



Methodology

Rating U.S. Credit Card Securitizations

OCTOBER 2008

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Insight beyond the rating.

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Related Research:

Legal Criteria for U.S. Structured Finance Transactions
Operational Risk Assessment for U.S. ABS Servicers

DBRS is a full-service credit rating agency established in 1976. Privately owned and operated without affiliation to any financial institution, DBRS is respected for its independent, third-party evaluations of corporate and government issues, spanning North America, Europe and Asia. DBRS's extensive coverage of securitizations and structured finance transactions solidifies our standing as a leading provider of comprehensive, in-depth credit analysis.

All DBRS ratings and research are available in hard-copy format and electronically on Bloomberg and at DBRS.com, our lead delivery tool for organized, Web-based, up-to-the-minute information. We remain committed to continuously refining our expertise in the analysis of credit quality and are dedicated to maintaining objective and credible opinions within the global financial marketplace.

This methodology replaces and supersedes all related prior methodologies. This methodology may be replaced or amended from time to time and, therefore, DBRS recommends that readers consult www.dbrs.com for the latest version of its methodologies.



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Introduction

DBRS applies a qualitative and quantitative approach to rating debt backed by credit card receivables. In addition, the approach includes an assessment of the quality of the sponsor, which DBRS believes directly affects the likelihood that investors will be repaid according to the terms under which they invested. DBRS posits that sponsors maintain an abiding interest in sustaining the credit quality of the receivables backing the rated debt as these entities expend considerable resources to actively manage their credit card accounts and corresponding receivables to promote consistent and robust levels of excess spread. This active management includes reviewing and modifying credit limits, raising and lowering a credit card's interest rate and performing collection activities to minimize charge-offs. On the front-end origination process, these entities devote significant resources to originate receivables amid intense competition. Additionally, sponsors' interests are aligned with investors, as sponsors hold various investments in the credit card receivables through the seller's interest, retained subordinated tranches and the receivables that are not contributed to a trust but remain on the entity's balance sheet.

The key analytical considerations evaluated by DBRS include the following:

- Quality of originations and underwriting.
- Quality of servicing capabilities (as outlined in Operational Risk Assessment for ABS servicers dated June 2011).
- Performance of a sponsor's credit card receivables.
- Capital structure, proposed ratings and credit enhancement.
- Cash flow scenario analysis.
- Legal structure and opinions.

Based on our analysis of the aforementioned analytical considerations, DBRS tests the viability of each transaction's proposed capital structure and credit enhancement levels at each proposed rating level through the use of our proprietary credit card securitization model. Scenarios are executed for each class of debt, with each higher-priority class subjected to successively more severe assumptions. The bases of the model include collateral inputs consisting of yield, payment rate and loss rates; proposed capital structure; priority of payments; trust expenses; and interest rate and basis risk curves.

From a financial structure perspective, credit card securitizations incorporate the concept of an early amortization event, which when triggered, accelerates the end of the revolving period and the onset of the amortization period. Early amortization may be triggered due to the insolvency of the sponsor and other sponsor-related issues, in addition to declining performance of the credit card receivables. From a modeling perspective, DBRS assumes a transaction enters an early amortization period due to a breach of the base rate trigger, which signals a decline in the performance of the collateral. For all rating levels, DBRS assumes the trigger to be breached.

Depending on the variables in the cash flow stress scenarios, a breach typically occurs between months six and ten in the cash flows for the AAA scenario and between months ten and 18 for the subordinate debt stress scenarios. For certain highly rated sponsors, with sizable and well-managed businesses in the origination and servicing of credit card receivables, DBRS believes that the likelihood of an early amortization trigger being breached is reduced. As a result, DBRS models the breach of the base rate trigger at a later date in the cash flow stress scenarios used to evaluate the subordinate classes of notes.

Each rating assigned by DBRS represents an opinion regarding the likelihood of repayment according to the terms of each securitization structure. For credit card receivables transactions, these terms typically include timely payment of interest and ultimate payment of principal by the legal final maturity date. However, credit card asset-backed securities (ABS) investors often evaluate their investment decisions with respect to an expected payment date, to which DBRS does not rate. DBRS typically assigns provisional ratings prior to the transaction's closing date, signifying our opinion prior to a review of the final details of a proposed transaction.



Once a transaction closes, DBRS assigns a final rating and begins the monitoring process to ensure that DBRS ratings are as prospective as possible and reflect all relevant information sourced and received by DBRS. The maintenance of each rating is predicated upon the timely receipt of performance information and data from the sponsor. The performance information and data for each outstanding transaction is reviewed by DBRS analysts to identify variations between actual and DBRS-expected performance for each transaction. DBRS also monitors changes in market and macroeconomic conditions and the concomitant effects on consumers, credit card industry dynamics and other exogenous events that may impact the credit quality of outstanding ratings. DBRS provides monthly surveillance information for all public ratings on its website at www.dbrs.com/PAR.

Overview of Credit Card Industry

The credit card industry has been shaped by many forces, including regulations¹ promulgated by the Federal Financial Institutions Examination Council (FFIEC), Office of the Comptroller of the Currency, Federal Reserve Board, Federal Deposit Insurance Corporation and other regulatory bodies, in addition to the enactment of the *Bankruptcy Abuse and Prevention Act of 2005*. Credit cards are unsecured open-ended revolving debt obligations used to finance the purchase of goods and services as well as for cash advances. A credit card represents a contractual agreement between the credit card holder and a financial institution. The agreement addresses the terms and conditions to which the cardholder and card issuer must adhere.

