Canadian Credit Cards and Personal Lines of Credit

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Insight beyond the rating.

October 30, 2008,

Toronto

Agenda

1. Credit Cards
   - Analysts
   - Analytical Approach
   - Highlights
   - Performance (Canada vs. USA)

2. Personal Lines of Credit
   - Highlights
   - Analytical Approach
   - Performance

Analysts

Canada

- Kevin Chiang- Vice President, Canadian SF
- Jerry Marriott- Managing Director, Canadian RMBS/ABS
- Debbie Caruso – Vice President, Legal (dedicated in-house structured finance counsel)

USA

- Chris O'Connell, Senior Vice President, US ABS
- David Hartung, Senior Vice President, US ABS
- Richard Bianchi, Vice President, US ABS

Rating Approach

- Same analytical approach for Canada and USA
- Cash flow based model incorporating deal specific features/triggers
- Adjusted for market differences
- CDN methodology – updated Oct 28, 2008
- US methodology – updated Oct 19, 2008
- Credit decision made by respective rating committees

Highlights – Canadian Credit Cards

- Unsecured line of credit
- Receivables outstanding: over $70B
- Securitization volume: $27B
- Active cards* 27MM (64MM in circulation)
- 2003- 07*: balance/active cards grew 5% p.a. (vs. GDP 2-2.5% p.a.)
- Dominated by large domestic banks
  - CIBC ($14.4B, VISA)
  - RBC ($12.4B, VISA)
  - BMO ($6.7B, MasterCard)
- Top 3 issuers have 50% of the market

Source: Canadian Bankers Association

Highlights – US Credit Cards

- Revolving credit: USD$ 950B
- Top 3 issuers ($150-180B each)
  - Citibank, JP Morgan Chase (excl. WaMu), Bank of America
- 50% market

Meaning of Rating

- Rating addresses the likelihood of timely payment of interest and principal on or prior to the legal maturity date, not the expected/scheduled maturity date
- Legal final maturity is 18-36 months after the expected maturity
  - i.e. The rating of 3-year note addresses the timely repayment in 6 years
- Failure to pay on expected maturity is not a default. It triggers an amortization event (monthly amortization)

Credit Enhancement Analysis

- Key Factors
  - Gross Yield (& interchange)
  - Payment Rate
  - Loss Rate
  - Excess Spread (calculated)

- Other Factors
  - Coupon Rate (fixed/floating)
  - Cash Trapping
  - Seller’s interest
  - Delinquency
  - Purchase Rate (utilization rate)

Stressed Scenarios

- Rapid deterioration of asset performance over 12 months
  - cash trapping is triggered before amortization
- Insolvency of the card issuer: interchange is not available

