
AN ENUMERYS GLOBAL WHITE-PAPER

Do Prime and Sub-prime borrowers alike Default on Mortgages before defaulting on their Credit Cards?

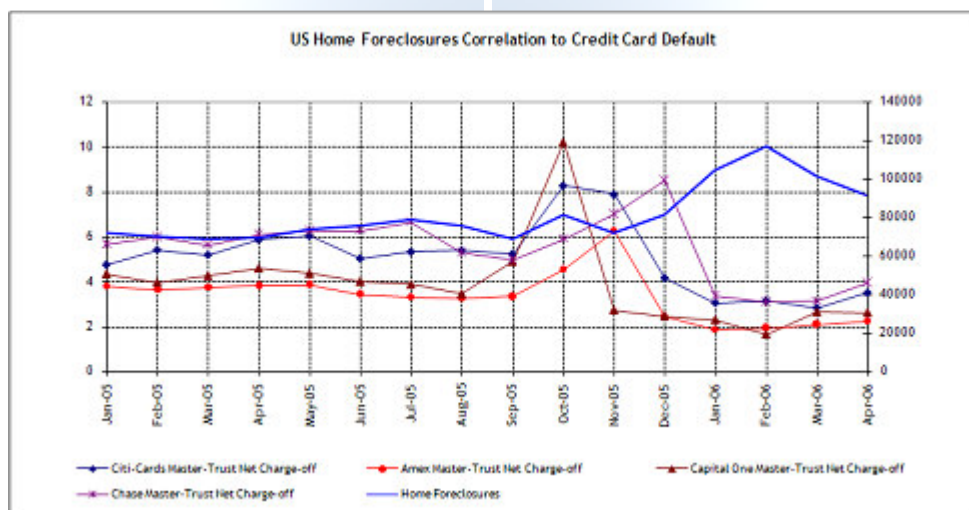
A recent study released by Experian Decision Analytics (published June 20, 2007 as reported by BusinessWeek Online, June 21st 2007 “Time to Give Up the House”) suggests that sub-prime borrowers are more likely to be late on their mortgage than on their credit card.

According to the study, the share of subprime borrowers who were 30 days or more late on their mortgages went up from about 32% at the beginning of 2003 to around 36% at the end of 2006—a sign of increasing financial distress.

Yet those same subprime borrowers actually caught up on their credit cards over the same period. The study focused on borrowers with Experian credit scores under 620, which would be considered sub-prime.

The explanation provided in the BW article was that most of these borrowers put down small or zero down payments so they don't have much to lose especially if prices had fallen since they made their purchase. People were current on their payments on their cards because people need credit cards for everyday necessities like gasoline and groceries.

This phenomenon might be true for sub-prime borrowers but may not necessarily be applicable to the rest of the mortgage consumer population. We correlated monthly Net Charge-off data for some of the major credit card lenders against monthly Home Foreclosures between January 2005 and April 2006 and found some results that suggest that for the majority of the borrowing population the reverse might be true.



The chart above compares net charge off data reported for Credit Card ABS Master Trusts for Citi-Cards, Amex, Capital One and Chase against Home Foreclosures (Source: Bloomberg). The chart seems to suggest a few months lag between the peak in credit card charge-off and Home Foreclosures. In fact there is some delay between when a cardholder defaults and when the Master Trust charges the debt off (although there could be as much as 60 to 90 days delay between the mortgage payment default and when the house goes into foreclosure).

Though these results are not at the Household or individual level, but are aggregated for the whole nation, they are broadly indicative of the lag relationship between credit-card default and Home Foreclosures. This seems to suggest that the relationship seen by Experian Decision Analytics in their study might be limited to Sub-prime borrowers only.

*For Further Information About This White Paper Please Email:
info@enumerys.com*

The logo for eNumerys Global is centered on the page. It features the word "eNumerys" in a bold, italicized, sans-serif font, with the "e" in a smaller size. Below it, the word "Global" is written in a similar bold, italicized, sans-serif font. The text is overlaid on a light blue, semi-transparent circular graphic that is divided into four quadrants by a vertical and a horizontal line. The background of the page is white, and the entire content is enclosed in a thin black border.

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