

Credit Card Sector Update on Liquidation, Pricing and Market Trends

**ACA Fall Forum
Friday, November 6, 2009**



Agenda

- Looking Back at Q1 2009
 - Liquidation and Portfolio Pricing Ranges
 - Market Trends
 - Original Predictions for Rest of 2009
- Getting Current on Liquidation, Pricing and Q1 Predictions
- Current Market Trends
- Future Predictions

Q1 Liquidation Performance Comparison

Stage of Delinquency	Q1'07 to Q1'08 Avg. Liq. Decline	Q1'08 to Q1'09 Avg. Liq. Decline	Small Balance Liq. Decline	Large Balance Liq. Decline	Q1'07 to Q1'09 Avg. Liq. Decline
Fresh	20% – 25%	35% – 40%	15% – 25%	30% – 50%	55% – 65%
Primary	25% – 30%	30% – 35%	15% – 25%	30% – 40%	55% – 65%
Secondary	25% – 30%	30% – 35%	15% – 25%	30% – 40%	55% – 65%
Tertiary	20% – 25%	25% – 30%	20% – 25%	30% – 40%	45% – 55%
Quads	20% – 25%	25% – 30%	20% – 25%	25% – 30%	45% – 55%

- Primary factors contributing to liquidation performance declines:
 - Substantial reduction in settlement and payment in full volumes due to loss of home refinancing market
 - Increased unemployment and under employment rates
 - Decline in average monthly payments due to reduction in disposable income and concerns over job security
 - Improved liquidation performance results pre charge-off
 - Substantial increase in supply of placements causing greater focus on faster liquidating accounts and less interest in work intensive paper

Q1 Portfolio Pricing by Stage of Delinquency

Stage of Delinquency	Price Range Q1 2007	Price Range Q1 2008	Price Range Q1 2009	1-year Price Decline	2-year Price Decline	2009 Price Predictions
Fresh	\$.12 – \$.17	\$.09 – \$.12	\$.05 – \$.07	40% – 50%	55% – 65%	\$.04 – \$.06
Primary	\$.08 – \$.12	\$.05 – \$.08	\$.03 – \$.05	30% – 45%	55% – 65%	\$.025 – \$.04
Secondary	\$.055 – \$.09	\$.03 – \$.05	\$.02 – \$.03	30% – 40%	60% – 67%	\$.0175 – \$.025
Tertiary	\$.03 – \$.05	\$.0125 – \$.03	\$.01 – \$.02	20% – 33%	60% – 67%	\$.01 – \$.0175
Quads	\$.01 – \$.025	\$.005 – \$.0125	\$.005 – \$.01	20% – 33%	50% – 60%	\$.004 – \$.01

- Primary factors contributing to portfolio price declines:
 - Declining liquidation performance
 - Financing is less available and more expensive
 - Increasing unemployment rates and declining home values
 - Greater uncertainty regarding future liquidation performance
 - Higher costs associated with liquidating portfolios
 - Greater supply with same or less market demand
 - Substantial reduction of pricing in re-sale market

Market Trends

- Unemployment rate is rising, liquidation performance is declining
- Credit markets still very tight, holding up recovery
- Government stimulus programs have not produced desired results
- Bankruptcy filings are rising, housing prices are declining
- Consumer confidence is declining
- Increased media attacks and FTC/State AG investigations
- Public ARM company performance mirrors the market volatility