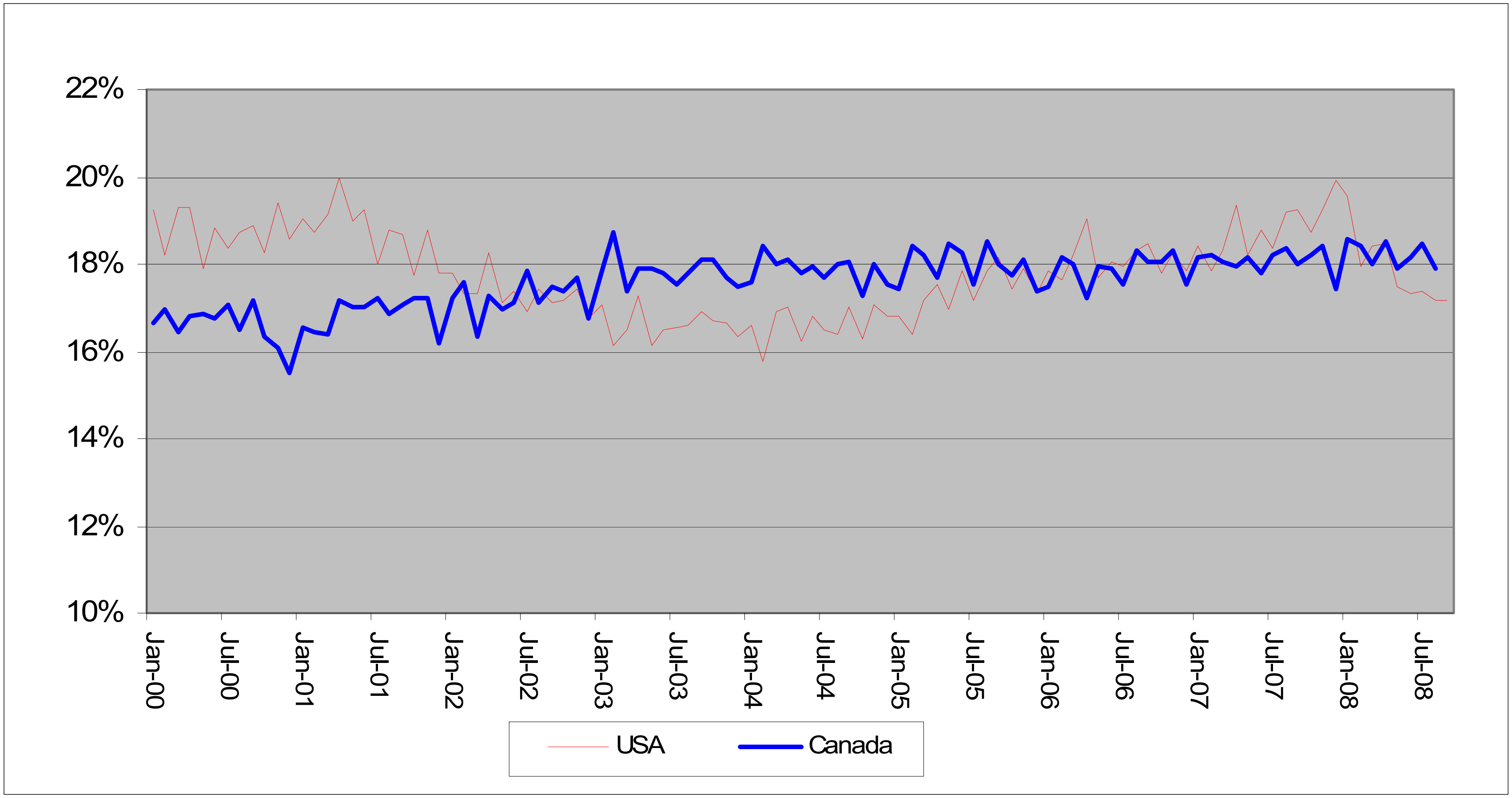
Base of Comparisons

- Based on performance of securitizing issuers (Jan 00 – Aug/Sep 08)
- Updated from DBRS commentary dated June 16, 2008

Canada
- Most large issuers
- Not in securitization: BNS, Amex, Desjardins and most private labels
- Predominantly prime borrowers

USA
- Prime bank cards only (excluding business, sub-prime and private label)
- Citibank, Bank of America (& MBNA), JP Morgan Chase (& Banc One), Amex, Capital One, HSBC, Discover

