FitchRatings
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Credit Card Movers & Shakers (U.S.)

DECEMBER 2009 PERFORMANCE

Contents

Fitch Ratings Credit Card ABS Group

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Industry Watch

Fitch Upgrades Certain Subordinated Discover Card Notes

Fitch upgraded certain outstanding class B certificates issued out of the Discover Card Master Trust I (DCMT) and all outstanding class B and class C DiscoverSeries notes issued from the Discover Card Execution Note Trust (DCENT). A complete list of rating actions is available in the press release "Fitch Upgrades Certain Subordinated Discover Card Notes; Removes Watch Positive," dated Jan. 19, 2010, available on the Fitch Ratings Web site.

The credit enhancement levels for the DiscoverSeries notes issued from DCENT have been increased as follows:

- Class A to 23% from 19%.
- Class B to 17.5% from 13.5%.
- Class C to 10.5% plus a spread account from 6.5% plus a spread account. No changes were made to the spread account or its trapping schedule.

Lehman Rulings May Affect Structured Finance Transactions Globally

Fitch Ratings is analyzing the potential rating impact of recent court rulings in the English Court of Appeal and the U.S. Bankruptcy Court on existing structured finance (SF) ratings globally. The impact may be wide-ranging.

Any SF transaction with derivative exposure to a counterparty where that entity could be subject to the jurisdiction of the U.S. bankruptcy courts, whether through itself alone or through a related party, may be affected by these rulings. In instances where 1) U.S. laws could apply, 2) the ratings of the securitized notes exceed that of the counterparty, and 3) Fitch believes the risk exposure to be material, the ratings of the securitized notes will be placed on Rating Watch Negative while additional analysis of any other structural mitigants is undertaken. Fitch is identifying all transactions potentially affected by these events and will provide additional information and its findings within the next few weeks.

In U.S. SF, the U.S. Bankruptcy Code, or similar statutes within FDIC regulations, will apply, but the potential rating impact will vary by asset class. Fitch anticipates that few U.S. CMBS transactions will have significant exposure to risks raised by the ruling, as these structures did not widely contain derivative contracts that are likely to add material counterparty risk. In U.S. RMBS transactions interest rate hedges are present in some structures, although the short terms of the hedges, combined with the amortization of balances, are likely to make potential swap termination payments less material over time. Derivative contracts are also used in some U.S. ABS transactions, including private student loans and credit cards. However, in Fitch's preliminary analysis these derivative exposures seem similar in materiality to those found in the CMBS and RMBS sectors.

Following the completion of analysis of any securities placed on Rating Watch Negative, the ratings of these securitized notes could become credit-linked and downgraded to the level of the counterparty. Specifically, if a downgrade is warranted, higher rated tranches would likely be downgraded to the counterparty rating, which is between 'AA' and 'A' in most SF transactions. This would be the case where

Fitch believes this risk remains insufficiently mitigated — and where no restructuring of transactions has been proposed which could address the risk or where there have been no new legal developments which resolve the issues, including any conflict of law issues where applicable.

In the case of Lehman Brothers Special Financing Inc. versus BNY Corporate Trustee Services Limited, the U.S. Bankruptcy Court recently decided that clauses which subordinated swap termination payments below payments due to rated noteholders upon an event of default triggered by the counterparty's bankruptcy (flip clause) were unenforceable. The court ruled that these clauses violated the ipso facto provisions of the U.S. Bankruptcy Code. Since the transaction documents in question are governed by English law, a related case involving the same transactions was brought before and decided by the English High Court (Chancery Division) and subsequently affirmed by the English Court of Appeal with a decision contrary to that of the U.S. court, confirming that the flip clauses were enforceable. Although both U.S. and English courts have opined on the issue with respect to each jurisdiction's relevant law, notwithstanding any potential appeals in either court system which remain possible, the reconciliation of these fundamentally conflicting judgments remains outstanding.

