

Structured Finance Newsletter

Volume 6, Issue 19, May 24, 2010



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CREDIT CARD PERFORMANCE UPDATE

With delinquencies on mortgages reaching record levels in the first quarter of 2010 and unemployment hovering near 10%, one might expect that credit card receivables would be performing similarly. Credit cards, since they are not typically secured by liens on property or vehicles, have historically represented one of the first forms of consumer borrowing to be affected by adverse economic conditions and, upon which, distressed borrowers are likely to default. Delinquency and default behavior, however, are only two of the metrics affected by economic conditions. Due to the variable options open to borrowers with respect to credit card repayment, the repayment rate of a portfolio is also strongly influenced by both perceived and actual borrower stress.

In this newsletter, DBRS examines recent credit card performance trends with respect to their relationship to certain signs of distressed economic conditions and provides our general expectations regarding future performance. In order to facilitate our analysis, DBRS has assembled the following two pools of credit card receivables: the Bank Pool - comprised of 6 bank credit card pools and the Retail Pool - comprised of 5 retail credit card pools. The performance of these bellwether pools provides insight into the overall performance trends observed in the credit card sector and, to a certain extent, serve as indicators of both consumers' financial condition as well as their confidence in the state of the economy.

Performance Trends

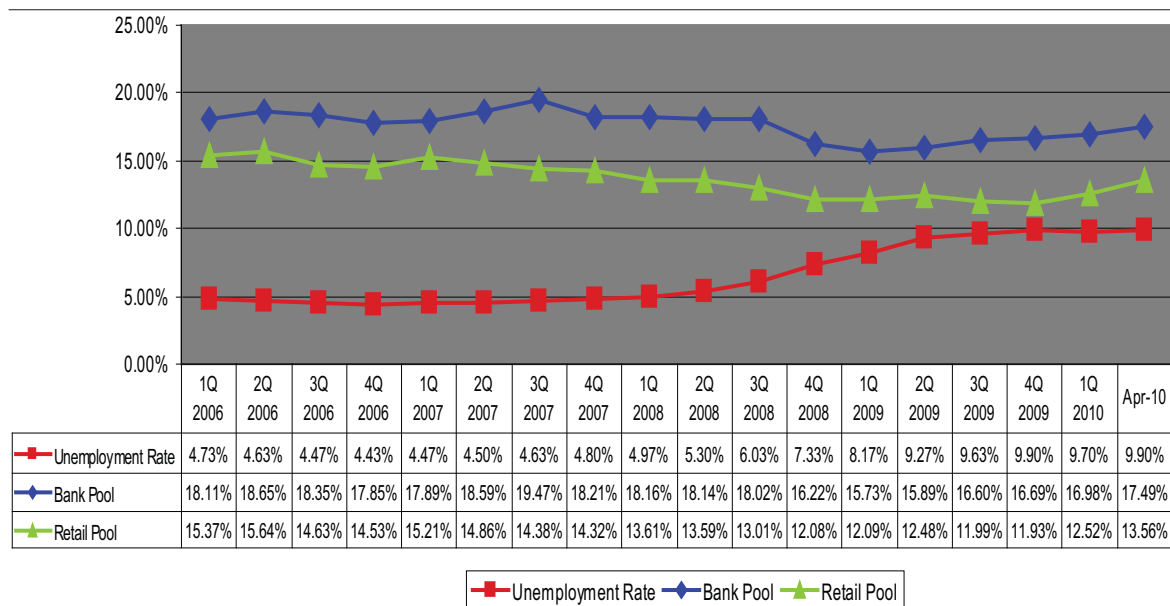
Performance trends on the two pools are exhibiting generally positive trends, although the direction of certain metrics is more positive than for others.

Repayment Rates

Average payment rates for both pools have shown improvement in recent months. The average principal payment rate for the Bank Pool exhibited steady to improving trends prior to the third quarter of 2008 but began to decline and reached low points in the first and second quarters of 2009. The average principal payment rate of the Retail Pool began a slow decline, earlier than the Bank Pool, and bottomed out in the fourth quarter of 2009. Neither Pool's rate has fully recovered to their respective 2006 levels, but both have shown improvement over the past quarter. While both pools showed a significant increase in April 2010, it should be noted that it is only one month's performance, and may be affected by seasonal influences such as income tax refunds.

The graphs and tables below illustrate the trends in both default rates and delinquency rates as compared to the overall U.S. unemployment rate.

Average Principal Payment & National Unemployment Rates (by Quarter)



Data Sources: Intex, U.S. Bureau of Labor Statistics

As can be seen above, principal payment rates and unemployment rates (used here to represent general economic conditions) tend to be negatively correlated. As consumers experience or sense increasing economic stress, they are less likely to fully repay their credit card balances, choosing instead to manage their cash outlays in an effort to conserve resources. As signs of economic stabilization emerge, one would anticipate payment rates to continue to improve or