A credit card typically provides a cardholder with a maximum amount that may be borrowed and stipulates an interest rate to be applied to balances that are not paid in full each month. The interest rate on credit cards may be either fixed or floating, based on the U.S. prime rate. Outstanding cardholder balances increase as charges are made and decrease through cardholder principal payments. Finance charges include interest that accrues on unpaid revolving principal balances as well as other charges such as late payment fees or over-limit charges. Finance charges may also include interchange,² which represents fees received by card issuers from entities such as MasterCard Worldwide and Visa Inc. to compensate the card issuers for assuming interim cardholder credit risk and fraud. Interchange fees are not paid by cardholders; generally, they are remitted to the sponsors and contributed to some credit card trusts in order to supplement the yield in the trust.

Cardholders that pay their entire principal balance in full each month are often referred to as “convenience users.” Other cardholders, referred to as “revolvers,” tend to make only partial or minimal monthly payments and, therefore, often carry an outstanding balance from month to month. A charge card program works like a credit card program except that the cardholder is not allowed to revolve a balance from month to month. That is, a charge card program requires all cardholders to be convenience users, not revolvers. Figure 1 on page 8 details the parties involved and payment flows during the processing of a credit card transaction.

Credit cards are offered by a variety of financial institutions, but primarily banks, while less common charge cards are offered by banks and finance companies. Among the variety of cards offered by card issuers, common programs include premium cards that provide incentives to use the card in the form of airline miles, rewards points or cash, but that also may carry higher annual fees or interest rates. Over the last several years, consolidation of credit card sponsors has resulted in the top three sponsors controlling more than 60% of the market. This trend has been driven by a desire to grow economies of scale and expand customer bases and has resulted in better-recognized sponsor franchises and broader receivables diversification.

Credit card receivables have been financed in the ABS market since the late 1980s. Competition among sponsors, changing consumer demographics and market saturation have resulted in continuous product

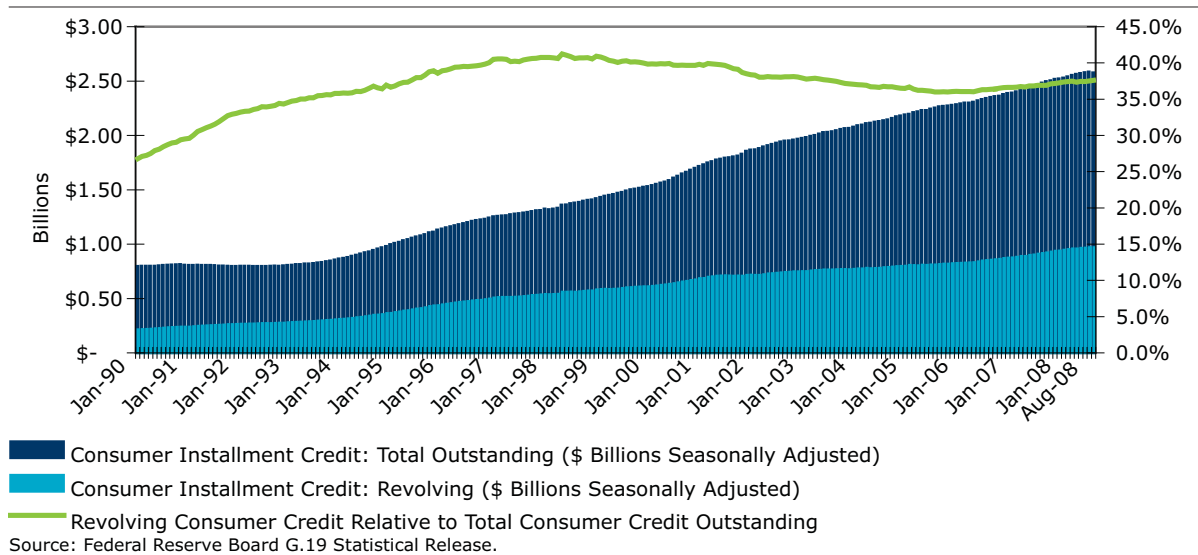
1. As the credit card industry is heavily regulated, DBRS monitors proposed and final changes to law and regulations. DBRS assesses the impact of the final changes on outstanding rated securities and accordingly updates our methodologies in a timely manner.

2. See page 7 for a discussion of interchange.



innovation, including the use of credit cards as a convenience tool versus solely as a means to finance purchases over time. As demonstrated in Chart 1 below, consumers' reliance on credit cards has grown significantly over the last ten years, with the proportion of revolving (credit card) debt versus total debt averaging approximately 38% over the period.