Fitch believes that in transactions governed by U.S. law and with a U.S. counterparty such flip clauses will not be enforceable. Conversely, Fitch expects flip clauses to be enforceable in transactions governed by English law and structured with an English counterparty that has no possibility of being subject to the jurisdiction of any other court than the courts of England and Wales. However, in transactions where counterparties could be subject to the jurisdiction of the U.S. bankruptcy courts, and/or the relevant transaction documents are governed by U.S. law, it remains uncertain whether flip clauses would be enforceable as a mitigant to counterparty default risk. Therefore, Fitch views the uncertainty surrounding conflict of laws issues to be of sufficient magnitude to include transactions of this type in its review. With respect to other jurisdictions, Fitch is not aware of any relevant court decisions at this time and therefore will not include such situations in its current review.

The flip clause has been widely used as a standard industry practice to mitigate potential counterparty risk in a transaction. Under the International Swaps and Derivatives Association (ISDA) documentation, a counterparty's insolvency may trigger an early termination of the derivative contract and, depending on the market value of the derivative, a termination payment may be payable to the counterparty. Without the flip clause, this termination payment will remain senior in the transaction's priorities of payment in the next payment period. If the amount of the swap termination payment is material enough and no other mitigants are present, then insufficient funds may be available to service payments on the notes, causing a note event of default.

In August 2009 Fitch said that ratings for global SF transactions with material derivative exposure to U.S.-based counterparties may ultimately see their ratings capped at that of the counterparty, depending upon individual transaction circumstances. At that time, Fitch also noted that any potential rating action was neither imminent nor inevitable. Now that courts from both countries have issued decisions on enforceability within each jurisdiction's respective law, Fitch is providing further clarity on the potential impact on various SF ratings with such derivative counterparty exposure.

The full review of derivative exposure within Fitch-rated SF transactions will be completed and subsequent rating actions communicated over the coming weeks.

Fitch will continue to monitor the ongoing litigation and provide additional comment once further information is available.

Related Research

- Counterparty Criteria for Structured Finance Transactions (Oct. 22, 2009).
- Counterparty Criteria for Structured Finance Transactions: Derivative Addendum — Amended (Oct. 23, 2009).
- Lehman Legal Challenge May Have Varying Impact on Global Structured Finance (Aug. 14, 2009).

Fitch Ratings Prime Credit Performance Index Snapshot[a]

Prime Metrics	Current Month (%)	Month Over Month (bps)	Year Over Year (%)
Delinquencies	4.19	(35)	11.73
Chargeoffs	10.25	(43)	36.67
Yield	21.15	94	22.89
Payment Rate	19.45	181	12.62
Excess Spread[b]	7.55	77	39.04

[a] *http://www.fitchresearch.com/creditdesk/sectors/surveillance/asset_backed/credit_card_index/cc_index.cfm*
bThree month average.

Performance Watch

Prime Performance

Prime U.S. credit card ABS performance stabilized in December, with most trusts reporting minimal changes in delinquencies and chargeoffs following record delinquencies in the previous month, according to Fitch Ratings. In addition, credit card ABS trusts' excess spread cushions widened further as pricing changes begin to take full effect, boosting portfolio yields. Performance changes caused by loan modifications and payment holidays in two large trusts heavily influenced Fitch's chargeoff and delinquency index results, which should normalize next month.

Delinquency and loss rates will remain elevated in the coming months to reflect the ongoing stress affecting U.S. consumers, most notably persistently high unemployment levels. Despite the outlook, credit card ABS ratings are expected to remain stable in 2010. Performance will be strained due to regulatory and legislative changes, which will limit issuers' ability to employ dynamic, risk-based pricing strategies. Additionally, based on its expectation that unemployment rates will hover above 10%, Fitch expects chargeoffs to revisit the 12% level in 2010. As a result, excess spread will continue to narrow, with three-month rolling averages expected to hover between 4% and 5%, causing intermittent spread account trapping. Despite these pressures, early amortization risk is expected to remain remote.

The Fitch Prime Credit Card Delinquency Index for January eased off of the record high set last month. January's number, which measures credit card performance through December 31, declined to 4.19%, an improvement of 35 basis points (bps). However, much of that improvement is attributable to just one issuer, Bank of America, which experienced significantly lower early-stage delinquencies this month.

