

Consumer Finance Institute

Special Report

How Has the COVID-19 Pandemic Affected the Supply of Consumer Credit?

A Preliminary Look at the U.S. Credit Card Market

by Larry Santucci*

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The sudden appearance of the COVID-19 coronavirus and the measures put in place to contain its spread have swiftly taken their toll on the U.S. economy. Earlier this month, the National Bureau of Economic Research’s Business Cycle Dating Committee (BCDC) declared that the 128 month-long economic expansion that began in 2009 — the longest expansion in U.S. history — had ended in February.¹ Indeed, economic activity came to a halt so abruptly that the BCDC was able to make its determination in just four months, far shorter than the 12 months required to identify the onset of the ‘Great’ Recession.²

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¹ The expansion was the longest in the history of U.S. business cycles dating back to 1854. See “[NBER Determination of the February 2020 Peak in Economic Activity](#),” National Bureau of Economic Research, June 8, 2020.

² The National Bureau of Economic Research’s Business Cycle Dating Committee (BCDC) typically makes its determination in six to 21 months. See “[US Business Cycle Expansions and Contractions](#),” National Bureau of Economic Research.

Since March 15, more than 42 million workers have filed for unemployment benefits. Many others are working fewer hours for smaller paychecks.³ The sudden loss of income has placed significant strain on households' ability to service the \$14.3 trillion in debt balances they held in 2020, almost \$900 billion of which is composed of credit card and other revolving debt.⁴

Likewise, with so many borrowers facing financial uncertainty, credit card lenders — whose portfolios had shown few signs of deterioration — now face an unanticipated and potentially severe risk of broad-based defaults. Under such conditions, the business-as-usual approach to credit risk management, very much alive during the Great Recession, is ill-suited to guide lenders and borrowers through a global health crisis. During the Great Recession — a period that began in December 2007 and officially ended in June 2009 — credit card lenders narrowed the flow of credit to both new and existing customers. By July 2008, many banks had tightened lending standards, increased minimum credit score requirements on new accounts, lowered credit limits on existing accounts, and shuttered inactive accounts.⁵

In this *CFI Special Report*, we examine how credit card lenders have managed credit availability through the onset of COVID-19 in the U.S. Our analysis reveals that the number of credit offers to new customers began to shrink rapidly in mid-March, coinciding with the issuance of two national emergency declarations on March 13.⁶ We also find that, unlike previous periods of economic contraction, lenders have so far refrained from taking extraordinary measures against credit losses from current customers. Encouraged by new federal legislation and federal banking regulators, lenders are granting fee and interest waivers, payment deferrals, and other forms of assistance (e.g., increasing rewards earned on certain high-spend categories) to distressed customers.⁷ Lenders have also avoided withdrawing unused credit from

³ Leslie Josephs, "[Airline Workers Might Not Be Cut But in Coronavirus Travel Collapse Their Paychecks Will Be Smaller](#)," CNBC (March 30, 2020); Rachel Lerman and Elizabeth Dwoskin, "[Facebook Will Now Let Some Employees Work from Anywhere, But Their Paychecks Could Get Cut](#)," *Washington Post* (May 21, 2020).

⁴ U.S. Bureau of Labor Statistics, Initial Claims [[ICSA](#)], retrieved from FRED, Federal Reserve Bank of St. Louis (June 17, 2020); "[Quarterly Report on Household Debt and Credit](#)," Federal Reserve Bank of New York (May 2020).

⁵ Board of Governors of the Federal Reserve System, "[The July 2008 Senior Loan Officer Opinion Survey on Bank Lending Practices](#)" (2008).

⁶ President Donald Trump issued two national emergency declarations on March 13 and invoked emergency powers under the Defense Production Act on March 18, 2020.

⁷ Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, Consumer Financial Protection Bureau, and Conference

current customers. By putting off broad-based credit limit decrease programs, lenders have generally maintained the supply of available credit to current customers. At the same time, lenders are hesitant to increase exposure, and so many have pressed pause on credit-limit increase programs.

