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Credit Card Delinquency Approaching Great Recession Peak Is Major Risk For Banks

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Summary

Credit card balances have surged to $1.17T, with delinquency rates nearing Great Recession levels, posing significant risks to major banks.

Despite high average interest rates of 28.75%, credit card debt continues to grow, highlighting financial strain on households.

Larger banks face multiple risks, including commercial real estate and consumer debt, making community banks a safer investment.

Conduct thorough due diligence on banks holding your money. Reliance on FDIC may not be prudent due to potential bail-ins.

I am Avi Gilburt, a CPA and lawyer by training. I am the founder of Elliot Wave Trader and I run the investing group The Market Pinball Wizard, where we help you identify the major market turning points and trends.

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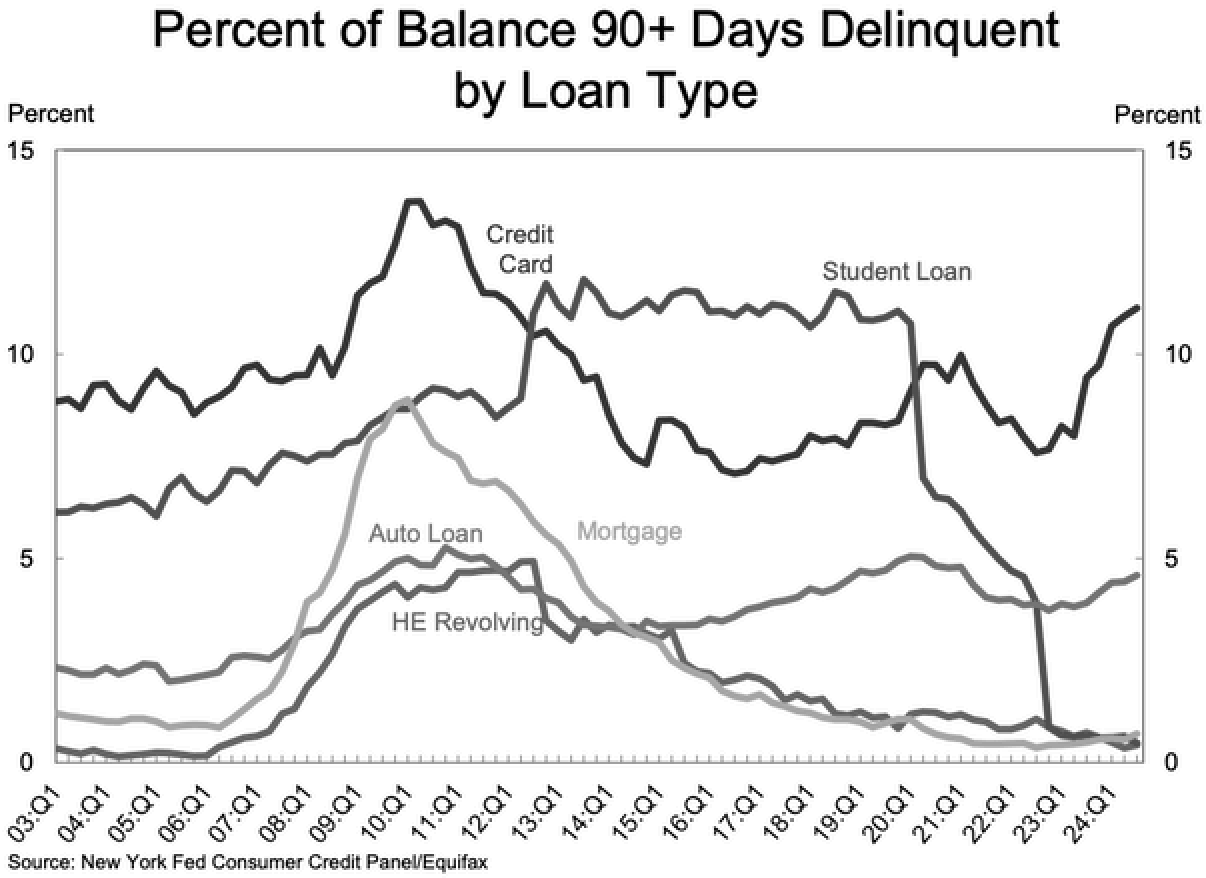
According to a new report on household debt, which was published by the New York Fed last week, credit card balances increased to $1.17T, 8.1% above the level a year ago. More importantly, as the chart below shows, the share of delinquent credit cards has reached the highest level since 2012. This share is now just around 300 bps below the peak, which was seen during the Great Recession.



NY Fed

Under the current economic conditions, which are still relatively benign for households, the GFC peak will be likely surpassed in late 2025–early 2026. And if there's even a mild increase in unemployment, this level will likely be reached much sooner.

