

## Consumer Finance

## COF/DFS/SYF: monthly operating metrics

Estimate Change

**COF / SYF credit metrics could rekindle credit concerns**

Credit card issuers Capital One (COF), Discover Financial (DFS) and Synchrony Financial (SYF) reported monthly operating statistics. Overall, the October data continued recent trends – higher loan growth and weaker credit metrics. Credit metrics – delinquency (DQ) rates and net charge-off (NCO) rate – continue to weaken and COF and SYF both saw NCO rates worse than expected. This could cause some investor anxiety on credit performance in 4Q and the outlook into 2024. That said, we note SYF had a longer than typical charge-off cycle, which pressured the NCO rate. For COF, credit card delinquency trends moved with typical seasonality, which suggests the period of credit weakening could be coming to an end. Loan balance growth continues to increase at a low-to-mid teens pace, albeit it did decelerate m/m.

**COF: Credit losses higher than expected**

The October NCO rate ticked higher to 5.08%, up 92bps m/m which is well above typical October seasonality of +24bps m/m. The October NCO rate is already ahead of BofAe/cons 4Q forecasts and November and December normally see higher NCO rates. As a result, we expect upward revisions to charge-off estimates. Loan growth was solid at 14.3% y/y and the m/m growth exceeded seasonal trends. Loan balances appear to be trending slightly ahead of our consensus like \$147B forecast. Notably, auto balances declined m/m which continues to display COF's prudence in the market.

**DFS: Mostly in-line results**

Ending card balance of \$98.7B, was up 15.6% y/y, a slight deceleration from 16.5% in September. Loan balances increased 1.3% m/m, stronger than the typical October (5yr ex-COVID avg. of 1.01%). Net charge-off rate increased 27bps m/m to 4.42% vs. typical October of flat m/m. The 30-day DQ rate of 3.61%, up 20bps m/m, was also up more than typical seasonality +0.09% in October.

**SYF: NCOs up sharply, largely driven by more cycles**

October adj. NCO rate of 5.6% was up 120bps y/y. However, this was largely driven by 4 additional charge-off cycles in October vs. September. Normalizing for charge-off cycles, NCO rates were up 20bps m/m in October. Ending loan balance of \$98.9B was up 13.2% y/y a slight deceleration from 13.8% in September. On a month-over-month basis, loan balances were up 1.0%, slightly ahead of the 5yr average for October at +0.9%. The 30-day DQ rate increased to 4.6%, up 20bps m/m vs. the 5yr avg of +10bps. While NCOs are likely headed higher, the number of charge-off cycles should normalize to 28 days (vs. 30 in October) for November and December, which should help moderate the pace of NCO increases for the rest of the quarter.

**See inside for additional details and estimate changes for COF**

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Equity  
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Consumer Finance

**Mihir Bhatia**  
Research Analyst  
BofAS  
+1 415 436 3553  
[mihir.bhatia@bofa.com](mailto:mihir.bhatia@bofa.com)

**Jason Kupferberg**  
Research Analyst  
BofAS  
[jason.kupferberg@bofa.com](mailto:jason.kupferberg@bofa.com)

**Nathaniel Richam-Odoi**  
Research Analyst  
BofAS  
+1 646 855 1607  
[nate.richam-odoi@bofa.com](mailto:nate.richam-odoi@bofa.com)

**Cassie Chan**  
Research Analyst  
BofAS  
[cassie.chan@bofa.com](mailto:cassie.chan@bofa.com)

**Caroline Latta**  
Research Analyst  
BofAS  
[caroline.latta@bofa.com](mailto:caroline.latta@bofa.com)

NCO: Net Charge-off

DQ: Delinquency

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## COF: October NCOs above 4Q estimates

### Card NCOs at 5.08%

The October domestic card NCO rate was 5.08%, which was up 92bps m/m from September. The sequential move was well above historical seasonality which depicts NCOs increasing 24bps m/m (10yr average). The 5.08% loss rate is above BofAe/cons 4Q forecasts of 4.90%/5.02%. Additionally, loss rates typically increase further in November and December, as such we expect loss forecasts to revise higher. The 30+ day delinquency rate increased 17bps m/m, mostly in-line with seasonality (+16bps). Auto credit also deteriorated m/m – NCO rates were up 47bps m/m to 2.26% and DQ rates rose 43bps m/m to 6.06%.