New Offers of Credit

After starting the year on pace with 2018 and 2019, new credit card mail offers fell steeply in April.⁸ **Figure 1** shows the estimated monthly volume of account acquisition mailings since 2018. Mail volume during the first three months of 2020 was slightly above previous years. Then, volume fell from 303 million to 214 million in April, 33 percent lower than a year ago and 29 percent lower than in March.

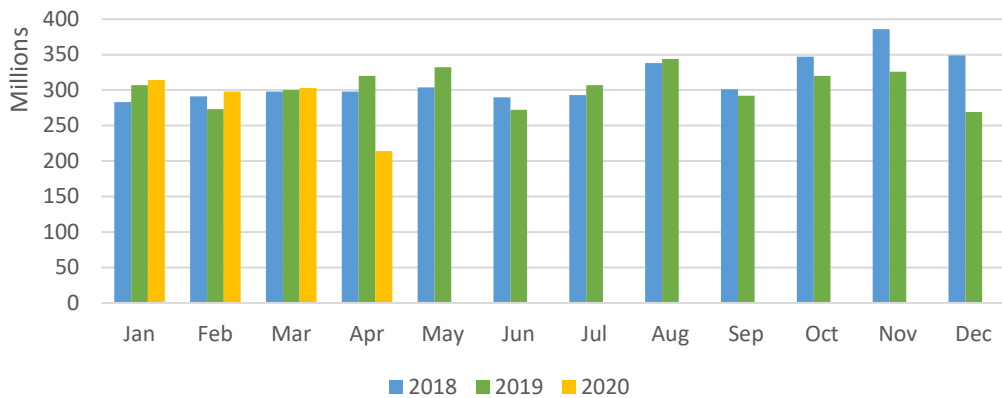
While this paper offers a lender-focused analysis, lenders' perceptions of shifts in consumer credit preferences certainly played a role in their credit decisions.⁹ Our analysis does not control for demand effects. Recent reports by credit reporting agencies show that many consumers are using a smaller portion of their existing credit lines and may have less appetite for taking on new credit. In turn, if lenders believed their offers would go to an adversely selected population, they might choose to reduce their exposure to that population by reducing marketing activity. This is potentially an example in which credit supply responds to changes in the composition of demand.

of State Bank Supervisors, "[Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus](#)" (March 22, 2020).

⁸ While we do not observe credit supply directly, researchers have found credit card mail offers to be a useful proxy for the supply of unsecured credit. See, for example, Song Han, Benjamin J. Keys, and Geng Li, "Unsecured Credit Supply, Credit Cycles, and Regulation," *Review of Financial Studies* 31:3 (March 2018).

⁹ For example, during the Capital One Q1 2020 Earnings call, CEO Richard Fairbank stressed the effects of expected demand on lender decisions, noting that the lender was pulling back on near-term marketing in response to lower demand. See "[Capital One Financial Corp \(COF\) Q1 2020 Earnings Call Transcript](#)," Fool.com (April 23, 2020).

