The CARD Act – One Year Later

Recent Trends in the Credit Card Industry

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Michael Heller
Argus Information and Advisory Services, LLC

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Introduction to Argus and Bank Consortia

- Information services company with specialization in benchmarking, scoring solutions and advisory services for credit card issuers and retail banks
- Warehouse time-series data for over one billion credit card accounts from 60+ financial services institutions across the US, UK and Canada
- Rely on transaction and account data to benchmark behavior, risk and profitability
- Worked with the account level data from the nine largest credit card issuers on this response representing approximately 90% of the credit card assets in the US. The information was compiled in collaboration with Morrison Foerster.

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Agenda and Summary of Findings

The industry underwent major changes in the past two years. Primary drivers of which are the descent into and recovery from the worst recession in last 75 years and the 2009 CARD Act. This presentation is based on data from the 9 largest US credit card issuers, analyzed at the account level across the entire portfolio for each issuer. Our analysis covers:

i. New account bookings and pricing
ii. Promotional offers
iii. Re-pricing of existing accounts and balances
iv. Penalty fees
v. Customer behaviors
vi. Impact on issuers

As anticipated, we see trends with long-term implications for both issuers and consumers:

- Increased transparency on up-front pricing and fewer risk-based re-pricings
- Lower incidence of late and over-limit fees but greater incidence of annual and BT fees
- Reduced availability and increased cost of credit across all risk segments
- Fewer BT promos, but more purchase promos
- Lower credit lines, less credit in the system and greater levels of credit line decreases.

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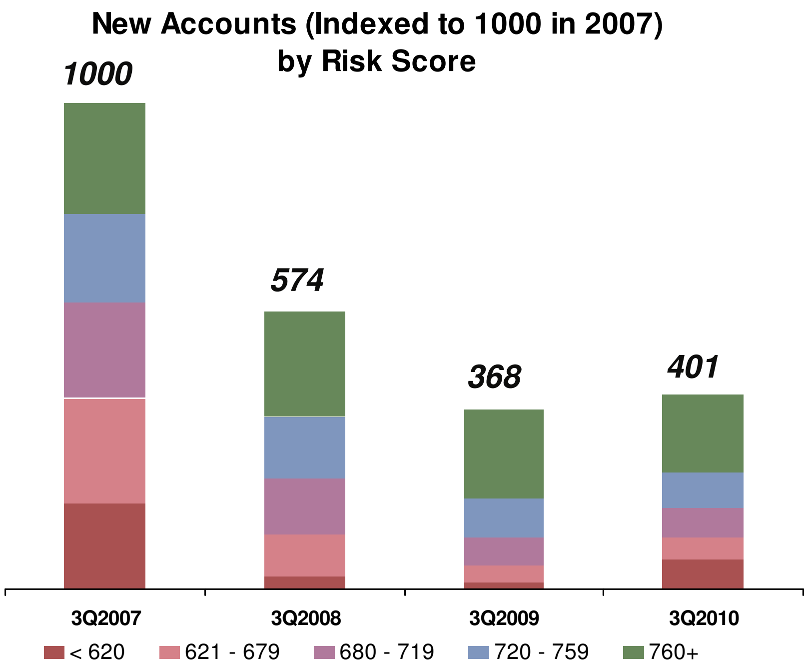
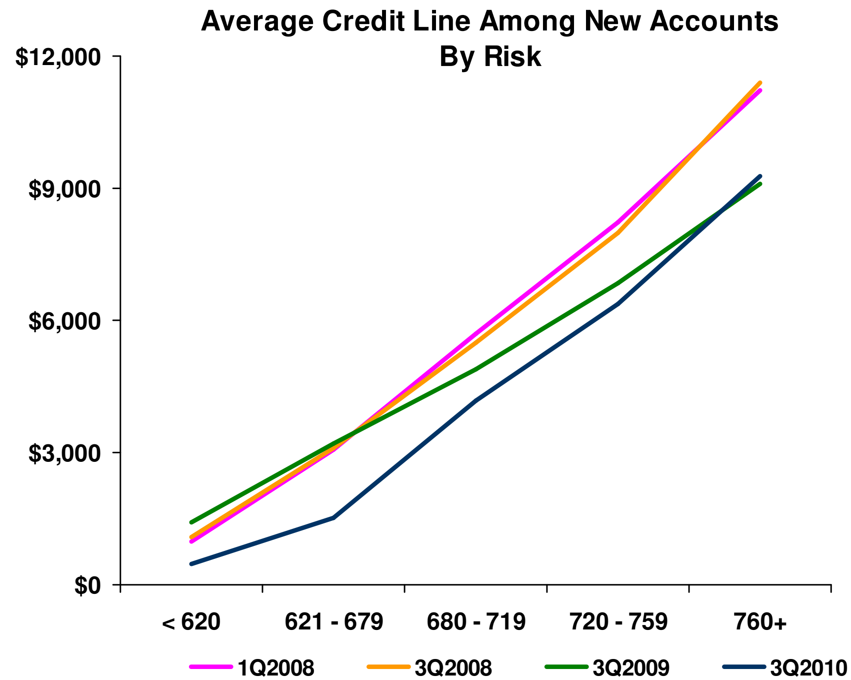
New Accounts… Fewer mid-high risk accounts, lower credit lines

Significant shift away from mid-high risk accounts; Drop in new account volumes

Initial lines are lower across all risk segments





	3Q2007	3Q2008	3Q2009	3Q2010
Average Risk Score	*688*	*732*	*748*	*719*
% with Risk Score < 680	*39.4%*	*19.5%*	*12.8%*	*26.2%*
% with Risk Score 680+	*60.6%*	*80.5%*	*87.2%*	*73.8%*

