

U. S. Banking Industry Credit Card Charge-Offs Spiked in the Fourth Quarter of 2005

Beginning in January 2006, A.M. Best initiated analysis and coverage of the U.S. banking industry. To this end, a new series of regular research papers and analytical

methodologies will be published. This article is part of a regular series of statistical studies and highlights trends in the U.S. banking industry. www.ambest.com/banks

The latest bank regulatory filings released by the Federal Deposit Insurance Corp. showed consumer credit as the sector moving significantly against the industry trend of low asset credit cost. Consumer charge-offs accelerated during the fourth quarter of 2005 for some of the largest banks with high consumer credit exposures due to the new bankruptcy law that went into effect as of Oct. 17, 2005. In the week before the deadline for filings under the old law (which permitted all debts to be wiped out by an individual after a Chapter 7 bankruptcy filing), as many as 480,000 reported cases were filed. It is estimated that as many as 2 million filings may have been recorded for 2005, a 50% increase from typical levels. Credit card charge-offs spiked by 22.7% from the level of the fourth quarter in 2004 for the industry in aggregate, based on FDIC data. Other loans to individuals registered close to a 13% increase in charge-offs as compared with the same quarter in 2004. The largest banks reported substantially higher charge-off figures (see the list below of the five largest card-issuing bank holding companies).

Independent of the immediate effects of the new bankruptcy law, banks have been increasingly aggressive in pursuing the sub-prime segment of the credit card market, at a time when the consumer sector is expected

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to be under pressures from a high debt load. Higher minimum payment requirements on cards also are being implemented by most of the banks. This requirement may force those cardholders who had just been able to make the old minimum payments to become delinquent under the new, higher requirement. The banks' fourth-quarter spike in charge-offs also will lead many institutions to replenish their diminished reserves, as well as portfolios. In turn, this might have an effect on the risk appetite of banks for new accounts and underwriting standards in 2006.

In the month immediately following the Oct. 17 deadline date, the number of bankruptcy filings dropped to one-tenth the typical level. However, it is expected that the levels of charge-offs and delinquency rates for credit card portfolios of banks will remain high, albeit not close to the levels seen in the fourth quarter of 2005.

Five Largest Card-Issuing U.S. Bank Holding Companies

(\$ Millions)

	Card Loans at Dec '05	% Change From Sept '05	Gross Card Charge-off at Dec '05	% Change From Sept '05	4th Q '05 Card Charge-off Rates	3rd Q '05 Card Charge-off Rates
JPMorgan Chase & Co.	\$74,308	6.03%	\$3,668	57.02%	4.94%	3.33%
Citigroup Inc.	71,925	7.80	4,256	32.92	5.92	4.80
Bank of America Corp.	58,942	4.47	4,031	57.34	6.84	4.54
MNBA Corp.	22,082	6.94	756	43.13	3.42	2.56
Capital One Financial Corp.	19,763	20.91	1,242	36.75	6.29	5.56

Source: National Information Center



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