Figure 1. Estimated Volume of Account Acquisition Mailings

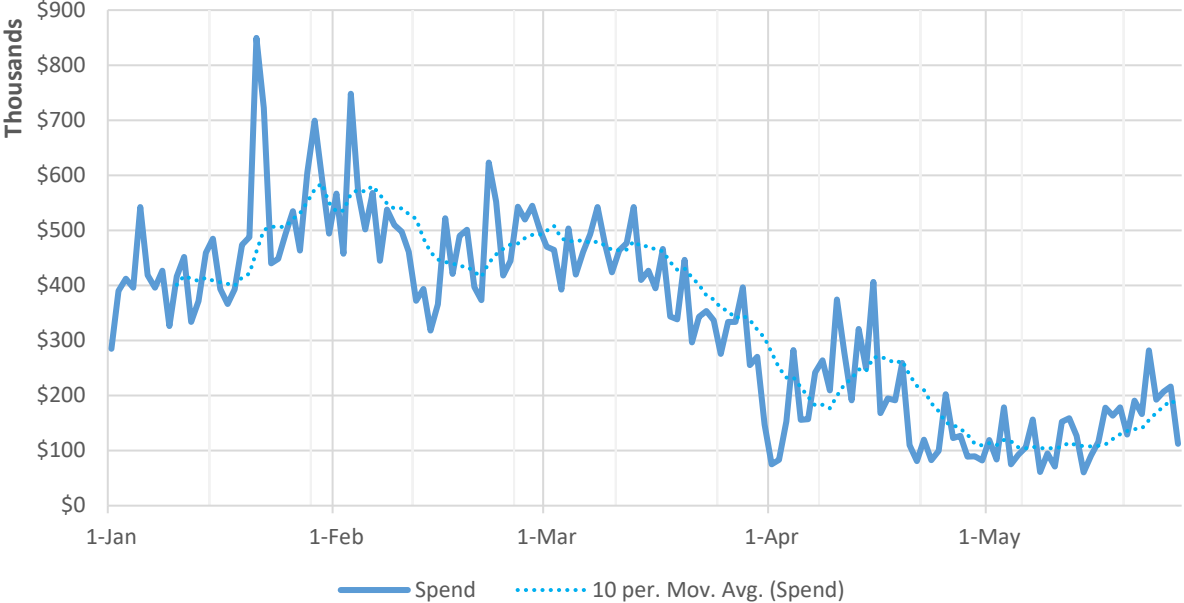


Source: Comperemedia Consumer Direct Mail and author’s calculations; includes direct email correspondence to panelists.

Given its monthly frequency, the data on credit card offers may not fully reflect lenders’ real-time response to the COVID-19 pandemic. The first acknowledgments of a global health crisis occurred in the second week of March 2020. Thus, it is unlikely that lenders had sufficient time to scale back pre-planned offers for the second half of the month, many of which would have already been sent to print shops. In fact, higher frequency data indicates that lenders were indeed responding to the health crisis in mid-March.¹⁰ **Figure 2** plots the daily marketing expenditure on account acquisition campaigns via digital channels (e.g., Facebook and Google) since January 1. A 10-day moving average smooths out some of the noise in the daily data and indicates that digital acquisition spend began to fall in mid-March. From January 1 to March 15, digital acquisition spend averaged about \$476,000; from March 16 to May 27, it averaged \$199,000, a decline of 58 percent.

¹⁰ We would expect to see a quicker response in digital account acquisitions since changes in spending levels require much less lead time than do direct mail campaigns.