### Loan growth up 14.3% y/y

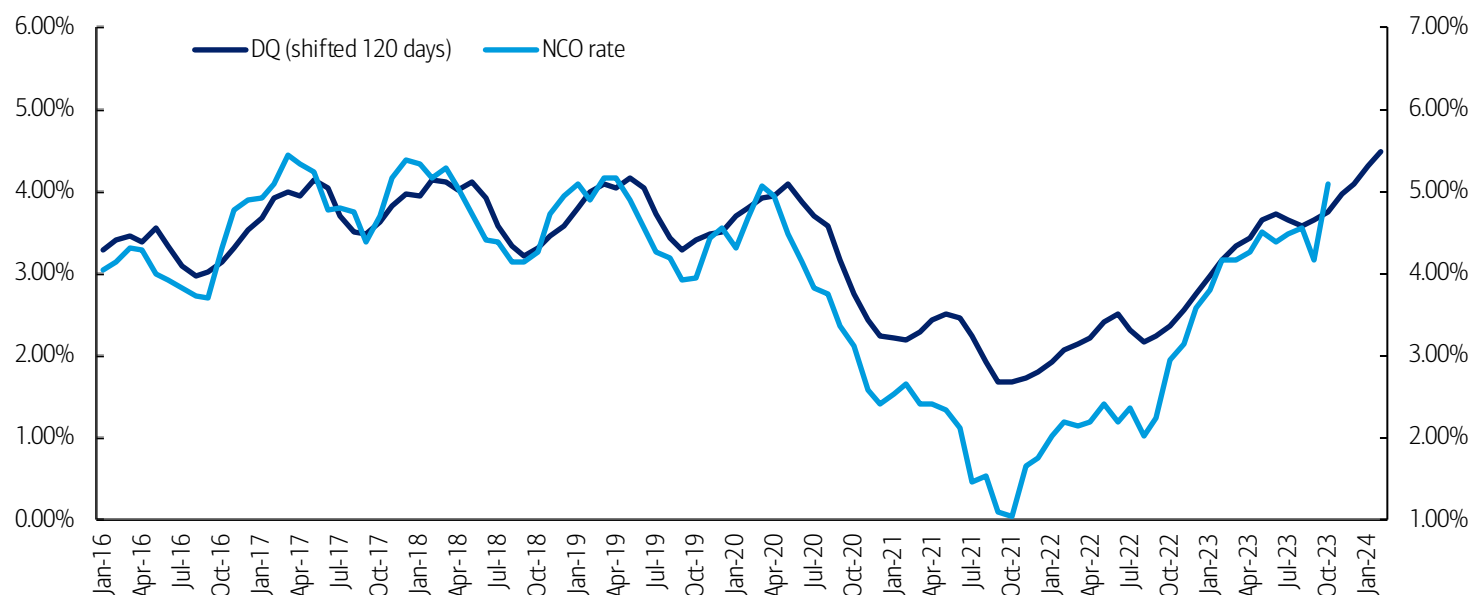
Domestic credit card balances of \$142.0B were up 14.3% which depicts a deceleration from September at 15.7%. That said, the sequential 122bps growth in balances outperformed historical seasonality by 36bps (10yr average: +86bps). If the outperformance continues, loan balances would trend ahead of our consensus like \$147B estimate. Auto balances were down 53bps m/m to \$75.1B, which continues to reflect Capital One's caution in the market.

### Adjusting estimates

We adjust our 2023/2024 EPS estimates to \$12.45/\$13.09 from \$12.89/\$13.14 previously as we account for weaker 4Q/1H24 credit and slightly faster loan growth. We maintain our Neutral rating and \$112 PO based on an unchanged 8.5x multiple to our 2024 EPS estimate.