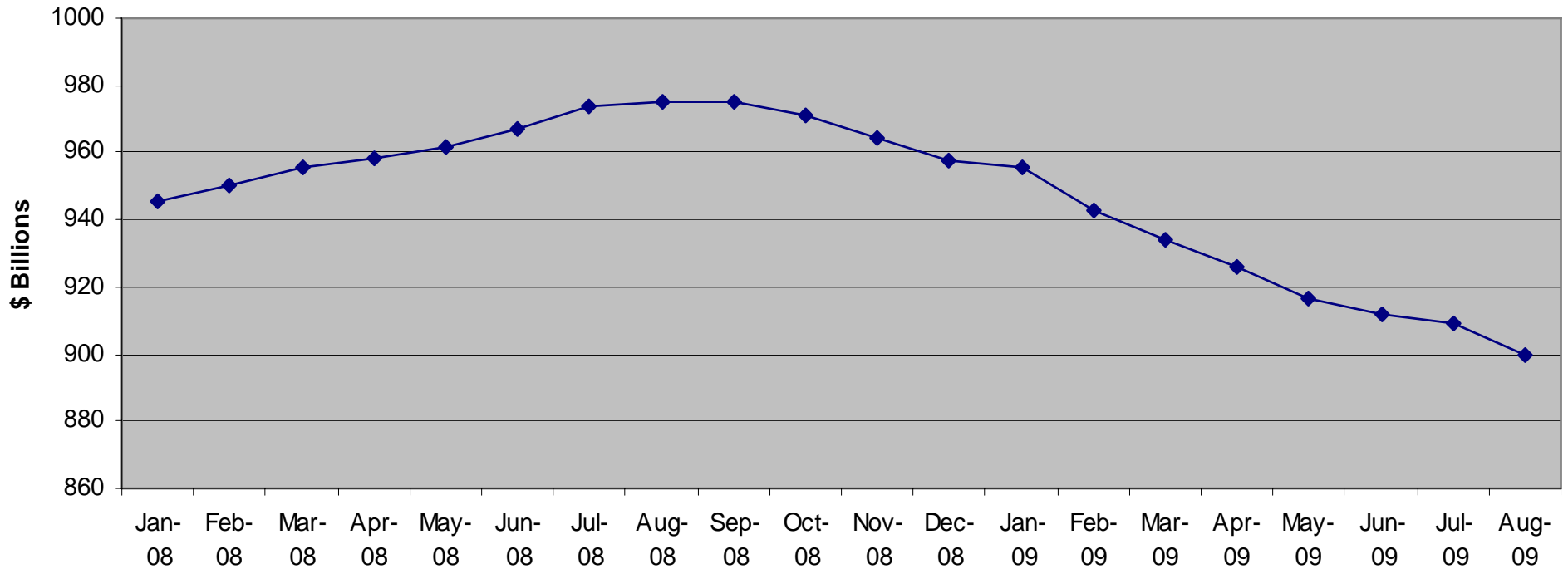
Original Predictions for Rest of 2009

- Total outstanding credit card debt and originations will continue to decline
- Charge-off and delinquency rates will continue to increase
- Portfolio liquidation rates will drop substantially after Q2
- Portfolio sales will increase and prices will decline to projected levels
- Unemployment rate would reach 10% or more

Original Predictions for Rest of 2009 (cont.)

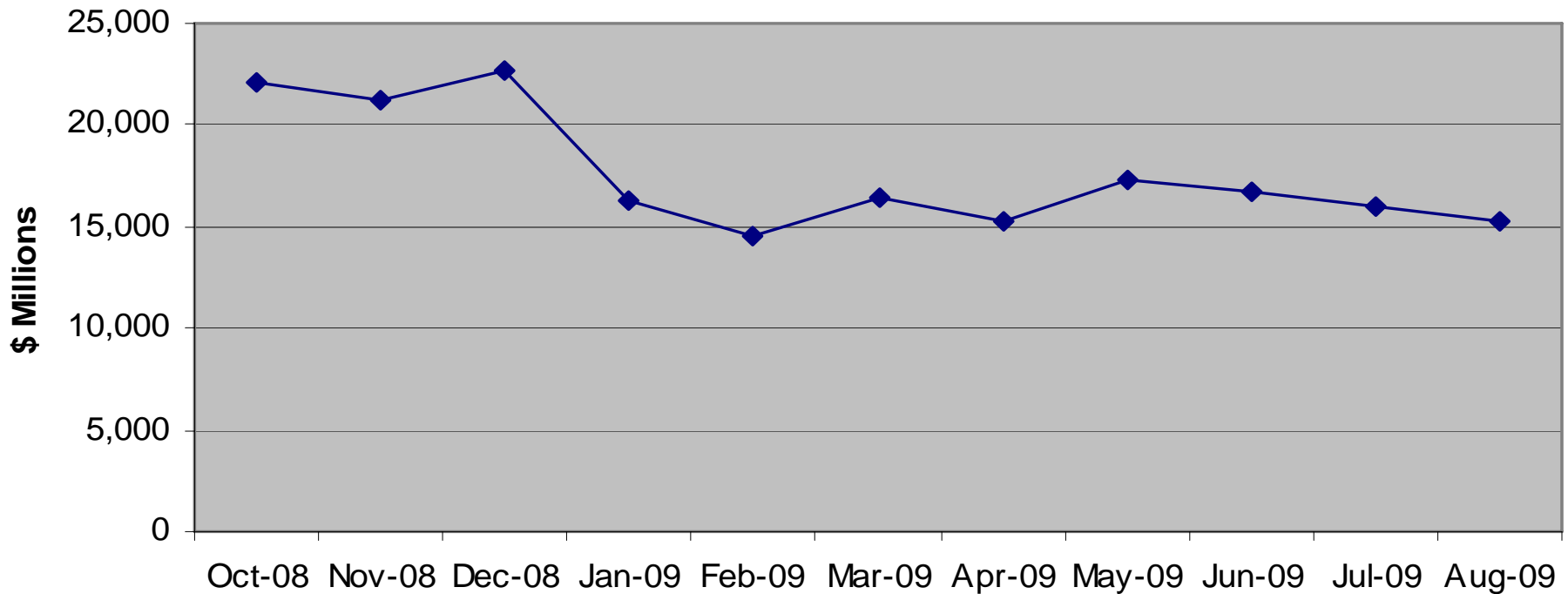
- Fewer portfolio sales via public auctions, more private transactions
- Debt buyers and servicers will partner to acquire customized portfolios
- Legislative and regulatory changes will increase and negatively impact this sector
- Number of active debt buyers and servicers will decline

