

U.S. Credit Card Sector Update: Market Trends, Liquidation and Portfolio Pricing

Agenda

- U.S. Credit Card Sector – A Year in Review
- Key Economic Trends
- Liquidation and Pricing Changes
- Market Trends Unfolding
- Future Predictions
- Questions

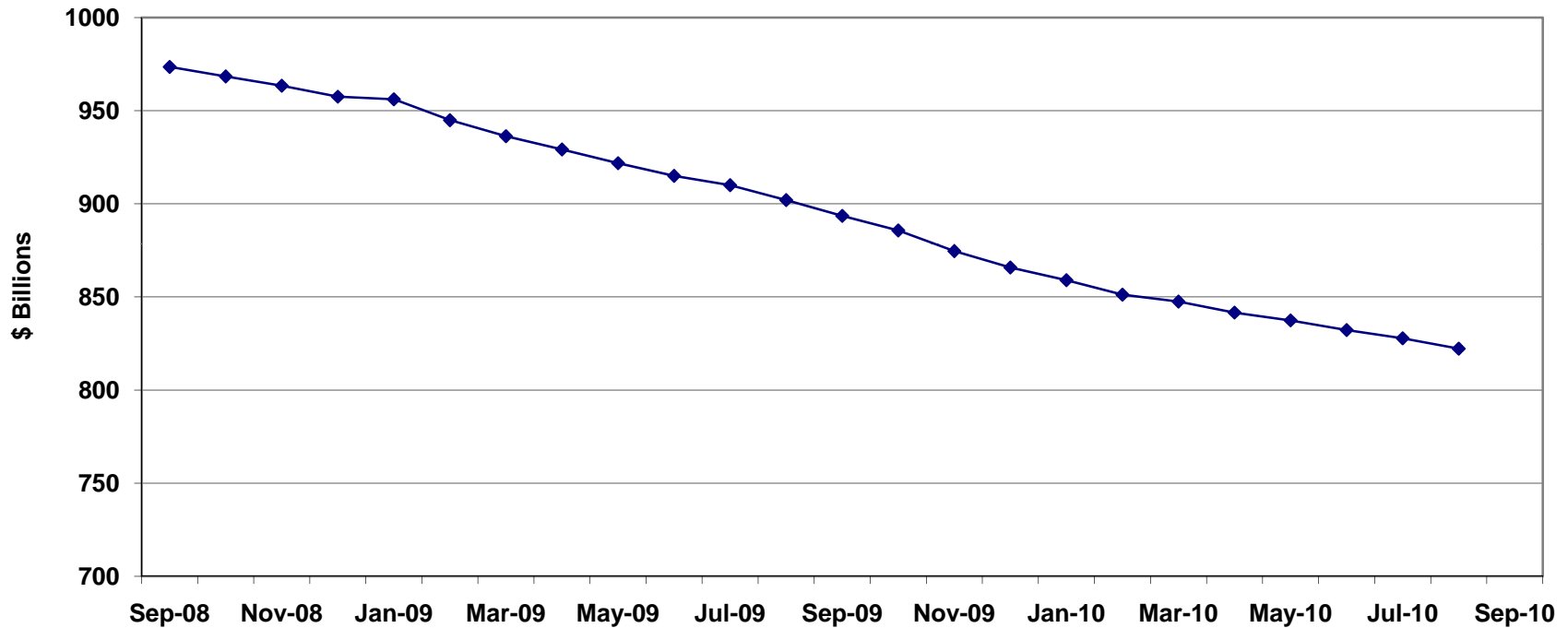
U.S. Credit Card Sector – A Year in Review

- From 2009 to 2010 we have seen...
 - The economy officially exiting the recession – With the help of Uncle Sam (aka tax payers); however, it has not yet rebounded
 - The implementation of the Card Act and other regulatory changes with more to come – say hello to Elizabeth Warren and the CFPB!!!
 - Liquidations decline... then stabilize... then slightly improve
 - Portfolio prices decline... then stabilize... then steadily increase
 - Credit issuers and debt buyers start to consolidate their vendor networks to maximize liquidation performance
 - Some ARM companies unable to source funding while there's lots of money sitting on the sidelines anxious to be put to work

