Economic *SYNOPSES*

short essays and reports on the economic issues of the day

2014 ■ Number 25

Why Is Credit Card Delinquency Declining?

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Credit card delinquency has decreased since the Great Recession ended in 2009: The delinquency rate was 12.50 percent for January-June 2010 and 8.49 percent for January-June 2014. A cardholder is considered delinquent if he or she has missed payments due on a credit card. A reasonable indicator of delinquency is being at least 90 days late in making any payment. This essay studies the evolution of the credit card delinquency rate as measured by the ratio of credit card debt delinquent for 90+ days to total credit card debt.

The ratio of debt in delinquency is very countercyclical: It increases sharply during recessions and decreases during periods of economic expansion. This pattern occurs because individuals skip payments in recessions to avoid an abrupt decline in consumption during long periods of unemployment (this behavior is known as consumption smoothing). For example, Athreya et al. (2014) show that the decline in the job-finding rate and the subsequent increase in unemployment were the main drivers of credit card delinquency during the 2007-09 recession.[1]

The delinquency rate was very low during the first six months of 2014 relative to historical standards, which may be surprising given that the labor market has not yet fully recovered. The first row in the table compares the delinquency rate during the first six months of 2010, when the unemployment rate was very close to 10 percent, with the delinquency rate for the first six months of 2014, the most recent observation available. The delinquency rate in credit card debt declined sharply during this period, almost 40 percent.[2]

The decline in the number of cardholders in delinquency and the number of accounts per cardholder in delinquency are primary factors affecting the fall in the delinquency rate.

What accounts for the sharp decline in the delinquency rate? The decline can be broken down into individual changes in five components (see the table): (1) accounts per cardholder in delinquency, (2) accounts per cardholder, (3) cardholders in delinquency, (4) debt per delinquent account, and (5) debt per account.

This measurement can be expressed as

$$\%\Delta DQ = \%\Delta(1) - \%\Delta(2) + \%\Delta(3) + \%\Delta(4) - \%\Delta(5),$$

where DQ is the delinquency rate and $\%\Delta$ means percent change.

Credit Card Delinquency Rate (90+ days)

	Changes since the end of the recession			
Variable	January-June 2010	January-June 2014	Change (%)	Implied change in delinquency rate (%)
Delinquency rate (%)	12.50	8.49	–38.7	
(1) Accounts per cardholder in delinquency (No.)	2.70	1.70	–48.6	–48.6
(2) Accounts per cardholder (No.)	2.30	2.47	7.0	–7.0
(3) Cardholders in delinquency (%)	10.80	8.20	–27.2	–27.2
(4) Debt per account in delinquency	$2,424	$2,867	16.8	16.8
(5) Debt per account	$2,499	$1,900	–27.4	27.4

SOURCE: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

Delinquency rates could have declined as a result of these specific changes in the five components:

(1) a decrease in the number of accounts per cardholder in delinquency,
(2) an increase in the number of accounts across all cardholders,
(3) a decreased share of cardholders in delinquency,
(4) a decrease in debt per delinquent account, and
(5) an increase in debt per account across all cardholders.

The table shows the actual change in each component. The last column corresponds to the change in the delinquency rate that would be observed during this period if only that component had changed.

Cardholders in delinquency abruptly decreased their number of accounts during this period, from 2.70 to 1.70 accounts. This change alone would have decreased the delinquency rate by almost 50 percent. Another large contributor to the decline in credit card delinquency rates is the reduction in the share of people in delinquency from about 11 percent in 2010 to about 8 percent in 2014. This change alone would have decreased the delinquency rate by about 27 percent. In contrast, the increase in the amount of debt per account in delinquency would have increased the delinquency rate by about 17 percent. Similarly, the reduction in the amount of debt per account across all accounts would have increased the delinquency rate by about 27 percent.

Thus, the decline in the number of cardholders in delinquency (27 percent) and the reduction in the number of accounts per cardholder in delinquency (49 percent) are primary factors affecting the fall in the delinquency rate. These factors are strong enough to dominate other changes that might have pushed up the delinquency rate, such as the rise in the debt per account in delinquency and the aggregate reduction in credit card debt. ■

NOTES

[1] Athreya, Kartik; Sánchez, Juan M .; Tam, Xuan S. and Young, Eric R. "Labor Market Upheaval, Default Regulations, and Consumer Debt." Working Paper No. 2014-002B, Federal Reserve Bank of St. Louis, August 7, 2014; http://research.stlouisfed.org/wp/2014/2014-002.pdf.

[2] All changes here are computed as the difference of the natural logarithm to facilitate analysis.

Posted on November 10, 2014