Chart 1: Consumer Credit Outstanding

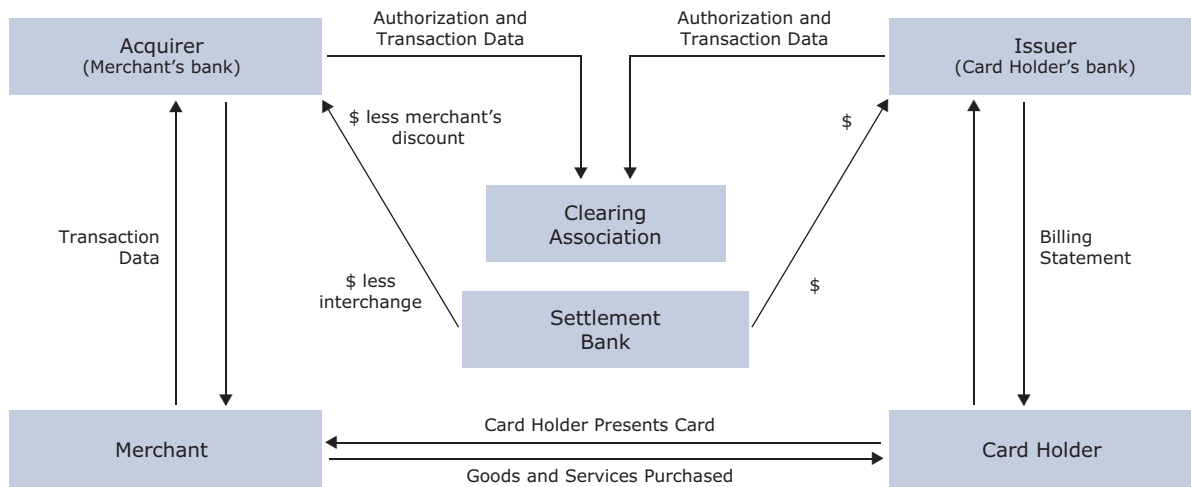


INTERCHANGE

Interchange fees are generated when credit card banks discount the amount that is remitted to the merchant for goods and services charged and serve to provide compensation to the issuing entity (the cardholder's bank) for interest costs, default risk and administrative expenses. The interchange fee is generally shared among the credit card bank, the merchant bank and, at times, the clearing house association. Currently, there are five main networks for clearing transactions: Visa International, MasterCard, American Express, Discover and Diners Club. From an economic perspective, the portion of the interchange fee that is shared with the credit card bank serves as compensation for assuming credit risk and for funding transactions prior to the point at which the bank can charge the borrower interest on balances. For the clearing house association, the interchange fee compensates them for processing and settling transactions.

According to Visa International, rates of interchange vary according to the type of card and its associated risk and can range from 1.0% to 3.5% of the transaction amount charged. For example, if an individual charges a \$100 item, the merchant will normally receive \$98, with the 2% interchange fee split among the card association (e.g., Visa), the merchant bank and the issuing card bank. Therefore, credit card originators derive additional sources of revenues from interchange fees.

Figure 1: Credit Card Transaction Processing



Sponsorship Quality and Originator Review Assessment

ORIGINATION AND UNDERWRITING

Credit card issuers or sponsors determine their appetite for risk when constructing their approach to originations and underwriting as different strategies yield correspondingly different pools of cardholders from a credit quality perspective. Many credit card sponsors employ behavioral scoring models and strategies, such as payment patterns, to target customers and thus credit risk. The common characteristics of credit card underwriting include standard credit bureau checks, which include a review of trade lines, presence of liens, judgments and other derogatories, and applicant information, including number of years at current residence, length of employment at recent positions and current personal debt levels. Sponsors who can successfully target creditworthy customers are better able to generate stable and high levels of portfolio yield with manageable levels of delinquencies and charge-offs and thus consistent levels of excess spread.

As part of the rating analysis, DBRS assesses the quality of the originations, underwriting criteria and processes, level and consistency of compliance and the quality and competency of the staff employed by a sponsor. DBRS views favorably the participation of the credit risk management, quality control, legal and compliance departments in all aspects of the origination and underwriting process in order to identify and mitigate attendant risks. Additionally, as sponsors add receivables to a master trust over time, DBRS analysis focuses on changes to criteria and processes to ensure credit enhancement levels remain sufficient at each rating level.

Securitization Trust Structures and Cash Flow Allocations

MASTER TRUSTS

Credit card securitizations typically employ a master trust structure, which provides a sponsor with the ability to issue multiple series out of the same trust, unlike a discrete trust, where there is a separate collateral pool backing each transaction. As credit card receivables have relatively short maturities – generally ranging from six to 12 months – master trust structures incorporate a revolving period, which facilitates the longer-term financing of shorter-term assets.



Most credit card trusts utilize a senior-subordinate financial structure, with the senior, Class A notes holding a higher priority to the subordinate, Class B and/or Class C notes. Accordingly, Class B notes also hold a higher priority to Class C notes, which may also be referred to as a collateral invested amount (CIA). When excess spread, defined as finance charge collections in excess of note coupon and trust expenses, is exhausted, charge-offs are often absorbed by reserve accounts and then allocated against note principal in reverse priority order, beginning with the most subordinate classes of notes.

Generally, all series issued by the master trust are cross-collateralized by the entire receivables pool held by the trust. In certain circumstances, both interest and principal received from the credit cards can be used to service debt from any series issued out of a master trust. In these trust structures, investors are exposed to a large, diverse portfolio that revolves over time, as opposed to a smaller, more homogenous pool found in the securitization of discrete collateral pools.

All series in the trust amortize based on an expected payment date, trust-level amortization events or series-level amortization events. A trust-level amortization event will affect all series, resulting in *pari passu* payment priority. An amortization event at a series level causes a premature amortization of the particular bonds in that series and results in the paydown of the senior-most securities first, followed by the repayment of the subordinate securities in rank order.

Master trusts are generally divided into investors' and seller's interests. The investors' interest is determined by the aggregate amount of trust notes outstanding divided by the trust receivables balances. The seller's interest is the residual amount, or the difference between the balance of the trust receivables and the notes. Generally, credit card securitizations require a minimum seller's interest, usually 4% to 7% of the trust note balance.³

The minimum seller's interest exists to absorb fluctuations in the trust receivables balance that may occur due to changes in cardholder account balances or reductions in the receivables balance that stem from factors other than defaults or payments, such as merchandise returns, rebate or rewards programs,⁴ non-complying receivables and fraud. The seller's interest also absorbs declines in receivables resulting from a breach of a representation or warranty by the seller. The seller's interest ranks *pari passu* with the investor interest in terms of monthly cash flow allocations and is typically not included in the calculation of credit enhancement in securitizations. Generally, when the seller's interest falls below the level required to satisfy the minimum seller's interest test, the sponsor must add receivables in an amount that restores the seller's interest to the minimum level. If the minimum seller's interest is not restored within a pre-set time frame, an early amortization event is normally triggered and the notes begin to amortize.

ISSUANCE TRUSTS

Historically, master trust structures issued senior classes and subordinate classes simultaneously (termed a vertical structure) in order to maintain desired levels of credit enhancement. Over the past several years, however, the master trust concept has evolved into the more common "de-linked" structure, which allows a sponsor to issue senior or subordinate notes at any time as long as certain issuance conditions are satisfied.