Key Economic Trends

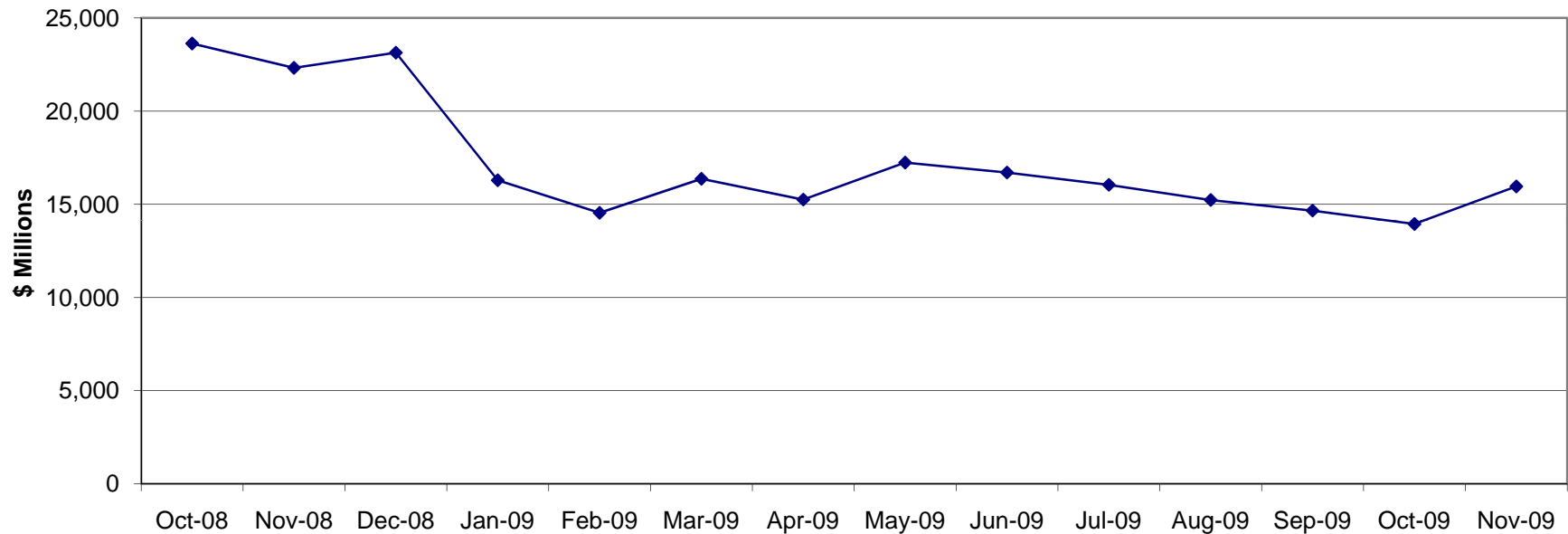
- Total outstanding credit card debt and new originations continue to decline
- Delinquency rates are stabilizing, charge-off rates starting to decline
- Unemployment rates have stabilized, but concerns exist about next year
- Bankruptcy filings are increasing again... Remember 2005?
- Consumer confidence continuing to go up and down
- Personal savings rate is stabilizing

Total Outstanding Credit Card Debt



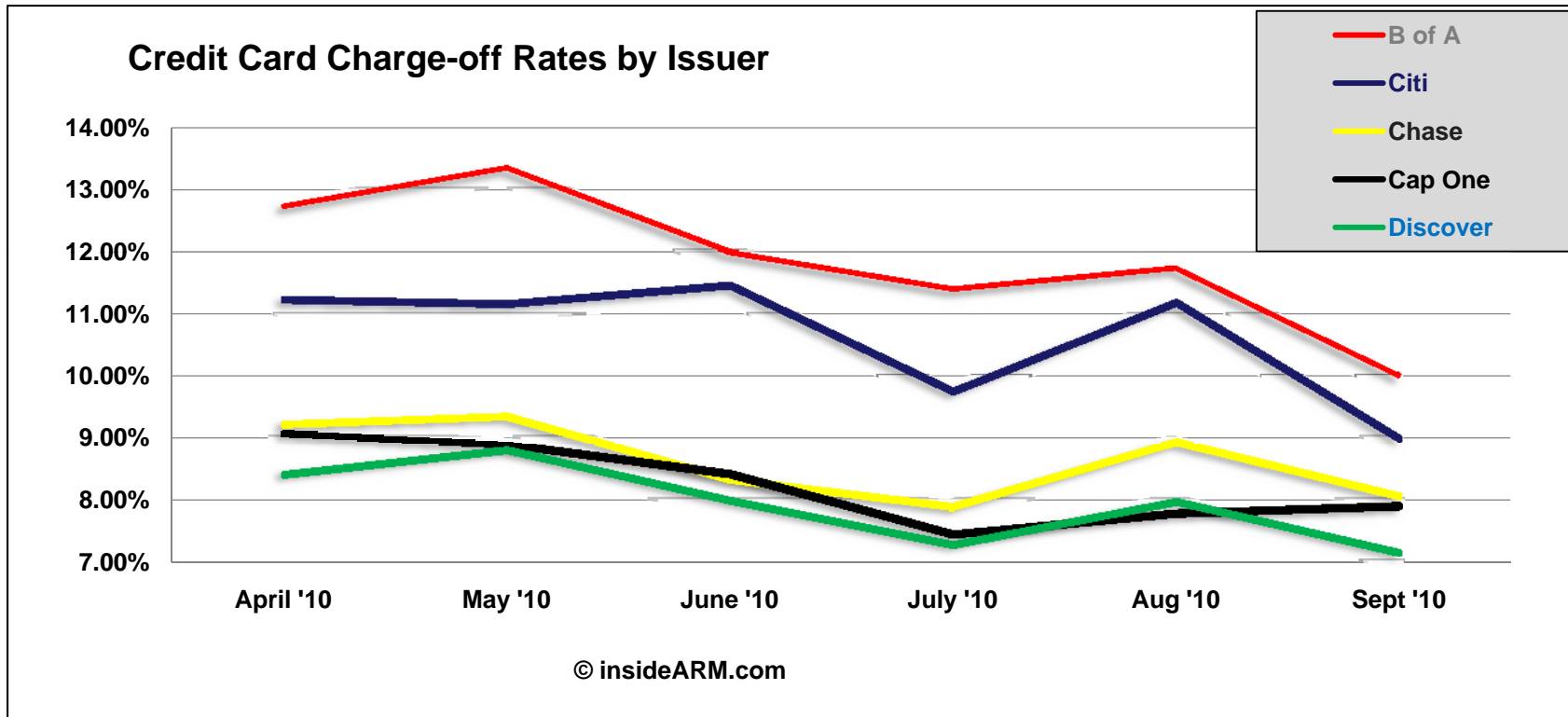
- Obtained from the Federal Reserve Consumer Loan Statistics – reflects seasonally adjusted outstanding revolving credit levels
- Total credit card debt outstanding has declined roughly 16% (\$150 billion) since reaching a peak of \$973 billion in September 2008