#### Exhibit 1: COF DQ rate is still increasing suggesting the NCO rate is likely biased higher

COF DQ (shifted 120-days) and NCO rates



Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

## DFS: NCOs tick higher, solid loan growth

### Loan balances up 15.6% y/y in October

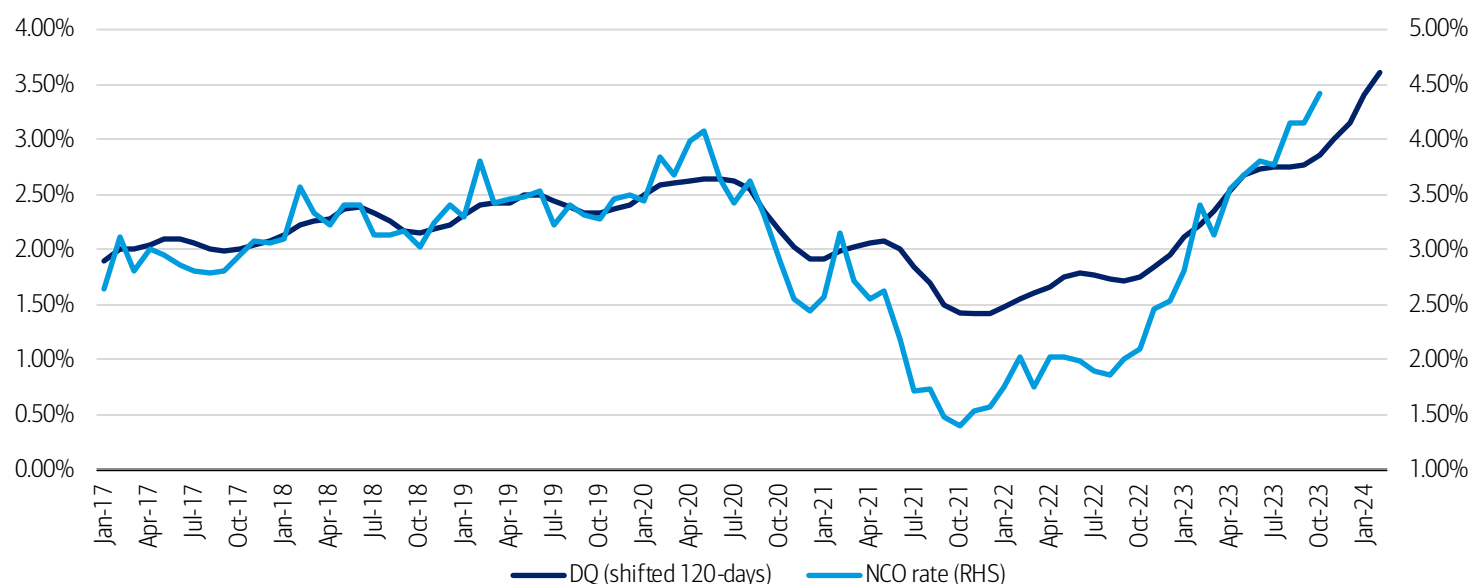
October ending loan balances increased to \$98.7B, up 15.6% y/y and 133bps m/m. Loan growth slowed from September which was up 16.5%, but the month-over-month growth was above what typical seasonality would predict (5yr average: +101bps). Given outperformance in October and typical seasonality of November and December, loan growth is slightly mostly in-line with our \$103.6B estimate, but slightly ahead of consensus at \$102.8B. Maintain Neutral rating.

### Net charge-offs increase 27bps m/m to 4.42%

The October NCO rate was 4.42%, which was up 27bps m/m from September. The NCO increase was well above typical seasonality, which is normally flat in October. That said, loss forecasts appear to be relatively in-check with BofAe estimates at 4.65% and are trending slightly better than consensus at 4.74%. Delinquency rates ticked higher in October to 3.61%, up 20bps m/m. The DQ increase was also a touch ahead of typical seasonality at +9bps m/m. The trend suggests higher losses for DFS over the near-term.

