Chapter 2 An Overview of Credit Card ABS

2.1 Taiwan Credit Card Market Snapshot

2.1.1 History

The credit card business in Taiwan started 50 years ago and most cardholders were international travelers or tourists. American Express was the first credit card company operated in Taiwan and was followed by J.C.B. Card, Diners Club Card, Crate Blench Card, Master Charge Card, Bank Americard (VISA card), and Overseas Trust Bank Card. Some 5-star hotels, such as Hilton, and department stores, such as Far-Eastern Department Store, issued their own debit cards in the early 70's. The market size of plastic money was small and there was no official regulation of credit card business until 1992.

Bureau of Monetary Affairs released "Guidelines governing Banks in Operating Credit Cards" in May 1992 in order to regulate daily activities of this blooming business. In September 1992, Citibank issued the first gold card which provided higher quota limit, traveling insurances, and cash card functions that threatened domestic traditional credit card issuers. Taiwan's credit card businesses boosted the following one and half years.

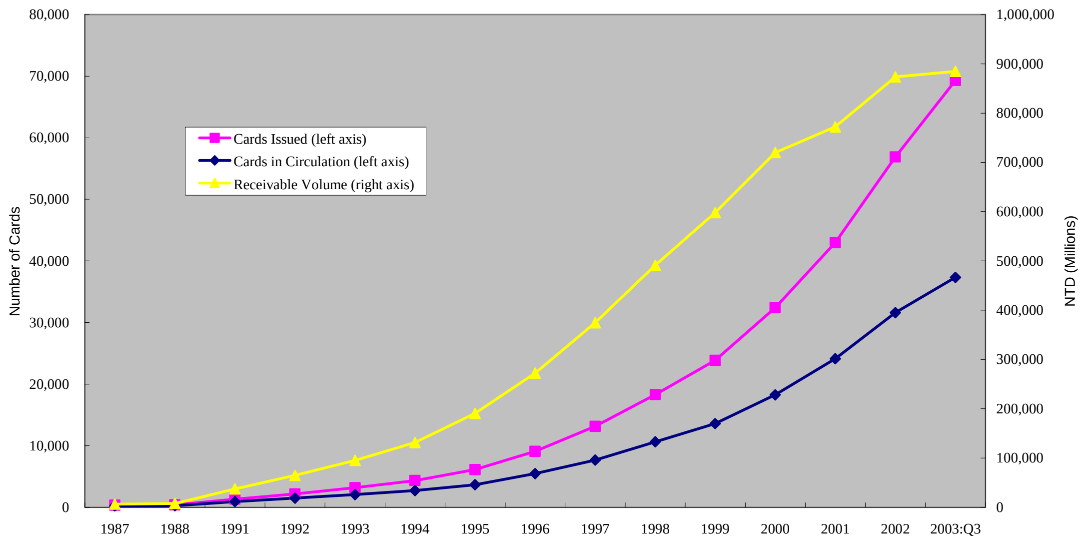
2.1.2 Credit Card Market Today

Today, consumer financing is a major focus of most banks in Taiwan and credit card/cash card consisted the core of it. Although this imported product is not originated in Taiwan, there are several distinguished characteristics of Taiwan's credit card market and consumer preferences.

First, competition is fierce and the basic marketing strategies are exemption of annual fees and application gifts or bonus which sometimes were even provided by the sales personnel instead of the credit card issuer. Almost all credit cards in Taiwan are free from annual fee, except some very high class unlimited card which targeted at customers who are on the top of the pyramid. In fact, only part of those highest class cards insisted in charging customers annual fees, and other issuers just sending out free-of-annual-fee unlimited cards which are never seen in other countries.

Number of credit card issued and in circulation rocked in recent years accompanied by the higher and higher receivable volume created by them (see exhibit

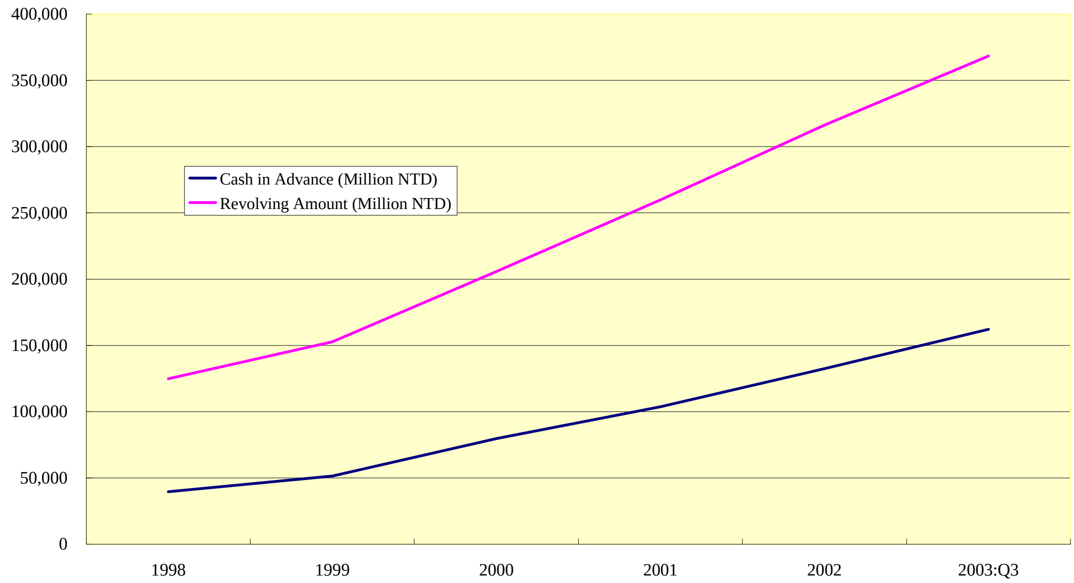
Exhibit 2-1 Credit Card Development in Taiwan



Source: Credit Card Statistics, Bureau of Financial Affaires Website

2-1 and 2-2). The competition is so brutal that some banks even don't care about whether this kind of expansion is good enough or profit enough to benefit all stockholders and potentially high charge-offs in the years to come. The credit card fever combined with the emergence of financial holding companies forced all staffs in financial institutions become credit card sales people in some way.

