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Announcement: Moody's: US credit card charge-offs dip again in March; delinquencies hit another all time low

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New York, April 25, 2012 -- US credit card charge-offs dropped slightly in March, as the charge-off rate index fell three basis points below its February level, to 4.94%, according to Moody's Credit Card Indices.

"The charge-off rate index is at its lowest point since the second quarter of 2007, down by more than 55% from its 2010 peak," says Jeffrey Hibbs, a Moody's Assistant Vice President and Analyst.

"Some originators have started loosening their underwriting criteria, but so long as they don't add receivables from new accounts to securitizations, the credit mix in trusts won't deteriorate from current levels. Still, we expect the steady decline in the charge-off rate to come to an end, albeit gradually, and find a floor of around 4% by early 2013."

The charge-off rate measures credit card account balances written off as uncollectible as an annualized percentage of total outstanding principal balance.

The delinquency rate index and the early stage delinquency rate fell to respective record lows of 2.73% and 0.72% in March, underscoring the exceptionally strong credit quality of securitized credit card receivables today.

"And strong seasonal trends suggest that early-stage delinquencies will continue to fall throughout the spring, setting the stage for even lower overall delinquency rates further out," says Hibbs.

The delinquency rate measures the proportion of account balances for which a monthly payment is more than 30 days late as a percentage of total outstanding principal balance. The early-stage delinquency rate measures the proportion of account balances for which a monthly payment is 30 to 59 days late as a percentage of total outstanding principal balance.

The payment rate index rebounded sharply from last month's seasonal weakness and set a new all-time high at 22.11%. Over the past three years, the payment rate index has grown by 570 basis points, equal to a 35% increase in the proportion of trust principal receivables repaid each month.

"Because of the growing return of principal, the purging of charged-off receivables, and the fact that no new principal receivables are entering the trusts, trust balances have declined markedly since the onset of the credit crisis," says Hibbs.

The payment rate measures the average amount of principal that cardholders repay each month, as a percentage of total outstanding principal balance.

The yield index, and by extension, the excess spread index, also rose in March. The yield index has declined steadily for several quarters, but the excess spread index remains at a historically high level, as the decline in charge-offs has countered the contraction in yield.

"The contraction was due largely to the expiration of principal discounting initiatives that had artificially boosted yields. Most issuers have stopped discounting new receivables, although discounted legacy receivables still add about 50 basis points to the yield index, so this lift will fade over time," adds Hibbs.

"The excess spread index is still healthy and well above historical norms; we expect it to remain near its current historical high, as charge-offs continue to fall through the end of the year."

Yield is the annualized percentage of income, primarily finance charges and fees, collected during the month as a percentage of total loans, while excess spread is a measure of the overall performance of securitized pools of credit card receivables.

Moody's March Credit Card Indices report, "Record Strong Performance in March," is available at www.moodys.com.

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