Avg. Line Per New Account	*$6,002*	*$6,451*	*$6,684*	*$4,413*
Avg. Line Per All Open Account	*$10,601*	*$10,249*	*$9,936*	*$9,898*
Total Open to Buy (Indexed to $1,000)	*$1,000*	*$1,028*	*$802*	*$731*

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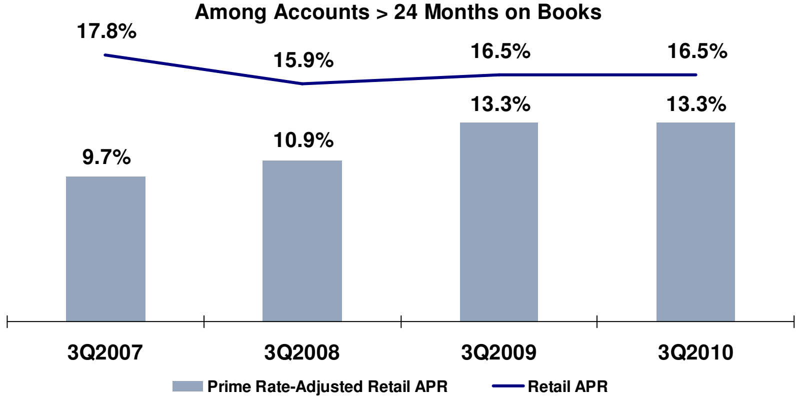
Higher APRs for Existing Accounts; Annual Fees More Common

Retail APRs increased especially among low-risk accounts

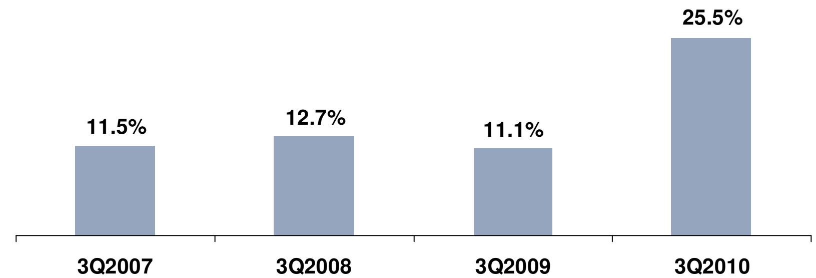
Prime Rate-Adjusted Retail APR (APR - Prime Rate) Among Accounts > 24 Months on Books



Avg. Prime Rate	*8.08%*	*5.00%*	*3.25%*	*3.25%*

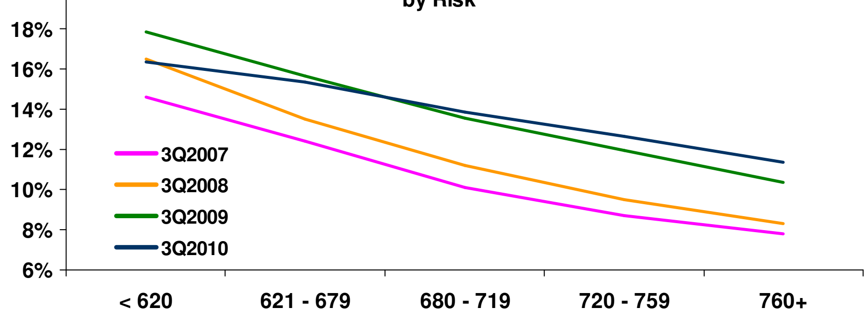
More accounts have annual fees, particularly those in the mid- to high-risk segments

% of <= 12 MOB Accounts that were Charged an Annual Fee

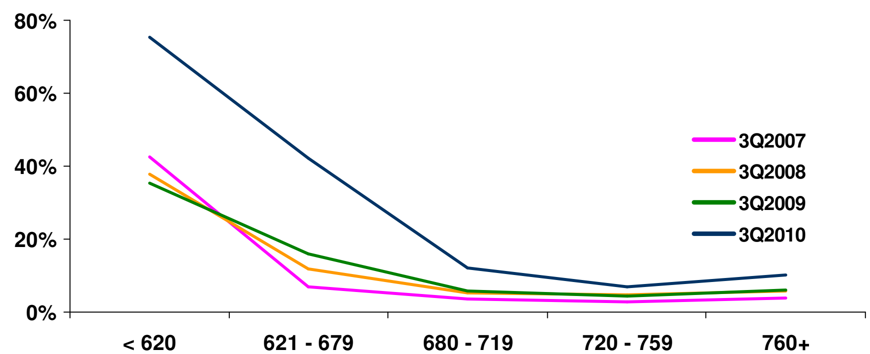


Avg. Annual Fee Amount	*$55.09*	*$48.30*	*$47.35*	*$47.74*

Prime Rate-Adjusted Retail APR (APR - Prime Rate) Among Accounts > 24 Months on Books by Risk



% of <= 12 MOB Accounts that were Charged an Annual Fee by Risk



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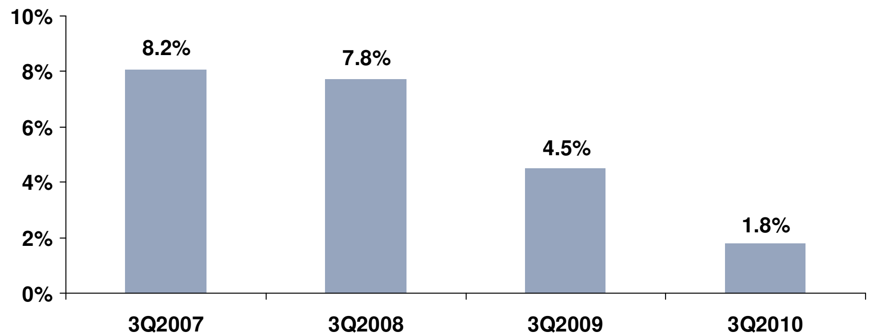
Note: Retail APRs among accounts with months on books greater than 24 are used in the analysis above to capture non-promotional retail APRs (ie retail APRs after promotional rates expired).