Exhibit 2-2 Cash in Advance & Revolving Amount of Credit Card



Source: Credit Card Statistics, Bureau of Financial Affaires Website

From banks, insurance companies, securities companies to investment trust and consulting companies, everybody has a quota of credit card to sell. As a result of rapid and uncontemplated over expansion, convenient users and increasing management expenses gradually become a serious burden to credit card issuers. Credit card issuance amount is unhooked with earning numbers for many banks in recent years.

Second, the quality of users is not that prominent as any issuer may expect and that really raises issuers' expenses. The less serious one is there are lots of charity applications which usually come from relatives, friends, and former teachers of sales person, or just some really nice people. Most of these charity applicants are inactive users and lock their newly issued cards in safe immediately after receiving them while others cut their virgin cards right away. This will definitely increase marketing and management cost since these new cards are not making profits.

However, the other more serious trouble is convenient users or even professional appliers who targeted on benefit provided by issuers of which will erode earnings of issuers in the future. The average number of credit cards of each cardholder is 7 cards[1] and most people in Taiwan certainly don't have that much cards, which means there is a significant number of people who has more than 10 cards. Those cardholders who have more than 10 cards usually don't use every card and become convenient users at the beginning, which is not welcomed by banks. These professional credit card appliers' motive for applying new cards is free gifts and benefits credit card issuers provided.

Some other new customers are charity appliers, usually are financial institutions staffs' friends, classmates, teachers or relatives who will never use credit cards they applied for helping beloved to digest annual quotas. Because of fierce competition and extreme methods banks took to issue more credit cards, we can expect that average cost to sell a card and the average profit per card brought will continue going in opposite direction.

Third, legal environment in Taiwan is not good for financial innovations but there is always some gray area of explanations of regulations that banks can profit from. For example, the latest hybrid card which combined banking card, credit card and cash card is not fair enough for customers who are not aware of what kind of card they have applied for. The initial intention of those new clients usually is opening a new bank account and they only want a banking card.

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[1] Total cards issued / Card holders

However, instead of giving these people a banking card, some banks give them hybrid cards and those customers automatically became credit/cash cardholders and that is not agreed by clients. Other examples include partially cancellation of customers benefits which has been prohibited by authorities in 2003, unclear calculation methods of revolving interests and fees, unethical, if not illegal, way to deal with charge-offs, various marketing techniques which confuse consumers on purpose, and of course, banks will never default in Taiwan so there is no need of risk control and other mechanisms to prevent failing while issuing credit cards for negative worth banks.

2.1.3 Profile of Taiwanese Card Holders

For securitization of credit card receivables to take off in Taiwan, numbers of credit card accounts and volumes of receivables have to pass some thresh hold level of economy of scale. Chinatrust Commercial Bank, which is the largest credit card issuer in Taiwan, and Cosmos Bank, which is the largest cash card issuer in Taiwan, are the most probable candidates of originators of credit/cash card ABS in Taiwan. Chinaturst has more than 5 million credit card accounts which is more than 16% of market. Cosmos bank is the leading issuer of cash card and its George and Mary Cash card is the dominant product in market.

Another important factor for credit card ABS is the ability of bank to attract revolvers by providing excellent services, not convenient users and defaulters by giving application gifts or even cash. A successful originator/servicer must have the ability to attract good customers who generate excellent accounts to support securities, especially in a declining interest rate environment.

How to tell good customers from bad is a 64 million dollar question and key determinant of whether an issuer can profit from this small piece of plastic. Chiou (2001) suggested credit card issuers should build up and maintain long-term relationships with clients, use one price for both products and services, and co-marketing with related industries are good strategies.

Wu (2001) defined customer relationship management is an integrated system of activities related to customers, not single tool or methods. Maintaining customer relationship must based on strategy instead of improving operation efficiency. Credit card issuers should analyze customers assisted by database and prepare for reorganization.

Lai (2000) indicated customers who are female, intermediate working experience in more volatile industries, and have no real estate tend to use revolving credits and cash in advance and have no significant evidence that their default rates are higher than average when providing more profits to credit card issuers.

Sheu (1997) used case study method concluded that card issuance institutions should advance services and additional value of cards. Although exemption of annual fees is a common scene in Taiwan, 40% student consumers and 21% ordinary clients think this exemption will damage the service they got (Lieu, 1998).

Huang (1996) listed top 5 motives for holding credit cards are: deterrence of payment, cashless trades, promotion programs, access consumption information, and ostentation. When applying for credit card most consumers consider the reputation of issuer, exemption of annual fees, and lowest price guarantee, etc. And top 5 reason for not having a card are: afraid of over budgeting, accustomed to using cash, the risk of card lost and pseudo cards, lack of needs, and too high interest rates.

