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DBRS Commentary: Diverging Performance in Canadian Credit Card Securitization

Industry: Sec.--Credit Card & Consumer Lending

In spite of increasing credit losses and delinquencies, Canadian credit card portfolios, on average, continue to exhibit stability in the key performance metrics of payment rate, yield and excess spread, according to a DBRS commentary released today on the recent performance of the Canadian credit card asset-backed securities (ABS). “We saw diverging trends in the 2008 Canadian credit card securitization market,” says Jerry Marriott, Managing Director of Canadian RMBS/ABS. Average Canadian credit card loss rates increased from 3.75% in July 2008 to 4.53% at the end of 2008, but “this is in stark contrast to average U.S. prime bank card losses, which reached 6.7% at the end of 2008,” adds Mr. Marriott.

Almost all programs experienced increasing loss rates during this period, including some of the best-performing credit card portfolios, which have historically experienced net loss rates as low as 2%. Recent loss rates of these best-performing programs reached close to 3%. Over the same period, average late-stage delinquency (greater than 90 days past due) rates increased by 20% and year-over-year personal bankruptcies increased by up to 14%. “These elevated levels of delinquencies and bankruptcies,” says Mr. Marriott, “corresponded with accelerating job losses and an overall weakening of the Canadian economy.”

On the other hand, payment rates, excess spread and yields have remained relatively stable. The payment rate determines how quickly the ABS notes would be repaid if new receivables were not being purchased. The current Canadian average payment rate is greater than 30% and indicates a very liquid portfolio, turning over completely every three to four months.

In 2008, average excess spread did not show noticeable compression, thanks to the stable portfolio yields and, in some cases, decreasing funding costs. The funding cost for approximately one-third of all Canadian credit card securitization issuance is currently based on a floating-rate index tied to Canadian banker’s acceptances (BA) rate. As BA rates declined by 3% on an absolute basis during 2008, a large portion of the rise in average credit losses was offset. Nevertheless, excess spread is series-specific and ranged from 5% to 15% in 2008, depending on the performance of each portfolio and the cost of funds for each series.

“It is likely that loss rates in 2009 will continue to increase,” says Mr. Marriott, “reflecting the continued weakening of the Canadian economy and the consumer financial situation.”



DBRS publishes monthly reports based on transaction servicer reports and market overview (see links below for the most recent reports, the December 2008 Monthly Canadian ABS Report and the November 2008 Canadian Securitization Market Overview on www.dbrs.com), focusing specifically on the key performance metrics of securitization portfolios, the underlying asset pools and the general market performance, providing relevant analysis for investors in credit card securitization. Rating reviews are performed on any portfolio that shows signs of significant variance from base-case expectations in asset performance. DBRS will continue to comment on market trends as they develop and, if warranted, will take rating action on specific transactions on a timely basis.

Notes:

All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is DBRS Criteria for Canadian Credit Card Securitization, which can be found on our website under Methodologies.

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