In an existing master trust, de-linked structures are often created from the issuance of a series referred to as a collateral certificate. The collateral certificate is deposited into a new issuance trust that then issues notes or subclasses of notes. The collateral certificate grows in size every time notes are issued. The issuing entity is often an issuance trust and either bears the name of the sponsor, or issues notes that use the name of the sponsor in order to identify the relationship between the sponsor and the debt.

Notes issued in de-linked structures have significant features that are different from master trusts that

3. The seller's interest is typically higher for private label transactions as merchandise returns are generally higher in retail portfolios.

4. Many sponsors elect to honor rebate or reward programs outside of the master trust cash flows in order to manage the size of the minimum seller's interest percentage.



still issue “vertical classes.” The first difference is a concept of shared credit enhancement. In a de-linked structure, there is a required level of subordinate notes relative to senior notes outstanding that must be maintained. The calculation of credit enhancement is also different as it is “grossed up” to account for the fact that support is a percentage of all senior and subordinate notes. Typically, credit enhancement for the lowest-rated class of notes is an unfunded dedicated reserve account. That account is dedicated since it is sized as a percentage of the entire note balance but is for the lowest-rated class.

The second difference between de-linked structures and master trusts is extension risk. Payments to subordinate notes that are maturing cannot take place unless new classes of subordinate notes are issued or unless the senior notes also amortize in order to ensure there is adequate support for the remaining senior notes. Consequently, there may be extension risk at the subordinate levels in de-linked structures. If the de-linked trust cannot issue replacement subordinate notes, the maturing subordinate notes are not paid until the senior notes are defeased with cash from principal collections.

TRUST CASH FLOW ALLOCATIONS

Cash flows that are collected in credit card securitizations are segregated into two components: principal collections and finance charges. As indicated in Table 1 below, allocations to each series depend on whether the series is in the revolving, accumulation or amortization period. This unique allocation mechanism is intended to provide investors certain events or time frames that are intended to transition collection methods from one period to the next and issuers with the flexibility to issue as much or little debt as desired.

Table 1: Method of Allocation

| | Investor Interest | | | Seller Interest | | |
|---------------------|--------------------------------|-------------------------------------|-----------------------|---------------------------|-------------------------------------|-----------------|
| | Finance Charges | Receivable Charge-Offs ¹ | Principal | Finance Charges | Receivable Charge-Offs ¹ | Principal |
| Revolving Period | Floating | Floating | Floating ² | 100% – Floating | 100% – Floating | 100% – Floating |
| Accumulation Period | Floating | Floating | Fixed | 100% – Floating | 100% – Floating | 100% – Fixed |
| Amortization Period | Floating or Fixed ⁴ | Floating | Fixed ³ | 100% – Floating/ Fixed | 100% – Floating | 100% – Fixed |

1. Technically, structures refer to receivable charge-offs as either investor defaults or investor charge-offs. The difference between investor defaults and investor charge-offs relates to how the charge-off will be handled. As long as there is excess spread, a receivable default will be covered with finance charge collections, or excess spread. If excess spread is insufficient to cover the default, it will be deemed an investor charge-off. At this point, the investor charge-off will cause a draw on enhancement or a writedown of the most subordinate class of notes (some trusts will re-allocate unencumbered principal collections to cover charge-offs).

2. Although series principal collections are not distributed, amounts allocable to the series are calculated.

3. For some transactions, finance charges may be allocated using the fixed allocation method if an early amortization event occurs (see the Fixed and Floating Allocation Methods section below for further details).

4. Some trusts issued “paired series.” With paired series, the allocation of principal may be “re-fixed” during the initial series amortization.

Credit card collections, which include finance charges and principal payments, are directed to the trust and are divided pro rata between the investors’ and seller’s interests. Subsequently, the collections are again divided among each series of debt issued from the master trust. The collections are divided into an interest and principal component. The interest component comprises finance charges and is used to pay servicing expenses of the trust (typically an average of 2% of principal balance of receivables), investor note interest and receivables that have been charged off.

After all note expenses and distributions have been made, finance charges are referred to as excess spread. Excess spread is used as a form of credit enhancement for the lowest classes of rated notes, usually Class C notes. During the revolving period, interest is paid to investors while principal payments received on the collateral are generally used to purchase new receivables.⁵ The revolving period has a scheduled end date and may be prematurely discontinued by an early amortization event.

5. Principal payments from the receivables may also be used to amortize note principal from other series in certain credit card structures.



FIXED AND FLOATING ALLOCATION METHODS

Once the revolving period ends, principal collections are used to amortize trust debt, usually using the fixed allocation method. Under the fixed allocation method, principal collections are allocated to series based on their respective interests in the trust as of the end of the revolving period. In the fixed allocation method, the numerator is a constant amount and is equal to the amount of the outstanding series note balance as of the end of its revolving period. The denominator of the ratio, however, is the principal amount of trust receivables, which can change with each period. Since the numerator remains constant as the series amortizes, the use of the fixed allocation method generally amortizes principal more quickly than a pro rata allocation of principal among series.

As noted above, finance charges are used to pay note interest and principal to note series, typically by using the floating allocation method. Under the floating allocation method, the numerator of the ratio is the series note balance as of the end of a monthly period, after consideration of amounts in the accumulation account. The denominator of the ratio is the principal amount of trust receivables. In some trust structures, the allocation may shift to the fixed allocation method if an amortization event is triggered. Generally, excess finance charges can be shared among series to cover any shortfalls in interest or principal payments due to noteholders.

EARLY AMORTIZATION EVENTS

The financial structures used for credit card receivables incorporate early amortization events that are intended to cause principal to be paid to investors once an uncured trigger has been breached. Early amortization events generally include (1) breach of a base rate trigger,⁶ (2) failure to add sufficient amounts of receivables in order to satisfy the minimum seller's interest test, (3) failure to pay timely interest to note holders or ultimate principal on any series when due, (4) breach in the performance of the sponsor or seller with regards to representations and warranties and (5) insolvency of the sponsor or trust.