Figure 2. Daily Estimated Account Acquisition Spend on Digital Channels

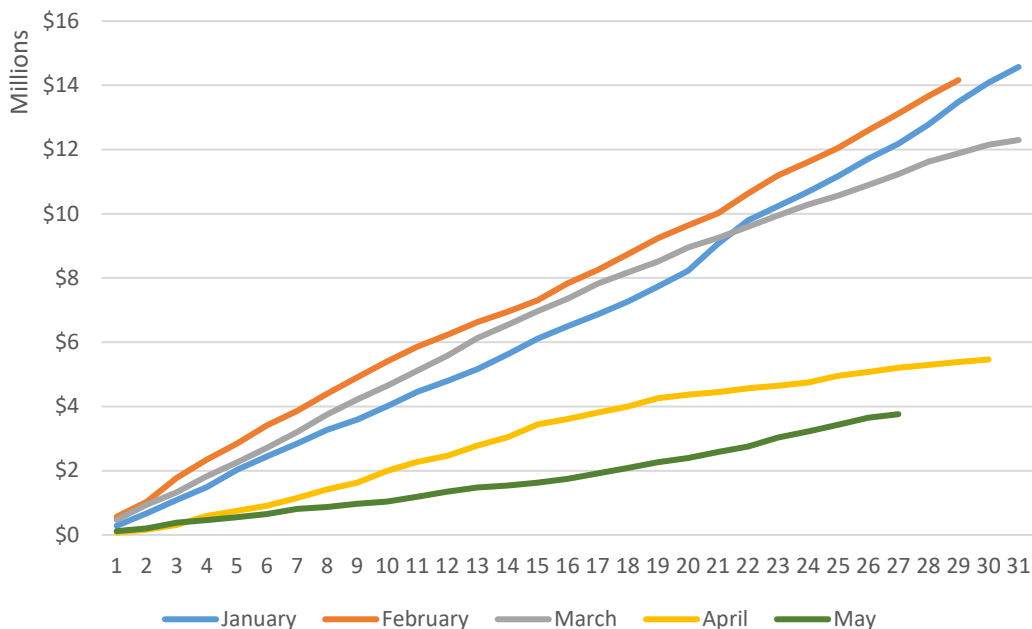


Source: Comperemedia Omni and author’s calculations. The figure plots data through May 27, 2020; includes spend on desktop display, desktop video, email, mobile display, mobile video, and paid Facebook.

Figure 2 also shows that marketing spend on digital channels rebounded in late May, increasing by about \$70,000 per day after holding steady at \$108,000 for most of the month.

Another way to examine changes in spend is to compare cumulative digital marketing spend for each month this year. **Figure 3** shows that cumulative daily spend in April and May (yellow and green lines) were well below January–March. As of May 27, cumulative spend for the month was \$3.7 million, 29 percent lower than the same day in April. Again we see that marketing spend slowed through April, but it appears to have accelerated toward mid-May.

Figure 3. Estimated Account Acquisition Spend on Digital Channels, Cumulative by Month



Source: Comperemedia Omni and author’s calculations. The figure plots data through May 27, 2020, including spend on desktop display, desktop video, email, mobile display, mobile video, and paid Facebook.

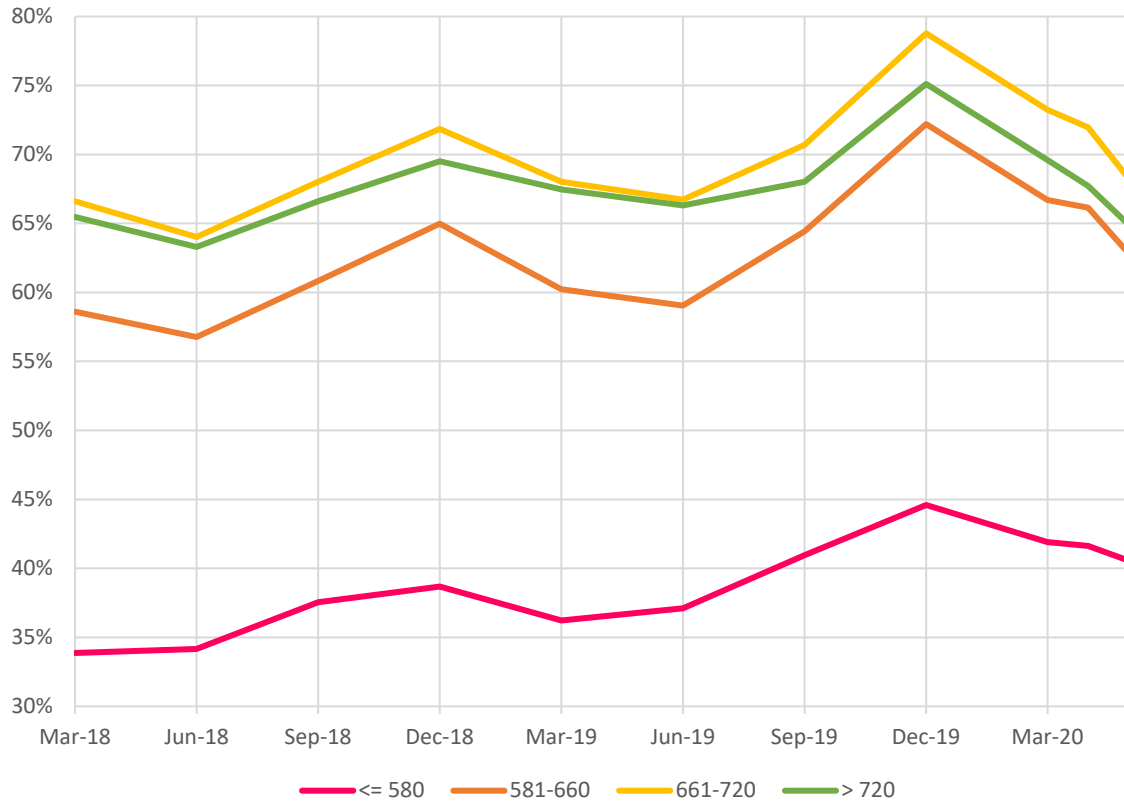
Lenders also tightened approval standards on new credit applications in May. **Figure 4** plots the credit application success rate — the ratio of newly opened accounts to credit inquiries within the past six months as reported to one of the large credit reporting agencies with a national scope.¹¹ While this is an imperfect measure of credit card approvals, it provides directional evidence that opening a new credit account has become more difficult for borrowers across the risk spectrum.¹² Changes in success rates from their December 2019 peak until May decrease monotonically along the Risk Score distribution, with higher Risk Score bands experiencing the greatest declines. The success rate for consumers with a Risk Score above 720