Credit Card Performance – Gross Yield



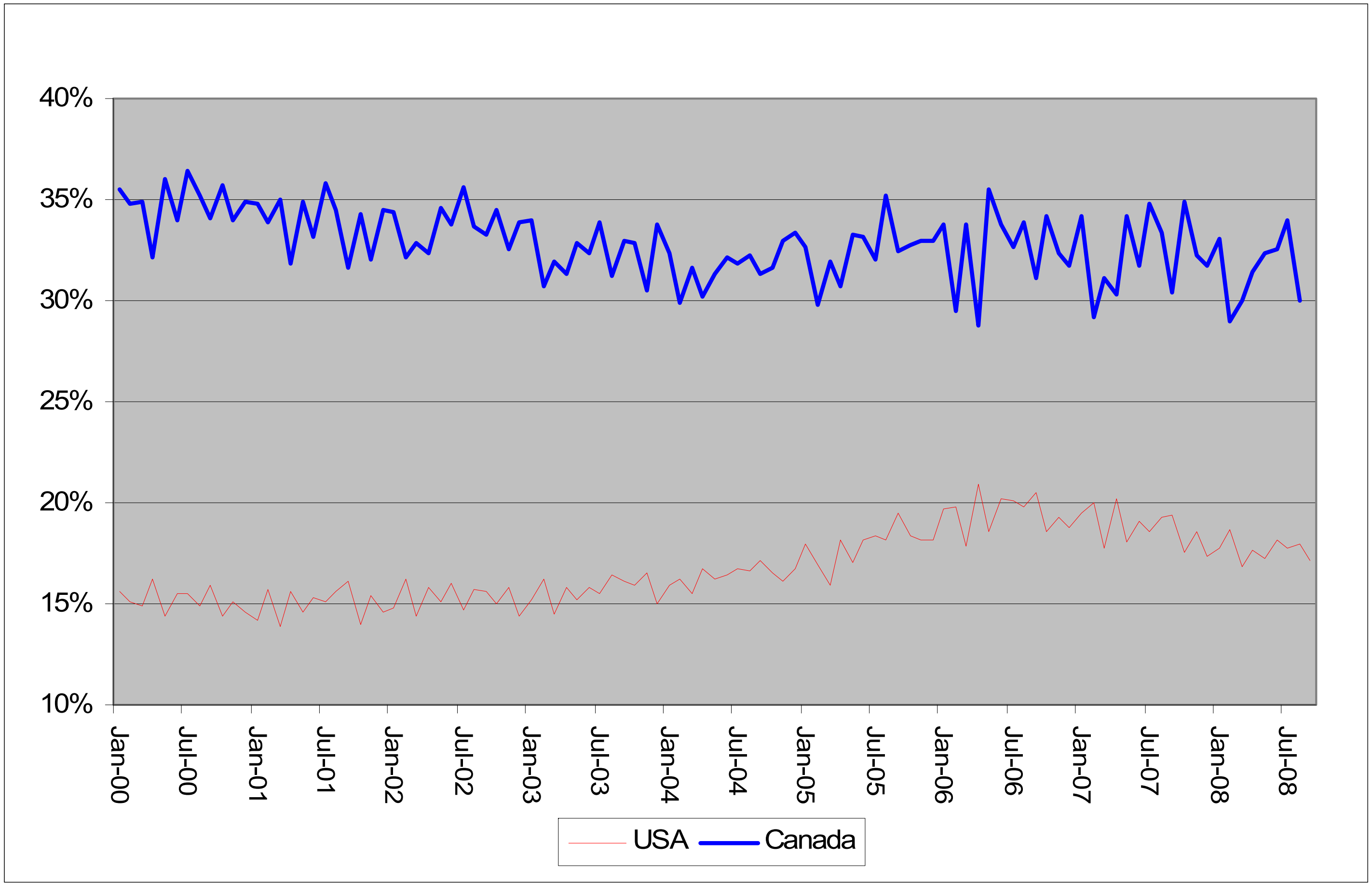
Observations

- All issuers (except Golden CC Trust) report stable gross yield in the range of 18-20%
- Golden CC Trust excludes interchange and reports 13-14%
- US yield is similar but has shown more variability

AAA Stress – Gross Yield

- 30-45% decline over 12 months
- Interchange fee
  - A transaction fee deducted by the customer’s bank from the amount paid to the merchant’s bank
  - Zero or low benefit in AAA scenario as no or low purchase rate (new transactions) is assumed

Credit Card Performance – Payment Rate



Observations

- 3 sub-groups of performance
  - 40% - Large Schedule I banks & PC Bank
  - 25% - Canadian Tire Bank, National Bank
  - 15% - US issuers (Citi, MBNA, Capital One) & Sears
- Best US performer: 25% (Amex)