#### Exhibit 2: DFS DQ rate is still increasing suggesting the NCO rate is likely biased higher, albeit chart suggests at a moderating pace

DFS DQ (shifted 120-days) and NCO rates



Source: Company reports, BofA Global Research

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# SYF: Up sharply but charge-off cycles add noise

## Card losses +120bps m/m due to charge-off cycles

October NCO rate of 5.6% was up 120bps m/m and 220 bps y/y. The large increase m/m was largely due to October having 30 charge-off cycles vs. 26 in September. Adjusting both months charge-offs for a more typical 28 charge-cycle month suggests credit losses only increased 20bps m/m and September/October charge-off rates would have been 4.84%/5.04% vs. the 4.4%/5.6% reported. The 30-day delinquency rate increased to 4.6%, up 20bps m/m and 120bps y/y. The m/m increase was more than typical seasonality of +10bps m/m in Oct. Maintain Neutral rating.

## Loan growth up 13.2% y/y

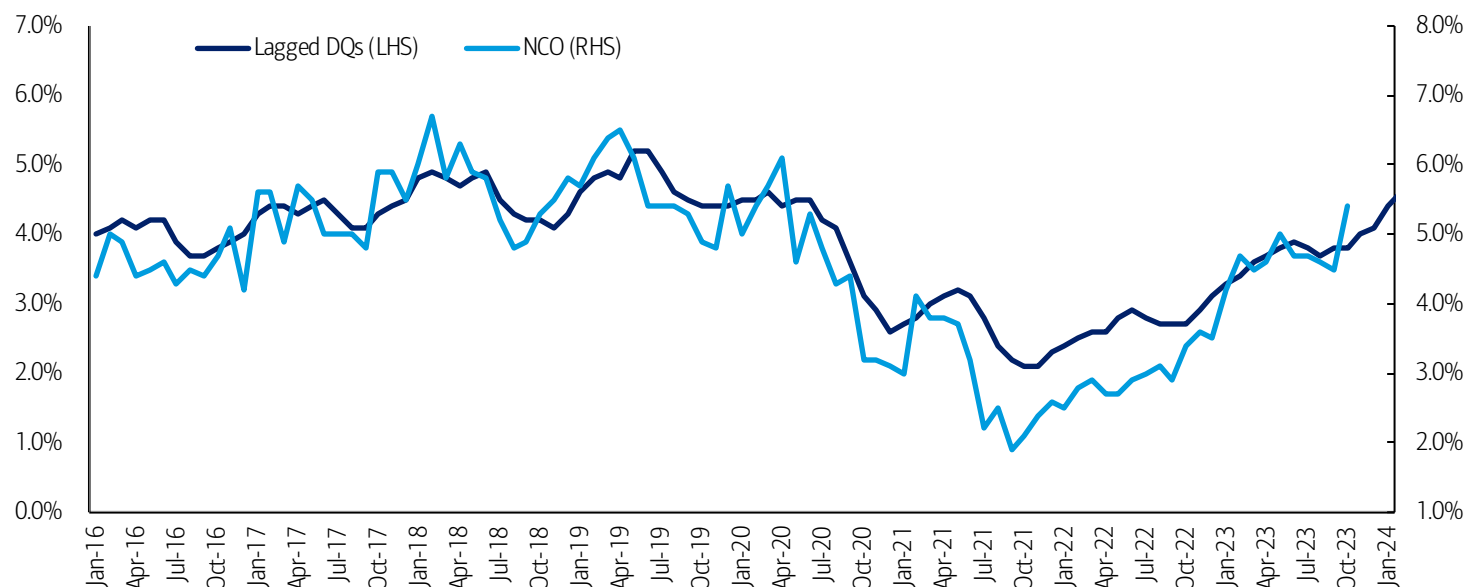
Ending loan balance of \$98.9B was up 13.2% y/y a slight deceleration from 13.8% in September. The 102bps increase is slightly better than the average for the last 5yrs of October seeing balances increase 95bps m/m.

