Communication Between Federal Reserve Board Staff
and American Express
September 13, 2010

Participants: Karen Pence (Federal Reserve Board)

Summary: Staff of the Federal Reserve Board received from American Express a summary of the current risk retention practices of American Express with respect to its asset-backed securitization trusts. A copy of the description provided by American Express is attached below.
Re: Questions from the Federal Reserve Board regarding Securitization Risk Retention Practices at American Express Company (AXP)

Date: October 5, 2010

1) How much of the deal issuers already hold via subordination or other mechanisms

Subordination

AXP uses two securitization trusts to issue ABS securities, the American Express Credit Account Master Trust (the "Lending Trust") and the American Express Issuance Trust (the "Charge Trust"). During 2008 and 2009, AXP affiliates retained all of the subordinated (i.e., Class B and below) securities in its new ABS issuances, which, at the time of issuance, represented 12.5% (Classes B and C) in 2008 and 17.5% (Classes B, C and D) in 2009, respectively, of the total principal amount of new series issued from the Lending Trust, and 7% (Classes B and C) of the total principal amount of new series issued from the Charge Trust. In Q2 2009, AXP provided additional credit enhancement to the Lending Trust by issuing and retaining through an affiliate two “Class D” series to support the vast majority of its pre-2009 deals that were still outstanding. These “Class D” series equaled approximately 4.2% of the pre-2007 series and approximately 6.3% of the 2007-2008 series they supported.

As of the end of August 2010, AXP retained approximately 12.1% of the outstanding securities in the Lending Trust and 2.5% in the Charge Trust. The company constantly evaluates prevailing market conditions and the cost of issuing subordinated classes compared to those of other funding sources, including issuing unsecured obligations, to determine the best funding strategy. In Q1 2010, with liquidity in the consumer ABS markets steadily improving, AXP sold approximately $117 million of its previously retained Class B securities from the Lending Trust to external investors. In Q2 2010, AXP issued and sold to external investors approximately $62 million of Class B securities together with the Class A securities in its first new ABS issuance this year.

Excess Spread

For both of our trusts, the excess spread represents the residual interest within each issued series that belongs to the transferors after all trust expenses, including investor coupon, servicing fee, and losses, are covered. By definition, fluctuations in trust portfolio yield and expenses will be absorbed first by the excess spread until it is reduced to zero. Also, if the excess spread falls under a certain level, it will be trapped in a reserve account for the benefit of investors instead of being distributed to the transferors as is normally the case. Due to these facts, the excess spread is subordinated further to all classes of securities in a series and represents the true “first loss” position within a trust.

Seller’s Interest

Similar to most credit card revolving trusts, both of our trusts contain a minimum Seller’s Interest requirement. For the Lending Trust, the minimum requirement is 7% of the principal balances of all
outstanding securities. For the Charge Trust, it is 15% of the total principal balance of trust receivables. Because the Seller’s Interest is pari passu with the issued securities, the holder of the Seller’s Interest effectively retains a vertical slice of the credit risk associated with the total trust collateral portfolio.

2) Whether issuers typically hold a horizontal / first loss piece or a vertical slice

As discussed above, AXP typically holds a horizontal or first loss piece through our retention of the excess spread and subordinated classes as well as a vertical slice via the Seller’s Interest.

3) Other mechanisms in the deal that align the incentives of issuers and investors, such as excess spread, reps and warranties, over-collateralization, etc.

Excess Spread

See answers to question #1.

Reps and Warranties

The originators make a number of representations and warranties in the trust documents with regard to the collateral transferred to the transferors, and the transferors similarly make a number of representations and warranties in the trust documents with regard to the collateral transferred to the trusts. If any of these reps and warranties is not true and correct in any material respect with regard to any transferred receivables, those receivables will be repurchased by the transferors and, in turn, the originators.

Shared Underwriting and Servicing Platforms

AXP originates and services all of its securitized and non-securitized loans and receivables on the same platforms, under the same origination and servicing guidelines, and by staff members who generally have no knowledge of whether any account has been securitized or not. This essentially prevents the company from treating its non-securitized accounts differently than its securitized accounts and should be deemed as a strong form of risk retention or “skin in the game.”

4) Any information or concerns specific to consumer securitizations and risk retention that you think the Fed should know

Unlike other asset classes, credit and charge card revolving trusts benefit from the existence of Seller’s Interest in aligning the interest of the issuer with that of the investors. Unlike the “originate-and-sell” model commonly used in the MBS market prior to the crisis, many non-mortgage consumer credit providers have a natural “skin in the game” due to the fact that their total portfolio, including the securitized accounts, are originated and serviced on the same platforms and according to the same
guidelines. In the Fed’s determination of its future regulation on risk retention, we believe it is appropriate to take into account these key differences and not to create unnecessary burdens for ABS issuers in order to avoid any unintended consequences that would further reduce the amount of credit available to the American consumers at this critical juncture of economic recovery.