

Structured Finance Newsletter

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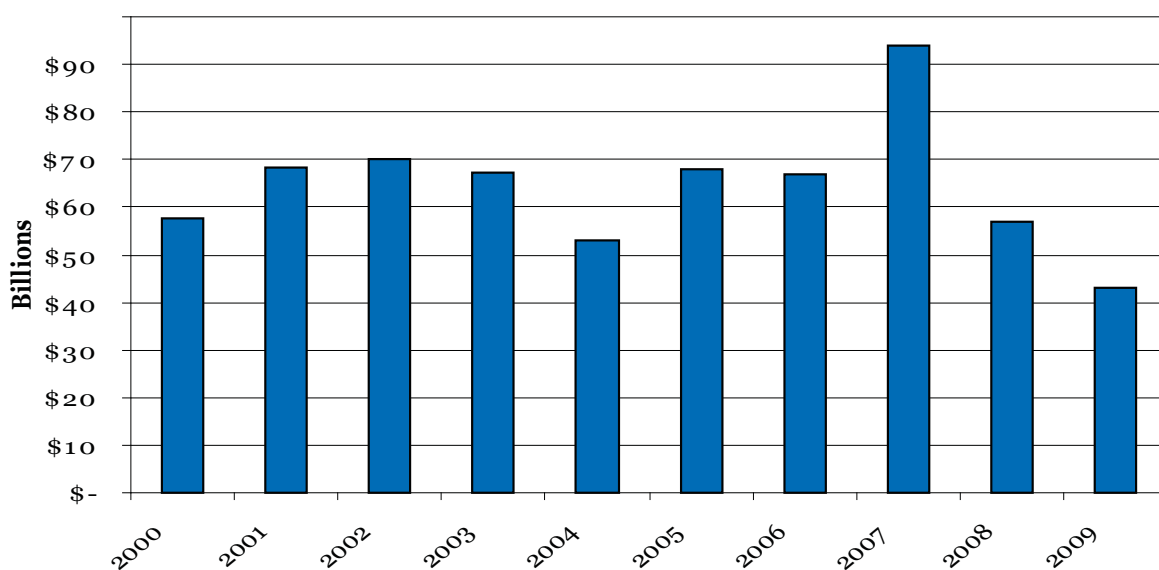
CREDIT CARD ABS

In 2010, similar to 2009, new issue volume in credit card ABS will likely be limited by the stress being felt by both consumers and credit card issuers. The demand for credit from consumers should continue to be muted by potentially sustained levels of unemployment and continued general de-leveraging of households. For lenders, increased capital requirements, limited access to funding and weak portfolio performance will weigh heavily on their willingness and ability to extend credit and grow their businesses.

The *Credit Card Accountability Responsibility and Disclosure Act of 2009* (the CARD Act) was signed into law in May 2009 and will go into effect in February 2010. The CARD Act affects banks' fees, interest rates, the timing of changes, and certain collection practices. A Federal Reserve survey of banks reported that bank's expect to tighten the terms of credit, raise interest rates and reduce credit limits for prime and nonprime borrowers as a result. These rule changes could also make it more difficult for retailers to offer instant store credit, thus constraining sales and receivables growth.