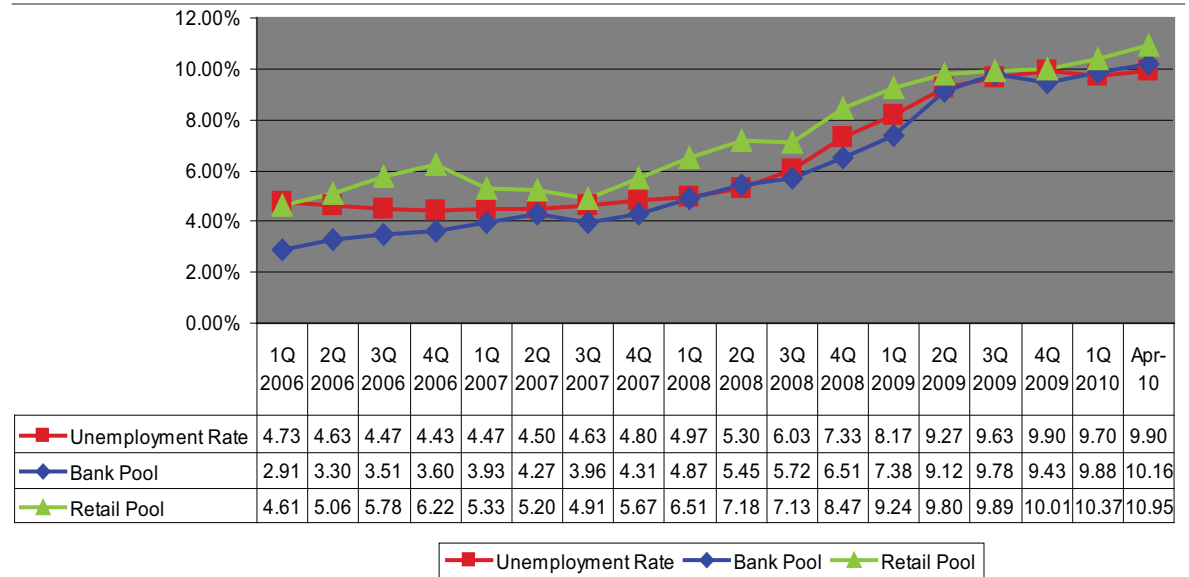
remain stable.

Default and Delinquency Rates

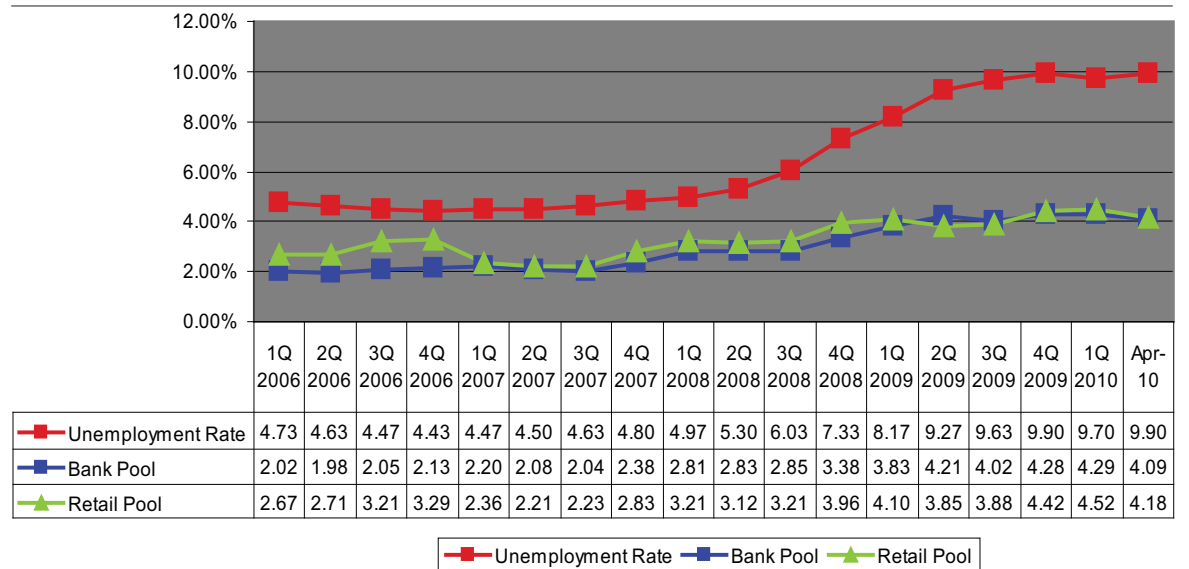
While the rate of increase in defaults for both pools appears to be slowing over the past two quarters, indicating a trend toward stabilization, the actual default rates remain significantly higher than those experienced in 2006 and the beginning of 2007. Also noteworthy is the increase in default activity in April 2010, which also coincided with a slight increase in the unemployment rate. Whether this is an aberration or the beginning of a new trend remains to be seen. However, delinquency trends appear to be stabilizing (as discussed below) implying that April's performance may not be the beginning of a sustained new trend.

The graphs and tables below illustrate the trends in both default rates and delinquency rates as compared to the overall U.S. unemployment rate.

Average Default & National Unemployment Rates (by Quarter)



Average 60+ Delinquencies (by Quarter)



Data Sources for Default and Delinquency Charts: Intex, U.S. Bureau of Labor Statistics

Not surprisingly, the unemployment rate and metrics for non- and sub-performing assets are positively correlated. As consumers experience economic distress, they become more likely to default on their obligations. As discussed earlier, credit cards, because of their unsecured nature, typically rank below mortgages and car payments in a distressed consumer's payment priorities.

Delinquency rates (as measured by levels of loans 60+ days delinquent) tend to be early indicators of rising default rates. So it is no surprise that the rates rose during the recent period of economic stress as did the default rate and, like default rates, are at levels that are significantly greater than their 2006 levels. However, delinquency rates have shown a stabilizing trend over the past two quarters, in addition to declining in April 2010.

With current economic forecasts predicting unemployment rates to remain above 9%, but not surge above 10%, our

expectation is that delinquency rates on outstanding credit card portfolios will stabilize, but not improve significantly from their current levels. Also, our observations support the same view for default rates. However, with respect to payment rates, our expectation is for continued improvement as consumers' perceptions of a steadier economic environment will serve to buoy their confidence in paying down outstanding balances.

For questions or comments contact Jayce Fox at jfox@dbrs.com.

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