## Maintaining estimates

We are maintaining our 4Q estimates for loan growth and net charge-offs. For loan growth we forecast ending balance of \$103.1B (consensus at \$102.8B). Loan balances typically increase sharply in November/December driven by holiday shopping. Our 4Q net charge-off forecast of 5.35% is slightly better than consensus at 5.47%. Given the noise in NCO rate this month due to charge-off cycles, we are maintaining our forecast but note that November and December typically see higher NCOs than October and October is already above our 4Q forecast, so there could be risk to the upside.

### Exhibit 3: DQs increasing suggests continued pressure on NCO rate, though the pace of increase should moderate

SYF DQ (shifted 120-days) and NCO rates

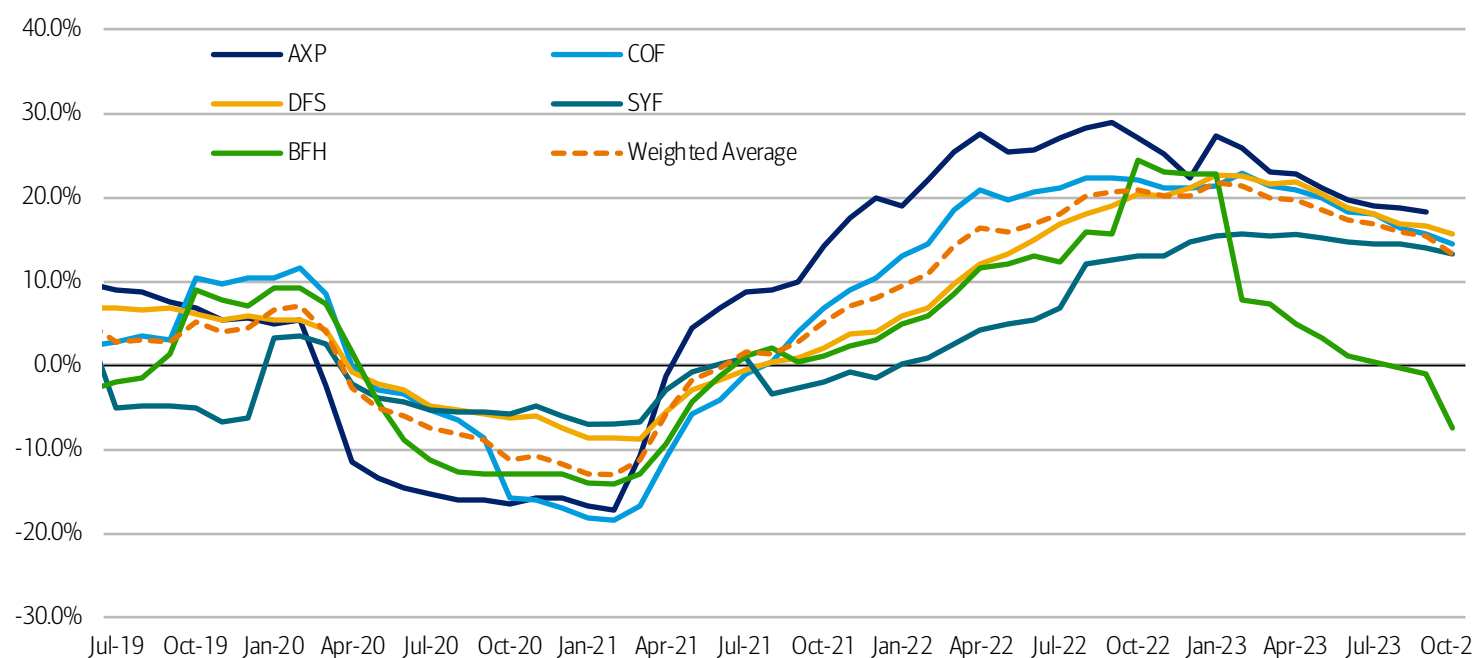


Source: Company reports, BofA Global Research

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**Exhibit 4: Loan growth continues to be robust for most card issuers**

