

# Credit Card Vital Signs: Measuring Portfolio Performance

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WHEN YOU REVIEW your credit card portfolio's performance, look beyond simply measuring accounts and balances. Many other metrics provide insight into portfolio performance, its role in your credit union, and its value to your members.

Here are key performance indicators that are critical to measuring credit card portfolio performance and identifying growth opportunities.

**1. Accounts and balances.** Credit card account activity and balances are the primary indicators of a card portfolio's strength (Figure I). Total account levels may stabilize as market share goals are achieved, but account activity and balance growth should continue over time in a well-managed portfolio.

A decline in active accounts or balances is a

warning sign that existing products no longer may be competitive or aren't being promoted effectively.

Credit unions face intense competition from other card issuers. The challenge in growing a card portfolio is to manage the flow of accounts and balances into and out of the portfolio such that balances increase over time, while maintaining desired portfolio performance.

► **Consider:** If balances or active accounts are declining, is it due to a change in cardholder behavior or attrition to competition? It's important to know the cause to take appropriate action.

**2. Loan mix.** Loan mix provides insight into the relative importance of various loan products to your credit union. Most credit unions are growing their overall loan portfolios primarily through secured

auto and real estate lending. Unsecured credit card portfolios are typically a small and declining percentage of earning assets.

► **Consider:** What is your current loan mix, including credit card loans? How is this changing over time? How are your credit risk, marketing, and other staff resources allocated relative to the mix?

**3. Average balance per credit card account.** The average balance per account can reveal how your members value your card product. A low average balance may indicate uncompetitive interest rates, low credit limits, membership credit risk profiles, or limited marketing efforts.

A high average balance per account generally indicates members value your card product relative to the other card products they may carry. The goal is to be "top of wallet," the

product they choose every time they make a credit card purchase. Once you attain this positioning, however, it requires constant effort to maintain.

This key performance indicator directly affects revenue because interest income remains the primary source of card revenue. The credit union movement has lower average account balances than the overall card industry and, on an inflation-adjusted basis, these have been constant over time.

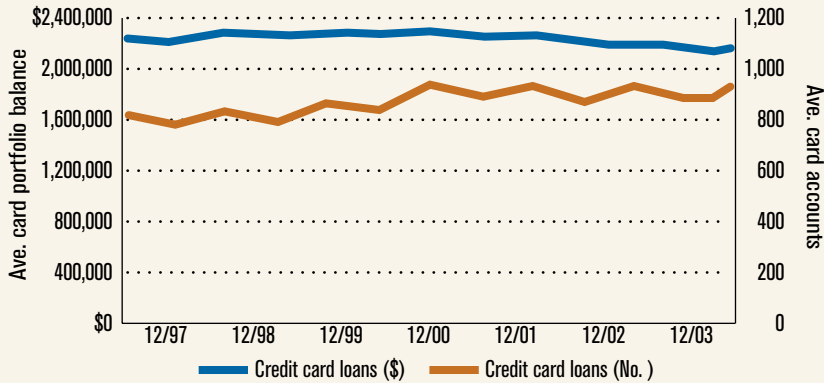
► **Consider:** If balances per account are low, what steps can you take to increase them? Are these cost-effective?

**4. Credit line use.** To what degree are members using their credit lines? Usage is typically in the 25% to 35% range for credit union portfolios and has been gradually declining.

A low usage rate could indicate members' credit needs are being met with alternative card products, or cardholders have more credit available than their current needs warrant. An effective way to generate balance growth is to stimulate use among low-use accounts, such as with balance-transfer offers.

A high usage rate may result in the cardholder seeking additional credit elsewhere. Credit line in-

**Figure I**  
**Average CU Credit Card Portfolio Balances and Accounts**



Sources: National Credit Union Administration (NCUA) and AssetExchange

creases to credit-qualified, highly used accounts can stimulate balance growth. Credit line increases, however, also can increase your risk, particularly if delinquencies or charge-offs are trending upward.

► **Consider:** What is your average usage rate and how has it been changing? How often do you adjust credit limits to meet

member needs and affect credit line usage rates?

**5. and 6. Delinquencies and charge-off rates.**

Delinquencies are key indicators of future charge-offs, which, of course, affect portfolio financial performance. While still low compared with the card industry average, credit union charge-off rates gradually have been increasing, now surpassing 2% (Figure II).

Charge-offs can be caused by both poor initial underwriting of new accounts and ineffective delinquent account collection efforts. Both must be managed. While conservative underwriting ensures lower charge-offs, it also yields lower po-

tential card use and revenue. Some issuers effectively assume greater risk for greater growth and profitability by pricing their card products to account for that risk.

► **Consider:** How are your delinquency roll rates and charge-off rates changing over time? Is this a planned change to achieve a strategic objective or an unforeseen occurrence affecting financial performance?

**7. Membership penetration.** How many members carry your card? This indicator highlights member acceptance of the credit card products you offer. A high penetration rate indicates the card is in many members' wallet, which also might imply portfolio growth must come from existing account balance growth rather than from new accounts. Low penetration could be the result of noncompetitive products or weak marketing.

Don't consider the member-penetration rate alone, but rather together with activation and use of the cards issued. Member acceptance is a start, but the challenge is providing products that are truly useful to members, as reflected in the activation rates and card use.

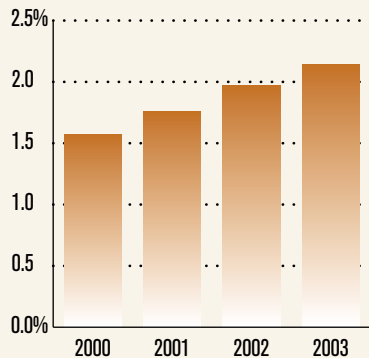
The credit union movement has shown a moderate decline in penetration during the past six years. Member penetration rates, however, vary dramatically among credit union issuers, and larger credit unions tend to have higher penetration rates.

► **Consider:** Is your member penetration rate increasing or decreasing? How does this correspond with active rates, usage, and average balance behavior? Taken together, do they reflect a strong and competitive product offering to members?

Understanding your portfolio's performance on each of these key performance indicators gives you insight into the role your portfolio plays in your credit union, how members value your credit card products, and opportunities for growth. ©

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**Figure II**  
**Annual CU Credit Card Charge-off %**



Sources: NCUA and AssetExchange