Yung (2003) described core competitive strategies for leading credit card issuers in Taiwan, Chinatrust Commercial Bank and TaiShin Bank, which are clear and forward looking business principles, complete marketing plans and efficient organization, and last, serving customers on a life time basis and gaining long-term profits.

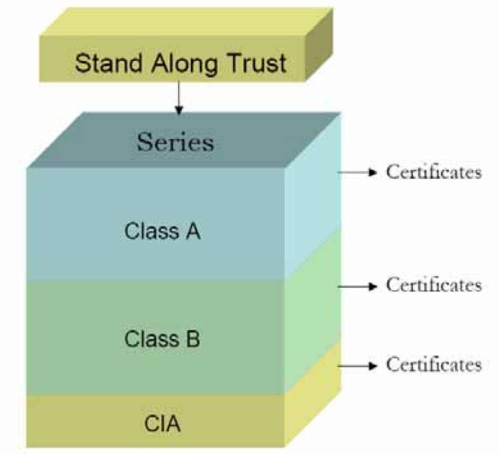
2.2 Credit Card Receivables Backed Securities 101

2.2.1 Trust types

The first credit card ABS was created in 1987 using the dominant issuance vehicle then, stand along trust, which is employed by all credit card ABS issuers from 1987 to 1991. A stand along trust contains one dedicated pool of credit card accounts and the receivables generated by those accounts which is been transferred to the trust in order to issue one, and only one, series of securities which can have multiple classes within (exhibit 2-3).

There are several defects of stand along trusts. The most criticized one is the limited capacity of it. A stand along trust can only issue one series. A stand along trust is like a single seat car which can carry only one person at a time in a long journey. So, whenever there is a new series, there is a new trust. Under stand along trust structure, each transaction costs more time and money for issuers to issue a new series and also for potential investors to get one. It increases the difficulties and loads of administration and documentation tasks, and that is intolerable for a rapid growth market.

Exhibit 2-3 Stand Along Trust



Source: Fitch Ratings (2001)

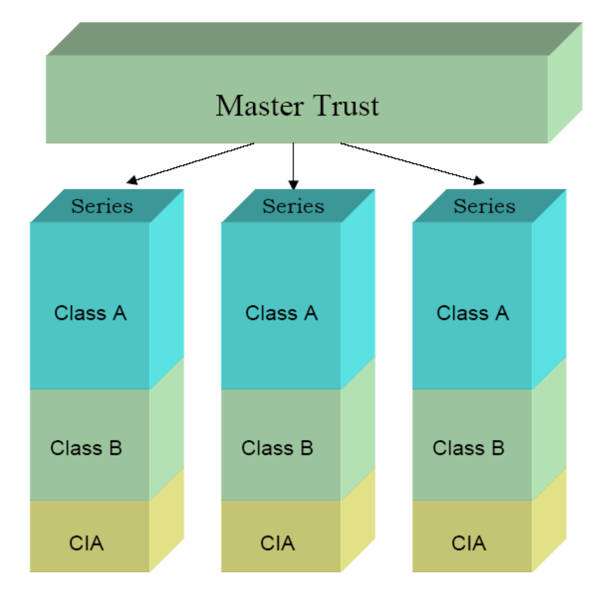
In 1991, another more efficient and cheaper vehicle, master trust, was introduced to market and soon be adopted by issuers to replace stand along one. This updated version trust enables issuers to release multiple series of securities without creating a new vehicle (exhibit 6). One single master trust constructed by the same collateral pool of receivables is much easier to manage, monitor and analyze. It decreases the pre-issue documentation tasks and gives more flexibility and competitiveness to issuers when creating new ABSs in a longer period of time.

After transferring certain amount of receivables to one master trust, issuers can release separate series of credit card ABS in different dates with different prices. The collateral pool of a master trust is much larger than that of a stand along one and the benefits followed this characteristic are better diversification and more resistant to seasonal or geographic fluctuations. In addition, the credit differences between all series backed by the same pool of receivables are determined by the structure of the deal instead of collaterals.

A variety of master trust was been developed in 1998 and that was the time when c-piece securities met ERISA eligibility requirements. In 1998, the owner trust for the class C notes was initiated for transforming the most subordinated class in credit card ABS which is known as collateral invested amount (CIA) into ERISA eligible C notes. This owner trust was transferred cash flows allocated to CIA and issued class C note supported by the interest in these cash flows. Several issuers, including MBNA, Fleet, First USA, Capital One, utilize this methodology to issue class C securities. Owner trust was one step furthered by Chase in 1999 when Chase issued a collateral certificate by transferring collateral from Chase Credit Card Master Trust to an owner trust and tranched up the underlying cash flows to become class A/B/C ERISA eligible securities.

The latest innovation in credit card securitization technology is the issuance trust which lighted up classes in credit card ABS series. This structure was introduced by Citibank's Citibank Credit Card Issuance Trust (CCCIT) and generated classes with different maturities, terms, and coupons and of course those classes can be issued independently. This kind of financial innovation enhanced financial institution's ability to satisfy customer needs and more effectively manage financing opportunities. More than this, issuance trust's ERISA friendly interface enriched customer base by pioneering into the undiscovered pension fund world.