Cash Flow Stress Scenarios and Credit Enhancement

CASH FLOW STRESS SCENARIOS

The purpose of DBRS cash flow stress scenarios is to evaluate proposed credit enhancement levels for each desired rating in the capital structure of a transaction. Generally, DBRS establishes base or expected case assumptions for each key collateral performance metric, including yield, payment rate, charge-offs or loss rate and purchase rate. The cash flow scenarios reflect stresses applied to the base case assumptions for each rating level, with successively higher stresses applied at each successively higher rating level. Specifically, the stresses assume a decline in the base case yield and the base case principal payment rate assumption and an increase in the base case charge-offs or loss rate. DBRS may also apply a purchase rate stress, which reflects the rate at which new receivables are created under designated accounts. The specific stresses applied by rating level are summarized in Table 2 on page 15. The cash flow scenarios incorporate the financial structure, priority of payments and payment of trust expenses, such as servicing and the occurrence of an early amortization event. As credit card receivables transactions are subject to interest rate and basis risk, DBRS cash flow stress scenarios incorporate interest rate and basis risk curves.

COLLATERAL PERFORMANCE METRICS

As noted earlier, in all credit card securitization structures, the ownership of the credit card accounts designated for a particular trust is maintained by the credit card sponsor, which also typically services the receivables, whereas the eligible receivables that arise from the designated accounts for securitization are sold by the sponsor (seller) to a bankruptcy-remote special-purpose entity, or trust, that holds the assets for the benefit of the credit card ABS investors. The base case assumptions for the collateral performance

6. A base rate trigger relates to the level of excess spread generated in a trust (see the Excess Spread section on page 19).



metrics reflect an analysis of an issuer's historical performance data, historical vintage performance data and observed data performance volatility. The base case is derived by comparing data for more recent time periods, for example, the last three years, with data over an extended period of time that ideally includes at least one recessionary period.⁷ The data sets are analyzed on an absolute and comparative basis to determine variances in performance. DBRS utilizes the most appropriate data set to establish the base case for each metric. Stresses are then applied to each base case to account for potential future performance volatility assumed to occur in each rating scenario.

Portfolio Yield

Portfolio yield is generated from finance charges, annual card fees, interchange fees, late payments, cash advance fees, over-limit fees and other miscellaneous fees levied on cardholders. In general, portfolio yield is calculated as the annualized average of the monthly income earned on the portfolio divided by the receivables balance. Recoveries are sometimes included in the yield calculations, but generally they are included in the charge-off calculation pursuant to the trust documents.

Credit cards have interest rates that are based on a fixed or floating rate, plus a premium. The premium is often based on the credit quality of the obligor and the obligor's performance as a cardholder at the specific bank. For bank issuing entities, interest charges vary widely. While, initially, credit card interest rates are intended to attract certain types of consumers, on an ongoing basis, the card issuer's ability to reset the interest rate is a risk-management tool.

The yield on a card portfolio is affected by the charge-off rate, payment rate and delinquencies. While the direction of charge-off and payment rates is inversely correlated to yield, there is a positive relationship between delinquencies and yield due to late fees charged on delinquent accounts. Additionally, market regulations and the mix of convenience users and revolvers (i.e., the purchase rate) in the pool may have an impact on yield.

When determining the base case portfolio yield, DBRS requests that the sponsor supply data for monthly interest income collected as opposed to the amount billed. The billed income or billed yield figure does not account for delinquencies or waived fees and charges. If only billed yield data is reported, DBRS discounts billed yield to estimate the collected yield figure.

The yield figure normally includes interchange fees. In such cases, DBRS eliminates interchange fees from the yield figure to determine a base case yield assumption. DBRS typically excludes the interchange fee when modeling base case portfolio yield for the following reasons: the property rights of the issuing bank are often not clearly defined in membership agreements, most transaction legal opinions do not address interchange and interchange may be subject to set-off in a bankruptcy proceeding.

Payment Rates

Payment rates represent total monthly collections received from cardholders divided by the receivables balance. Payment rates are a critical factor affecting credit enhancement as higher payment rates ensure that funds are available to repay noteholders during either controlled accumulation or amortization periods.

Monthly payment rates are affected by several variables, including charge-off rates and delinquencies, which are both inversely correlated to payment rates. Also, for credit cards, as opposed to charge cards, the combination of the specific dollar amount set as the minimum monthly payment and the percentage of cardholders in the pool who seek to make the minimum monthly payment can have a significant impact on a trust's payment rate.

7. DBRS typically receives a significant amount of historical performance data from credit card issuers as most have been financing their receivables in the capital markets over the last ten to 15 years. Many issuers' data covers two recessionary periods as defined by the National Bureau of Economic Research.



When determining the base case payment rate, DBRS requests that the sponsor supply data for the monthly principal payment rate. Issuers report payment rate figures on a total basis (e.g., finance charges and principal) and/or on a principal collected basis. If an issuing entity only reports total payment rates, DBRS nets-out the yield or finance charge component embedded in the total payment rate.

Charge-Offs

Generally, charge-offs equal cardholder defaults less recoveries. Delinquent accounts are charged off as uncollectable by the servicer after 180 days of delinquency per FFIEC regulations. Accounts of consumers who file for bankruptcy must be charged off within 60 days of receipt of notification of bankruptcy for banks according to the FFIEC guidelines. The charge-off rate is calculated as the amount written off in the month as a percentage of the amount of receivables outstanding at the beginning of the month, annualized.