Promos… Fewer new accounts taking promo BT's

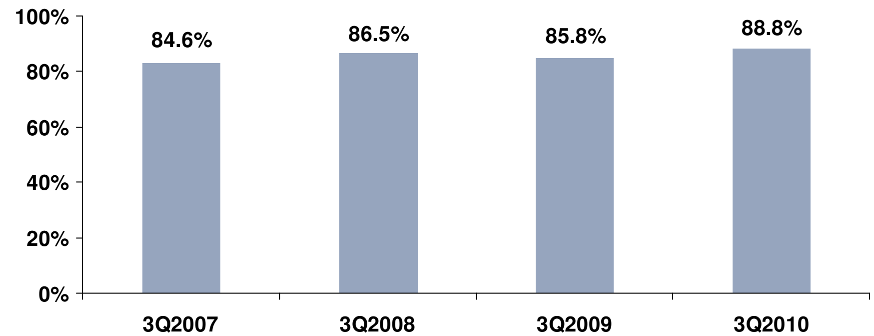
Greater emphasis on purchase promos – driven by shift in focus towards spend…

% of New Accounts Taking a BT Promo Only



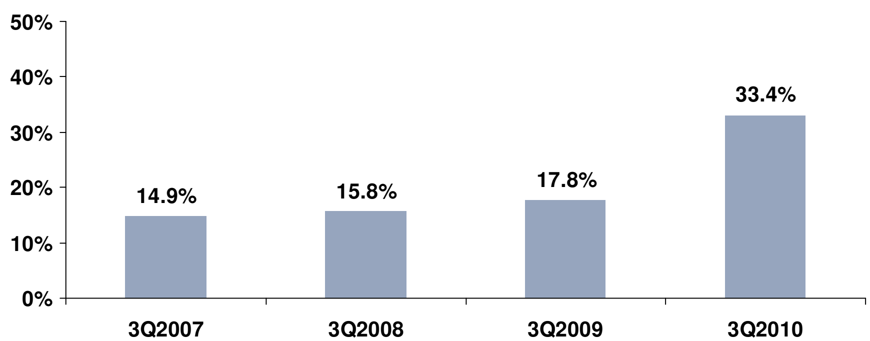
	3Q2007	3Q2008	3Q2009	3Q2010
Avg. Promo BT APR	*0.6%*	*0.5%*	*0.7%*	*0.1%*

% of BT Takers with a BT Fee



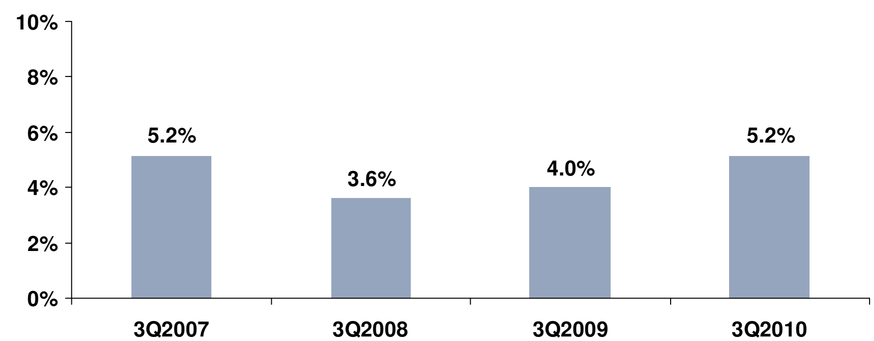
	3Q2007	3Q2008	3Q2009	3Q2010
BT Fee as a % of BT	*1.7%*	*1.8%*	*2.6%*	*3.2%*

% of New Accounts Taking a Purchase Promo Only



	3Q2007	3Q2008	3Q2009	3Q2010
Avg. Promo Purchase APR	*0.5%*	*0.3%*	*0.7%*	*0.2%*

% of New Accounts Taking BT & Purchase Promo



	3Q2007	3Q2008	3Q2009	3Q2010
Avg. Promo BT APR	*0.7%*	*0.8%*	*0.3%*	*0.0%*
Avg. Promo Purchase APR	*0.4%*	*0.3%*	*0.5%*	*0.1%*

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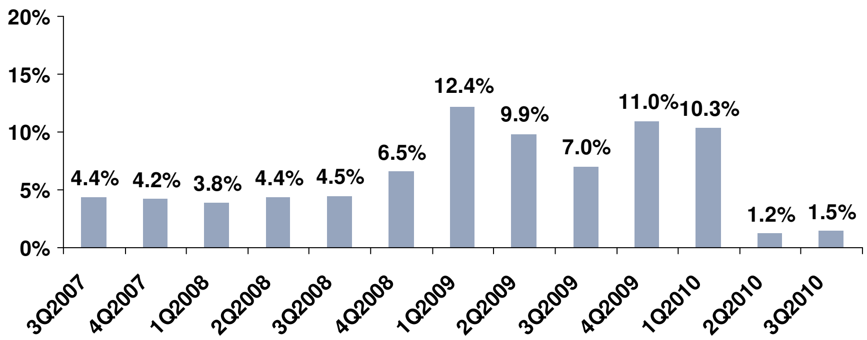
Note: Promo is defined as any BT or purchase transactions that are associated with an APR of less than 6%.