Similarly, the Fitch Prime Credit Card Chargeoff Index for January decreased 43 bps to 10.25%, with much of that improvement due to Chase, which experienced a 195-basis-point drop in chargeoffs resulting from effects of a payment holiday offered midyear. The chargeoff index is expected to again approach 11% next month.

Gross yield continued to grow rapidly, rising 94 bps to 21.15%. Last time, the index topped 20% for the first time in almost nine years. Gross yield is expected to plateau after the first quarter following legislative measures that will curtail the issuer's ability to change credit card APRs.

Due to the strength in gross yield and the temporary dislocation in chargeoffs, one-month average excess spread jumped 138 bps to 8.28%, which boosted the three-month average excess spread to 7.55%. This is the first time in 19 months that the three-month average excess spread has surpassed 7.00%. Excess spread benefits credit card ABS investors as it represents surplus cash flow that needs to be exhausted before losses are applied to credit enhancement.

Retail Performance

Retail U.S. credit card ABS exhibited mixed performance in December. The Retail Credit Card Chargeoffs Index fell 71 bps to 11.85% while the 60 day-plus retail delinquency index rose three bps to 5.25%. However, chargeoffs still remained close to near-record levels. Taken with the delinquency trends and Fitch's unemployment expectation, Fitch expects retail card chargeoffs to remain elevated throughout the first half of 2010.

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.

Gross yield decreased 132 bps to 24.25% in December, caused by some seasonality, which is evident from the tepid increase of 4% since the same period a year ago. Three-month average excess spread fell 69 bps to 7.38%, which was driven largely by the drop in yield.

The monthly payment rate (MPR) increased 103 bps to 13.93%. Strength in MPR was seen across almost all the trusts that comprise the Fitch Retail Credit Card Index.

Fitch Ratings Retail Credit Performance Index Snapshot[a]

Prime Metrics	Current Month (%)	Month Over Month (bps)	Year Over Year (%)
Delinquencies	5.25	3	0.96
Chargeoffs	11.85	(71)	12.75
Yield	24.25	(132)	3.72
Payment Rate	13.93	103	10.91
Excess Spread[b]	7.38	(69)	(13.07)

[a] *http://www.fitchratings.com/creditdesk/sectors/surveillance/asset_backed/credit_card_index/cc_index.cfm.*

[b] Three-month average.

Current Spread Account Trapping

(Distribution Date: January 2010)

	Series	Trapping Currently?	First Trapping Trigger (%)	Current Three-Month Average (%)	Amount Trapped	Target Amount ($ Mil.)	% Trapped	Target %	No. Months Trapping
Chase Issuance Trust	CHASEseries	YES	4.50	7.41	1,100	1,100	1.50[a]	1.50[a]	9
Chase Credit Card Master Trust	2003-4	YES	4.50	4.27	25.38	10.88	3.50	1.50	9
First National Master Note Trust	2008-2	YES	4.00	4.13	27.59	27.59	4.25	4.25	4
First National Master Note Trust	2008-3	YES	4.00	3.98	2.09	2.09	2.75	2.75	1
First National Master Note Trust	2009-2	YES	4.00	3.96	3.76	3.76	2.75	2.75	3
First National Master Note Trust	2009-3	YES	4.00	3.93	18.99	18.99	2.75	2.75	10

[a]This represents the floor for Chase Issuance Trust, this amount will not be released.

Checklist of Trusts in Which Spread Account Trapping has Occurred in 2010

Trust (By Distribution Date)	Jan.	Trust Total
1st Financial Credit Card Master Note Trust		
American Express Issuance Trust		
BA Credit Card Trust		
BA Master Credit Card Trust II		
Cabela's Credit Card Master Note Trust		
Capital One Master Trust		
Capital One Multi-asset Execution Trust		
Chase Credit Card Master Trust	x	1
Chase Issuance Trust	x	1
Citibank Credit Card Issuance Trust		
Citibank Credit Card Master Trust I		
Citibank Omni Master Trust		
Discover Card Master Trust I		
Discover Card Execution Note Trust		
First National Master Note Trust	x	1
GE Capital Credit Card Master Note Trust		
HSBC Credit Card Master Note Trust		
HSBC Private Label Credit Card Master Note Trust		
National City Credit Card Master Note Trust		
Washington Mutual Master Note Trust		
World Financial Network Credit Card Master Note Trust		
Monthly Total	**3**	