Credit Card Originations (30% Drop Since Q4'08)



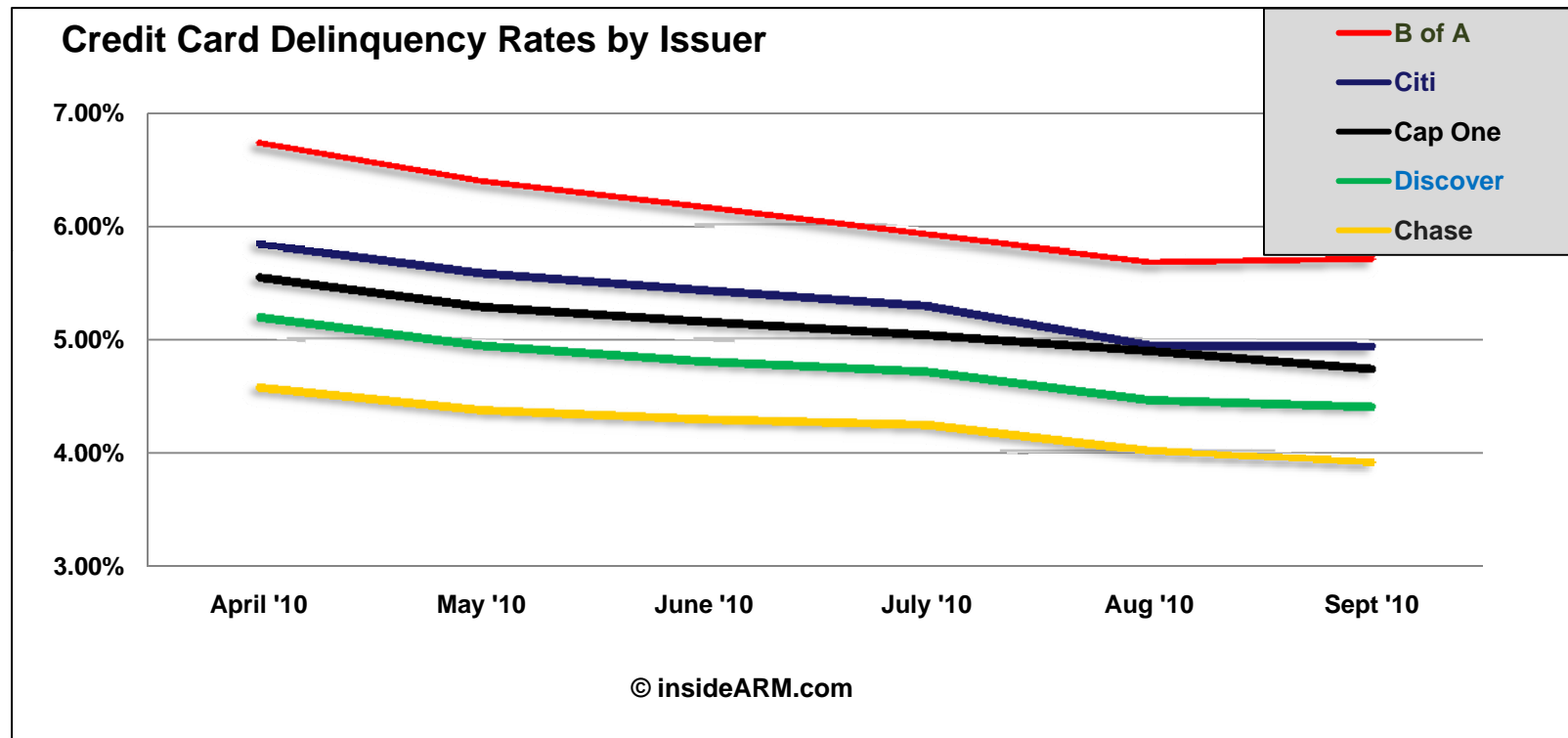
- Data obtained from the Treasury Department and collected from credit card issuers who received Capital Purchase Program (CPP) funds
- Top 7 issuers: Citi, JPMorgan, BofA, Amex, Wells, Bancorp and Cap One represented on average 97% of the total amount in credit card originations for the noted time period
- Discover is not included in these results

Charge-off Rates (Top 5 Issuers)



