

U.S. Structured Finance Newsletter

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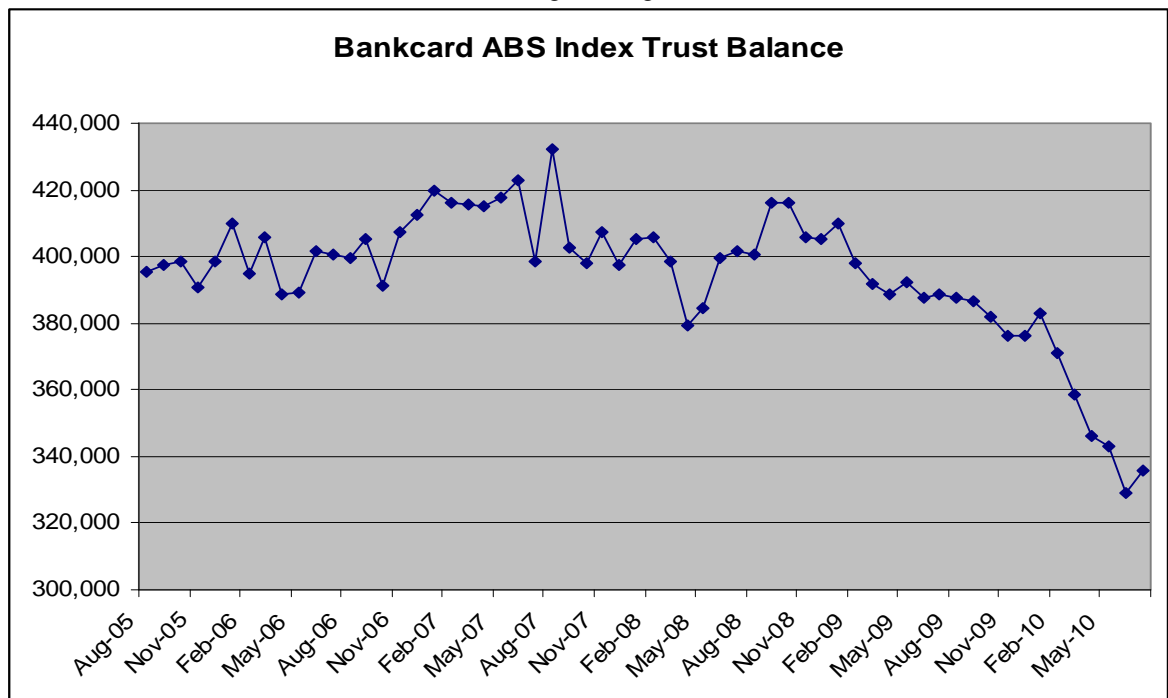
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THE IMPACT OF THE SLOWDOWN IN SUPPLY AND DEMAND FOR CONSUMER CREDIT ON CREDIT CARD ABS TRUST STRUCTURES

Over the past few years the balance of receivables in credit card ABS trust structures has declined due to the slowdown in both the supply of consumer credit as issuers have tightened underwriting standards, and demand as consumers have worked at managing their debt levels. As a result of this decline in the balance of receivables in these credit card trust structures, these pools have become more seasoned overall as the underlying receivables in the pools have aged. The graph below illustrates this trend as the trust balance of Bankcard ABS receivables has declined from the high in August 2007.



Source: J.P. Morgan Credit Card ABS Monthly, July 2010

When we discuss seasoning, many times it relates to closed end pools of receivables such as auto loans or leases or equipment loans. Seasoning in credit card master trust structures is not usually quantified to the same extent due to the dynamic nature of a credit card master trust. Since these master trusts are dynamic pools, issuers can add new receivables or remove existing receivables. Recently, issuers have an even greater ability to manage receivables since bringing their master trusts back onto their balance sheets. As a result, they no longer need to worry about the implications associated with losing sale treatment of the assets.

Credit card issuers have multiple channels to originate credit cards through (e.g. pre-screened mailers, take-ones etc.). The type of channel has an impact of the expected loss timing of the receivables. Loss curves for credit card mailing campaigns typically peak at 24-30 months after the credit card is extended. In comparison, the loss curves for "balance transfer offers" peak much quicker while "pre-screened mailers" peak later than that for overall credit cards.

Many of the public master trusts are seasoned for four or more years and the aggregate receivable balance in the trusts has either not grown like it did or has declined as indicated in the graph above. While the receivables in the trust are more seasoned, performance has not necessarily improved as charge-offs have increased due to an increase in bankruptcy filings and unemployment rates. Bankruptcy filings in the United States rose 20% during the 12-month period ending June 30, 2010, according to statistics recently released by the Administrative Office of the U.S. Courts. This increase in filings is much more pronounced on a regional basis in certain areas as well. Filings for the three-month period ended June 30, 2010, totaled 422,061, reaching the highest of any quarter in fiscal year 2010 and the highest for any April-June quarter since the 2005 third quarter filings. In addition, the high level of unemployment during this recession has had a

tremendous impact on performance, even for those master trusts that have high seasoning. The correlation between unemployment and credit card master trust charge-offs is very high. This is particularly true today as the average consumer can no longer access their home equity credit lines or savings accounts to supplement their monthly obligations as they once had.

The decline in the receivables balance can also cause a “denominator affect” in the calculation of charge-off ratio in a master trust as the amount in dollars of charge-offs appears greater when divided by a smaller receivables balance in the denominator.

DBRS will continue to monitor the performance of the credit card industry going forward and the impact of continued higher levels of bankruptcies and unemployment on this industry in addition to individual trusts that we rate. In addition, we will continue to monitor the seasoning of the receivables in these trusts and the extent to which seasoning impacts the relative loss levels in these credit card ABS trusts.

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