Consumer Watch

Fitch expects unemployment to peak at 10.4% in 2010. Despite its unemployment outlook, Fitch expects the ratings for senior tranches of U.S. credit card ABS to remain stable. However, the outlook for subordinate tranches remains negative, particularly given recent delinquency and personal bankruptcy filing trends. While the pace of decline in the economy has slowed, it is unclear whether this trend will continue and how it may affect ABS collateral and ratings performance in the coming months.

Relevant economic indicators include the following.

- **Unemployment Rate:** This decreased to 9.7% from 10.0% in December. The real unemployment rate, which includes underemployed and marginally attached workers, is 17.3%.
- **Consumer Confidence:** As measured by The Conference Board's Consumer Confidence Index, this increased to 55.9 in January from 53.6 reported in the prior month (1985 = 100). Consumer confidence has risen for three consecutive months since October 2009. The Consumer Sentiment Index also rose to 74.4 from 72.5, marking two consecutive increases.
- **Retail Sales:** Sales decreased 0.3% in the month of December, but were 5.4% above the same period last year. Retail sales excluding autos decreased 0.2%, but were also 5.2% above the same period last year.
- **Debt Service Levels:** The personal savings rate rose to 4.8% in December. Personal savings are expected to increase as consumers have slashed spending while demand and availability of credit has slowed. Consumer spending, which accounts for more than 70% of U.S. economic activity, rose only 0.1%; however, revolving credit fell again, this time by 11.7%, its fifteenth consecutive drop.
- **Bankruptcy:** There were 102,254 bankruptcy filings through Jan. 30, 2010. 2010 year-to-date filings were up 22%.

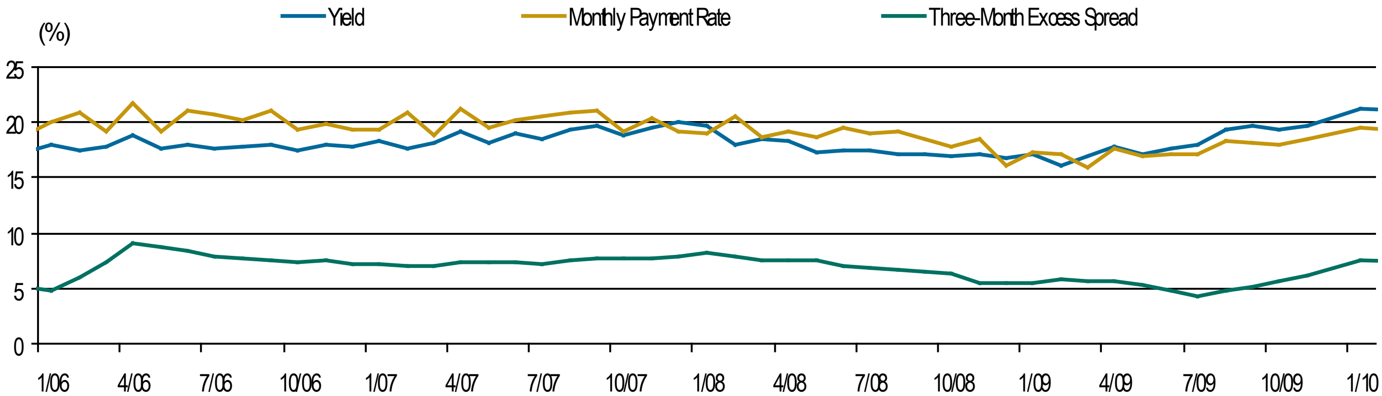
Fitch Ratings: Health of the Consumer Monitor

(% Change from Preceding Period)[a]