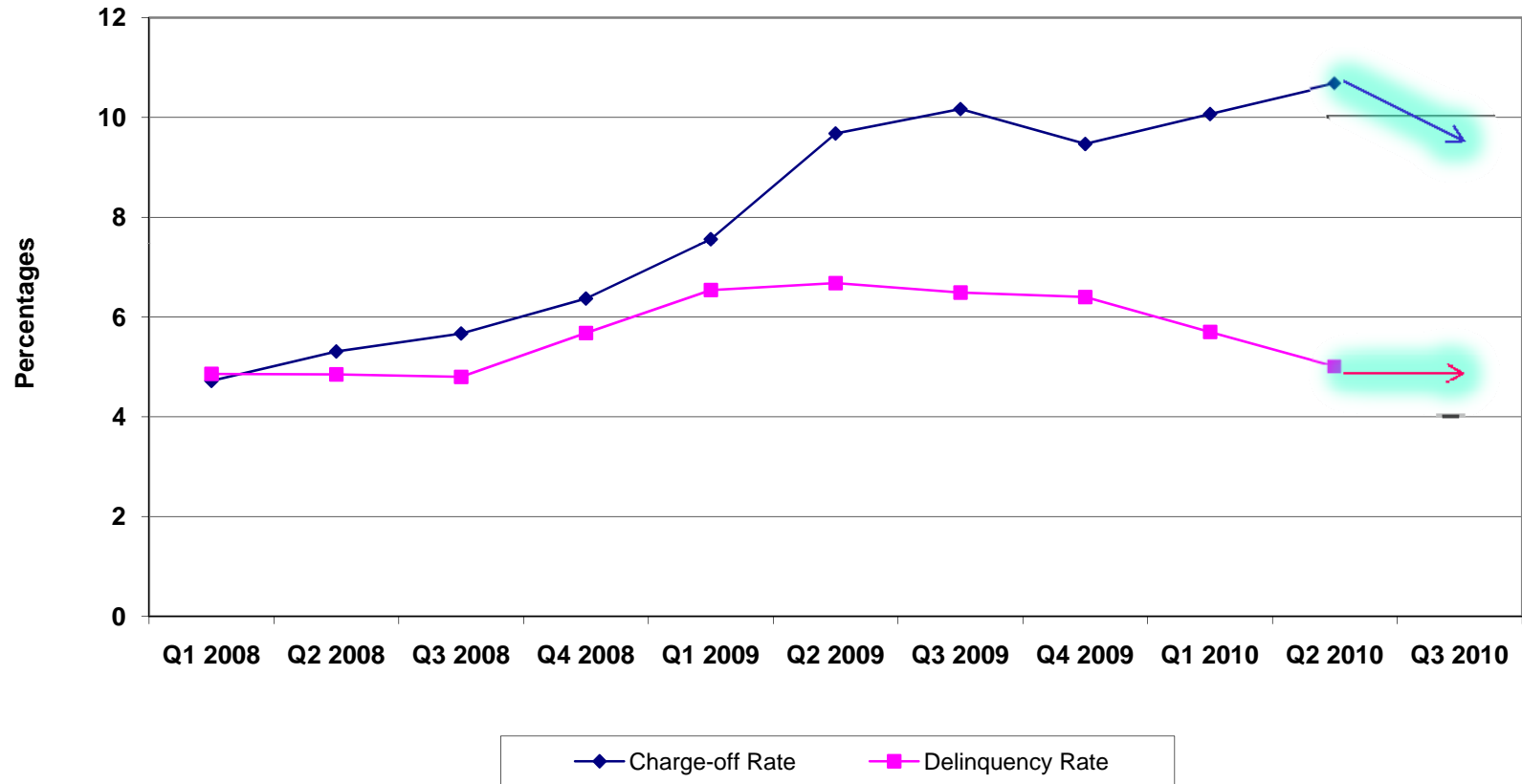
- Data obtained from InsideARM
- Results vary by issuer, but it seems clear that the total charge-off rate is declining

Delinquency Rates (Top 5 Issuers)