Total Outstanding Revolving Credit



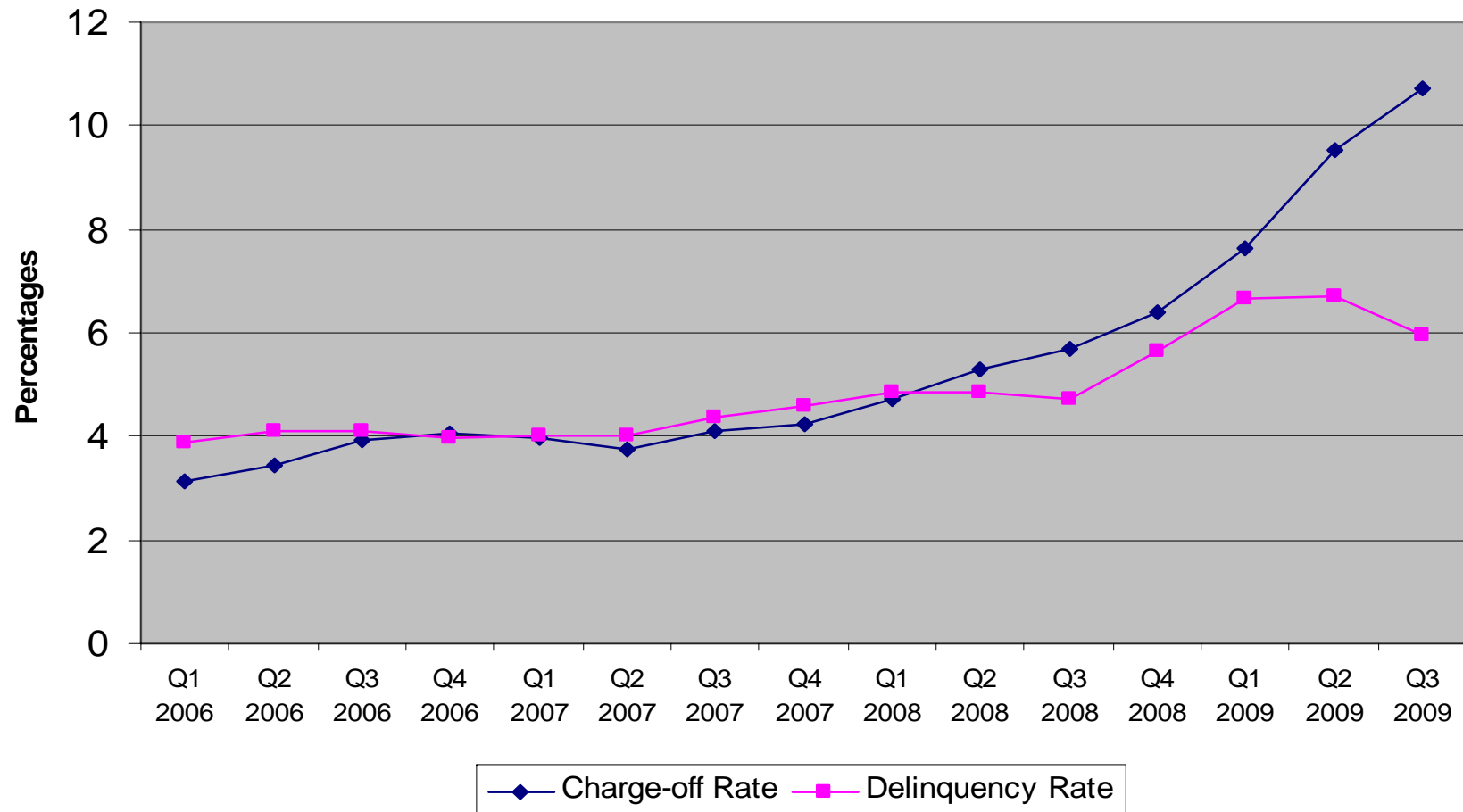
- Obtained from the Federal Reserve Consumer Loan Statistics – reflects seasonally adjusted outstanding revolving credit levels
- Total credit card debt outstanding has declined nearly \$76 billion since reaching a peak of \$975 billion in September 2008