					2009					2010
	1Q09	2Q09	3Q09	4Q09	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
Output and Spending										
Real GDP (QoQ, % Change SAAR)	(6.6)	(0.7)	2.2	5.6	—	—	—	—	—	—
Real GDP (YoY, % Change SAAR)	(3.3)	(3.8)	(2.5)	0.1	—	—	—	—	—	—
Personal Consumption (QoQ % Change SAAR) (MoM % Change SAAR, Chained)	0.4	0.0	0.4	0.9	1.0	(0.7)	0.3	0.4	0.1	—
Retail Sales (YoY % Change SAAR)	(9.5)	(8.8)	(6.1)	5.4	(5.5)	(6.1)	(2.0)	2.4	5.4	—
Retail Sales – Excluding Autos (YoY % Change SAAR)	(6.2)	(7.6)	(5.0)	5.2	(6.5)	(5.0)	(2.8)	2.0	5.2	—
Consumer Indicators Wealth and Debt Consumer Debt:										
— Revolving (QoQ % Change SAAR)	(28.9)	(29.0)	(21.9)	(39.0)	(10.6)	(10.5)	(9.1)	(18.6)	(11.7)	—
— Non Revolving (QoQ % Change SAAR)	0.7	(5.7)	(2.9)	(0.1)	3.0	(0.4)	0.8	(6.1)	5.2	—
Financial Obligations Ratio	18.4	18.0	17.8	—	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Personal Savings Rate	3.5	4.9	4.8	4.8	3.9	4.8	4.6	4.5	4.8	
Labor Market										
Unemployment Rate (% Labor Force) (Period End)	8.5	9.5	9.8	10.0	9.7	9.8	10.2	10.0	10.0	9.7
Non-farm Payrolls (SA Monthly Change, 000)	—	—	—	—	(154.0)	(139.0)	(127.0)	4.0	(85.0)	(22.0)
Housing	—	—	—	—	—	—	—	—	—	—
Home Price Indices:	—	—	—	—	—	—	—	—	—	—
— FHFA HPI (YoY % Change)[a,b]	(7.3)	(5.1)	(4.2)	—	(4.7)	(4.2)	(2.7)	—	—	—
— S&P Case Shiller (Period Ended)	(18.7)	(15.4)	(9.2)	—	(11.2)	(9.2)	(7.3)	(5.3)	—	—
Inflation										
Consumer Price Index (CPI)[a] (YoY % Change)	(0.4)	(1.2)	(1.3)	2.8	(1.4)	(1.3)	(0.2)	1.9	2.8	—
Outlook **Consumer Confidence Surveys:**										
— Conference Board	26.9	49.3	53.4	53.6	54.5	53.4	48.7	50.6	53.6	55.9
— University of Michigan	57.3	70.8	73.5	72.5	65.7	73.5	70.6	67.4	72.5	74.4
Three-Month LIBOR (%)	1.2	0.8	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Bankruptcy Filings	308,530	366,821	371,098	361,339	119,874	124,790	135,913	112,152	113,274	102,254