Credit card loan growth y/y

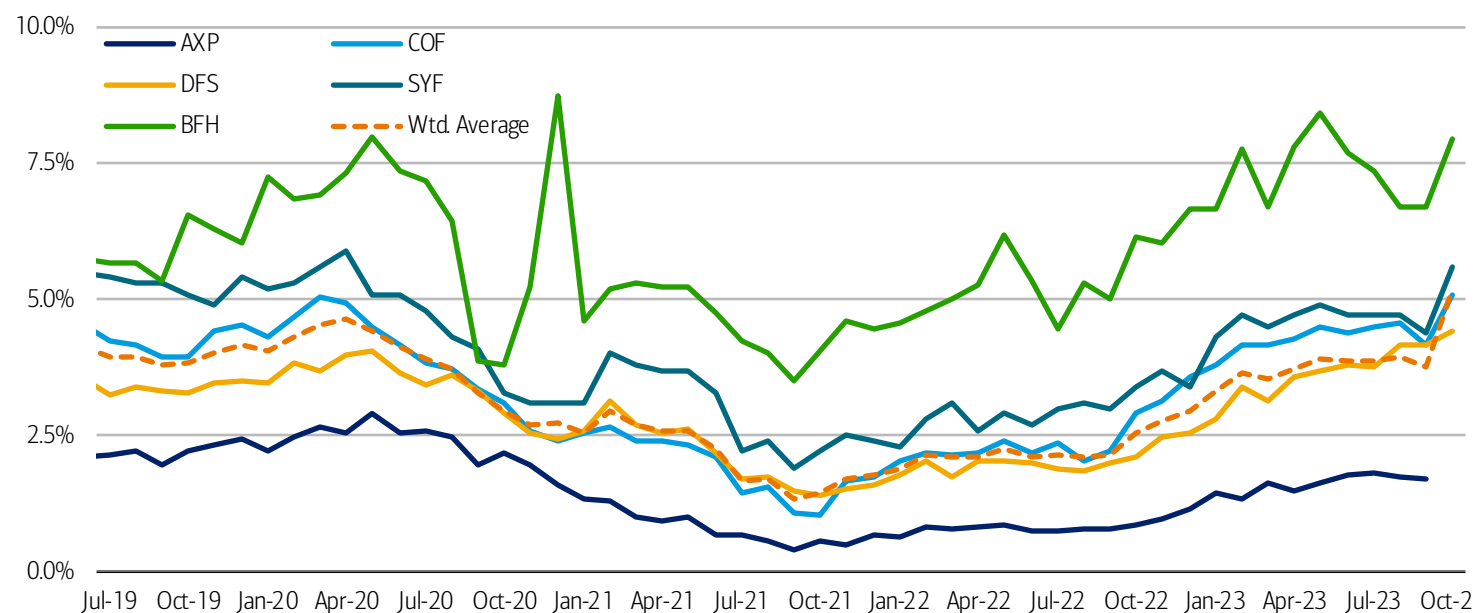


Source: BofA Global Research, company reports

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**Exhibit 5: Credit inflected sharply higher in October for most card issuers**

Net charge-off rates



Source: BofA Global Research, company reports

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**Stocks mentioned**

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
COF	COF US	Capital One	US\$ 107.01	B-2-7
DFS	DFS US	Discover Finl	US\$ 85.67	B-2-7
SYF	SYF US	Synchrony Financial	US\$ 30.3	B-2-7

Source: BofA Global Research

**Price objective basis & risk****Capital One Financial (COF)**

Our \$112 PO is based on a 8.5x PE multiple to our 2024 EPS forecast. A 8.5x PE multiple is in the middle of the historical range (7-12x) which we think is appropriate given the relatively uncertain macro backdrop and rising credit costs, partially offset by strong loan growth.

Downside risks are: slower than expected revolving credit growth, faltering economic recovery and rising loan losses, which could drive earnings below our estimates, and result in valuation compression. Cybersecurity and regulations are also risks.