Credit Card Loan Originations



- Obtained from the Treasury Department's Consumer Research Group
- Data includes results from all major credit card issuers except for Discover
- American Express results were also not obtained in 2008
- Top 7 issuers: Citi, JPMorgan, BofA, Amex, Wells, Bancorp and Cap One represented over 95% of total originations for the noted time period

Credit Card Charge-off and Delinquency Rates



- Charge-offs declined from August to September, but delinquency rates rose suggesting that charge-offs may increase in the future

Liquidation Performance Comparison (Thru Q3)

Stage of Delinquency	Q1 '07 to Q1 '09 Avg. Liq. Decline	9 Months Liquidation Performance		
		2007 to 2008 Avg. Liq. Decline	2008 to 2009 Avg. Liq. Decline	2007 to 2009 Avg. Liq. Decline
Fresh	55% – 65%	25% – 30%	30% – 40%	50% – 60%
Primary	55% – 65%	25% – 30%	25% – 40%	45% – 60%
Secondary	50% – 60%	25% – 30%	25% – 40%	45% – 60%
Tertiary	40% – 50%	20% – 25%	20% – 30%	35% – 45%
Quads	40% – 50%	20% – 25%	20% – 30%	35% – 45%

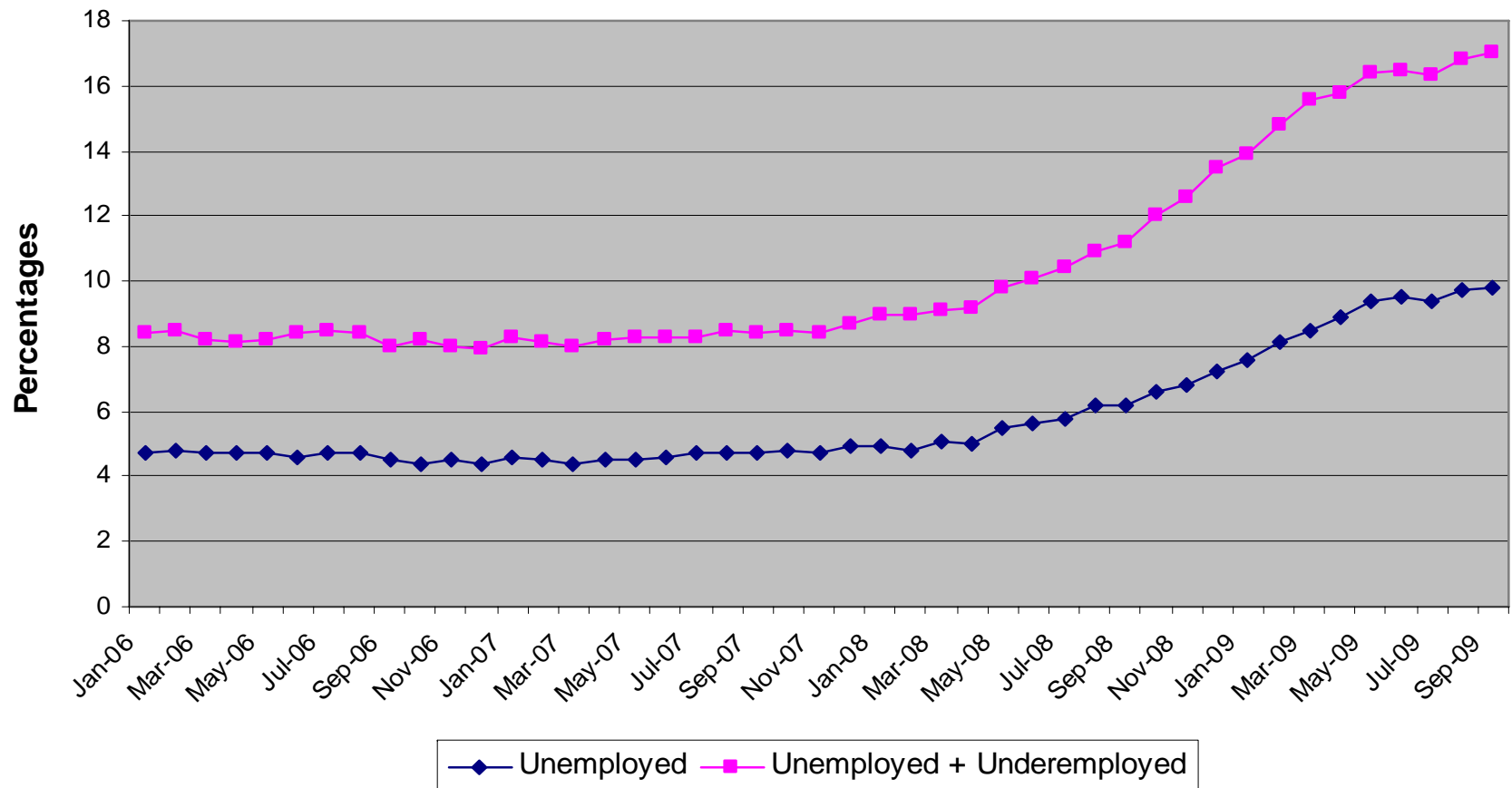
- Primary reasons for stabilization in liquidation performance:
 - More debtors are making payments
 - Credit issuers and debt buyers are being more aggressive with their settlement policies