Charge-off rates are influenced by a combination of market and macroeconomic conditions and their effect on consumers' ability and willingness to repay their debt obligations. Charge-off rates are also influenced by initial underwriting practices and quality of servicing. Usually, recoveries are included as a reduction in the trust's charge-off calculation; however, recoveries can be included as an increase in the trust's yield calculation. Most lending institutions pursue recoveries through a combination of internal collections, outside collection agencies, asset sales and legal channels in its collection work.

When determining the base case charge-off rate, DBRS requests that the sponsor supply historical vintage performance data for more recent time periods, for example, the last three years, and data over an extended period of time that ideally includes at least one recessionary period. The data sets are analyzed in the context of the sponsor's underwriting strategies and servicing capabilities to evaluate the sponsor's ability to manage portfolio performance.

Purchase Rate

The trust's monthly purchase rate reflects the rate at which new receivables are created under designated accounts. Generally, the trust pool balance is affected by a combination of monthly purchase rate, principal payment rate and charge-off rate. The pool balance increases to the extent that the purchase rate exceeds the payment and charge-off rates and the pool balance declines when the purchase rate is lower than the payment and charge-off rates.

COLLATERAL CASH FLOW ASSUMPTIONS

In the cash flow stress scenarios, yield and principal payment rate are assumed to decline in a linear manner starting from the base case yield and principal payment rate assumption figure in month six through month 18. After month 18, the yield and principal payment rate are held constant. Charge-offs are assumed to increase at a multiple of the base case charge-off figure, with the actual multiple applied dependent on the quantitative and qualitative factors described in this report. Charge-off levels increase in a linear manner starting in month six through month 18. At month 18, charge-off levels are held constant. Please see Table 2 below for a summary of the assumptions by rating category and Chart 2 for the 12-month cash flow stress scenario.⁸

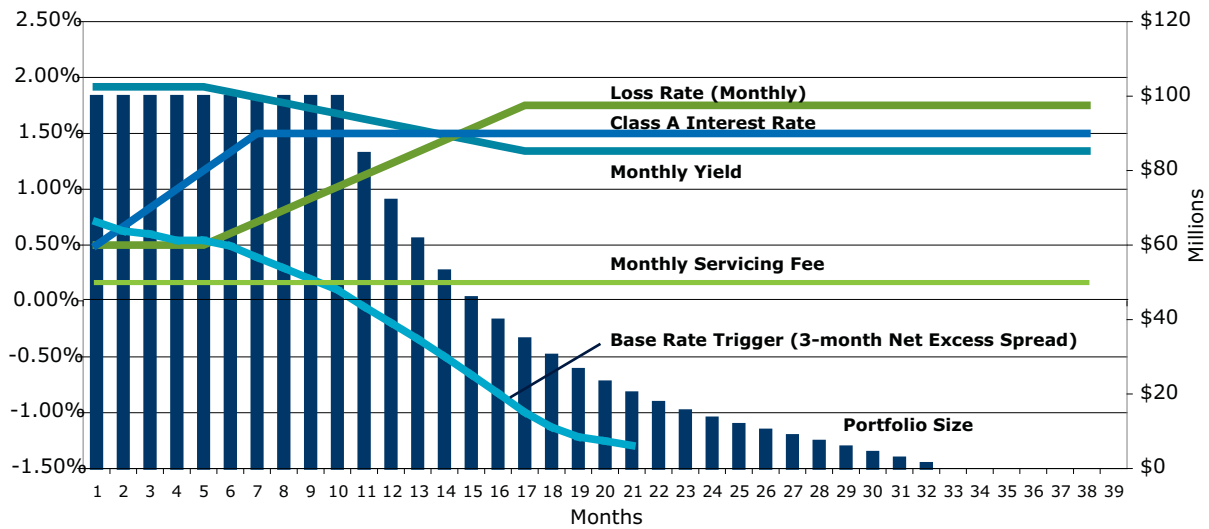
Table 2: Summary of Credit Card Performance Metric Stresses by Rating Category

| | AAA | AA | A | BBB | BB |
|---|------------|-----------|----------|------------|-----------|
| Yield (reduction of base case) | 30–45% | 25–35% | 20–30% | 15–25% | 5–10% |
| Monthly Payment Rate (reduction of base case) | 35–50% | 35–45% | 30–40% | 25–35% | 10–20% |
| Charge-Offs (multiple X base case) | 4.0–5.0x | 3.0–4.0x | 2.5–3.5x | 2.0–2.5x | 1.5–2.0x |

8. Chart 2 depicts a normal modeling scenario for credit card securitizations. The bond begins to pay down in the 11th month. The Class A interest rate is an uncapped floating rate and the stress assumption for the note rate begins to offset the excess spread levels immediately. The amortization scenario begins in month six. This is seen in the base case yield, base case principal payment rate and base case charge-off rate lines. These stresses cause the base rate trigger to be negative in month nine or shortly thereafter since that test is typically measured on a rolling three-month basis.



Chart 2: Cash Flow Stress Scenario Assumptions – 12-Month Curve



DBRS may apply a purchase rate stress to slow or stop the addition of new receivables and any increase in the pool balance. The purchase rate stress used in the DBRS credit card securitization model varies based on the quality of the sponsor, the ability of the sponsor to generate receivables over time and the desired note rating. In most cases, DBRS assumes the sponsor is no longer able to generate new receivables; therefore, the purchase rate is 100%, thereby, transforming the receivables pool into an amortizing pool.

DBRS assumes a transaction enters early amortization due to a breach of the base rate trigger as defined in the transaction documents. Depending on the variables in the stress scenarios, the breach typically occurs between months six and ten in the cash flows in the senior bond rating category and between months ten and 18 in the subordinate bond rating categories. In all cash flow stress scenarios, when in early amortization, collections are diverted to repayment of outstanding notes and not invested in additional receivables.