Exhibit 2-4 Master Trust



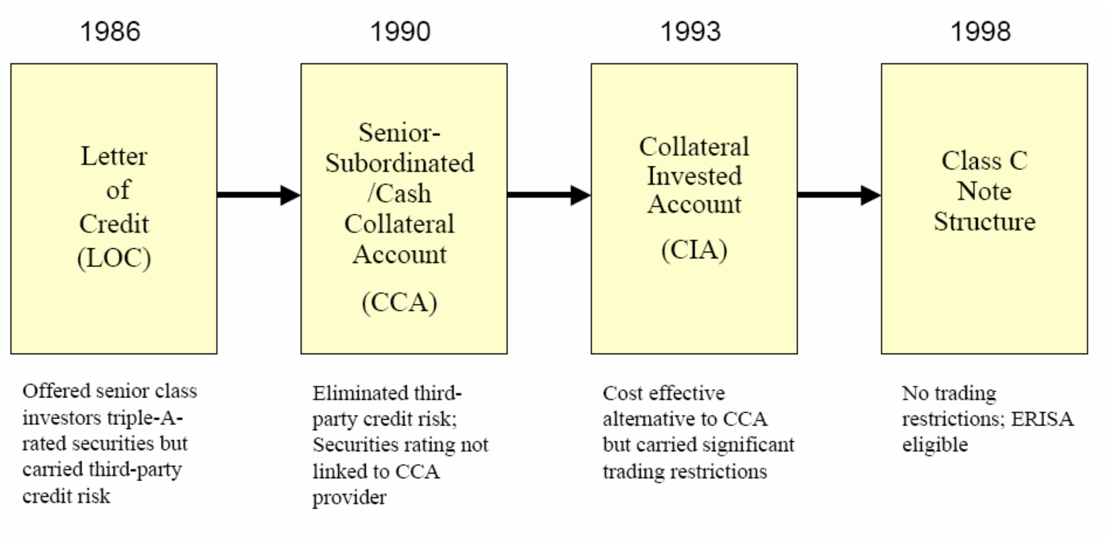
Source: Fitch Ratings (2001)

2.2.2 Credit enhancement

Credit enhancement is critical for ABSs as a cushion to any losses and also the major approach to get desired credit ratings from rating agencies. Over the past 3 decades, all market players tried to innovate more cost effective ways to upgrade asset backed securities and some achievements are made. What kind of enhancement techniques is needed and to what degree the pool of assets is protected depends on the credit quality of the collateral and the ideal credit rating of this security. The evolution of credit card ABS enhancement structures is illustrated as exhibit 2-5. There is one common direction of this evolution of both internal and external enhancements: finding the most stable, consistent, and cheapest ways to shield ABS against various blasts from unequable financial market.

An internal enhancement is constructed by using CCA, CIA or subordination and this structure is an independent from outside mechanism which is like a car with an independent fuel tank.

Exhibit 2-5 Credit Enhancement Evolution

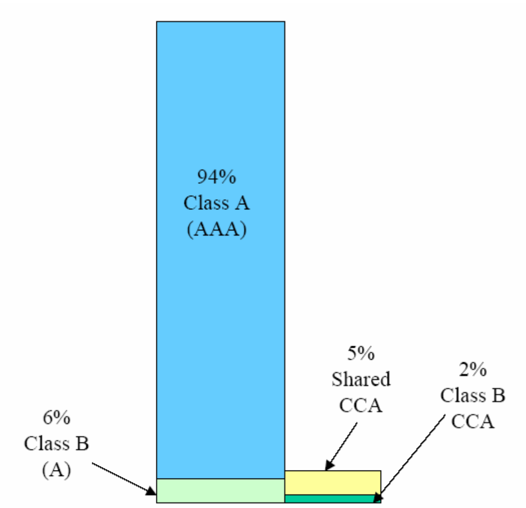


Source: Salomon Smith Barney (2002)

A Cash Collateral Account is cash held by the trust and invested into high grade, high liquidity securities and is usually funded by a third party. The primary function of this account is to cover any insufficiencies incurred by higher than expected charge-offs. This account will be reimbursed from future excess spread. Exhibit 8 shows a senior/subordinated structure with shared cash collateral account. We assume that 11% credit enhancement is required for triple A rated class A and 7% of credit enhancement is required for single A rated class B. It is obvious that the 94% class A is been supported by 6% subordinated class B and 5% shared CCA while class B is been supported by 5% shared CCA and 2% class B CCA.

Collateral Invested Amount is a relatively new innovation after LOC, CCA and senior/subordinated structure. CIA is a more efficient use of collateral and is similar to CCA except CIA invests money in credit card receivables within the structure. In fact, CIA can be treated like the C tranche of the series and is usually rated triple B or not rated. Exhibit 9 illustrated the structure of CIA. It is assumed that class A needs 11% support and class B needs 7% enhancement.

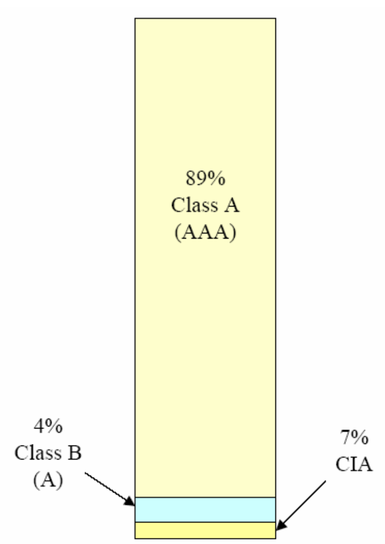
Exhibit 2-6 CCA



Source: Fabozzi (2000)

The subordinated class was invented to replace CCAs or CIAs in order to further decrease costs incurred while enhancing credit of any transaction. This class is structured similar to CIAs and is usually placed with the public ABS investors rather

Exhibit 2-7 CIA



Source: Fabozzi (2000)

than with the private credit enhancement provider. Subordinations can be named as Certified C pieces or C note and tend to be rated as single A or triple B. Using subordination allows issuers to attract more customers and some issuers even developed ERISA eligible subordinated tranches to further improve their cost of fund. A number of issuers, including MBNA and First USA have applied this technique in their transactions in recent years.