AAA Stress – Payment Rate

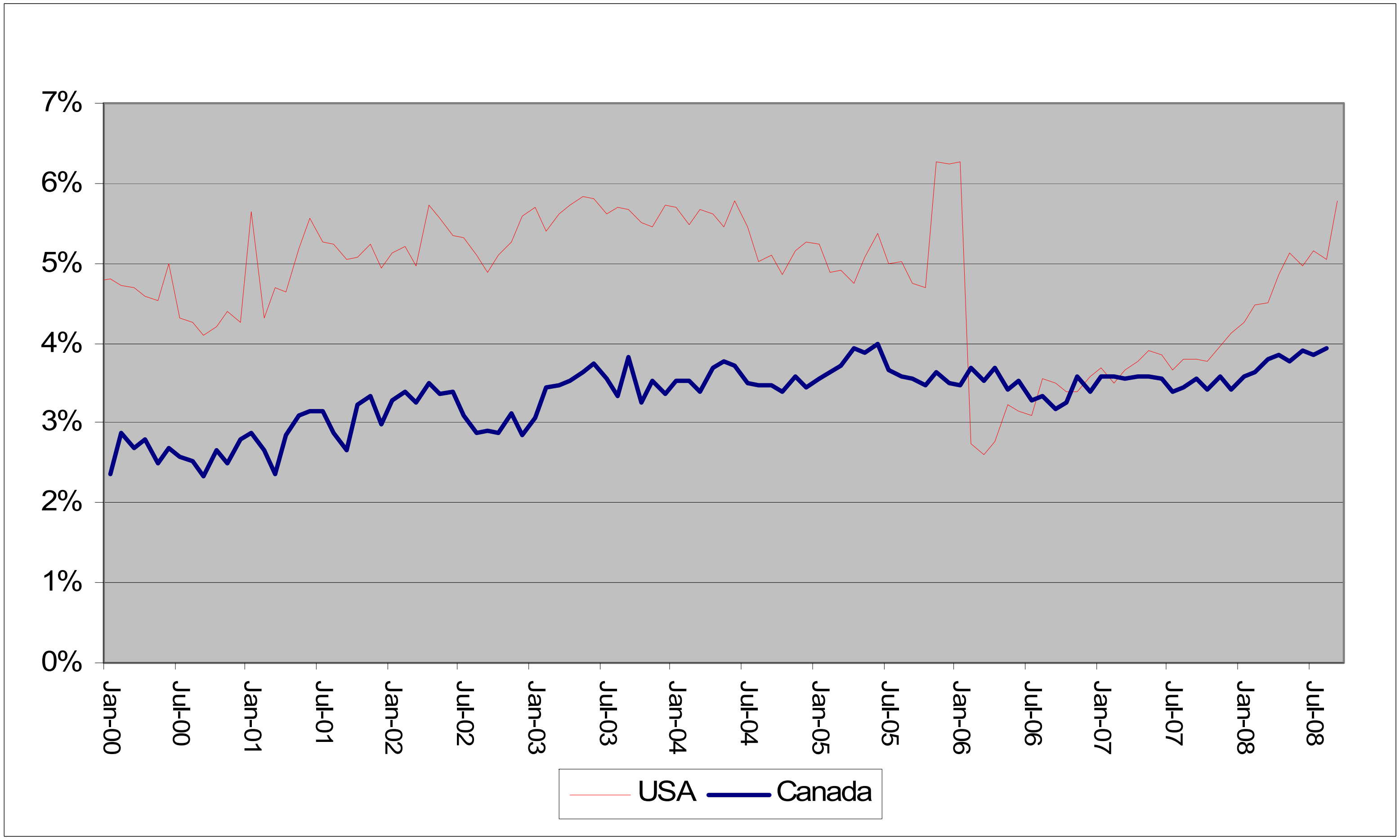
- 35-50% decline over 12 months
- If payment rates drop precipitously a few months prior to the expected maturity
  - 6% is sufficient for a legal final of additional 18 months
  - 3% is sufficient for a legal final of additional 36 months
  - 3% payment rate is at or very close to the current minimum required payment.