 - Improved economic performance results and market rallies have increased consumer confidence

Q3 Portfolio Pricing by Stage of Delinquency

Stage of Delinquency	Price Range Q1 2007	Price Range Q1 2008	Price Range Q1 2009	2009 Price Predictions	Price Range Q3 2009
Fresh	\$.12 – \$.17	\$.09 – \$.12	\$.05 – \$.07	\$.04 – \$.06	\$.035 – \$.07
Primary	\$.08 – \$.12	\$.05 – \$.08	\$.03 – \$.05	\$.025 – \$.04	\$.03 – \$.05
Secondary	\$.055 – \$.09	\$.03 – \$.05	\$.02 – \$.03	\$.015 – \$.025	\$.02 – \$.03
Tertiary	\$.03 – \$.05	\$.0125 – \$.03	\$.01 – \$.02	\$.0075 – \$.015	\$.01 – \$.03
Quad Plus	\$.01 – \$.025	\$.005 – \$.0125	\$.004 – \$.01	\$.003 – \$.0075	\$.002 – \$.0075

- Primary factors contributing to portfolio pricing stabilization:
 - Stabilized liquidation performance
 - Less portfolio sales – banks not motivated by current pricing and not required to sell
 - Less debt buyers actively purchasing portfolios
 - Greater uncertainty surrounding future liquidation performance
 - More expensive financing
 - Re-sale market activity increasing, but pricing remains low

U.S. Unemployment Rates



- U.S. unemployment rate reached 9.8% and the total unemployment and underemployment rate increased to 17% in September

