

# Fitch: U.S. Retail Credit Card Defaults Hit Near-Record Levels with No Relief in Sight

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U.S. consumers defaulted on store-branded credit cards at near-record levels during the holiday shopping season, with 2010 likely to bring more of the same trend, according to Fitch Ratings.

Fitch's December Retail Credit Card Index results show that more than one in every eight dollars of receivables was written off as uncollectable during the November collection period on an annualized basis. Taken with the recent delinquency trends and Fitch's expectation for unemployment, Fitch expects retail card chargeoffs to remain elevated throughout first half-2010.

"We do not foresee any meaningful improvement in the retail card credit quality in the coming months," said Managing Director Michael Dean. "U.S. consumers remain under stress on a number of fronts, most notably on the employment front, and retail card chargeoffs will continue to reflect those pressures."

Despite the elevated chargeoff and delinquency measures, Fitch expects retail card ABS ratings to remain stable throughout 2010. Excess spread remains robust, which coupled with loss coverage multiples and other structural protections will shield investors from potential downgrades or early amortization scenarios.

In December, Fitch's Retail Credit Card Chargeoff Index snapped a two-month decline, rising 122 basis points (bps) to 12.56% from the previous month. Throughout 2009, chargeoffs surpassed the previous record (12.25% in January 2005) five times, establishing a new all-time high of 12.81% in August. Throughout the year, retail chargeoffs averaged 11.88% (more than 42% above the historical average of 8.34%).

"While results were negative throughout the year, we have seen the pace of deterioration moderate more recently," said Dean. "Certain issuers have also tightened underwriting standards and become more selective when adding new accounts, which should help mitigate loss rates longer term."

Late stage delinquencies, as measured by Fitch's 60+ day retail delinquency index, fell 15 bps to 5.22%. Late stage delinquencies averaged 5.25% for the past three months and 5.09% for all of 2009, exhibiting some signs of stabilizing albeit near record highs. Similar to chargeoffs, the deterioration in delinquencies has slowed significantly from the previous year, yet they still remain almost 48% higher than 2007. Despite these short term improvements, Fitch expects retail credit card delinquencies to remain elevated throughout first half 2010 in line with its expectations for unemployment.

High unemployment and ongoing household deleveraging will continue to limit demand for consumer credit in 2010. Consumer confidence as measured by the Conference Board remains historically low despite rising in the most recent period and unemployment is expected to remain elevated averaging 10.2% in 2010. 'Households will remain cautious with their spending and further curtail their use of retail cards in 2010,' said Dean.

This does not bode well for prospects of a robust rebound in retail sales or credit usage in 2010 as the employment situation and economic environment overall continues to weigh on consumers' spending decisions. The latest Fed figures show revolving credit usage decreased at an annual rate of 18.5% in November - the largest dollar-value drop since 1968 and the 14th consecutive decline since October 2008. As long as the employment and income growth remain weak, demand for consumer credit - especially retail credit - will be limited.

In other retail card performance measures, Fitch's gross yield index bounced back from last month after sustaining a one-time drop in yield due mainly to systemic changes that temporarily affected the GE Capital Credit Card Master Note Trust. The yield index for November 2009 rose 217 bps to 25.57%, but remained unchanged when compared to the same period a year ago. As a result, three-month average excess spread rose by 18 bps to 8.07%. Retail credit card excess spread has been significantly less volatile compared to prime performance.

MPR for November 2009 fell by 23 bps to 12.90%, but remained only 3% slower than a year ago. Overall, performance in the retail sector is solid with 3 month average excess spread hovering between 7.50% and 8.00% during 2009.

Fitch's Retail Credit Card index tracks more than \$65 billion principal receivables backing approximately \$49 billion of retail or private label credit card ABS. The index is primarily comprised of private label portfolios originated and serviced by Citibank (South Dakota) N.A., GE Money Bank HSBC Bank Nevada, N.A. and World Financial Network National Bank. More than 165 retailers are incorporated including Wal-Mart, Sears, Home Depot, Federated, Loews, J.C. Penney, Limited Brands, Best Buy, Lane Bryant and Dillard's, among others.

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