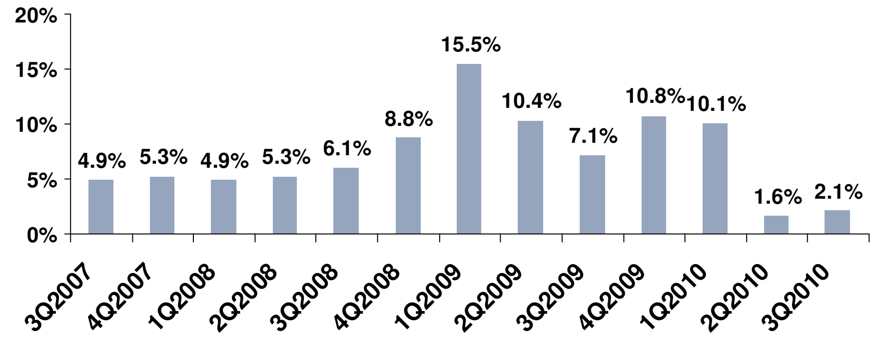
Re-Pricings… Fewer accounts and assets are being re-priced up

Downward shift in re-pricing in line with effective date of CARD Act

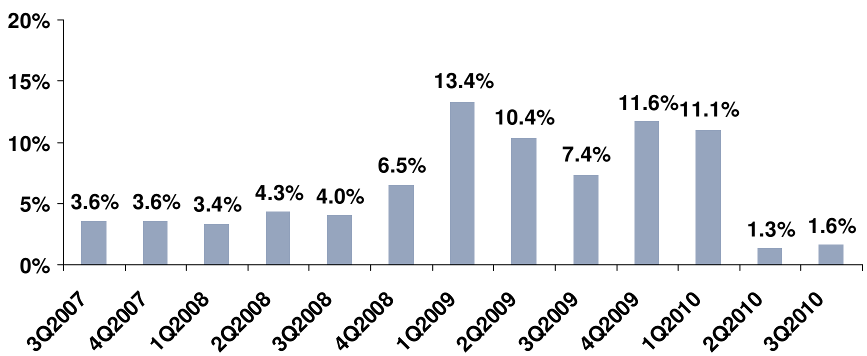
% of Active Accounts with a Retail APR Priced Up



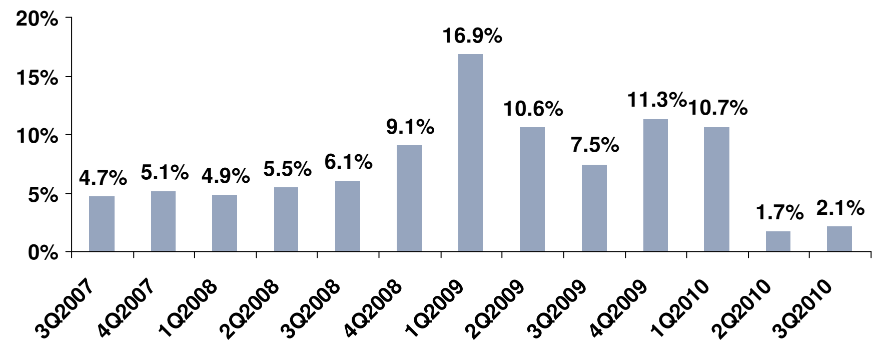
% of Assets* with a Retail APR Priced Up



% of MOB > 24 Active Accounts with a Retail APR Priced Up



% of MOB > 24 Assets* with a Retail APR Priced Up



Note: Priced up is defined as any upward repricing of retail APRs during the quarter. The magnitude of the repricing must be greater than 100 bp and the retail APRs prior to the repricing action must be higher than 9.99%.

*Note *: The analysis includes total balances of the accounts that were priced up, even though in some cases only partial balances (ie future balances) were repriced.*
% of assets priced up is calculated based on average daily balance of accounts whose retail APRs were priced up divided by total average daily balance of all accounts.

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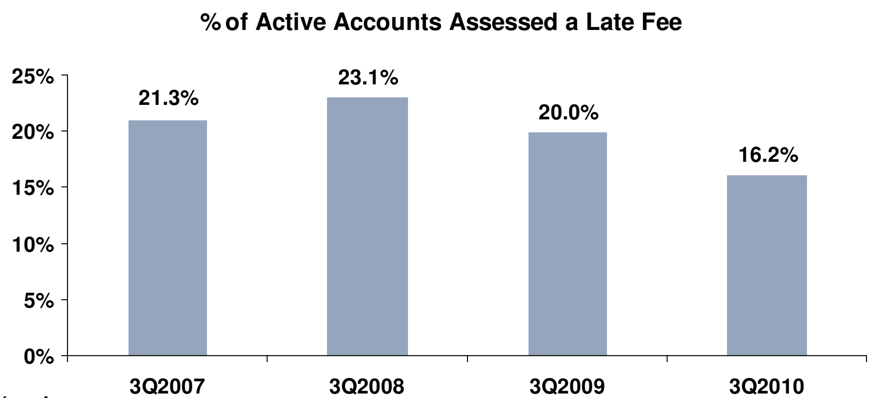
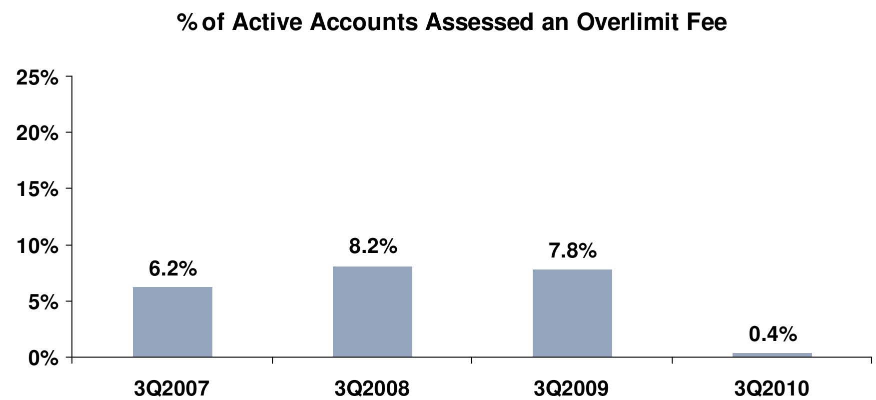
Penalty Fees… Down in assessment frequency and levels