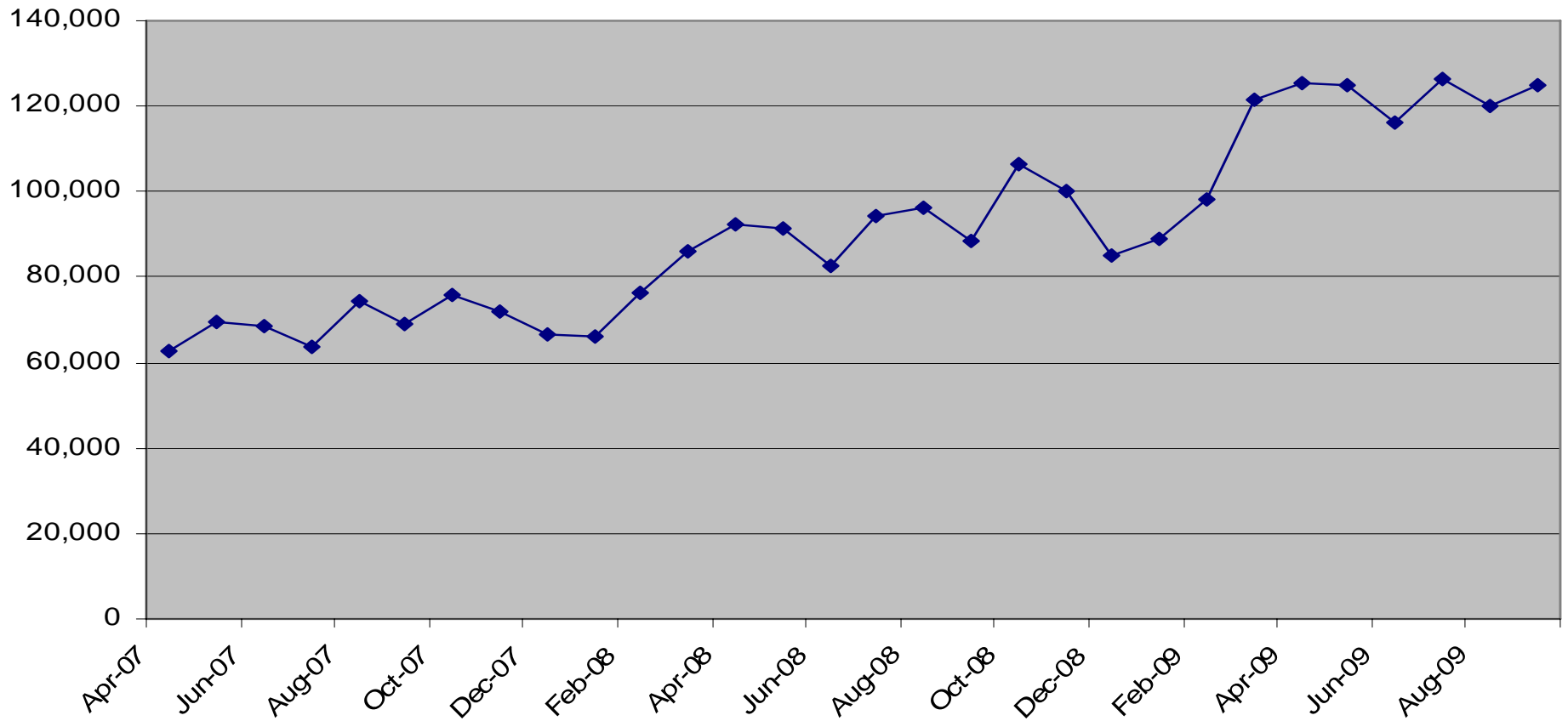
Remaining Original Predictions for 2009

- Fewer portfolio sales via public auctions, more private transactions
 - More private transactions but total portfolio sales are down in 2009
- Debt buyers and servicers will partner to acquire customized portfolios
- State and federal legislative changes that will impact the credit card ARM sector
 - Card Act
 - Creation of CFPA
 - State and local legislative changes (NYC, NC, MA)
- Number of active debt buyers and servicers will decline