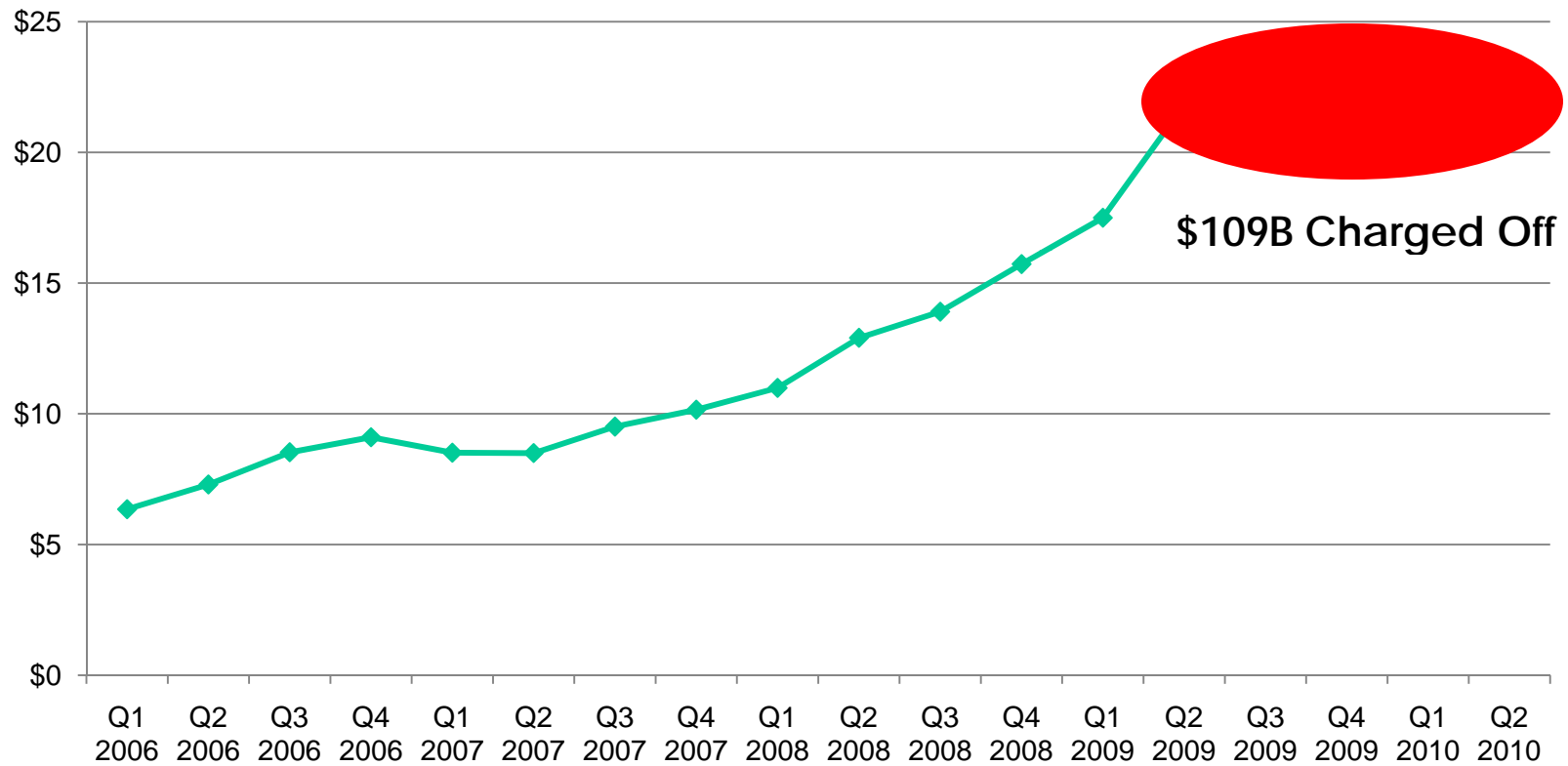
- Data obtained from InsideARM
- Delinquency rates are stabilizing as opposed to the decline seen in the charge-off rates

Charge-off and Delinquency Rates (All Banks)



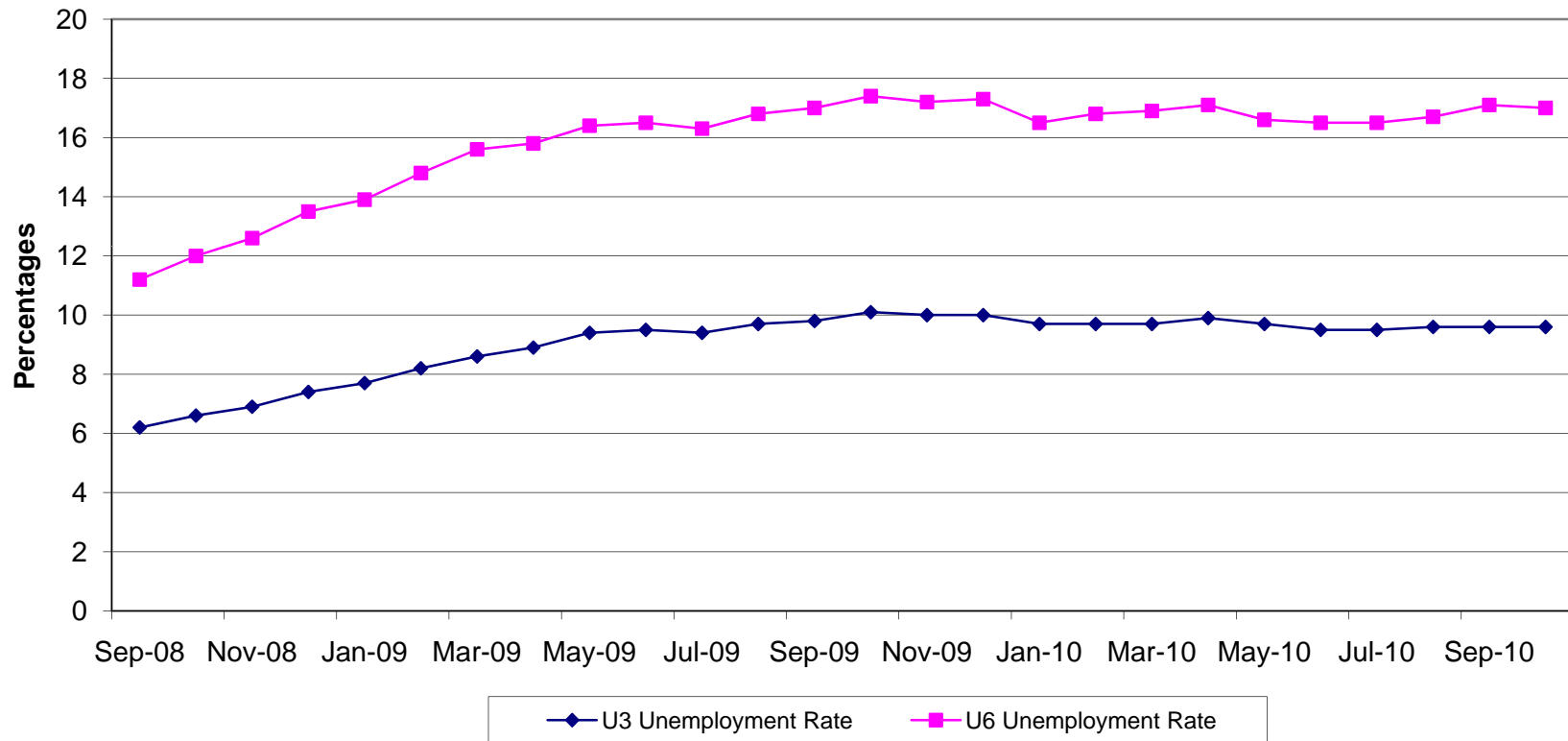
- Data reflect annualized, seasonally adjusted results
- Q3 2010 trend line predictions based on results from top 5 credit issuers