EFFECT OF SPONSORSHIP QUALITY ON CASH FLOW SCENARIOS

DBRS posits that sponsors maintain an abiding interest in sustaining the credit quality of the receivables backing the rated debt as these entities expend considerable resources to actively manage their credit card accounts and corresponding receivables to promote consistent and robust levels of excess spread. This active management includes reviewing and modifying credit limits, raising and lowering a credit card's interest rate and performing collection activities to minimize charge-offs. On the front-end origination process, these entities expend considerable resources to originate receivables amid intense competition.

For certain highly rated sponsors, DBRS believes that the likelihood of an early amortization trigger being breached is reduced. From a modeling perspective, for transactions issued by these sponsors, the rate of change in the trust's collateral performance variables (yield, principal payment rate and charge-offs) is reduced due to the quality of the sponsor's operational capabilities. By flattening the curves for these variables by (1) lengthening the decline in yield and payment rate and (2) lengthening the increase in the loss rate (charge-offs), the breach of the base rate trigger occurs at a later date, which delays the onset of an early amortization event. As a result, the trust continues to generate positive excess spread for a longer period of time. These assumptions are reflected in the modeling for the lower-rated classes of each sponsor's capital structure.

The following charts and tables display how the stresses on the model input variables interact with the transaction cash flows and affect excess spread, which is reflected in the base rate, and the onset of early amortization.



Table 3: Summary of the Senior Stress Case

| | Base Case | Stress | Floor or Peak |
|------------------------------------|-----------|----------------|---------------|
| Payment Rate | 18.0% | 35% decline | 11.7% |
| Loss Rate | 6.0% | 5.0 x increase | 30.0% |
| Yield | 23.0% | 50% decline | 11.5% |
| Month Base Rate Trigger Is Tripped | | Month 9 | |
| Note Interest Rate | | Floating | |

Chart 3: Senior Bond Cash Flow Stress Scenario Assumptions

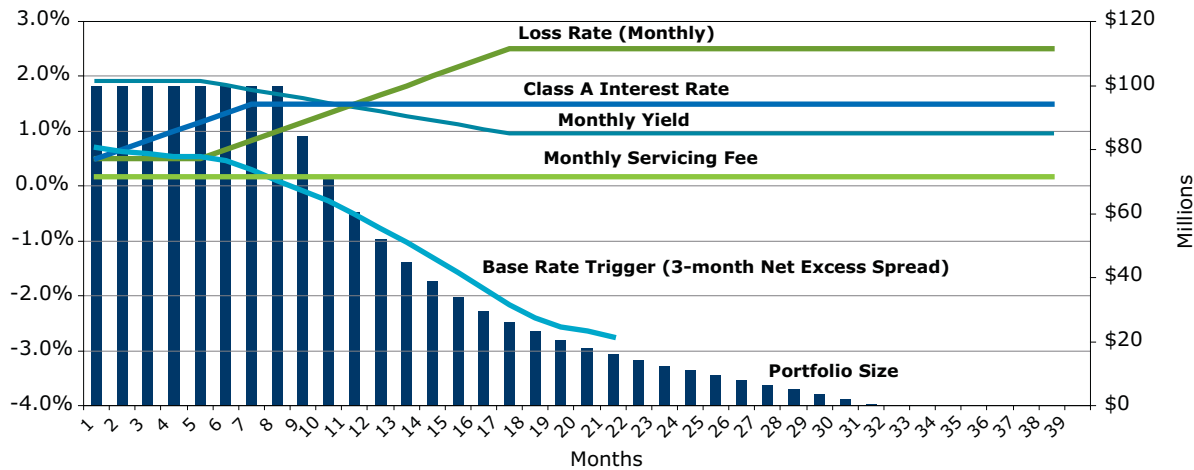


Table 4: Summary of the Subordinate Stress Case

| | Base Case | Stress | Floor or Peak |
|------------------------------------|-----------|----------------|---------------|
| Payment Rate | 18.0% | 30% decline | 12.60% |
| Loss Rate | 6.0% | 3.5 x increase | 21.0% |
| Yield | 23.0% | 30% decline | 16.10% |
| Month Base Rate Trigger Is Tripped | | Month 11 | |
| Note Interest Rate | | Floating | |

Chart 4: Subordinate Bond Cash Flow Stress Scenario Assumptions – 12-Month Scenario

