

# U.S. Structured Finance Newsletter

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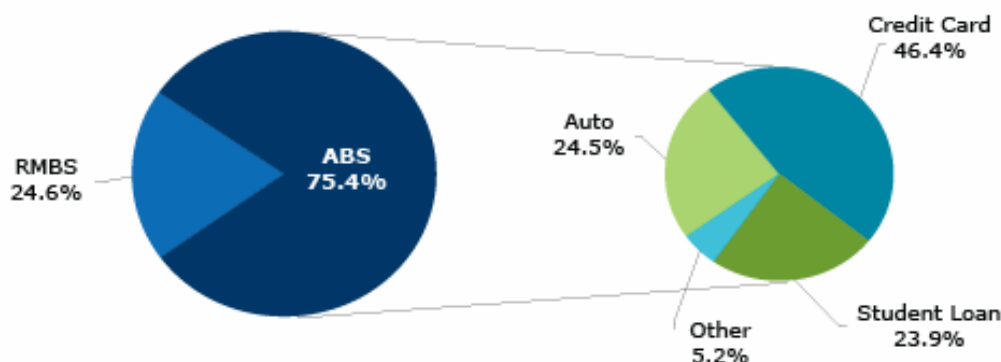
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## CREDIT CARDS REVOLVE IN 2008

Through the first three quarters of 2008, public issuance volume in the asset-backed securities (ABS) market was down approximately 80% over the same period in 2007; however, prime credit card sponsors have consistently issued during this period, recording only a 20% year-to-date drop. With the credit crisis spilling into the broader U.S. economy, consumers have been negatively pressured by extreme stock market volatility, continued house price declines and record-high, albeit moderating prices for goods and services, among other factors. Due to the lack of availability for U.S. consumers to do cash-out refinancing of their home mortgages, many have turned to revolving credit options as evidenced by the increase in outstanding revolving debt of 5.7% in August 2008 over the prior year. Revolving debt levels have increased each month over this period, with the exception of seasonal first quarter declines subsequent to year end spikes.

### U.S. ABS and RMBS Public Issuance, January to September 2008



Sources: Inside Mortgage Finance, J.P. Morgan Securities Inc. and DBRS.

Credit card ABS has remained attractive throughout the credit crisis for several reasons. The risk window for credit card receivables is relatively short compared with other asset classes. Credit card receivables turn over quickly as a result of the monthly payment cycle on most cards. As a result, the weighted-average life (WAL) on ABS backed by credit cards generally does not exceed seven years. Securitization trust structures also generally include excess spread triggers to protect noteholders from deteriorating collateral performance by forcing excess spread to be trapped before notes suffer impairment.

Additionally, issuers' interests are aligned with investors, as issuer's hold various investments in the credit card receivables through the seller's interest and retained subordinated tranches. As current economic conditions are pointed against consumers' abilities to repay all forms of consumer debt, sponsors of credit card ABS have increased servicing efforts to forestall and mitigate charge-offs. Sponsors' active management includes reviewing and modifying credit limits, raising and lowering a credit card's interest rate, in addition to performing collection activities to minimize charge-offs.

Through year-end 2008, DBRS expects the trend of the public ABS market to continue to be dominated by prime credit card issuance, with the final tally driven by sponsors' willingness to lend. Conversely, the market for subprime credit cards has diminished significantly during the current credit crisis and downturn in the economy.

For 2009 and beyond, additional forces may impact the credit card industry. The Credit Cardholders' Bill of Rights (H.R. 5244), which was passed in the U.S. House of Representatives on September 23, 2008, but has yet to pass in the U.S. Senate, could have a detrimental effect on the yield generated in credit card issuers' portfolios due to the reduced flexibility to re-price the interest rates on delinquent card accounts.

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