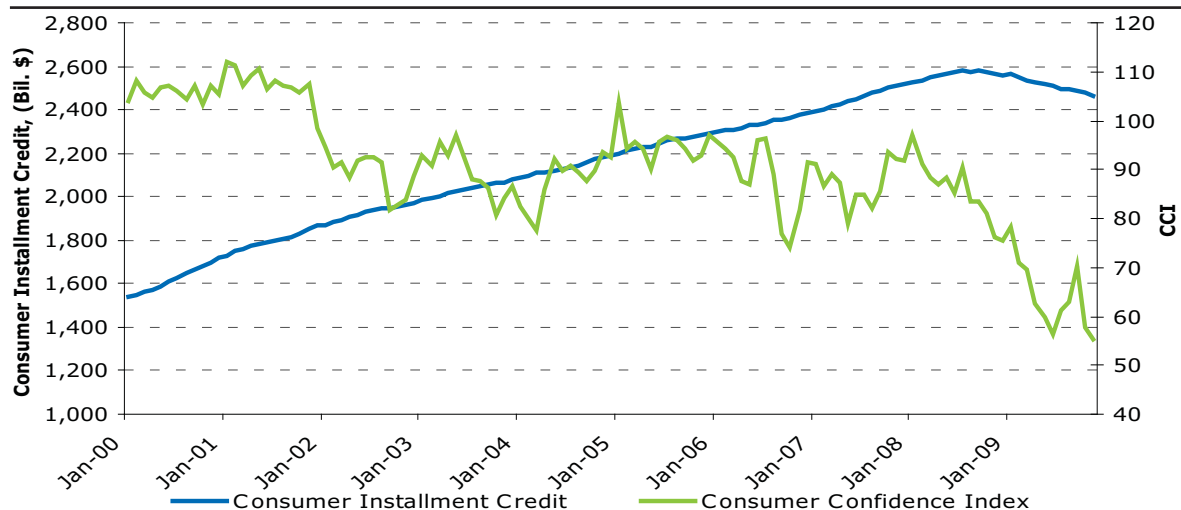
With Financial Accounting Standards 166 and 167 in effect, most banks will have to consolidate their credit card ABS master trusts on balance sheet and lose their off-balance-sheet capital relief. For many issuers, the cost advantage of securitization could be lost, and funding these assets may be done more efficiently through deposits or other bank liabilities. However, securitization may remain attractive to certain lenders as a diversified funding source.

ABS Credit Card Issuance History



Revolving credit, primarily credit and charge cards, peaked in the third quarter of 2008 and has fallen by \$128 billion through December 2009. Consumers are reducing debt and spending, and we expect this trend to limit demand for credit until employment levels and income begin to grow.

Consumer Installment Credit: Total Outstanding & Consumer Confidence Index



Sources: FOR - Federal Reserve Board (G.19), CCI - University of Michigan: Consumer Sentiment

In 2009, a major disruption occurred in the credit card ABS sector related to the issuer, Advanta Bank Corp. (Advanta). The recession and credit market dislocation drove the Advanta Business Card Master Trust (ABCMT) into early amortization. The uniqueness of the Advanta platform, however, is important to note. Advanta was a monoline bank and focused squarely on small business credit card lending with no risk-based pricing. Historically, similar monoline programs have run into difficulty in the past during troughs in the economic cycle. A few examples include:

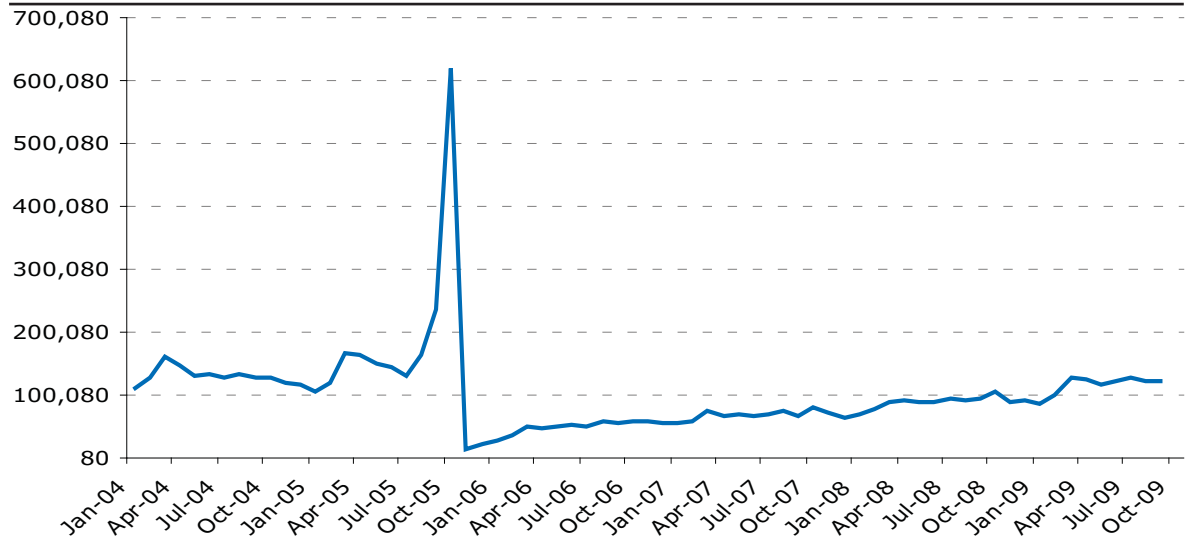
Year	Master Trust
2001	NextCard Credit Card Master Trust
2001	Providian Master Note Trust
2002	Fingerhut Financial Services Master Trust
2002	Spiegel Credit Card Master Note Trust
2004	Metris Master Trust
2009	Advanta Business Card Master Trust

