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Credit cards

US credit card stocks sink to fresh lows

Providers earmark $1bn more for bad loans as clients struggle to pay off debts

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YESTERDAY by: **Alistair Gray** in New York

Investor concerns are mounting over the amount of debt Americans are accumulating on credit cards (https://www.ft.com/topics/themes/Credit_cards) as banks and other issuers caution that more customers are struggling to pay off their balances.

US credit card stocks have hit new lows for the year after figures in recent days from three of the biggest providers — Synchrony, Capital One and Discover — showed they set aside 36 per cent, or $1bn, more for bad loans in the first quarter than a year ago.

Weaker than forecast financial results on Friday from Synchrony Financial, a $90bn-in-assets issuer that provides cards for retailers including Walmart and Amazon, pushed its shares down 16 per cent and sent a chill through the wider sector.

Just three months after the company forecast that net charge-off — or writedown — rates would come in at no more than 5 per cent this year, Synchrony said it now expected they would in fact be at least that high.

It was the latest disappointment for investors in Synchrony, a spin-off from General Electric. The company warned last June that write-off rates were running higher than forecast.

Several US banks have also disclosed deteriorating credit card metrics. JPMorgan Chase declared in the first quarter that $990m worth of loans were unlikely to be collected, a fifth more than a year ago.

Executives said rising losses were to be expected given the businesses had been expanding and default rates had been historically low.

Marianne Lake, chief financial officer of JPMorgan Chase, told analysts that losses were still running at “very, very low levels”. Margaret Keane, Synchrony’s chief executive, insisted the company was still operating in a “fairly good macro environment”, citing lower unemployment.

However, analysts said the earnings season made clear that a boom in consumer credit quality had come to an end, and some were concerned that issuers were continuing to expand despite the rising levels of soured loans.

Lenders have been piling into credit cards, attracted by the prospect of heftier returns than other types of banking.

Issuers have been wooing customers with generous reward schemes but typically charge interest rates of between 13 and 20 per cent to those who fail to pay off balances. Some have been signing up riskier customers with lower credit ratings, for whom interest rates are even higher.

US credit card users had racked up $1tn in debts by the end of last year, according to The Nilson Report.

Kenneth Bruce, analyst at Bank of America Merrill Lynch, said: “There’s been a lot of growth across consumer credit for a lot of companies. We haven’t seen anybody really pull back.”

Richard Fairbank, chief executive of Capital One (http://markets.ft.com/data/equities/tearsheet/summary?s=us:COF), indicated the group was easing off on the lending accelerator as its first-quarter results showed that net charge-offs rose 28 per cent from last year to $1.51bn.

“We have been tightening our underwriting,” he told analysts. “We still see growth opportunities in our domestic card business, but our growth window is gradually getting smaller.”

Synchrony and Capital One are the two worst performing of the 65 biggest US financial stocks so far this year.

They and Discover are considered a good guide to the health of low- and middle-income consumers given the scale of their mass market operations.

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