External enhancements depend on a third party to provide a letter of credit or insurances to guarantee that this security will perform obligations fully and on time. This structure is like a car without a fuel tank and has to be fueled by a connected fuel pipe, which means the performance will depend not only on the subject but the pipe as well. Any securities using external credit enhancement will be restricted to the credit soundness of the third party which provided the insurance and that is surely an unpleasant feature most issuers and investors don't like.

2.2.3 Life cycle

Once transactions are done and the securities delivered to investors, servicers begin to serve investors by collecting interest and principal payments, monitoring collateral conditions, distributing proceeds and handling charge-offs and routine administration tasks. According to the terms described on the prospectus, there usually will be three phases, or periods of a transaction.

The first is the startup period. The content of startup includes feasibility study, appointment of parties, data analysis, due diligence, financial modeling and structuring, and finally rating and marketing. Most parts of first phase are discussed in previous sections. This section will focus on second period which is the primary activities occurred after the security launched. The second period can be divided into two sub-periods which are revolving period and amortization period. The third period is mainly how and when this security pay back principals and we'll discuss it in 2.2.5.

Revolving Period

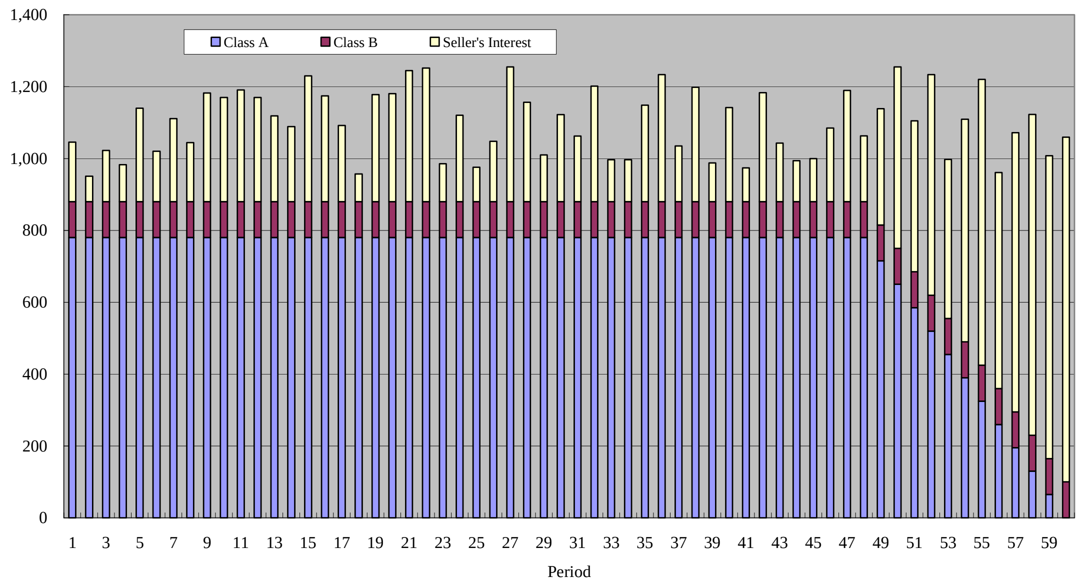
Investors receive purely interest payments periodically at the corresponding coupon rate during revolving period and hopefully these payments will arrive on time without derogation. Monthly principal payments were used to buy more credit card receivables in designated accounts or part of seller's interest if there were insufficient receivables to buy. The highest priorities of servicer in this period are maintaining predetermined cash flows in a timely manner and a stable average life to solid the certainty of the expected maturity date and preventing early amortization from accruing.

Amortization period

Revolving period is followed by amortization period. When amortization period begins, the principal collections will be used to repay investors according to preset time line and any excess principal collected beyond the need for repaying investors will reinvested in credit card receivables as during revolving period.

How long amortization period will be depends on the monthly payment rate of each trust, i.e. trust with lower monthly payment rates will have longer amortization period, vise versa. There are two mechanisms can be used to accomplish this life cycle: controlled amortization and controlled accumulation, and which one to be chosen depends on the appetite and preferences of investor and issuers comparative advantages.