Notes Maturity Consideration

- Accumulation period increases the probability of full repayment on expected maturity. 12 months is generally sufficient with a monthly payment rate of 10%. Faster accumulation if payment rate is higher
- Structurally, re-allocation of collections received from non-maturing notes to maturing notes is permitted
- Example:
  - Gloucester 2003-2, $500 MM matured on Oct 15, 2008
  - Average monthly principal collection for the Trust is

  $5.3B * 12% * 82%= $521 MM

Credit Card Performance – Loss Rate



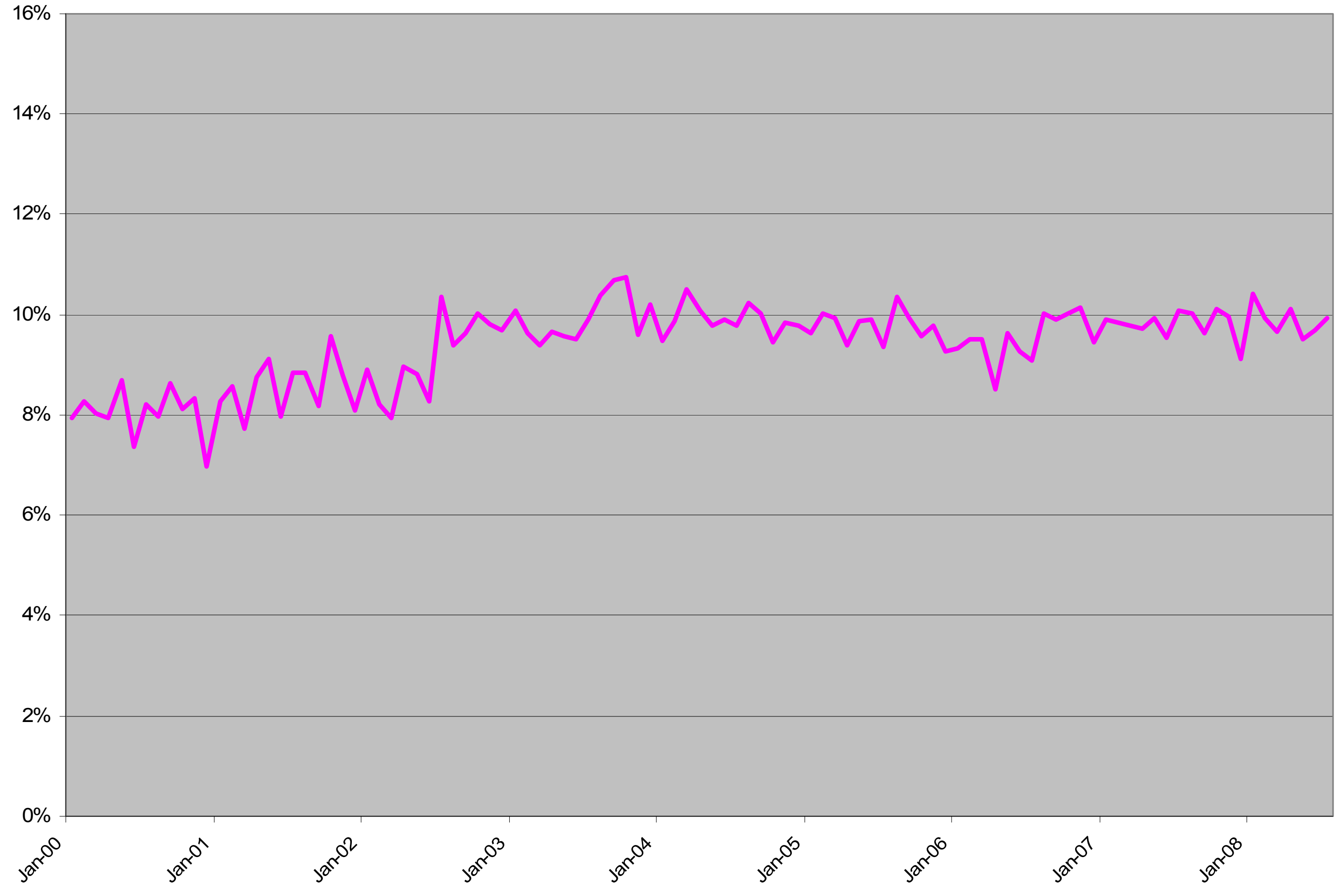
Observations

- 2-3%: BMO, RBC
- 3-5%: most issuers
- 5-7%: Citi, Canadian Tire
- Best US Performer: 4.5% (Chase)

AAA Stress – Loss Rate

- 4-5 x increase over 12 months
- All factors (yield, payment rate, loss rate) stressed concurrently around month 6 - 8, not independently

Credit Card Performance – Excess Spread



Observations

- Stable around 10%
- Increase in mid-02 due to the inclusion of Moneris yield by Master CC Trust