¹¹ The data plotted in Figure 4 are derived using data from the FRBNY Consumer Credit Panel/Equifax (CCP). This is an anonymized, nationally representative panel data set based on a five percent sample of all individuals with a Social Security number and a credit file with Equifax. We have plotted average success rates plotted for consumers in five mutually exclusive ranges of the Equifax Risk Score, a proprietary credit score developed by the company. As with other credit scores, lower values are associated with more credit risk and vice versa.

¹² This ratio plots the number of recently opened accounts (including mortgages and auto loans) divided by the number of recent credit applications for any type of loan. Because of limitations in the data currently available to us, we cannot construct a measure that is specific to credit cards.

fell by 13.6 percent, while the success rate for consumers with a Risk Score of less than or equal to 580 fell by 9 percent, to 39 percent.¹³

Figure 4. Success Rate of Credit Applications by Equifax Risk Score Band*



Source: FRBNY Consumer Credit Panel/Equifax (CCP). Data are reported at a quarterly frequency through 2019 and monthly beginning in March 2020.

* This figure was revised on August 3, 2020 to correct a coding error that affected the levels of the acceptance rates plotted. After the revision, the relative performance of prime customers is also somewhat stronger. The overall conclusion, though, that obtaining new credit has become harder since the beginning of the pandemic, is unchanged.

¹³ The monotonicity of the relationship between changes in the Equifax Risk Score and approval rates may be the result of an underlying relationship between credit risk and *adverse selection* — the tendency for higher risk consumers to be more responsive to credit offers. If, during an economic downturn, lenders expect the proportion of adversely selected applicants to increase disproportionately in Risk Score, the degree of credit tightening needed to mitigate selection would also be increasing in Risk Score.