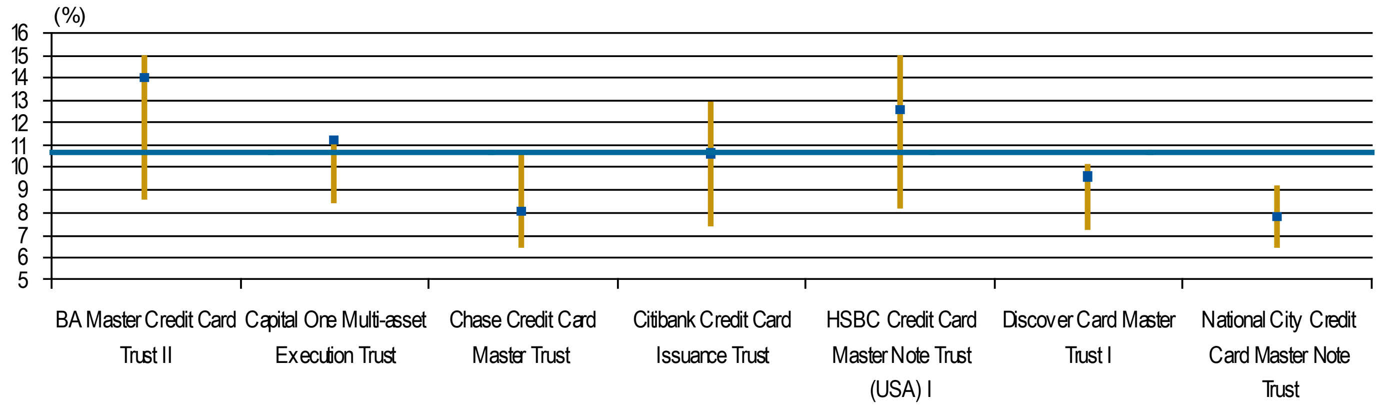
[a]Change over same period a year earlier (%). [b]Federal Housing Finance Agency's (FHFA) seasonally-adjusted purchase-only house price index (HPI) SA – Seasonally adjusted. QoQ – Quarter-of-quarter. MoM – Month-over-month. YoY – Year-over-year. SAAR – Seasonally adjusted annual rate. N.A. – Not available. Source: Fitch, Bureau of Economic Analysis, National Association of Realtors (NAR), Datastream.

Fitch Ratings Prime Credit Card Performance[a]



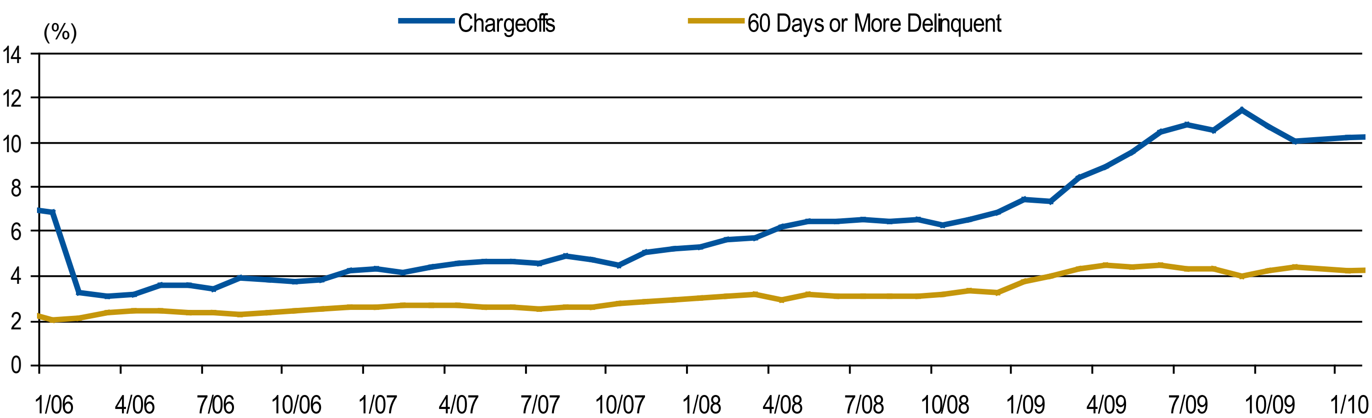
[a] http://www.fitchratings.com/creditdesk/sectors/surveillance/asset_backed/credit_card_index/rcc_index.cfm.

