

# Moody's Credit Card Index Hit Record 11.49% Record Charge-Off Rate In August

Submitted by Tyler Durden on 09/23/2009 13:25 -0500

Ever wonder why iPhone sales are through the roof? It might have to do with this. Consumers are once again using their credit cards, however taking a cue from the Chairman's promotion of moral hazard to a state-sponsored nationwide doctrine, they have decided simply not to pay their bills. Moody's Credit Card Index confirms this, after hitting an a new record Charge-off Rate in August of 11.49%, a 68.5% increase year over year. And where charge offs rule, delinquencies are not far behind: August delinquency rate hit 5.8%, a 26.2% increase YoY. August was a sharp reversal in prior improving trends, indicating that the consumer weakness is not getting any better, and in fact, just the opposite. Read below from Moody's:

***After improving over the past several months, credit card performance broadly deteriorated in August, according to metrics tracked by our Credit Card Index. Notably, the charge-off rate index advanced resoundingly to a record-level high 11.49%. Accompanying the rise in charge-offs was an increase in the delinquency rate. Even early-stage delinquencies rose, ending a trend of four consecutive months of improvement.***

*August's performance reversed some of the seasonal improvement in April-July. August traditionally introduces a seasonal period of rising delinquency rates. We continue to call for a recovery of the credit card sector to begin once industry average charge-offs peak in mid-2010 between 12% and 13%. This forecast is largely driven by macroeconomic indicators, in particular, a coincident peak in the unemployment rate of 10%-10.5%.*

*Industry payment rates also weakened in August following what is now a secular, long-term trend of decline. We expect weakness in the payment rate to persist in 2010 as the void of home equity withdrawal and lower purchase volumes among convenience users (i.e. cardholders who pay their balance in full each month) will drive payment rates lower. From 1990 through 2003, the average annual payment rate never exceeded 15.3% (Figure 1). For the next five years, the average payment rate jumped to 18.03% as home equity extraction provided a ready source of funds for consumers to repay credit card debt. The average payment rate in 2009 thus far is just 16.4%, and we expect further weakness throughout the remainder of the year.*

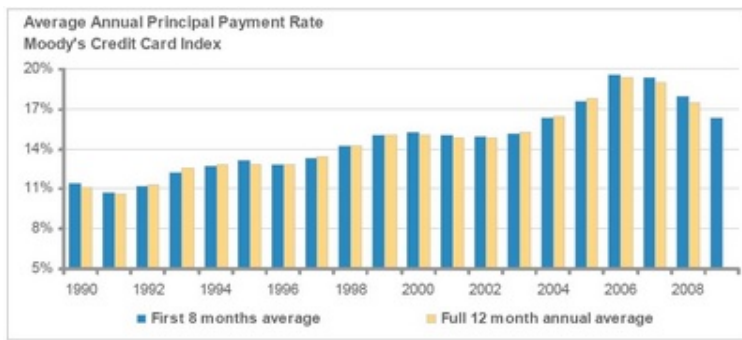
*While the yield index continued to rise with the aid of principal discounting, the increased revenues were not enough to offset the sharp rise in charge-offs, causing the August excess spread index level to narrow. Much of this improvement in yield is attributable to approximately 260 basis points of lift to the index as a direct result of issuer principal discounting.*

## Monthly Index

Credit Indices (in %)	Aug-09	Aug-08	% change	YTD 2009	YTD 2008	% change
Charge-off Rate**	11.49	6.82	68.51	9.90	6.18	60.26
Delinquency Rate	5.80	4.60	26.20	6.02	4.52	33.15
Early-stage Delinquency	1.65	1.37	20.51	1.60	1.30	23.21
Mid-stage Delinquency	1.17	1.00	17.53	1.29	0.97	32.47
Late-stage Delinquency	2.98	2.23	33.55	3.13	2.25	39.10
Principal Payment Rate	16.90	17.40	(2.83)	16.38	17.99	(8.93)
Aggregate Yield**	20.52	17.63	16.43	18.36	18.23	0.74
One-month Excess Spread**	6.15	6.12	0.46	5.46	7.10	(23.09)

\* Monthly historical data from inception to date are available in Excel format.

\*\* Annualized percentage rate.



So even as the Fed sees a "strengthening of economic growth and a gradual return to higher levels of resource utilization in a context of price stability" consumers keep on spending money they don't have and, worse, they have no intention of paying. Yet the economy and the market will keep melting up until such time as the dollar ceases to exist and the middle class in America realizes it too has followed suit.

<http://www.zerohedge.com/article/moodys-credit-card-index-hit-record-1149-record-charge-rate-august>