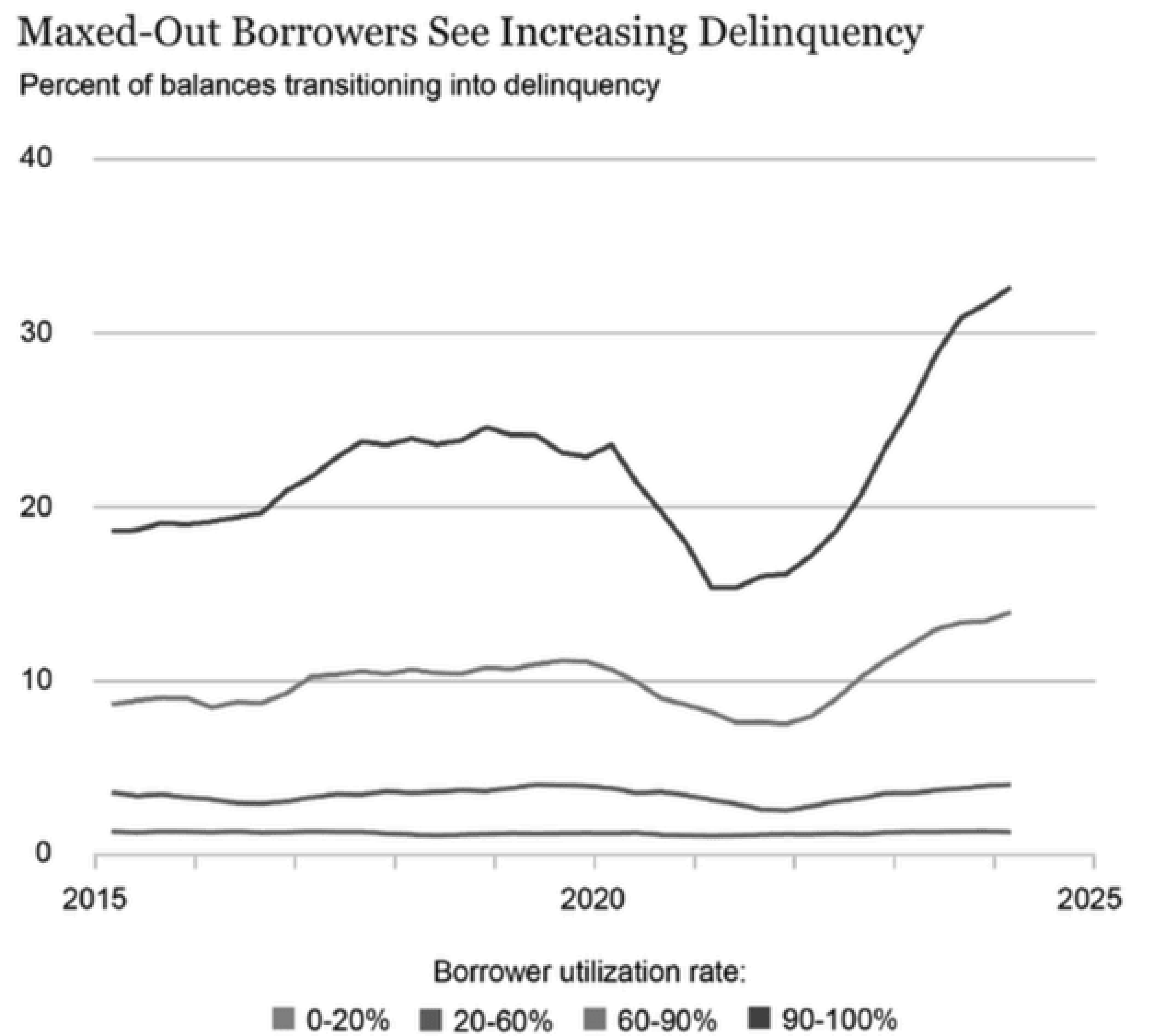
As we have said in our prior articles on credit cards, lower policy rates are unlikely to have a significant impact on the asset quality in the segment. Moreover, despite the 50 bps cut in September, U.S. banks are reluctant to decrease rates on credit cards. CNBC has cited a CardRatings.com survey, saying that only 37% of the credit cards surveyed changed their rates following the September cut, and the average credit card interest rate fell by just 0.13%.

According to Forbes, the average credit card interest rate is 28.75% now. And, despite such a prohibitive rate, credit cards continue to grow at almost a double-digit rate. Credit cards are not just a tool to get points and rewards - they're a crucial debt instrument for many households. Many Americans just do not have enough money to make ends meet without using credit cards, according to a survey published by Achieve. The study says that 28% of participants reported that their debt had increased during the third quarter. Notably, 37% of people with growing debt attributed the rise to their continued inability to make ends meet.

Achieve

36% of respondents stated that they find it very difficult or difficult to make their recurrent debt payments on time, and 68% of these respondents stated that they find it difficult to make their debt payments on time because they do not earn enough money to cover their expenses. The numbers look really weak, and what's more concerning is that we're seeing this survey in an environment that's still relatively benign for a consumer.

Such credit card borrowers with a tight cash flow situation and financial issues usually have a high credit card utilization rate. The Fed did not disclose separate data for these maxed-out borrowers this quarter. But in its previous report, the regulator showed that credit card borrowers with a 90-100% utilization rate have a 30%-plus transition rate.



Source: New York Fed Consumer Credit Panel/Equifax.
Notes: The chart shows balance-weighted transition to credit card delinquency among borrowers who were current on all credit card accounts in the previous quarter. A borrower's utilization group is determined by their utilization in the previous quarter. Data are smoothed as four-quarter moving sums to account for seasonal trends.

NY Fed

Finally, it's worth reminding that the American credit card market is a very concentrated one, as almost half of total outstanding balances were granted by just three banks: JPMorgan (JPM), Citigroup (C), and Capital One (COF). Needless to say, this developing situation will have a significant impact upon these three banks.

Bottom line