Chargeoffs



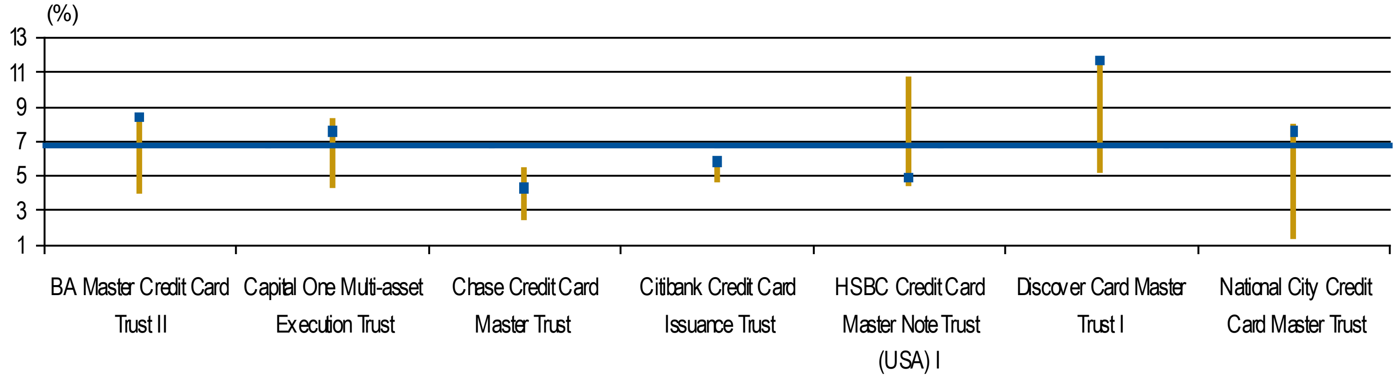
Note: The chart above shows the chargeoff highs and lows for each trust within the past 12 months. = Fitch Ratings Index: 10.25%.

Fitch Ratings Prime Credit Card Chargeoff Index[a]



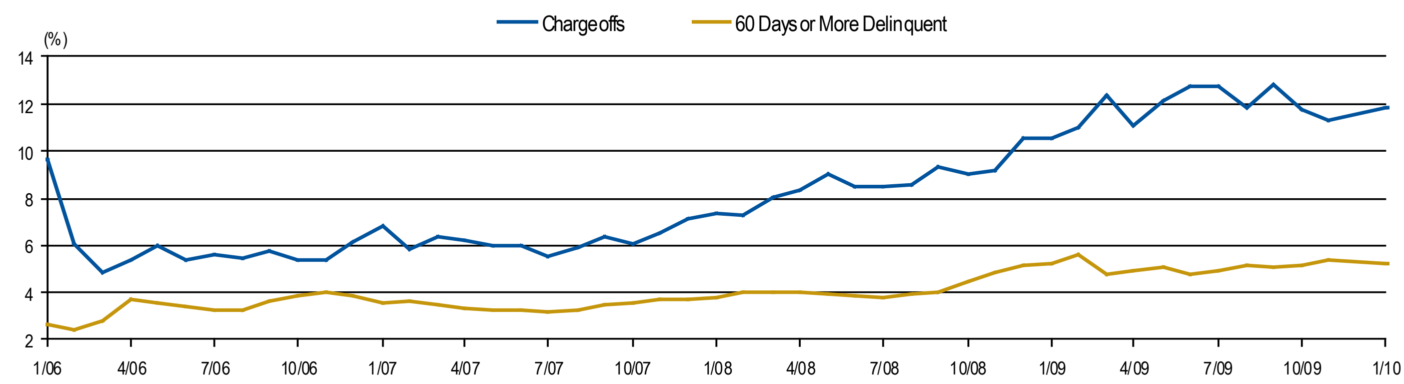
[a] http://www.fitchratings.com/creditdesk/sectors/surveillance/asset_backed/credit_card_index/cc_index.cfm.

Fitch Ratings Prime Credit Card Excess Spread Index[a]