Total Charge-off Credit Card in \$ Billions (Face Value)



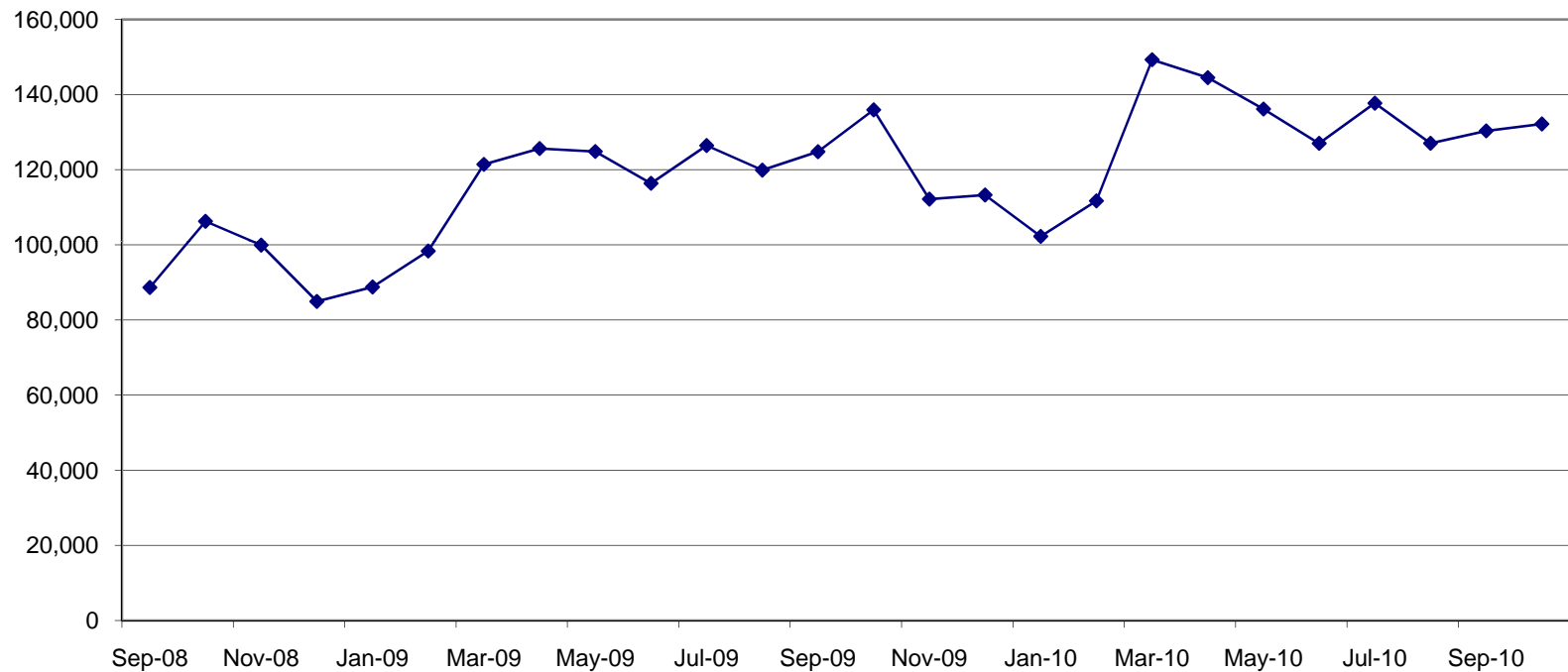
- Data obtained from the Federal Reserve G.19 Consumer Credit Report.
- Quarterly charge-off amounts calculated utilizing non-seasonally adjusted revolving credit quarterly figures and the non-seasonally adjusted quarterly credit card charge-off rates

