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Sharon McGarvey CFA, CPA
Senior Vice President, U.S. Structured Finance Research
+1 212 806 3261
smcgarvey@dbrs.com

Michael Nelson
Managing Director,
U.S. Structured Finance
+1 212 806 3251
mnelson@dbrs.com

Toronto
DBRS Tower
181 University Avenue
Suite 700
Toronto, ON M5H 3M7
+1 416 593 5577

New York
140 Broadway, 35th Floor
New York, NY 10005
+1 212 806 3277

Chicago
101 North Wacker Drive
Suite 100
Chicago, IL 60606
+1 312 332 3429

London
1st Floor
25 Copthall Avenue
London EC2R 7BP
+44 (0)20 7562 5600

Paris
27, avenue de l'Opéra
75001 Paris
+33 (0)1 7038 5214

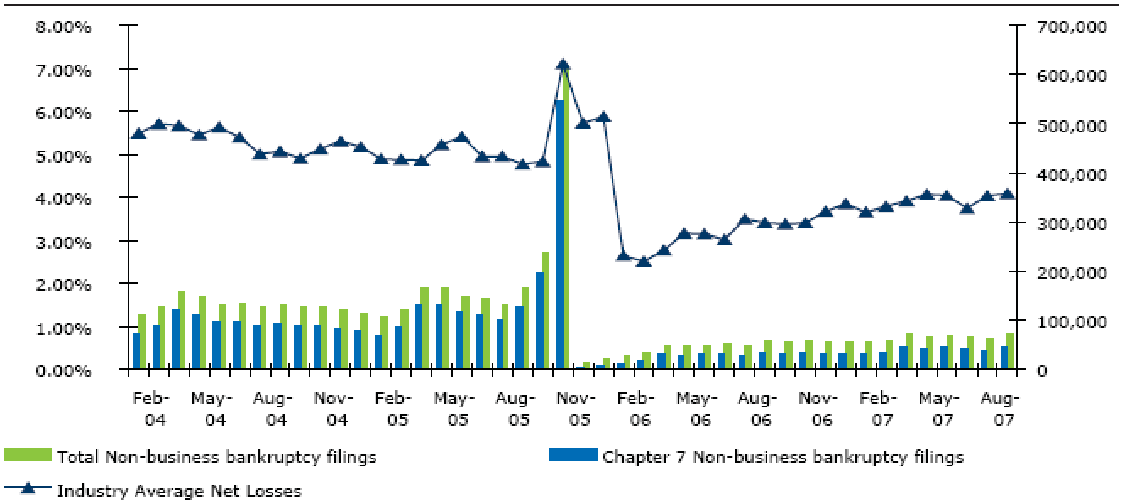
Frankfurt
Trianon Tower
Mainzer Landstrasse 16
60325 Frankfurt
+49 (0)69 9716 8144

CONSUMER BANKRUPTCIES TREND CREDIT CARD LOSSES

The level of credit card charge-offs for benchmark issuers has historically followed the same trend as the level of consumer bankruptcy filings (see the graph below). Late in 2005, credit card losses spiked up in tandem with the surge in bankruptcy filings and then dropped off precipitously after bankruptcy reform became effective. Bankruptcy filings in 2006 and to date in 2007 have trended upward, with credit card losses following similarly, although both are still significantly lower on an absolute basis relative to historical levels.

Although filings have trended up since the trough in November 2005, DBRS does not expect bankruptcies to reach the levels experienced pre-bankruptcy reform. This is a function of changes in the law, which include higher qualification standards as well as a more onerous administrative filing process. Specifically, the law applies a "means test"[1] to determine whether a person would qualify for Chapter 7 bankruptcy, which discharges debts, or Chapter 13 bankruptcy, which establishes a repayment plan. The law also requires mandatory credit counseling prior to filing for bankruptcy, increases the filing requirements and fees and extends the period of time between an individual's subsequent bankruptcy filings.[2]

Credit Card Trust Losses and Consumer Bankruptcies



Source: Administrative Office of the U.S. Courts, ABS Net. The most recent monthly data for bankruptcy filings from the Administrative Office of the U.S. Courts is June 2007 (monthly filings are only reported four times annually). Source for bankruptcy statistics for July 2007 and August 2007 is National Bankruptcy Research Center. Industry Average is average of Capital One, Chase Issuance, Citibank and Bank of America master trusts.

Based on the graph above, there has been a sustained upward trend in bankruptcy filings since December 2005. This reflects the ongoing financial stress of consumers from increased leverage. Currently, the household debt service ratio, as of the end of the first quarter of 2007, is high on a historical basis at 14.33%.[3] As a reference point, over the past decade, this ratio hit a low of 12.01% in the first quarter of 1998 and a high of 14.51% in the third quarter of 2006.

While the total level of consumer bankruptcy filings has increased, the number of Chapter 7 filings as a percentage of total bankruptcy filings has declined from a high of 85.64% in the fourth quarter of 2005 to 62.4% in the second quarter of 2007.[4] The increased proportion of Chapter 13 filings is beneficial to credit card issuers since these Chapter 13 debtors are required to pay at least a portion of their unsecured debts over time. So far, weakness in the credit card sector has been modest, but changes in the employment picture, household net worth and income growth may impact sector performance trends going forward.

For questions or comments, contact Justine Chai Segal at jsegal@dbrs.com.

[1] Individuals whose incomes are below the median income in their state automatically qualify for Chapter 7. Filers whose incomes are above the median income must then calculate their disposable monthly income to determine whether they would be able to make sufficient payments on their debts to qualify them for Chapter 13.

[2] The period of time between Chapter 7 discharges was extended from six to eight years. A debtor must also wait two years after filing Chapter 13 to re-file, or three years if a debtor previously filed Chapter 7.

[3] Federal Reserve Board.

[4] Source: Administrative Office of the U.S. Courts.