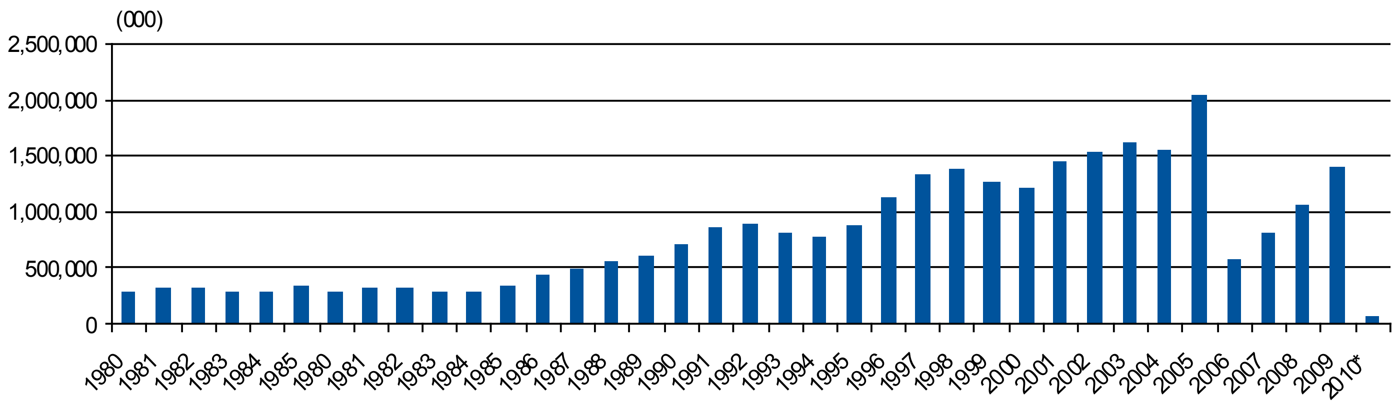
[a] *http://www.fitchratings.com/creditdesk/sectors/surveillance/asset_backed/credit_card_index/cc_index.cfm.* Note: The chart above shows the excess spread highs and lows for each trust within the past 12 months. The dot indicates the current excess spread percentage. Fitch Ratings Index: 7.55%.

Fitch Ratings Retail Credit Card Performance Index[a]



[a] *http://www.fitchratings.com/creditdesk/sectors/surveillance/asset_backed/credit_card_index/rcc_index.cfm.*

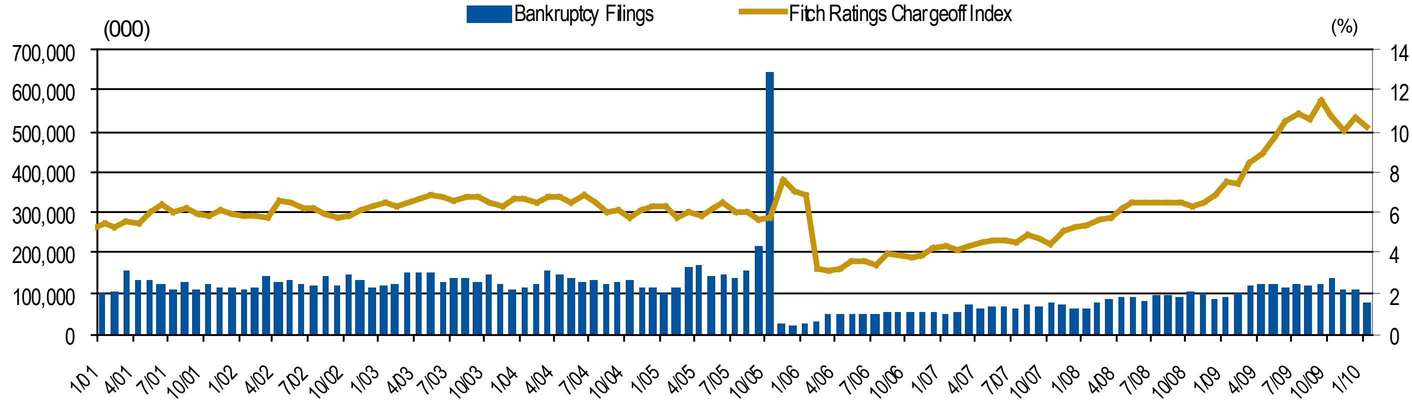
Annual Bankruptcy Filings



*Through Jan. 23, 2010

Source: Lundquist Consulting, Inc.

Monthly Bankruptcy Filings



Note: Through Jan. 23, 2010.
Source: Lundquist Consulting, Inc.

January 2010 Issuance Overview

Name	Coupon	Ratings	Expected Maturity	TALF-Eligible Amount ($ 000)	Total Deal Amount ($ 000)[a]	Issuance Date	TALF
None	—	—	—	—	—	—	—