Exhibit 2-8 Controlled Amortization

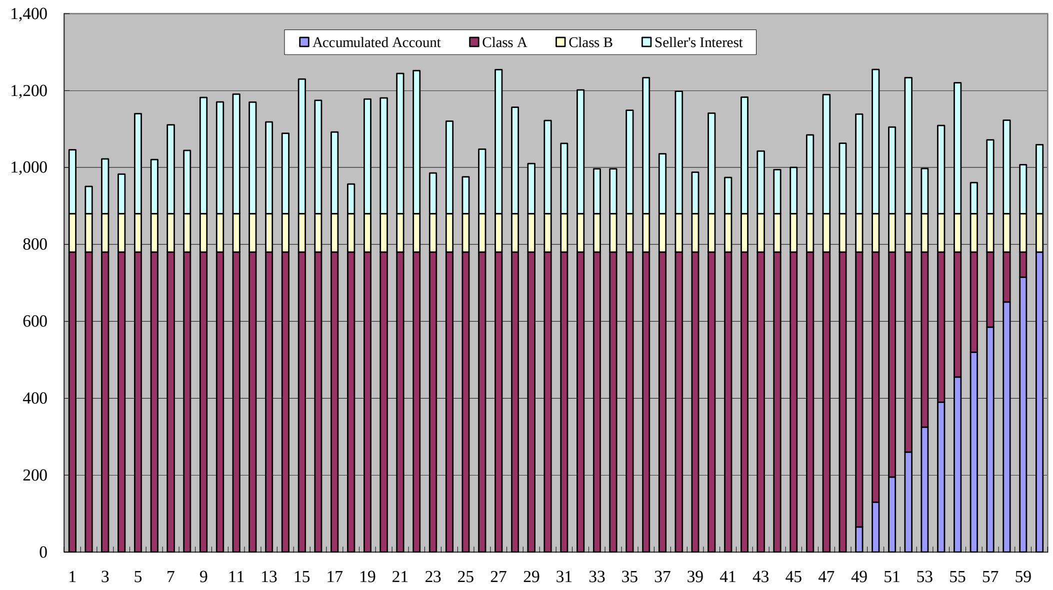


Source: Fabozzi (2000)

The differences between these two mechanisms were shown in exhibit 10 and exhibit 11. This example assumes one series issued out of the master trust with two classes, senior class A and subordinated class B. Under controlled amortization, principal repayment is splitted into equal amount, and paid every month in the entire amortization period. Principal collections fluctuated every period and any insufficiencies will be covered by seller's interest while any excess principal collected not needed to repay ABS investors will be used to buy more receivables.

Class A will be amortized first and then class B amortizes. During the controlled amortization period, the seller's interest grows proportionately until investors of both classes were paid. In controlled accumulation mode, principals collected from borrowers were deposited into a trust account each period. At the end of amortization period, a single bullet repayment was made to all ABS investors.

Exhibit 2-9 Controlled Accumulation



Source: Fabozzi (2000)

2.2.4 Early amortization

One of the protecting mechanisms planted in credit card ABS is the early amortization which can be triggered by various events (see Exhibit 2-10). Once one of these events happened, the whole transaction entered into a termination process, which means all receivables collected will be used to pay back investors immediately in order to protect investors' interest. Weak collateral performance and seller/servicer insolvency were two most frequently happen triggering events for quite a period until declining interest rate environment takes over in recent years. The falling of macro interest rate level is a serious problem for fixed rate securities, and sometimes even for floating securities too.

Exhibit 2-10 Early Amortization Triggers

Seller/Servicer Issues

- Failure to make required deposits or payments
- Failure to transfer receivables to the trust when necessary
- False representations or warranties that remain unremedied
- Events of default, bankruptcy or insolvency of the seller or servicer

Collateral Performance Issues

- Three-month average excess spread falls below zero
- Failure to pay principal in full on the expected payment date
- Seller interest falls below the minimum level
- Collateral portfolio balance falls below the invested amount

Legal Issues

- Trust become classified as an investment company under the investment company act of 1940

Source: Fabossi (2002)

Exhibit 2-11 Excess Spread Calculation

Variables	Components	Performance Factors	Impact on ES	Example (%)
Gross Yield	Finance charge collections and other income	Floating vs. fixed-rateAPRs, issuer's ability to reprice accounts, and number of collection days per month, among others.	Positive	16.00
Gross Chargeoffs	Delinquencies and bankruptcies	Underwriting criteria, servicing operations, chargeoff and re-age policies, and receivable growth rate, among others.	Negative	-7.00
Interest Expense	Certificate or note coupon	Fixed- vs. floating-rate indexed, credit quality, issue liquidity, investor demand, and interest rate environment.	Negative	-2.00
Servicing Fees	Fixed at closing	Portfolio credit quality, seller/servicer strength, and servicing transfer, among others.	Negative	-2.00
Excess Spread	N.A.	N.A.	N.A.	5.00

Source: Fitch Ratings (2003)

When the cost of alternative source of funding keeps downing, the gross yield of credit card collateral will be damaged by receivables leaking and lower finance charges, interchange and fee income. While gross chargeoffs which are composed by delinquencies and bankruptcies will usually remain unchanged or even higher and interest expense and servicing fees are not reduced all together will end up as minus excess spread and early amortization (see Exhibit 2-11).

2.3 Securitization as an Alternative Fund Source of Credit Card Business

2.3.1 Why Securitize?

Before we start working on the details of designing a securitization transaction the million dollar question we have to ask is: Why securitize? Securitization is a financial innovation which acted as a financing alternative for companies who need money. So, basically, there is no magic about securitization nor securitization can work like a charm, it is technically a fashion way of borrowing money other than traditional ones like issuing bonds or stocks. The favor securitization had is its hybrid nature. Securitization is neither a secured corporate financing nor a sale of assets. Securitization utilized many widely accepted and desirable accounting, legal and tax, financing, and regulatory concepts or techniques to formulate an efficient access to the capital market.

Companies raise money from capital market through two channels: direct financing and indirect financing. The ultimate goal of chief financial officer is to find an optimized combination of different passages to realize the lowest WACC. For achieving that goal, not only finding the most suitable mixture but accessing to more cost effective conduits is significant. Securitization is that more cost effective way for raising funds and can help companies get money more easily at the same time improve the efficient of capital market.We compared three traditional financing methods widely used by companies to securitization to get a deeper insight of the major considerations while securitizing.