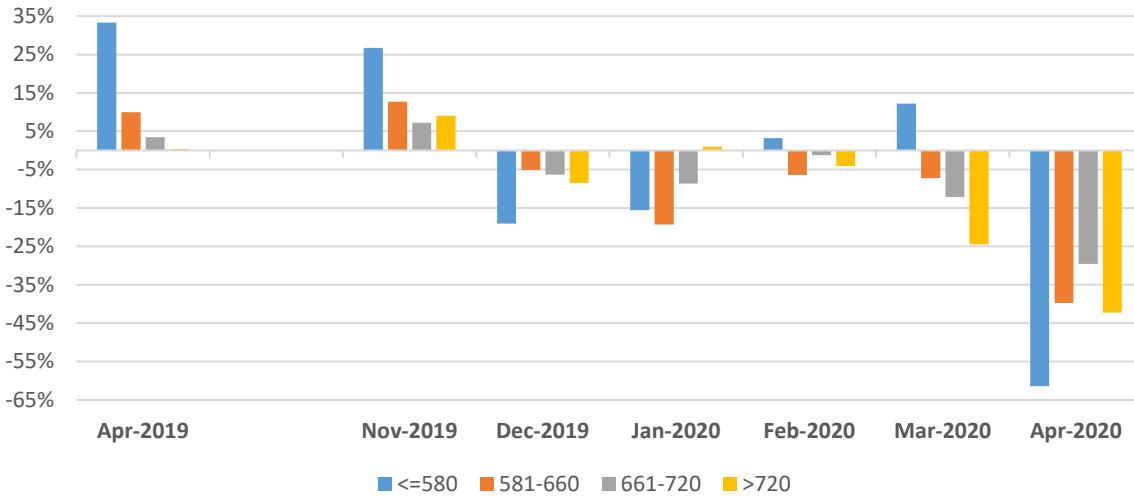
These findings are consistent with results from the latest Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS).¹⁴ The April SLOOS asked respondents about changes in credit standards and terms that occurred during the first quarter of 2020.¹⁵ Nearly all the changes occurred at large lenders that chose to raise minimum credit scores, change credit limit policies, and otherwise tighten underwriting criteria. The survey also found that spreads between the prime rate and the consumer’s annual percentage rate (APR) remained largely unchanged, as did minimum payment requirements.

The combined effect of reductions in credit card offers and digital marketing spend, as well as tightened credit standards, help explain the sharp drop-off in new accounts seen in **Figure 5**. New account originations fell across the risk spectrum in April. The contraction was most pronounced in the highest risk band (risk score of less than or equal to 580), where the dollar value of new account originations fell by more than 61 percent. Even the lowest risk score band (score greater than 720) saw a 42 percent reduction in new originations. The downward shift does not appear to be a seasonal phenomenon; credit card originations *increased* in April 2019.

¹⁴ Board of Governors of the Federal Reserve System, “[The April 2020 Senior Loan Officer Opinion Survey on Bank Lending Practices](#)” (May 4, 2020).

¹⁵ In written comments to SLOOS, banks noted that changes in lending standards and consumer demand were unchanged until late March.

