



2019 Credit Union Credit Card Lending Outlook

Get ahead by understanding the risks.

As has been the case for the past few years, 2018 has had its ups and downs but was largely successful in the card lending space. Here is what credit unions can expect for card lending in 2019:

Economy

The U.S. Federal Reserve Chairman recently said the U.S. economy has a “remarkably positive outlook.” Low unemployment and inflation rates are projected to be sustained through 2020, along with a potential increase in wages as a result.

Most forecasts point toward a growth range of 2.4 percent to 2.8 percent for 2019 real GDP. This is down slightly from the 3 percent projected for 2018 due to an anticipated increase in market interest rates. Additionally, there is some consensus that there will be three rate increases by the Federal Reserve in 2019. These increases would push the rates a bit beyond

neutral but would keep economic growth sustainable while also curbing inflation.

Even with additional Fed Funds rate increases, the environment for borrowing should continue on pace and in line with previous years. Looking out further, however, two-thirds of economists polled by the National Association for Business Economics predict a mild recession by the end of 2020.

Regulatory

A couple of issues are emerging that may impact lending operations. As of September 21, 2018, consumers can freeze their credit reports at three major bureaus for free. Lenders will need to determine how to deal with the inability to make a hard pull of credit for consumers who did not unfreeze their credit bureau. Making contacts, queuing applications and delaying decisions are expected as a result.

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Additionally, a new California law regarding consumer privacy rights goes into effect in 2020, providing consumers with more rights with respect to their personal information. New disclosures on what information is collected and to whom it was disclosed or sold will have to be provided to consumers. Similarly, consumers can opt out of data sales and request that businesses delete their personal information – with exceptions. While the law only applies to California residents, it may have a ripple effect geographically. It would be wise for credit unions to proactively explore the requirements, applications and exceptions of the law.

Consumer Behavior

Several all-time highs were reached in 2018, including credit card use and average FICO scores. Consumer confidence also reached an 18-year high in August. Taken together, these record-setting metrics show a level of performance not seen in years. Credit card sales volume has grown around 9 percent and outstandings by 6 percent, which is important for credit unions across the United States. If the economic projections are accurate, these growth rates are expected to continue into 2019. There may be some pull-ahead of durable good purchases as consumers try to beat interest rate increases.

One phenomenon that appears to be taking place is the consolidation of card debts using personal loans. Direct mail marketing for personal loans by fintech companies and others exceeded credit card mailings in the first half of 2018. Issuers should be on the lookout for unknown, large and sudden payoffs.

Credit Risk

Card loss rates jumped about 0.30 percent in 2018 but are still much lower than historical averages. Slight increases of 10 to 15 basis points (bps) should be expected in 2019 depending on volume growth. The one area where this does not hold up is subprime lending. Credit card losses (8 percent) for smaller and community banks who have

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gone after sub- and non-prime credits are at levels not seen since the financial crisis. Careful scrutiny of subprime applicants is a must.

A positive factor for 2019 is that savings rates as a percent of disposable income are up, leaving more individuals with some “credit protection” that did not exist during the financial crisis.

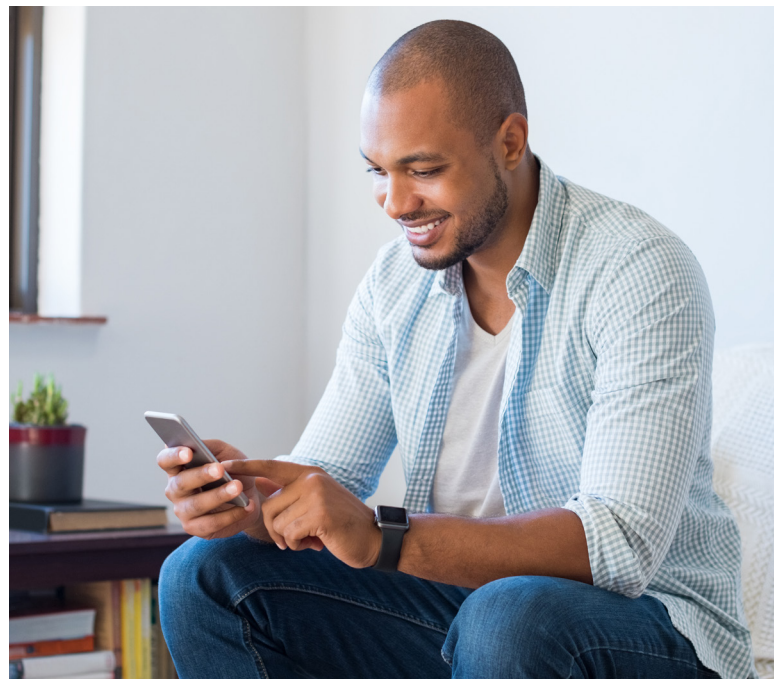
Digital Transformation

Lenders are increasingly using online and mobile applications to help drive borrowing and the experience for applicants.

Pre-qualification, minimal information requirements and instant decisioning are becoming much more commonplace. Credit unions need to take time to study their competitors and review their own digital application process. Transforming this process could lead to additional volume that would not be realized otherwise.

How PSCU Can Help

Founded in 2004 with a mission to help credit unions meet their financial and business challenges through consulting and marketing, PSCU’s Advisors Plus can help credit unions understand the credit risk and opportunities within their portfolios. Advisors Plus partners with credit unions



to better understand their credit card portfolio risk in several ways: determining performance by credit score range, setting credit score bands, establishing pricing for risk, developing credit line assignment guidelines and more. By working with the team of experienced Advisors Plus consultants, PSCU Owners can successfully elevate their business performance in the lending space in 2019.

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Advisors Plus

Founded in 2004, PSCU's Advisors Plus offers consulting services for credit unions to help fuel growth and achieve financial and business goals. From project analysis to implementation and management, Advisors Plus offers an end-to-end portfolio of consulting services including business strategy, business and affinity cards, credit and debit cards, contact center optimization, risk and collections analysis, branch sales training, marketing services, and B2C campaign execution. Whether your credit union is looking to expand its offerings, build a legacy of community involvement, create the strongest possible capital footing—or all of the above—Advisors Plus consultants bring the strategic vision, deep industry expertise, and proprietary data analytics needed to help credit unions better serve their members and their communities. For more information, visit advisorsplus.com.