**Credit card underwriting and issuance in the US banking system**

Credit card underwriting and issuance in the US banking system involves several key processes and considerations to ensure the creditworthiness of applicants and the overall risk management of the credit card portfolio.

**Underwriting Criteria**

**Assessment of Creditworthiness:** The underwriting process evaluates an applicant's willingness and ability to repay the loan, including their credit history and performance on past and current obligations. It also considers income sources, such as self-employment earnings and investment income.

**Scorecard Data:** Automated scoring systems are commonly used to assess creditworthiness, with a cutoff score based on the desired loss rate.

**Judgmental Underwriting:** In some cases, a manual review using the bank’s underwriting policy and established guidelines is conducted, especially for high-risk or complex applications.

**Risk Management:** Underwriting standards are designed to avoid undue risks and ensure that the credit card portfolio maintains an acceptable risk level. This includes setting credit limits and monitoring credit lines to prevent excessive borrowing.

**Issuance and Management**

**Credit Card Types:** Banks offer various types of credit cards, each with different terms and conditions, such as Annual Percentage Rates (APR), monthly minimum payment formulas, and fees. These terms are detailed in the cardholder agreement.

**Transaction Function:** The transaction function allows users to purchase goods without using cash, with the main source of revenue being interchange fees paid by the merchant's bank to the cardholder's bank.

**Credit Function:** The credit function allows users to borrow by carrying balances on their credit cards, resulting in interest income as the main source of revenue. Usage fees, such as late fees, also contribute to profitability.

**Risk Management Controls:** Banks implement various controls to ensure the quality of new accounts, including establishing well-understood controls and credit guidelines, performing routine quality control reviews, and maintaining access to information regarding the applicant's income or assets.

**Regulatory Environment**

**Legal and Regulatory Environment:** The legal and regulatory environment for credit cards is shaped by court rulings and consumer protection laws. For example, the U.S. Supreme Court ruled that the lender's location determines the applicable state usury ceiling, leading to the establishment of national operations in states with more favorable usury ceilings.

**Regulatory Guidance:** Regulatory bodies, such as the Federal Reserve and the FDIC, guide underwriting criteria and risk management practices to ensure that credit cards are issued and managed safely and soundly.

**Credit Card Ownership by Demographic**

|  |  |
| --- | --- |
| **Demographic** | **Percentage with Credit Card** |
| **Income Level** |  |
| **$100,000 or more** | 98% |
| **$50,000 - $99,999** | 94% |
| **$25,000 - $49,999** | 83% |
| **Less than $25,000** | 57% |
| **Race/Ethnicity** |  |
| **Asian** | 92% |
| **White** | 87% |
| **Hispanic** | 73% |
| **Black** | 71% |
| **Age** |  |
| **60+ years** | 92% |
| **45-59 years** | 86% |
| **30-44 years** | 79% |
| **18-29 years** | 67% |
| **Disability Status** |  |
| **No disability** | 85% |
| **With disability** | 69% |

**Credit Card Balances and Delinquency**

|  |  |
| --- | --- |
| Metric | Percentage/Rate |
| Credit card holders carrying a balance | 48% |
| Credit card delinquency rate at commercial banks (Q3 2022) | 2.08% |
| Overall loan delinquency rate at commercial banks (Q1 2024) | 2.68% |

**Conclusion**

Credit card underwriting and issuance in the US banking system are complex processes that involve a combination of automated and manual evaluations to assess creditworthiness and manage risk. The regulatory environment and industry practices ensure that these processes are conducted in a manner that balances the needs of borrowers and the financial stability of the issuing banks.