Figure 5. Monthly Percentage Change in Credit Card Originations

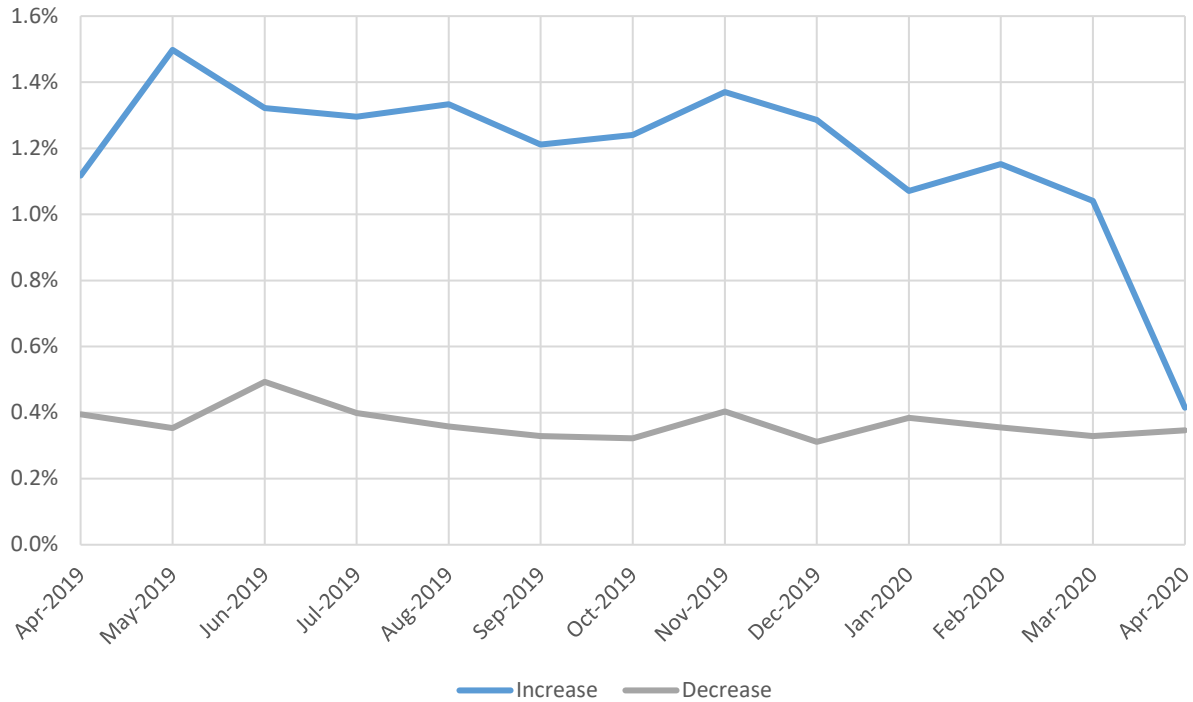


Source: Board of Governors of the Federal Reserve System’s Capital Assessments and Stress Testing report (FR Y-14M). Percentage change in the dollar value of new credit by risk score ranges calculated using the credit score reported by the bank. Those are not Equifax Risk Scores. The figure plots data through April 2020.

Existing Accounts

As credit card lenders curtailed their efforts to acquire new customers, they also began to reduce the number of customers receiving credit limit increases, while refraining from additional decreases. In April, the percentage of accounts that received a credit limit increase fell sharply, from 1.04 percent in March to 0.41 percent (**Figure 6**), on par with the 0.35 percent of accounts that received a credit limit decrease. Thus, very little activity is occurring in the credit limit space.

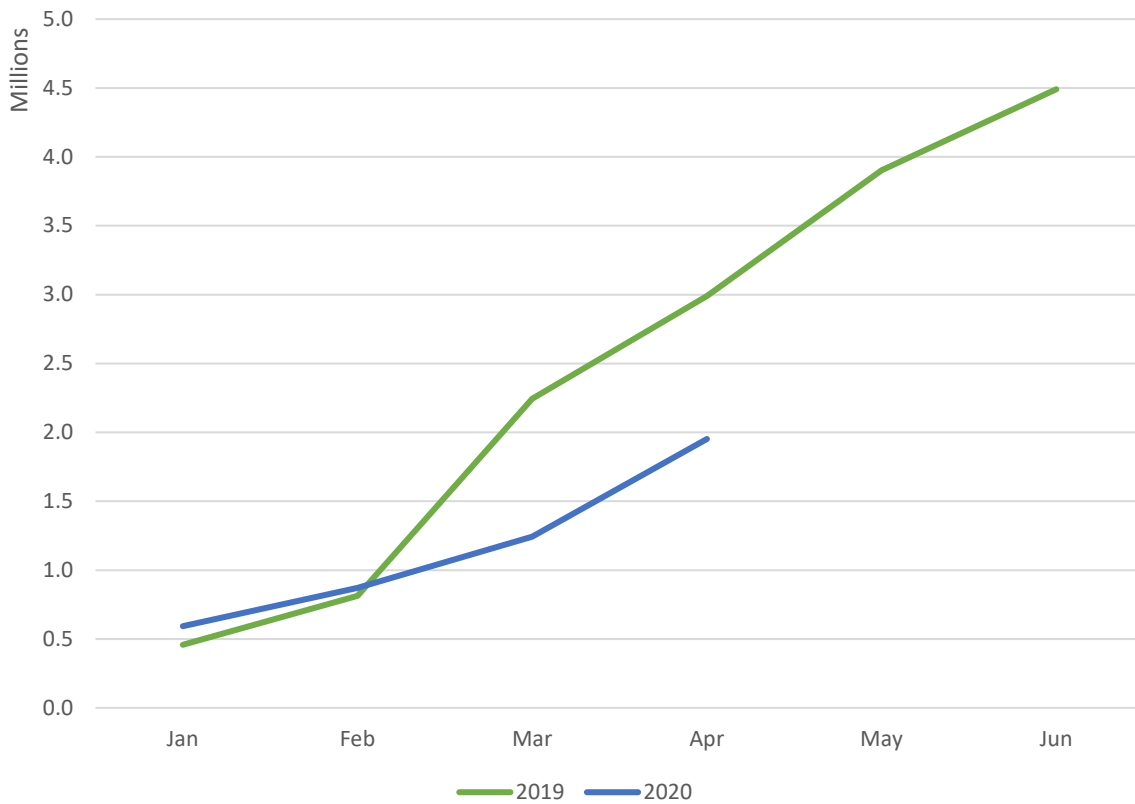
Figure 6. Percentage of Credit Card Accounts with a Change of Credit Limit



