and clients. Unfortunately, politicians and media will lump the good together with those who exploit the poor and unsophisticated. While reaching out to the underbanked, banks should avoid either exploiting the most financially weak or acting as an intermediary to finance those companies targeting those groups.

Since this column appears before Christmas, bankers should want to avoid getting coal in their corporate stockings.