

U.S. Structured Finance Newsletter

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HEIGHTENED RISKS IN SHRINKING CREDIT CARD TRUSTS

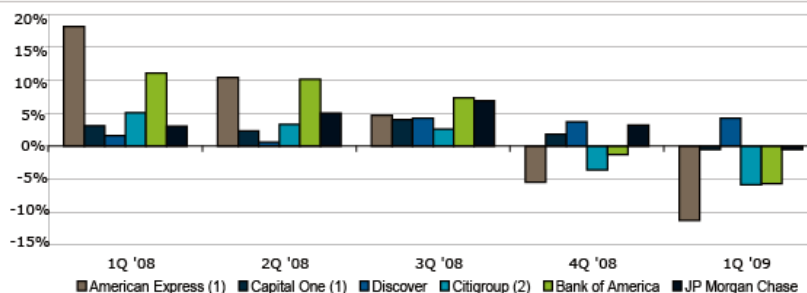
Throughout the current recession and in response to new regulations, credit card lenders have tightened underwriting criteria for new customers, reduced credit lines on existing customers and turned to alternative sources to fund their business operations (e.g. increased retail banking deposits). As a result, most lenders and issuers of ABS have experienced a reduction in the volume of credit card receivables held in existing master trusts.

Until the implementation of the TALF (Term Asset-Backed Securities Loan Facility) by the Federal Reserve, notably the most recent subscription date, turbulent capital markets have restricted credit card lenders access to the asset-backed securities (ABS) market. Year to date 2009 issuance is approximately 28% of last year. As delineated in the chart below, a substantial amount of credit card ABS will mature in the coming months. Unless the TALF is used to finance the maturing ABS, credit card master trusts will shrink in size and issuance volume for 2009 will be well below 2008.

Throughout the credit crisis, the objectives of most credit card lenders have been to improve the performance of their credit card portfolios in response to the economic recession. In addition to the steps identified above, issuers have also raised interest rates on higher risk card holders. While improving the credit quality of their customer base is expected to ultimately reduce charge-off rate in master trusts, raising interest rates may only boost yield temporarily. Further, raising interest rates may eventually drive some card holders into default.

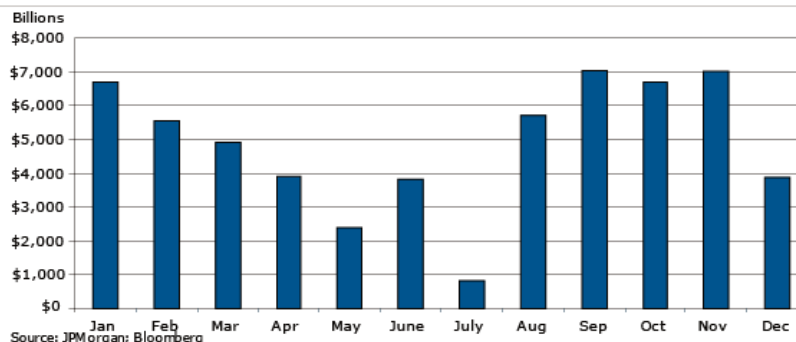
DBRS believes that as the critical performance metrics of credit card ABS (payment rate, yield and charge-offs) are each highly sensitive to different aspects of credit card underwriting and servicing, it is becoming increasingly important for ABS investors to fully appreciate the operational risks of each credit card issuer's underwriting and servicing platform.

Managed Receivables Growth (YoY % Change)



(1) US Card business only
(2) Citi-branded cards only; excludes private label
Source: Company reports

Dollar Value of Maturing Credit Card Series in 2009



Source: JPMorgan; Bloomberg

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