Source: FR Y-14M. The figure plots data through April 2020.

Credit limit decreases are just one type of action a lender can take to hedge against losses in its book of accounts. Other common so-called adverse actions include closing inactive and high-risk accounts and raising APRs and/or late fees. Our direct mail data suggest that, to date, lenders have been hesitant to implement such measures in light of current conditions. For the first two months of 2020, adverse action notices mailed to credit card customers were slightly greater than a year ago, but they have been significantly lower since then. **Figure 7** plots the cumulative direct mail volume of account notifications related to account closures, line decreases, and APR increases. By February 2020, lenders had mailed 870,000 notifications, 56,000 more than in 2019. But by April, lenders had only mailed 1.9 million notifications, compared with almost 3 million in 2019.

Figure 7. Adverse Action Letters Mailed to Card Holders



Source: Comperemedia Consumer Direct Mail and author’s calculations for the first six months of each year.
Note: Includes direct email correspondence to panelists.

Conclusion

For credit card companies and other lenders, the pandemic has created a variety of risks and challenges. Almost overnight, online account management has been transformed from a convenience into a necessity.¹⁶ Similarly, the need to purchase goods online has accelerated the adoption of digital payment technologies.¹⁷ Credit risk managers have had to walk a tightrope trying to mitigate credit losses while being sensitive to the plight of customers living through very difficult times.

¹⁶ Penny Crossman, “[Digital Banking Is Surging During the Pandemic. Will It Last?](#)” *American Banker* (April 27, 2020).

¹⁷ “[Payments Shifts with COVID-19](#),” Oliver Wyman (April 2020). The article notes that, “Instead of the slow march to digital, we are seeing five years of change condensed into a couple months.”

As the COVID-19 crisis evolves, lenders continue to respond with a mix of caution and consolation, reducing the availability of credit to new customers while offering protections to existing ones. As of the writing of this report, we do not observe lenders closing accounts, reducing credit lines, or increasing pricing. We do, however, observe the following:

1. April direct mail volume is down 33 percent from a year ago;
2. Marketing spend on digital acquisition campaigns is down 58 percent from pre-pandemic levels;
3. Application success rates are down across the board, 13.6 percent lower for consumers with a Risk Score of 760 or greater since December;
4. The dollar value of new credit card lines is down across the board, 61 percent lower for consumers with a risk score below 580, and 42 percent lower for those with a score above 720; and
5. Credit limit increases are down from about 1 percent of accounts in March to just 0.4 percent of accounts in April.

Looking ahead, lenders cannot continue to defer payments and hold back risk management measures indefinitely. Indeed, with the possibility of large-scale credit losses looming, there are signs that the goodwill is beginning to taper off.¹⁸ The [Consumer Finance Institute](#) at the [Philadelphia Federal Reserve](#) studies credit and payment markets to understand how they affect consumers and the economy. We will continue to monitor developments in the credit card market as events unfold.

¹⁸ Jennifer Surane, "[Credit Cards Start Offering Lower Limits Amid U.S. Outbreak](#)," CNN.com (April 23, 2020); Kevin Wack, "[Credit Card Lenders Clamp Down to Mitigate Coronavirus Risk](#)," *American Banker* (May 29, 2020).