Current Market Trends

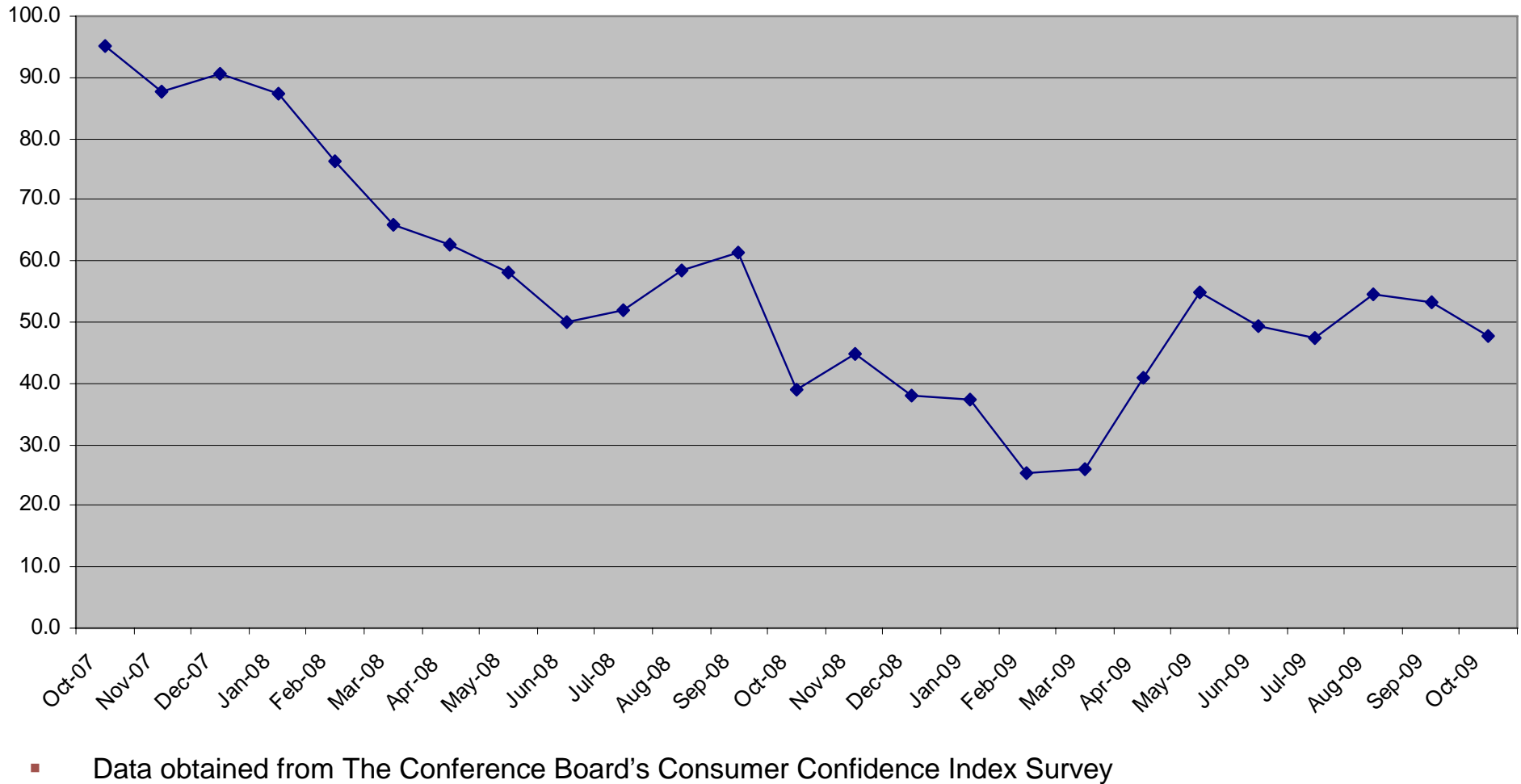
- Liquidations and portfolio prices starting to stabilize
- Consumer bankruptcy filings and unemployment continue to rise
- Credit markets remain tight, but signs of loosening exist
- Consumer confidence remains low despite bear market rally and rising average home prices
- Stimulus programs increase GDP but economy not yet sustainable
- ARM industry still brunt of media attacks and increased investigations by FTC/State AGs
- Increased legislation that negatively impacts the ARM industry