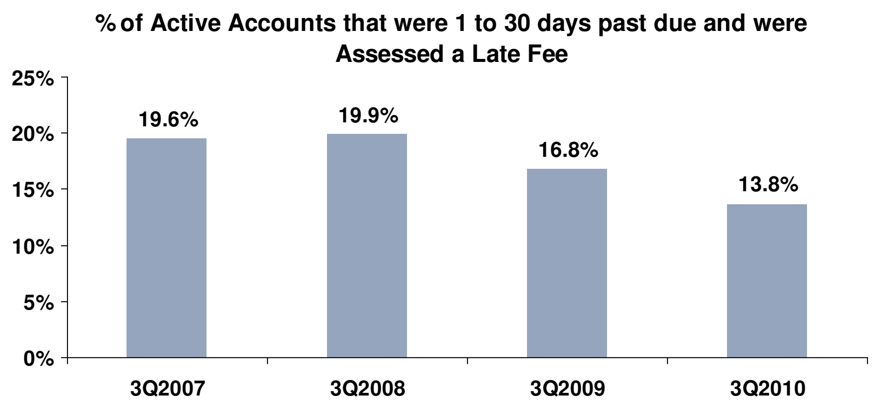
Downward trends for penalty fees driven by CARD Act

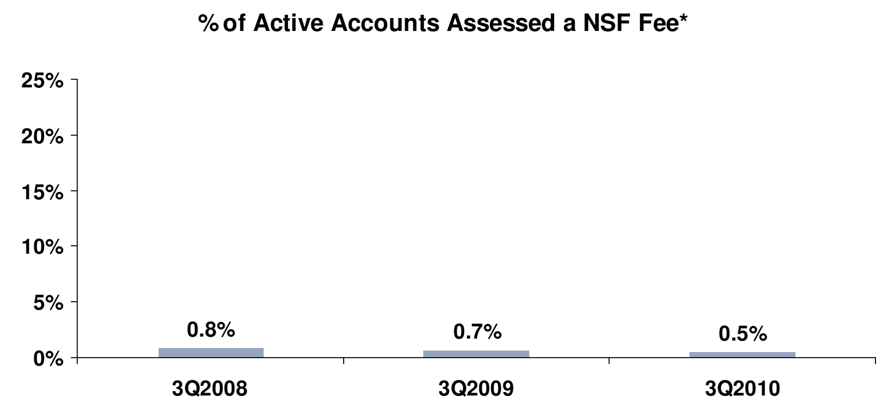


Days (cycle date to fee assessment)	***26***	***25***	***26***	***28***
Avg. late Fee Amount	***$35.53***	***$36.24***	***$36.61***	***$30.41***



% Intra Cycle Overlimit	***0.7%***	***0.8%***	***0.9%***	***0.9%***
Avg. Overlimit fee Amount	***$35.35***	***$36.09***	***$36.36***	***$26.75***





Avg. NSF fee Amount	***$36.92***	***$37.65***	***$34.04***

** NSF fee data is not available for 2007 in Argus's datasets.*

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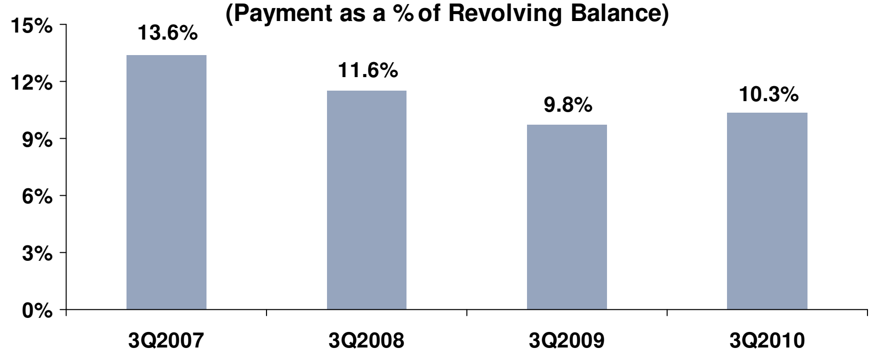
Customer Behaviors… More customers paying the min-due

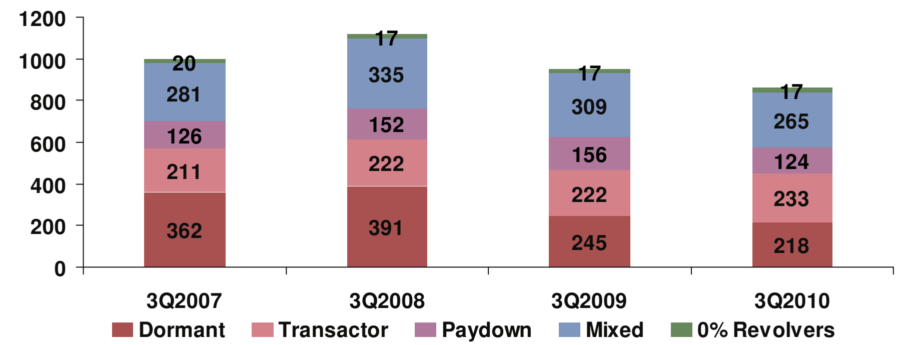
Shifts in customer behavior are likely a combination of greater transparency as well as changes in economic conditions…