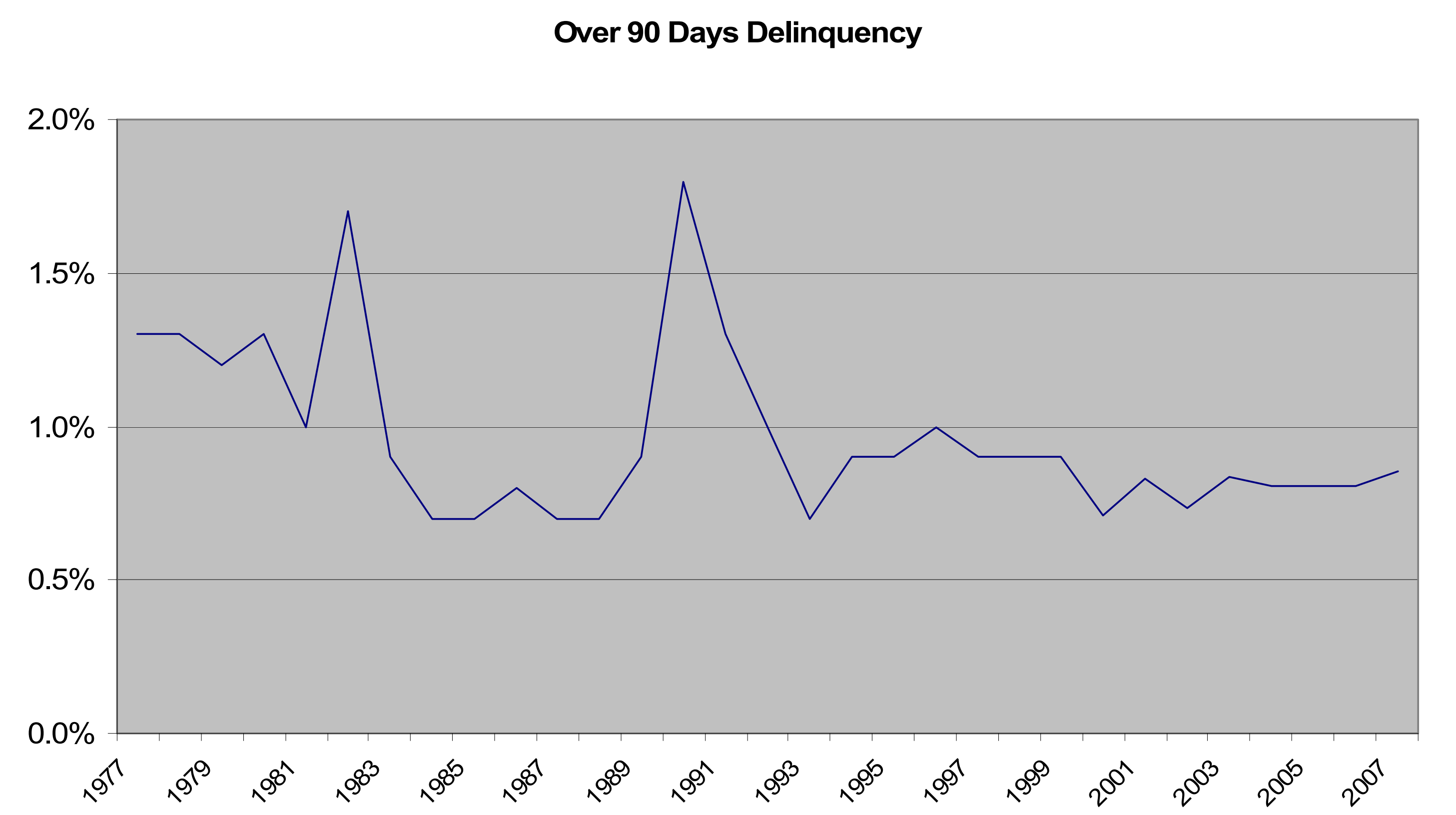
Other Factors

- Coupon Rate (fixed/floating)
  - Floating rate notes subject to interest rate increase and excess spread compression (but the card APR is assumed to re-price with 2-month lag)
  - Hence higher enhancement than fixed rate notes required
- Cash Trapping
  - Begins when excess spread below 4 - 6.5%
- Seller's Interest
  - Minimum requirement: 5% - 8% above Trust Interest (normally much higher)