Upside risks are: Consumer balance sheets continue to hold strength and credit metrics remain strong. Increased visibility in peak loss rates shifts investor sentiment. Federal reserve achieves a soft landing. Outsized capital return.

**Discover Financial (DFS)**

We calculate a \$94 PO based on an 8x PE multiple to our 2024 EPS forecast. A 8x multiple is at the lower end of DFS's recent historical range (7-12x) and reflects concerns on compliance, rising unemployment and credit losses, offset by robust loan growth.

Downside risks to our price objective are: if the economy falls into a recession, credit costs could rise rapidly and compress margins more than our current forecast. Deteriorating economic conditions would likely hurt sentiment and drive DFS's valuation lower.

Upside risks are: Consumer balance sheets continue to hold strength and credit metrics remain strong. Increased visibility in peak loss rates shifts investor sentiment. Federal reserve achieves a soft landing.

**Synchrony Financial (SYF)**

Our \$35 PO is based on a 7x P/E multiple on 2024E EPS. Our multiple is on the low end of the typical trading range for SYF (7-12x), which we think is appropriate given the relatively uncertain macro backdrop and rising credit costs, somewhat balanced by the potential for high capital returns.

Downside risks to our price objective are an economic downturn, which could lead to elevated loan loss rates, increased defaults, higher credit costs and slower loan growth.

Deteriorating economic conditions would likely hurt investor sentiment and drive valuations lower. Loss of retail partners also poses a risk to growth and earnings outlook.

Upside risks are: Consumer balance sheets continue to hold strength and credit metrics remain strong. Increased visibility in peak loss rates shifts investor sentiment. Federal reserve achieves a soft landing. Outsized capital return.

## **Analyst Certification**

I, Mihir Bhatia, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	American Express Company	AXP	AXP US	Mihir Bhatia
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Block Inc	SQ	SQ US	Jason Kupferberg
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Toast	TOST	TOST US	Jason Kupferberg
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	Marqeta	MQ	MQ US	Jason Kupferberg
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg



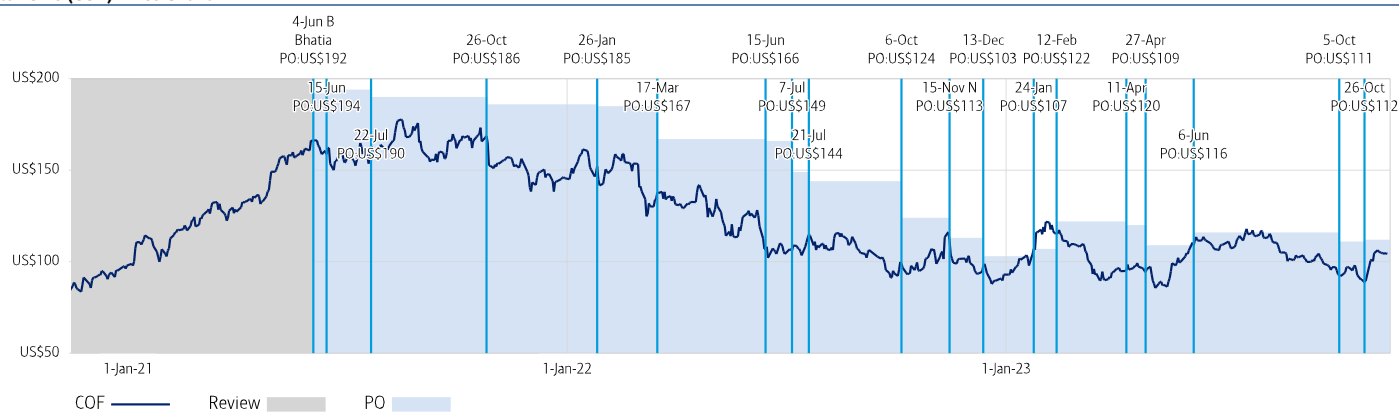
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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