Consumer Bankruptcy Filings

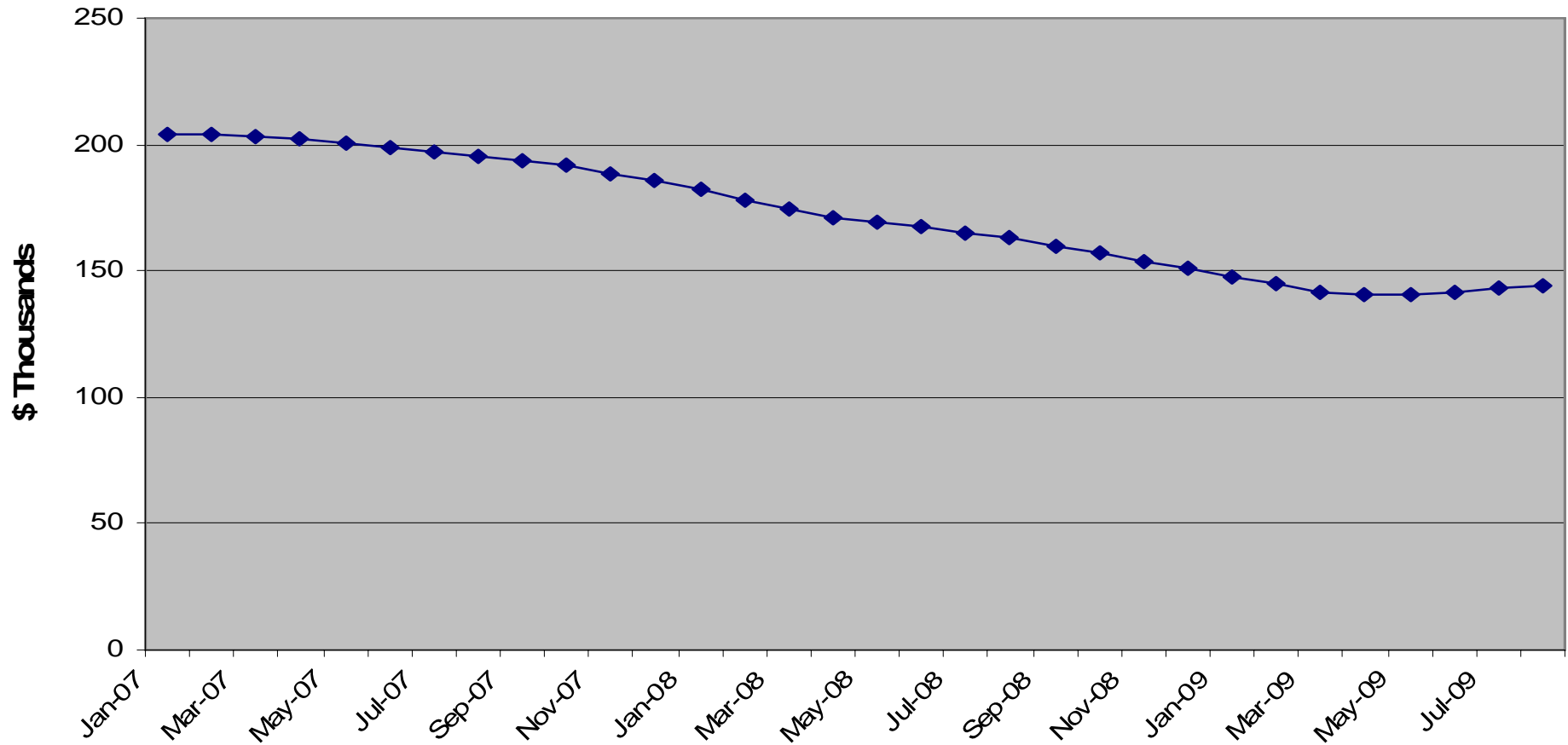


■ Data obtained from The American Bankruptcy Institute

Consumer Confidence Index



Average U.S. Home Prices



- Data obtained from S&P/Case-Shiller 20-City Home Price Index and reflects average home values on a seasonally adjusted basis

2010 Predictions – If Recession Has Ended

- Delinquency and charge-off volumes will stabilize throughout the rest of this year and Q1 of 2010; start to decrease by end of 2010
- Liquidation rates will stabilize throughout Q1 2010 as compared to prior year results; remain flat rest of 2010 and possibly increase
- Credit issuers and debt buyers will continue to be aggressive with settlement programs at least until next April then cut back
- Full unemployment will peak at around 10% to 10.5%, and remain in the 9% to 10% range for the rest of 2010
- Debt portfolio prices may increase slightly along with sales volumes from Q3 results; longer term value in tertiary plus stages

2010 Predictions – If Double Dip Recession

- Additional government stimulus programs will be created to minimize impact of recession
- Increase in unemployment and consumer bankruptcy rates, causing delinquency and charge-off volumes to rise
- Liquidation rates will drop, causing pricing and portfolio sales to decline as well
- Credit issuers and debt buyers will continue to be aggressive with settlement programs – take what you can get
- More service providers and debt buyers will go out of business