  - Primarily for dilution
  - Aligns the Seller with noteholders as co-owners in an undivided asset pool

Other Factors (continued)

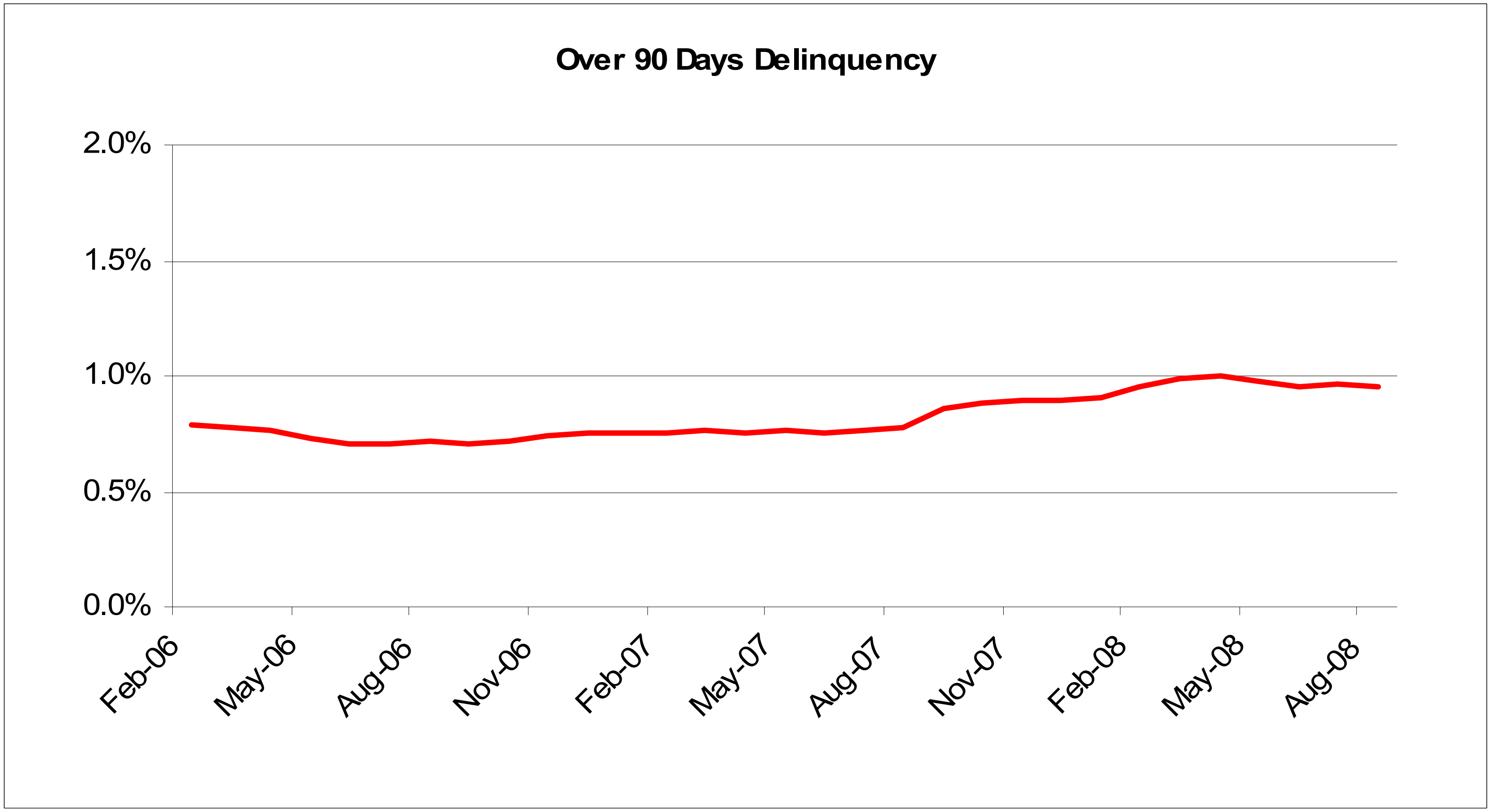
- Delinquency – early warning of loss rate (see charts below)
- Purchase Rate (in amortization)
  - Nil (retail card, weak card issuer, small portfolio)
  - Up to 2% per month (for large general use portfolio or strong issuer)