Payment Rates Among Revolvers (Payment as a % of Revolving Balance)



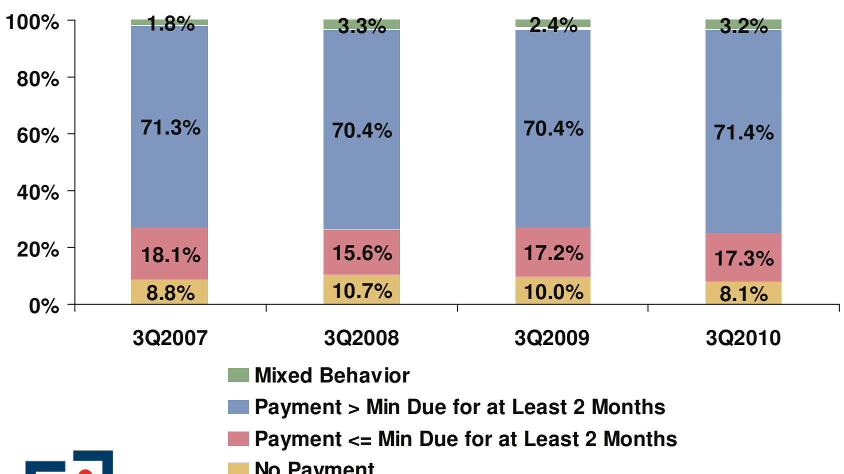
Payment Rates on All Active Accts	*19.9%*	*18.2%*	*16.6%*	*19.5%*

Open Account Distribution (Indexed to 1000 in 3Q2007) by Behavior

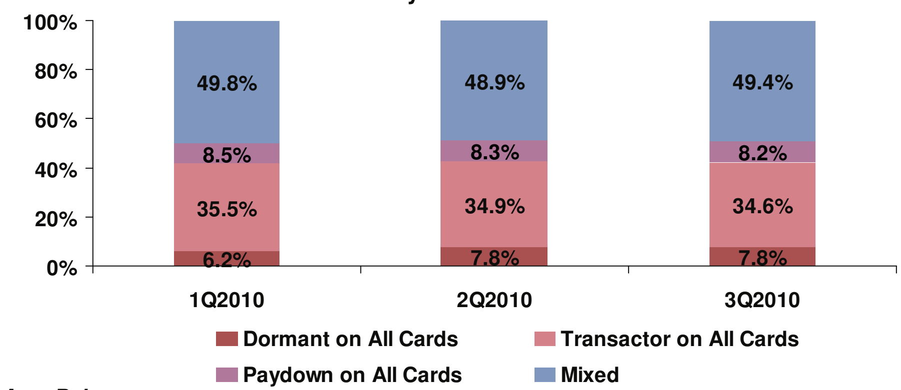


% Purchase Active Among Revolvers	*63.2%*	*61.6%*	*60.4%*	*63.5%*

Distribution of Revolvers* by Payment Behavior



Distribution of Cards in the Wallet by Behavior**



Avg. Balance Across All Cards	*$7,582*	*$7,728*	*$7,370*

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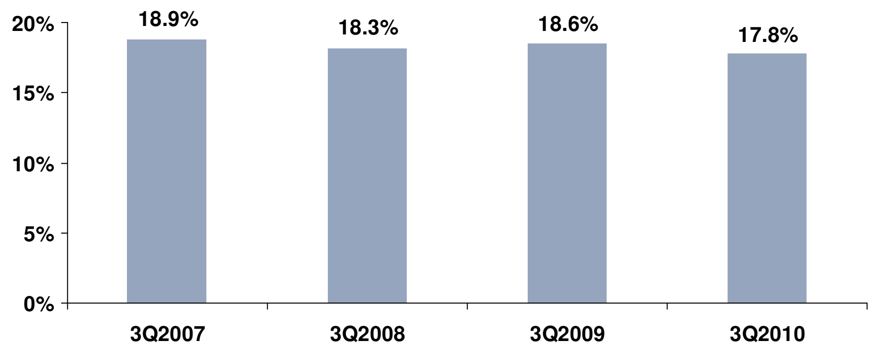
** Revolvers are defined as accounts that incurred finance charges.*
*** Customer wallet data is available only from 1Q2010 onward.*

Higher losses, lower revenues and margins

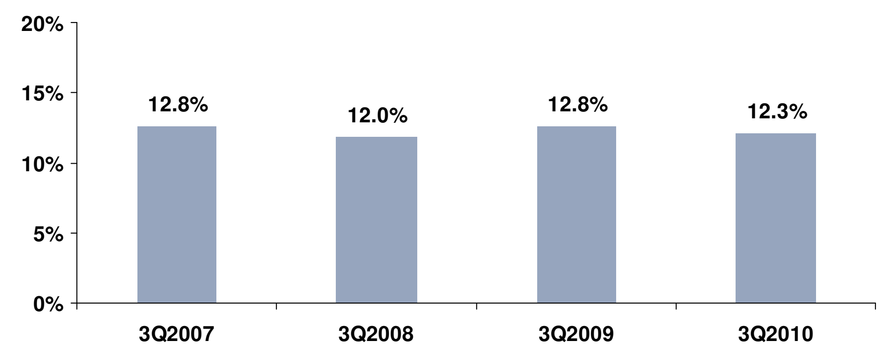
Declining revenues driven by declines in penalty fees and interest earning assets…