## Disclosures

## Important Disclosures

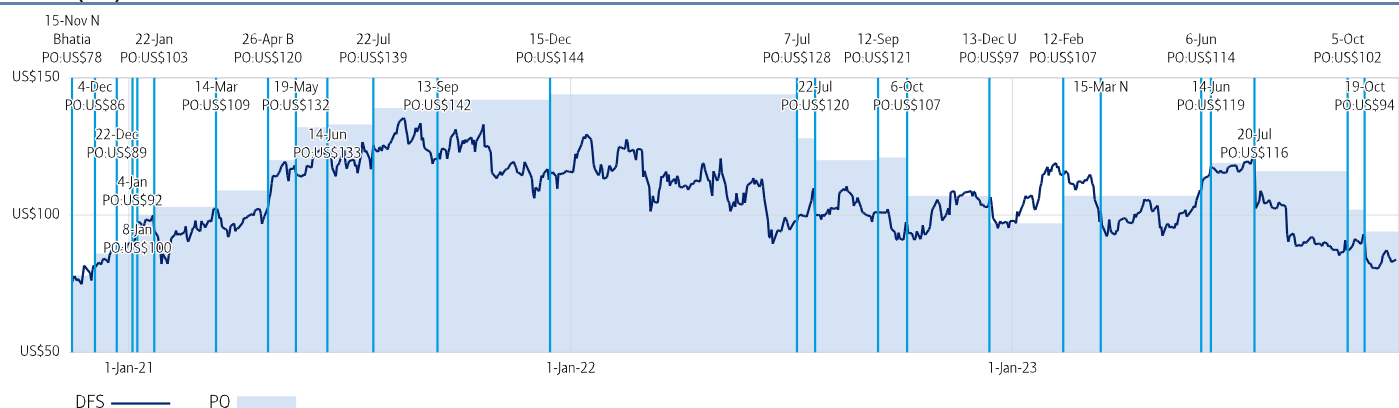
## Capital One (COF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

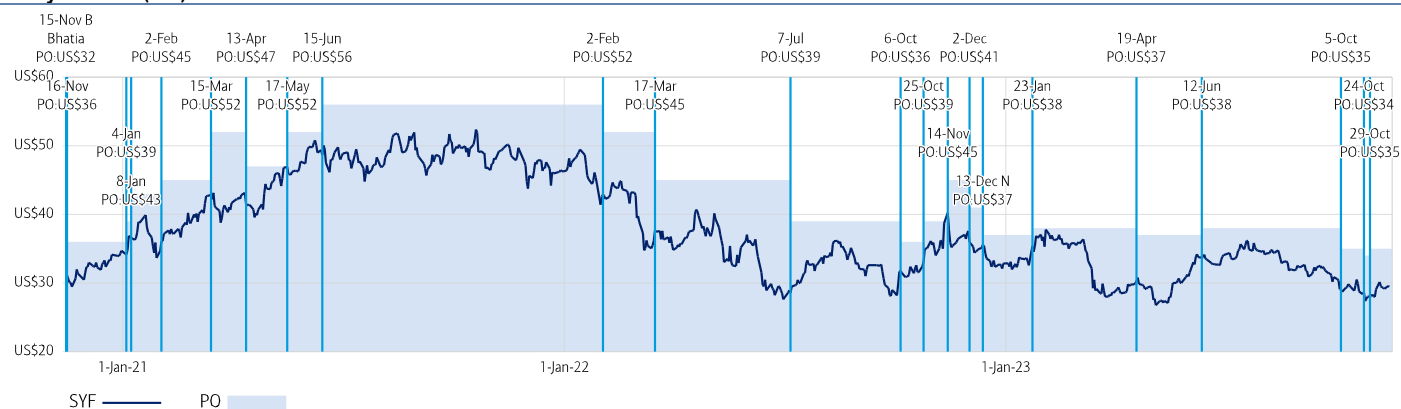
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## Discover Finl (DFS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Synchrony Financial (SYF) Price Chart**

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**Equity Investment Rating Distribution: Financial Services Group (as of 30 Sep 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.24%	Buy	94	60.26%
Hold	79	26.96%	Hold	52	65.82%
Sell	58	19.80%	Sell	32	55.17%

**Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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