

U.S. Structured Finance Newsletter

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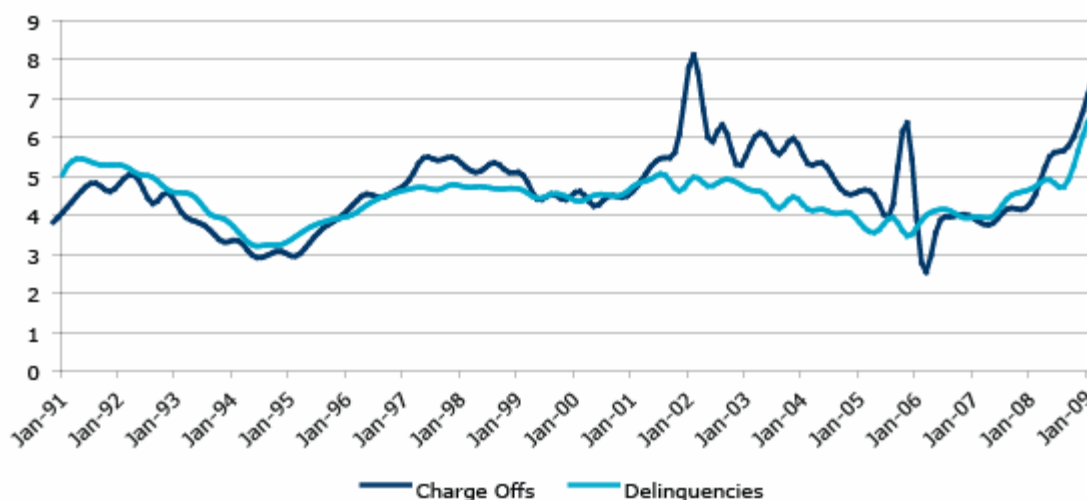
UNINTENDED CONSEQUENCES OF THE NEW CREDIT CARD LEGISLATION

On May 22, 2009, President Obama signed the *Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009* into law. The new law amends the *Consumer Credit Protection Act* to establish more fair and transparent practices relating to the extension of credit under open-end consumer credit plans offered by credit card companies. The new law focuses on banning or limiting interest rate increases and certain fees, provides consumers with enhanced disclosure regarding credit card terms, refines accountability for compliance to the new rules by card issuers and enforcement by regulators and provides additional requirements for issuers who offer credit to young adults. Lenders have nine months to comply with its provisions, certain of which are similar to the final rules the Federal Reserve adopted in December 2008.

DBRS believes the new law has the potential to restrict the origination of new credit cards and the extension of additional credit to existing cardholders. Furthermore, we expect this practice to hinder consumer spending and, consequently, economic growth, as well as reduce the historically high net interest margins earned by bank credit card platforms. In an effort to mitigate the latter and ensure compliance with the new rules, certain lenders may proactively increase interest rates for all consumers and reduce or eliminate credit limits for certain obligors.

The effects of the new law will be far reaching on consumers as reliance on credit cards has grown significantly over the last ten years. According to the March 2009 issue of *The Nilson Report*, 78% of American households, or approximately 91 million, held one or more credit cards at the end of 2008. The proportion of revolving (credit card) debt versus total debt averaged approximately 40% over the period. Financing of credit card receivables in the ABS market has occurred since the late 1980s, with approximately 60% of receivables held by the top three credit card issuers. As detailed in the chart below, the credit card sector continues to experience the negative effects of the recession through increased borrower delinquencies and rising charge-off rates, which, combined with declining borrower payment rates, have reduced net interest margins.

Credit Card Performance Statistics



Note: Data is seasonally adjusted.
Source: Federal Reserve.

For questions or comments, please contact Chris O'Connell at coconnell@dbrs.com.