Gross Effective Asset Yield*



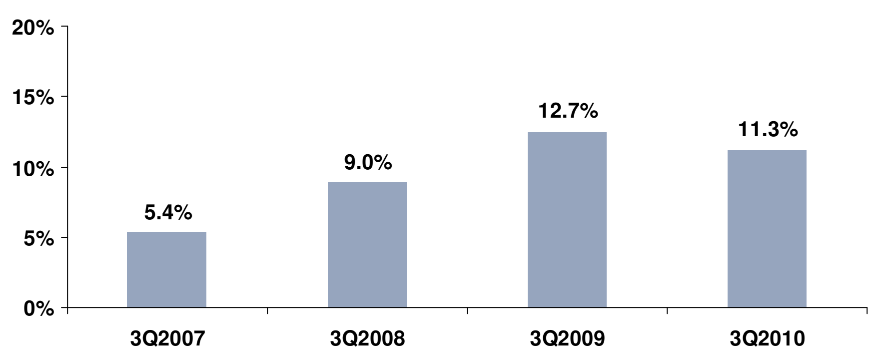
Avg. Gross Revenue $	*$366*	*$360*	*$422*	*$383*

Gross Effective Finance Charge Yield



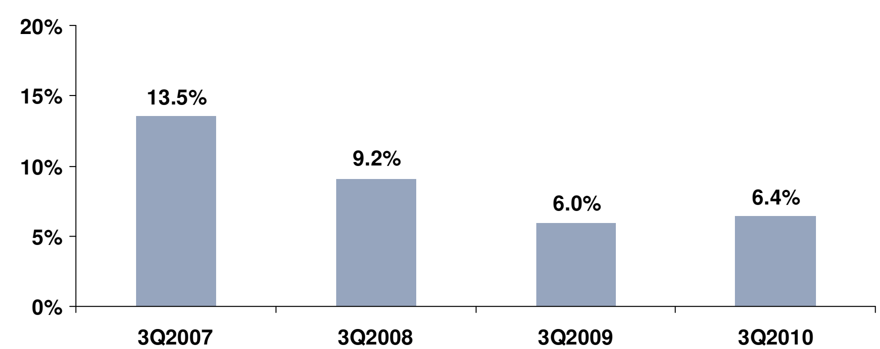
Avg. Interest Income $	*$248*	*$237*	*$290*	*$264*