2.3.2 Whole Loan Sales V.S. Securitization

Whether a company is pursuing more loan originations, more profitable loan operations, or the ability to better meet the needs of their community, whole loan sales are the simplest and most straightforward type of secondary market transaction. Benefits of selling whole loans are: enable smaller financing companies to accommodate borrowers’ needs, improve operating efficiency by simplifying product line, and enhance the liquidity of asset portfolio. Who became the servicer after transaction is the one major difference distinguished whole loan sale form asset back transaction. ABS cases are servicing retained which means the originators are still the servicers after the deal, while the purchasers took over the service job in whole loan sales cases, that is known as service released basis.

Purchasers in whole loan sale transactions are usually itself an originator and servicer of underlying asset and trying to build economy of scale of portfolios in hand, harvest service fee revenues, cross-sell other products, and put a hand on the targeted debtors' credit dynamics. Companies who raise funds through whole loan sale have to sacrifice all those benefits mentioned above and sometimes weakened companies' profitability.

The second distinctive characteristic between securitization transactions and whole loan sales is the retention of credit and prepayment risk. Sellers engaged in a whole loan sale deal often will sell complete credit risk and prepayment risk within the collateral although sometimes it may retain certain risks while making representations and warranties in connection with the sale.

As for securitization instances, it is rarely the case that the originators would transfer 100% credit risk and prepayment risk out but retaining at least some risk economically with a shield provided by third party credit enhancer or/and investors to defense the risk of certain catastrophic scenario resulting in an unexpected enormous loss. This is a desirable feature that makes securitization more appealing to originators because in whole loan sale transactions, sellers theoretically transferred too much risk out that lowered the price the seller could charge.

Under securitization structure, the originator could slice credit risk and prepayment risk into pieces and charge higher prices by selling the unwanted comparative disadvantage risk and keeping comparative advantage risk and servicing revenues at the same time. Via financial engineering and reconstructing, originators can fit the special needs of potential customers to gain the largest profit and no longer sacrifice benefit within.

A securitization transaction traded at par which is seldom the case of whole loan sell that usually completed in a premium execution. The reason that newly issued securities generally traded at par or near par is premium securities triggers an unique prepayment risk embedded in the securitization structure. Another rational ground is that the issuers in a securitization transaction sometimes will hold a subordinate interest in the principal of the collateral or make an excess service available for credit enhancement or both to further secure investors' interest. So, for credit reasons, it is technically not possible for asset backed securities to exceed a par execution. More than this, investors in market would rather demand a yield premium than a premium execution for such transactions.

One more difference among ABS and whole loan sale is cash flow timing. In securitization cases, cash flows received usually will be reinvested into short term notes and bills which generated the time lag between collections received by servicers and yields distributed to investors. Payments from receivables may also be invested into similar character securities and cash flow generated may be restructured to satisfy different investors' need, consequently, it is not exceptional that asset backed securities have longer maturity than underlying collaterals. Other variables including: When asset pools are sold, both the accounts and the receivables attached to the accounts are traded over whereas ABS structures relies on receivables arising pursuant to the accounts. Securitization usually has the credit enhancement provided by various entities, extra liquidity supported by liquidity providers, and higher credit ratings.

2.3.3 Secured Financing V.S. Securitization

Securitization is more like a receivable-secured financing backed by the fact that the issuers in both case relied on collaterals they provide to secure investors' interest and get target credit rating so that gained credit and cash from investors. What's different between them is for ABS transactions, investors typically will focus on the collaterals along with credit enhancement designed in structure instead of examining both underlying asset and issuers' financial health as investors in secured financing deals did. From this point of view, we can tell that securitization is preferable in many aspects than secured financing that first, it is harder to analyze and price a transaction for investors in secured cases since investors have to examine financial statements of underlying company to get insight information to evaluate the possibility of default. Second, securitization deals can perform various services and rearrange cash flows to fulfill exotic demands and that's what secured financing couldn't do.

2.3.4 What's Good for Credit Card Issuers to Securitize?

The first benefit for card issuers is a cheaper source of fund for expanding credit card business. Of course, when money supply is as high as a situation like these two years in Taiwan, this benefit is subtle due to excess cash flooded around market and interest rate drop to historical low. Almost every financial institution has more money than desired, especially for commercial banks and as a result, no one would like to find some cheap money. Nevertheless, in a tight money era, securitization will provide a solution of insufficient cash for profitable opportunities.

Credit card receivables is a high yield but also very risky asset. The financial charges and revolving interests generated from credit card receivables are major sources of profits for banks especially when the spread narrows in such a low interest rate environment. Although credit cards can make a lot of money, without proper credit control and risk management, something will go wrong and every penny issuers earned will be consumed by charge-offs.

Using techniques like securitization to change the character of issuers from risk bearers to risk brokers is a winning strategy for issuers to compete in market. Via securitization, financial facilities can transfer almost all risk out and merely play a role as a servicer or an administrator of accounts and charge management fees and other financial services charges so as to maintain stable cash flow and EPS. In other words, financial institutions can maintain desired capital structure and stable earnings to maximize stock price by securitizing receivables.

Securitization is not an easy product to make. It is a financial innovation which needs enormous studies and researches prior any transactions could happen. Issuers have to break through technical barriers such like qualified human resources, risk control methods, valuation models, documentation proficiency, and sales channels to sell products, all of which are only available for particular participants in Taiwan. Most transactions need technologies imported from foreign investment banks and credit rating agencies. Moreover, domestic issuers have to corporate with overseas financial innovation experts to smoothly complete a deal. All these procedures further strengthened competitiveness and reputation of issuers and that’s a crucial aspect to fight for credit card issuers in Taiwan, after all, credit card is a fashion financial product and issuers’ reputation does matter.