In the ABCMT case, the economic downturn adversely affected the small business obligors in this trust, and charge-off rates accelerated. Without additional business lines to offset the issues associated with the trust problems, Advanta had no other revenue sources to rely on and opted to cut off usage of the cards in June 2009, as the trust entered early amortization. The ABCMT ABS is paying off slowly due to a drop in monthly payment rates, though portfolio yield has been sustained at pre-amortization levels.

The Advanta situation is unique, but not isolated (weaker credit performance in the form of lower portfolio yield, higher charge-off rates, less excess spread and slower monthly payment rates have all contributed to rating concerns across the credit card ABS sector). In response, many large issuers who have the capacity have added credit enhancement to their trusts or taken other actions to support their ABS deals as protection against negative ratings actions.

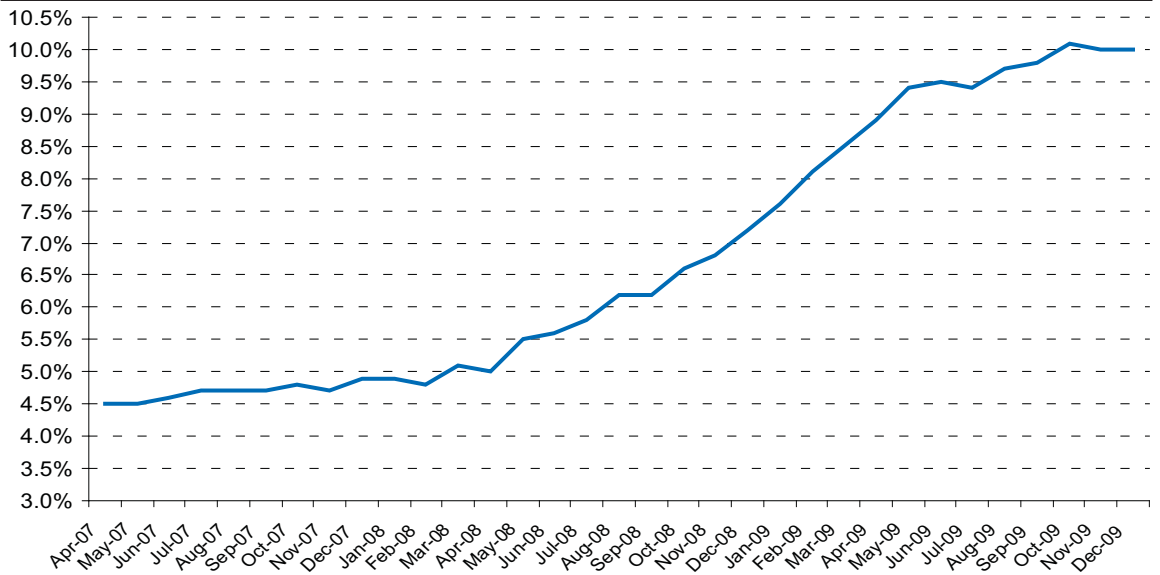
Consumer bankruptcy filings appear to have peaked during the past six to nine months; however, the potential for another increase in 2010 exists as the full effect of the CARD Act permeates the system. In response to the increased restrictions and higher demands put on card issuing banks, most have responded proactively by raising the interest rates they charge customers in order to offset the expected decline in yield caused by the CARD Act provisions. For many card issuers, this increase has been roughly 400bps. As more consumers begin to experience the impact of this additional debt burden over the coming months, when combined with what will most likely be higher taxes, the environment is ripe for additional bankruptcy filings.

Personal Bankruptcy Filings



Source: Administrative Office of U.S. District Courts

U.S. Unemployment Rate



Source: U.S. Department of Labor

For questions or comments, please contact Chris O'Connell at coconnell@dbrs.com.

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