Loan Loss Provision (% of Outstandings)**



Avg. LLP $	*$106*	*$179*	*$290*	*$246*

Gross Risk-Adjusted Effective Asset Yield***

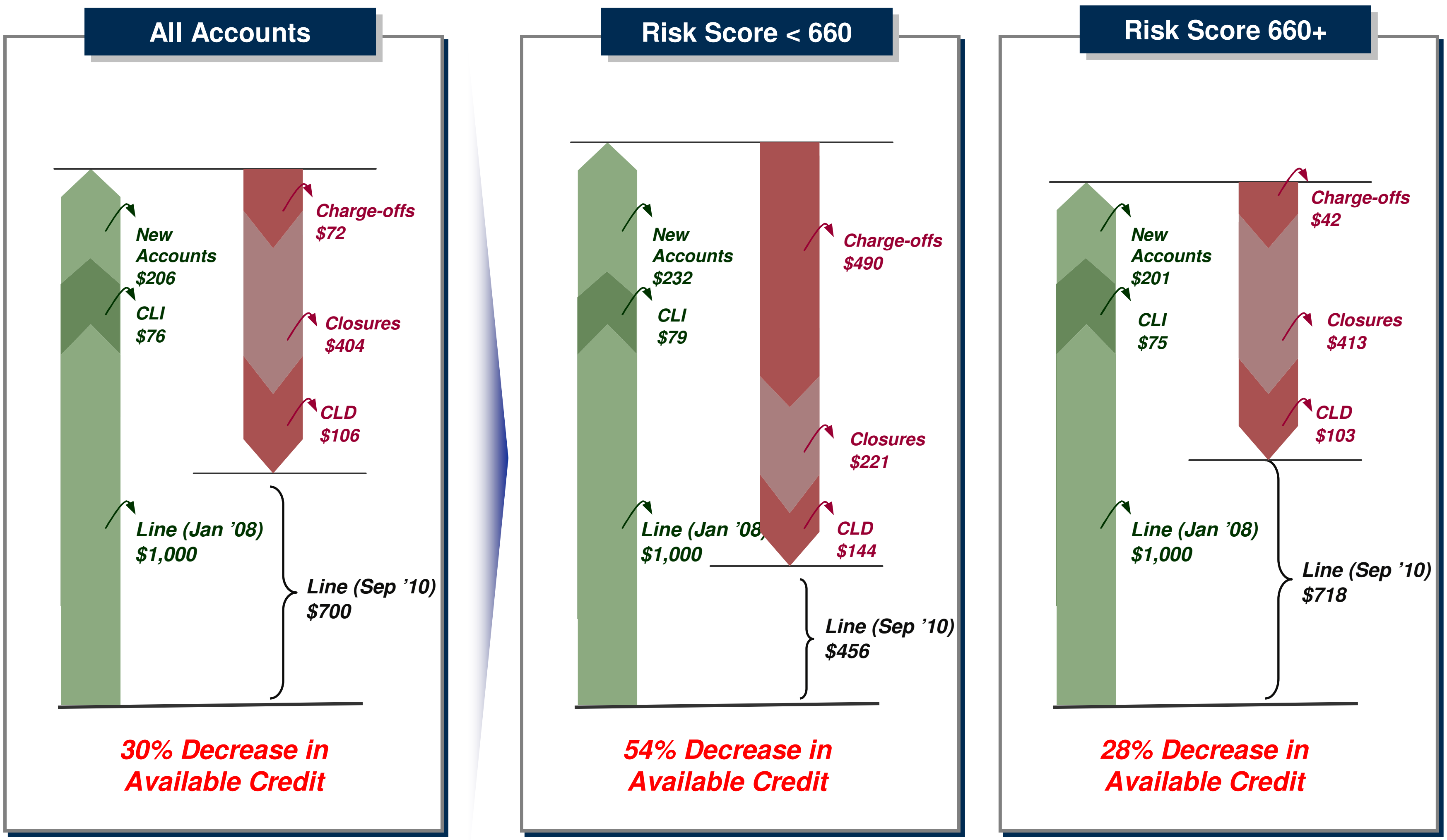


Avg. Daily Balance	*$1,927*	*$1,954*	*$2,232*	*$2,105*

*Note *: Gross Asset Yield includes only finance charges, gross interchange and fees.*
*** LLP is calculated by Argus based on historical observed losses over 12 months.*
All analyses excluded accounts booked within the prior 6 months.
All % metrics in the charts are calculated as a % of total ADB (annualized).
All $ metrics in the tables are per open account (annualized).

*Note ***: Does not include cost of funds (1.5%-2.0%), operating exp (3.5%-5.5%), marketing exp (1.0%-2.0%), rewards or partner costs. Operating expenses include costs associated with customer service, collections, fraud protection and IT.*

Credit… Availability of credit is down for all segments



Calibrated to $1,000 for January 2008

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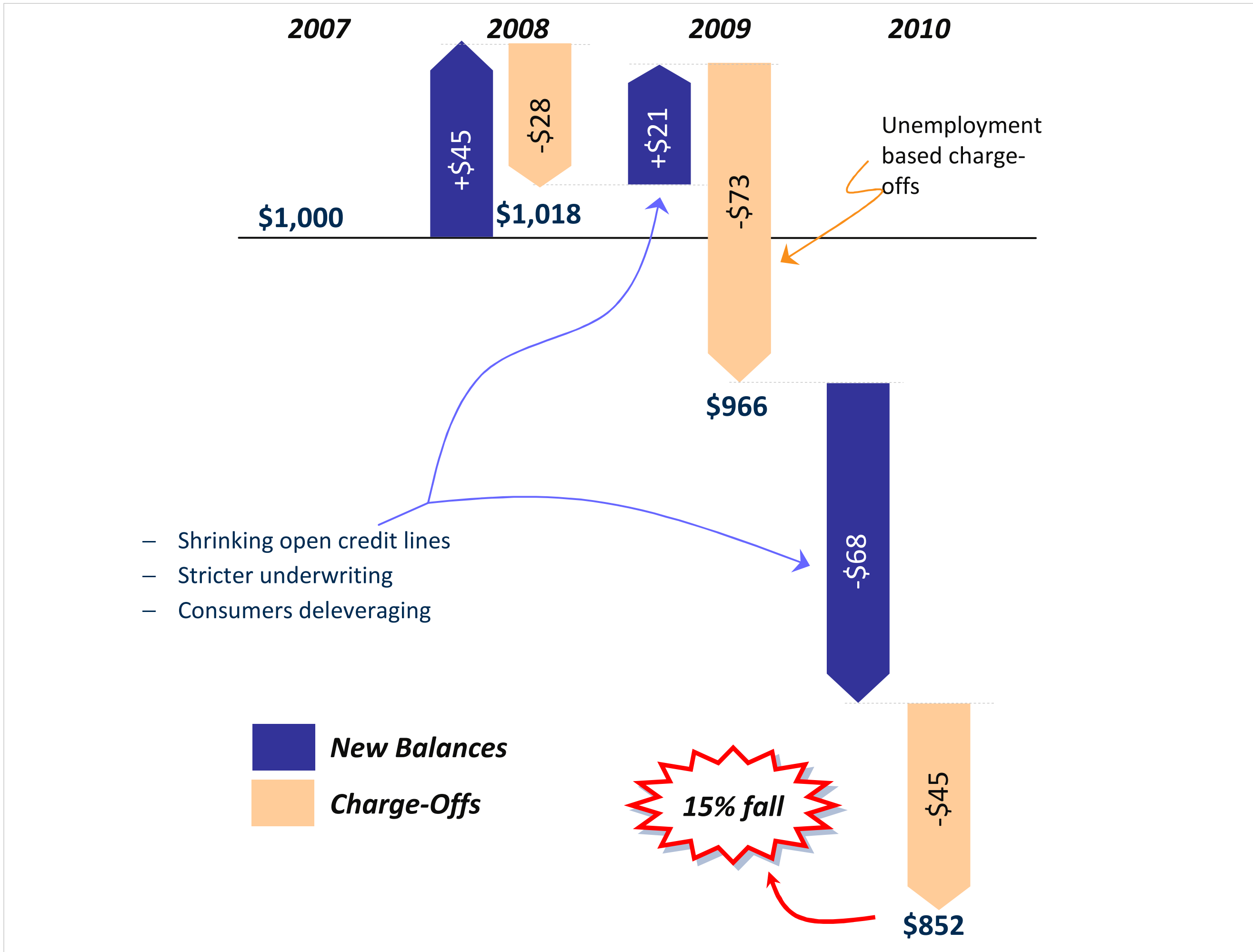
Attrition… Slower growth and higher charge-offs

Deleveraging and stricter underwriting are driving lower card balances

Drivers of Credit Card Balances (Indexed to 2007 Levels)



In Summary

The combination of the economic challenges and the CARD Act has resulted in the observed trends which have long-term implications for both issuers and consumers:

- **More transparent up-front pricing and fewer risk-based re-pricings of accounts**
- **Lower incidence and magnitude of late and over-limit fees along with greater incidence of annual and BT fees**
- **Reduced availability and increased cost of credit across all risk segments**
- **Fewer BT promos but more purchase promos**
- **Revenue mix shift driven largely by decline in penalty fees revenues and interest earning assets.**

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