In Taiwan, most credit card issuers are banks with other business and various customer needs. Credit card is one part of whole company’s product line to fulfill all kinds of clients, so, not only it can make money is important but how it supports company goals as a whole matters. In the past, prior to emergence of financial engineering and financial innovation, credit card only played a limited role in organization. Through this liquidity making and value added surgery, credit card receivables combined with other instruments can create a charm that satisfy every customer’s needs.

2.4 Credit Card ABS Update

2.4.1 U.S. Credit Card ABS Overview

As year ended 2003, the performance of world's leading credit card ABS market is not bad. According to Standard & Poor's Credit Card Quality Index (CCQI) which monitors the performance of approximately 400 billion in receivables held in trusts of rated credit card ABS, the principals outstanding is quite stable and maintained at 400 billion level with a slightly upward tendency in the fourth quarter in 2003.

The strength of growth is not as strong as it was during 2000 and 2001 which provided double digits growth, however, the macroeconomic condition is expected to getting better and consumer income and spending continue to be encouraging in 2004. Several evidence revealed the recovery of macro-economy. Lower unemployment rate and initial jobless claims, higher income growth, better than expected retail sales and more jobs available all contributed to a prosper economic environment. With expectations of up going economy, the credit card ABS in the U.S. is expected remain robust.

Exhibit 2-12 Standard & Poor's Credit Card Quality Index

Distribution date	Dec. 15, 2001	Dec. 15, 2002	Oct. 15, 2003	Nov. 15, 2003	Dec. 15, 2003
Performance month	Nov. 2001	Nov. 2002	Sep. 2003	Oct. 2003	Nov. 2003
Outstandings (Bil. $)	$378.1	$399.9	$409.8	$412.7	$416.4
Yield (%)	19.0	17.7	17.6	17.6	17.0
Payment rate (%)	15.4	14.7	16.3	16.9	15.5
Charge offs (%)	6.6	7.2	6.9	6.9	7.0
Delinquencies (%)	5.3	5.5	5.2	5.2	5.2
Weighted base rate (%)	4.7	4.0	3.7	3.6	3.6
Excess spread (%)	7.8	6.5	7.0	7.1	6.4

Source: Standard & Poor's (2004)

2.4.2 Taiwan Legislative Update

Financial asset securitization benefits originator, whole financial market and every investor pretty much. For the financial institutions which originated the transaction, securitization gives more liquidity to its financial assets and raises efficiency of capital. Further more, transforming financial asset into securities also helped originators improving asset management and operation efficiency, diversifying, lowering cost of capital, and enriching sources of funds, etc. The first step toward building up securitization market in Taiwan is a complete regulatory structure so that all players in this game know how to play.

The financial asset securitization regulations was been passed in 2002 and there were 6 products issued successfully since then and this achievement is the result of countless efforts of government officers and market players. Enforcement laws and rules, official application forms and other formats were released in order to shorten the application period. The legislative progress after financial asset securitization regulations passed is illustrated in exhibit 15.

The preliminary legal requirements were built and that’s a major step for this market to grow. However, much more need to be done for securitzation to move on to the next level in Taiwan. Taxes consideration is the hottest topic that all market participators focus on but the tax authority insisted on a case-by-case basis instead of releasing general principles. Administration tasks of asset transferring, hypothec transformation, uncertainty of assessment procedure of new transactions and limited qualified institutional investors are part of those rocks on the road. We will discuss these topics further in later chapters.

Exhibit 2-13 Time Table of Legislative Progress in Taiwan

Date	Title of Laws/Regulations/Rules/Guidelines/Explainations
2002.07.24	Financial Asset Securitization Regulations released by Bureau of Financial Affaires
2002.09.17	Released official form for announcement of transferring collaterals to SPC/SPT
2002.09.24	Released rules governing qualifications of investors, guidelines of prospectus and limitations of transferring for privately placed ABS
2002.09.24	Explained the definition of ‘other institutions and funds’in article 2-1-1 in rules governing qualifications of investors, guidelines of prospectus and limitations of transferring for privately placed ABS
2002.09.25	Explained the definition of certificated rating institutions in article 4-2 in Financial Asset Securitization Regulations
2002.10.02	Released rules governing the public security offering of SPC/SPT
2002.10.02	Released rules governing the content of prospectus for the public security offering of SPC/SPT
2002.10.08	Released rules governing SPT/SPC to issue ABS
2002.10.15	Guidelines for financial institutions to set up an overseas SPC
2002.10.22	Released rules governing qualifications and requirements of setting up SPC
2002.12.12	Released The Limitations on the Types and Amounts of the Securities in Which a Commercial Bank May Invest
2002.12.12	Approved financial institutions which are sevicers of ABS may hold ABS for credit enhancement purpose
2003.01.16	Released The Limitations on the Types and Amounts of the ABS in Which a insurance company May Invest
2003.02.11	Released guidelines governing Ministry of Finance authorizes special professionals and technicians to inspect responsible person of ABS
2003.07.09	Released Real Estate Securitization Regulations
2003.08.27	Released draft of enforcement rules of Real Estate Securitization Regulations
2003.08.28	Released enforcement rules of Financial Asset Securitization Regulations
2003.09.30	Released guidelines governing trustees to offer real estate beneficiary certificates
2003.12.12	Released enforcement rules of real estate securitization regulations