Delinquency (1977-2007)



source: Canadian Bankers Association

Delinquency (Aug 07- Aug 08)



Empirical Examples of Insolvency

USA*: NextCard, First Consumers

- Experience shows deterioration of loss (up to 11-20%) and payment rates (down to 3%) but yield remains stable. Zero purchase rate. Consistent with DBRS stress. All AAA notes were or are expected to be repaid without losses

Canada: T. Eaton Co.

- Retailer filed for insolvency, but not T. Eaton Acceptance (card issuer). Performance initially deteriorated but stabilized. All notes paid out without losses

Source: BMO Capital Markets

Q & A

- Questions?

Highlights – Personal Lines of Credit

- Predominantly secured (i.e. HELOC)
- Payable on demand with indefinite terms, similar to credit cards
- Positioned as a mortgage alternative by major domestic banks
- Difficult to estimate market size, reported as personal loans or mortgages
- 1st or 2nd lien to prime credit borrowers up to 80% combined LTV
- Appraisal at origination
- Usually priced at prime rate or above
  - better profitability than straight floating rate mortgages

HELOC in the USA

- Initially, a financial tool for prime credit, sophisticated borrowers, similar to Canada
- Morphed into a 2nd lien piggyback loan with combined LTV over 80%, for tax deductibility of mortgage interest in lieu of mortgage insurance (until recently)
- No property appraisal at origination
- Initial revolving IO period for drawing, followed by amortizing payments
- Same name but a vastly different product from Canada

Analysis

- Methodology scheduled to be released by the end of year
- Analytical approach
  - Similar to credit cards, cash flow based
  - Historical Yield
  - Historical Payment rate
  - Loss (Default and Recovery)
  - Some HELOC products structured as interest-only loans with defined terms for maturity (US style). Use RMBS model instead

HELOC Performance

- Only public data is Genesis Trust. Hollis Trust is blended (2/3 HELOC and 1/3 unsecured)
- 1 basis point annualized loss on average
- Monthly payment rate 5-7%. Hence legal final is 7 years after the expected maturity
- 30+ delinquency < 1%
- Lower delinquency than standard mortgages or credit cards is expected, as the minimum payment could be interest only without principal repayment

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