U.S. Unemployment Rates



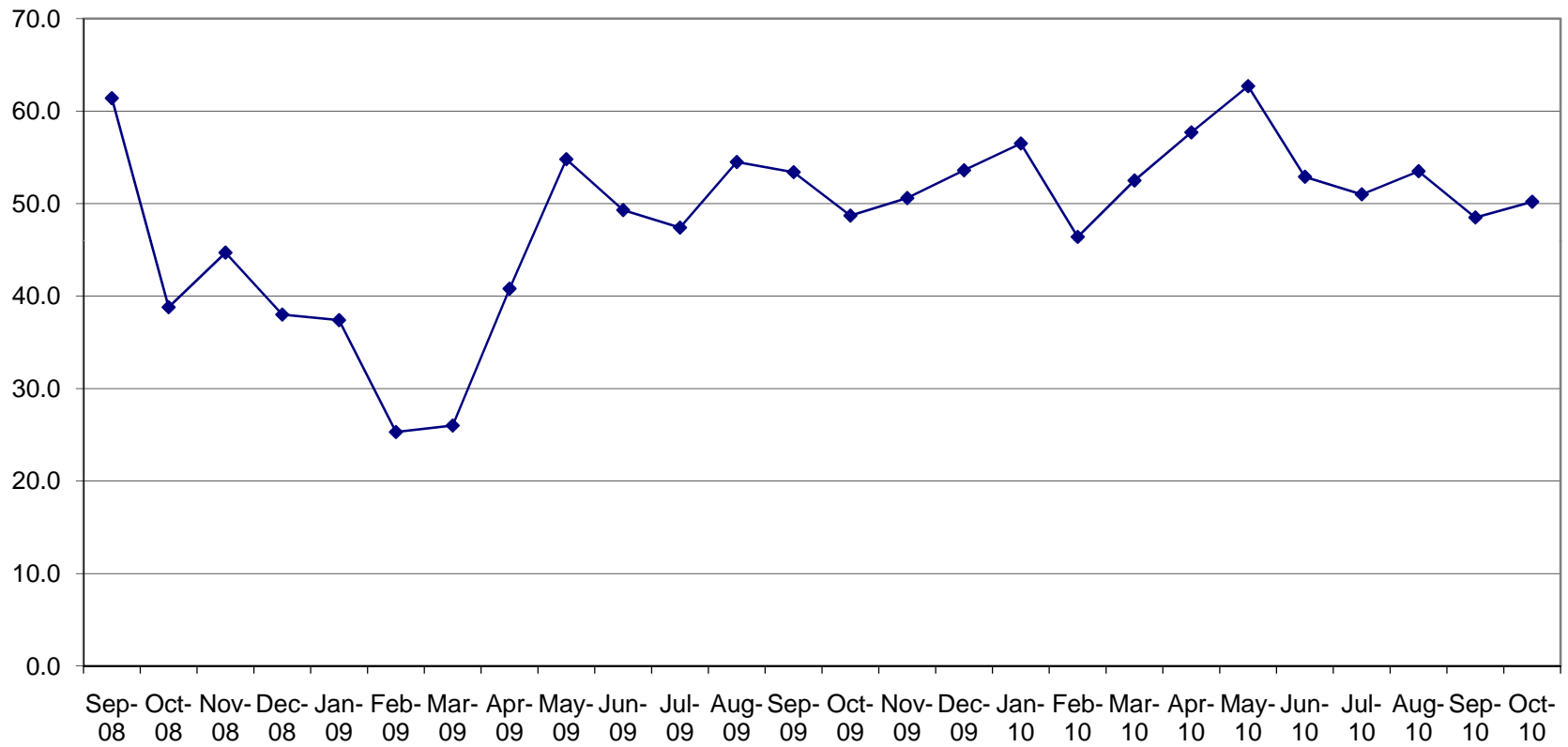
- The U.S. unemployment rates have stabilized but are not yet showing signs of improvement

Consumer Bankruptcy Filings



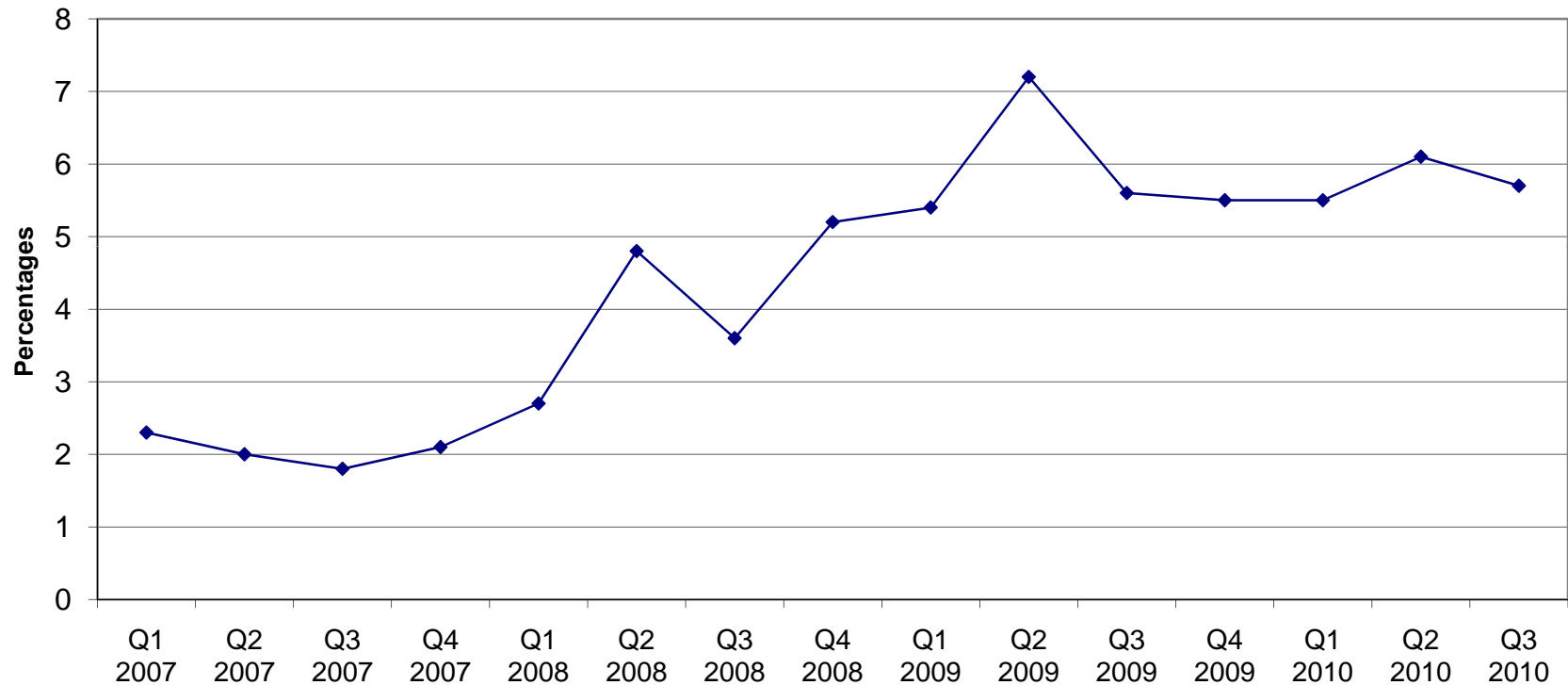
- Data obtained from The American Bankruptcy Institute
- 10% increase in bankruptcy filings in the first 10 months of 2010 vs same time period in 2009