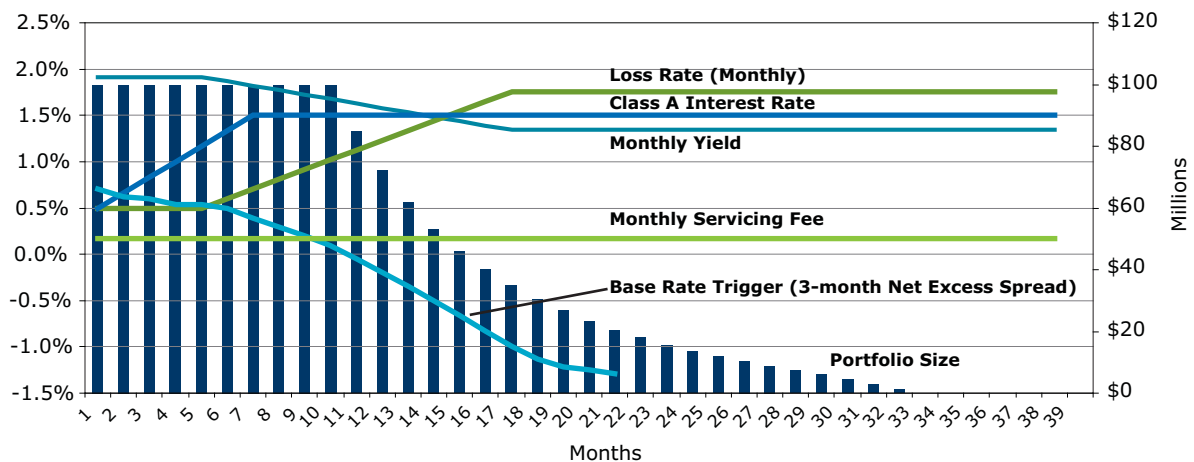
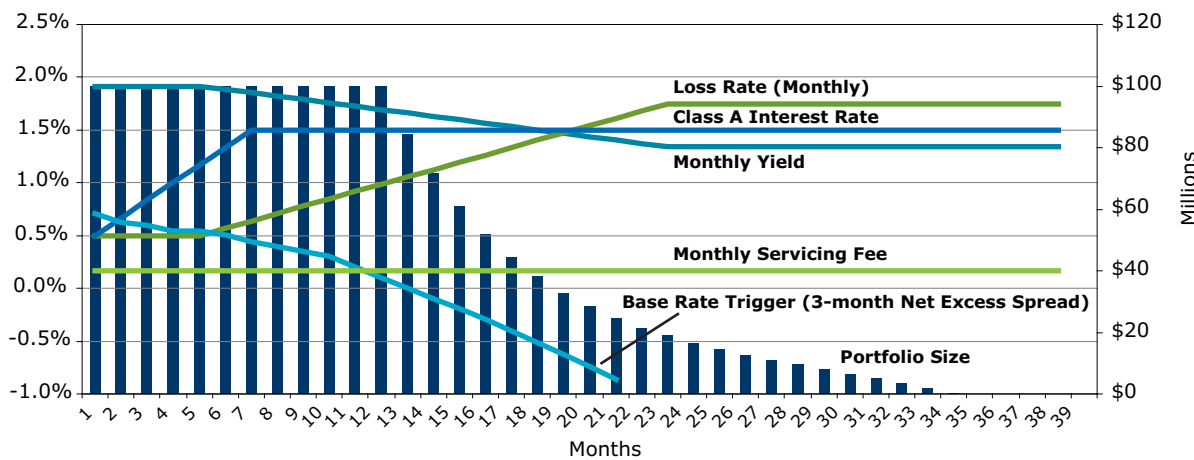




Table 5: Summary of the Subordinate Stress Case

| | Base Case | Stress | Floor or Peak |
|------------------------------------|-----------|----------------|---------------|
| Payment Rate | 18.0% | 30% decline | 12.6% |
| Loss Rate | 6.0% | 3.5 x increase | 21.0% |
| Yield | 23.0% | 30% decline | 16.1% |
| Month Base Rate Trigger Is Tripped | | Month 13 | |
| Note Rate | | Floating | |

Chart 5: Subordinate Bond Cash Flow Stress Scenario Assumptions – 18-Month Scenario



INTEREST RATE AND BASIS RISK

Credit card interest charges to consumers are based on either a fixed or floating rate. The majority of credit cards are subject to finance charges that are floating rate in nature. Credit card sponsors often use the U.S. prime rate as a benchmark to price floating-rate credit cards. Note coupons for credit card securitizations can be either fixed or floating rate. Floating-rate note coupons are usually benchmarked to one-month or three-month LIBOR.

Interest rate risk in credit card transactions stems from the mismatch between the timing of the rate resets for credit card receivables and the note coupon rates. Basis risk stems from the difference between the interest rate indices used to calculate interest and finance charges billed to credit card customers and the transaction liabilities.

To assess the impact of interest rate and/or basis risk on a transaction’s excess spread, DBRS assumes that (1) floating-rate credit receivables re-price in accordance with their index on a lagged basis while floating-rate note coupons related to the trust liabilities increase immediately and (2) floating-rate ABS note coupons are subjected to a forward curve stress and linear curve stress.

The forward curve that best matches the tenor of the transaction liabilities is used as the base curve. Based on the desired rating category for the tranche, DBRS shifts the base rate forward curve by a multiple subject to a cap. For the linear curve stress, linear increases are applied to the base curve and are a function of the desired rating category for each class. Linear stresses are also subject to a cap based on the desired class rating. This stress is more onerous in a flat or downward sloping yield curve environment. Basis risk is stressed through the application based on a stress applied to the historical relationship of the indices.



CREDIT ENHANCEMENT

Credit enhancement levels range from multiples of four to five times DBRS base case charge-off rate at the AAA rating level (see Table 2 above). For each desired rating, DBRS reviews the output of the cash flow scenarios to determine whether the proposed credit enhancement is sufficient to withstand the application of the cash flow stress scenarios described above without experiencing any shortfalls in the repayment of interest or principal to investors. Credit enhancement may be in the form of excess spread, reserve accounts and subordination.

Excess Spread

Excess spread is equal to the portfolio yield less (1) note interest, (2) charge-offs, (3) servicing expenses and (4) other trust expenses. Excess spread is a source of credit enhancement for both senior and subordinate notes and is generally shared among series. Before being charged off and collected upon for recoveries, defaults are absorbed by the portfolio yield. The amount of excess spread in a transaction is a function of several factors, including the quality of the receivables, servicing fees and the sponsor's cost of funding in the ABS market. If monthly excess spread falls below certain levels, in most trust structures excess spread will be redirected, or "trapped," into a cash collateral account (CCA) in order to be preserved for future, additional protection for the notes. Excess spread not used to fund a reserve account is released back to the seller.

Cash Collateral Account

A CCA may be fully funded at closing or built up in size over time from a share of excess spread. The required, or minimum, CCA balance is generally a percentage of the initial note balance of the series. CCAs are available to pay timely note interest in the event trust collections are insufficient. Amounts drawn from a CCA can generally be restored from excess spread to the extent it is available.

Subordination

Most credit card trusts utilize a senior-subordinate financial structure, with the senior, Class A notes holding a higher priority to the subordinate, Class B and/or Class C notes. Accordingly, Class B notes also hold a higher priority to Class C notes. Each class of notes provides a buffer to absorb charge-offs.

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