Consumer Confidence Index



■ Data obtained from The Conference Board's Consumer Confidence Index Survey; 1985 = 100

Personal Savings Rate



- Data obtained from The Bureau of Economic Analysis
- Q3 2010 personal savings rate is an estimate based on preliminary results for September; results for July and August were 5.7% and 5.8%, respectively

Average Liquidation Decline Results

Stage of Delinquency	2007 to 2008	2008 to 2009	2009 to 2010
Fresh	20% – 30%	30% – 40%	-10% – 5%
Primary	20% – 30%	30% – 40%	-10% – 5%
Secondary	25% – 30%	20% – 30%	-5% – 10%
Tertiary	20% – 30%	20% – 30%	-5% – 15%
Quads+	15% – 25%	25% – 35%	0% – 20%

- Liquidations began to stabilize in Q1 of 2010
 - Increase in settlements and payment plans
 - Credit issuers became more aggressive with their settlement policies in the second half of '09 and continued into 2010
 - Greater shift toward pre-litigation and legal collection strategies in 2010

Portfolio Pricing by Stage of Delinquency

Stage of Delinquency	Pre Recession	2008	2009	Q1 2010	Q2 2010	Q3 2010
Fresh	\$.12 – \$.17	\$.07 – \$.12	\$.035 – \$.07	\$.04 – \$.08	\$.045 – \$.085	\$.05 – \$.11
Primary	\$.08 – \$.12	\$.05 – \$.09	\$.02 – \$.05	\$.025 – \$.05	\$.025 – \$.055	\$.025 – \$.08
Secondary	\$.05 – \$.09	\$.03 – \$.065	\$.015 – \$.03	\$.02 – \$.04	\$.02 – \$.045	\$.02 – \$.06
Tertiary	\$.03 – \$.05	\$.015 – \$.04	\$.01 – \$.02	\$.01 – \$.02	\$.01 – \$.025	\$.01 – \$.035
Quads+	\$.01 – \$.025	\$.005 – \$.02	\$.001 – \$.01	\$.002 – \$.01	\$.002 – \$.015	\$.002 – \$.015

- This data reflects transactions between credit issuers and debt buyers
- High end of price range increased at every stage of delinquency
- Primary factors contributing to pricing changes over the past year:
 - Increased demand, same supply
 - More aggressive buyers, willing to accept lower margins

Current Market Trends

- Liquidations are stabilizing/improving but placements are declining
- Credit card origination volumes are not growing fast enough
- Portfolio prices continue to rise... for certain portfolios
- Increased security and regulatory requirements are making it harder to collect debts
- FTC and State AG's continue to aggressively enforce the FDCPA
- Pending legislative "game changers" still exist for ARM industry
- Top performers are adapting to these changes and diversifying their client base and market concentration

2011 Predictions

- Delinquency and charge-off volumes will decline – vendor networks will continue to consolidate
- More credit card focused ARM companies will diversify into other markets, join forces or go out of business
- Liquidation rates will continue to stabilize and likely increase
- Increase in debt buying opportunities both in the charged-off and performing markets
 - Asset pricing bubbles may form in certain markets
- Unemployment rates will continue to stabilize and possibly decline slightly – nothing substantial

2011 Predictions (Continued)

- Consumer spending will not increase significantly as they will remain cautious until the job market stabilizes
- Additional government stimulus programs will be created to stimulate job growth and consumer spending – impact will likely not be felt in 2011
- Some regulatory changes lead by the FTC recommendations and pushed through by Elizabeth Warren and the CFPB may occur toward the second half of the year
 - Geared toward helping consumers and cleaning up bad practices
 - CFPB will not have as much power now that the Republican party has gained control of the U.S. House

Questions