

Consumer Finance

CFPB's final late fee rule expert call
takeaways

Industry Overview

Expert views rule as likely to face judicial scrutiny

Yesterday, we hosted a call with David Silberman, former Associate Director at the Consumer Finance Protection Bureau (CFPB), to discuss the recently announced Late Fee Rule and next steps. Silberman thought an injunction and delay in implementation was highly likely and also that the court would likely eventually strike down the \$8 fee. Silberman was not certain the Supreme Court would take up the case, barring a conflicting decision in another Federal District.

Stock implications: +ve for card issuers, especially PLCCs

If the rule is overturned, we think it would be particularly positive for private label card issuers like Synchrony (SYF) and Bread (BFH) that earn meaningful portions of revenue from late fees. We also believe the elimination of the 25% of minimum balance cap is a positive that modestly reduces the impact of lower late fees. Other card issuers like Capital One (COF), Discover (DFS), and American Express (AXP) would also benefit if the late fee rule were withdrawn.

Wide variety of potential outcomes

Silberman noted there are a wide variety of outcomes possible, but he expects the court to grant an injunction delaying implementation, potentially as soon as next week. Then, depending on the outcome of the Supreme Court case on CFPB funding – and assuming the court decides the CFPB funding is legal – the case would proceed. Silberman expects the court to strike down the \$8 fee. He did note the question of whether the CFPB's removal of the safe harbor for the old fee structure would remain in-force is a closer call, as in his view, that is the weakest part of the lawsuit seeking to overturn the rule.

Key elements of the lawsuit

The Chamber of Commerce and associated parties have sued the CFPB in the U.S. District Court for the Northern District of Texas. Silberman highlighted five key points in the lawsuit: (1) the CFPB is unconstitutionally funded; (2) the rule is incompatible with the Card Act; (3) the Bureau acted in an arbitrary and capricious manner when writing the rule; (4) the Bureau relied on non-public information, which is a procedural violation; and (5) establishing the effective date as 60 days after addition to the Federal Register is unlawful and the effective date should be October 1. Notably, the lawsuit does not make a specific claim that the CFPB prejudged the decision.

Potential implementation timeline over a year

Alongside the lawsuit, the plaintiffs filed an injunction on the rule. Silberman believes the CFPB will not contest the injunction and it will go into effect next week. It should last at least until the Supreme Court case regarding the constitutionality of the CFPB's funding is decided (potentially April/May) but could be longer. If an injunction is put in place and the case follows a normal course, briefing would take four to six months and ruling would take another four to six months. Implementation would likely then be 60 days following that, bringing the implementation timeline to roughly a year. The unknown element is if a new administration comes in and decides not to contest the rule.

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PLCC: Private label credit card

Exhibit 1: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AXP	AXP US	American Express	US\$ 222.65	B-1-7
BFH	BFH US	Bread Financial	US\$ 36.68	C-2-7
COF	COF US	Capital One	US\$ 140.27	B-1-7
SYF	SYF US	Synchrony Financial	US\$ 43.13	B-2-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**American Express Company (AXP)**

Our \$247 price objective is based on a 16.5x multiple to our 2025 EPS forecast. The 16.5x PE multiple is on the higher end of the historical range (12-18x) for AXP, which we think is appropriate given the growth outlook and strong operating momentum it is experiencing.

Downside risks to our PO are weaker-than-expected macroeconomic conditions, softer consumer and business spending, weaker loan growth, increasing competition, weaker US consumer credit performance, disruptions in capital markets, or an increasing regulatory burden.

Bread Financial Holdings Inc (BFH)

Our \$40 PO is based on a 0.9x multiple to current book value. We believe more investors are looking at BFH through a book value lens given potential profitability challenges if the CFPB's late fee rule was to come into effect. We view a book value of <1.0 as appropriate in such a backdrop.

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 the earnings outlook.

Capital One Financial (COF)

Our \$152 PO is based on a 9.5x PE multiple to our 2025 EPS forecast. A 9.5x PE multiple is in the middle of the historical range (7-12x) which we think is appropriate given the more optimistic macro outlook and strong loan growth, partially offset by rising credit costs.

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.

Synchrony Financial (SYF)

Our \$43 PO is based on a 7x P/E multiple on 2025E EPS. Our multiple is on the low end of the typical trading range for SYF (6-12x), which we think is appropriate given the relatively uncertain macro backdrop and rising credit costs, execution risk on late fee mitigants, 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

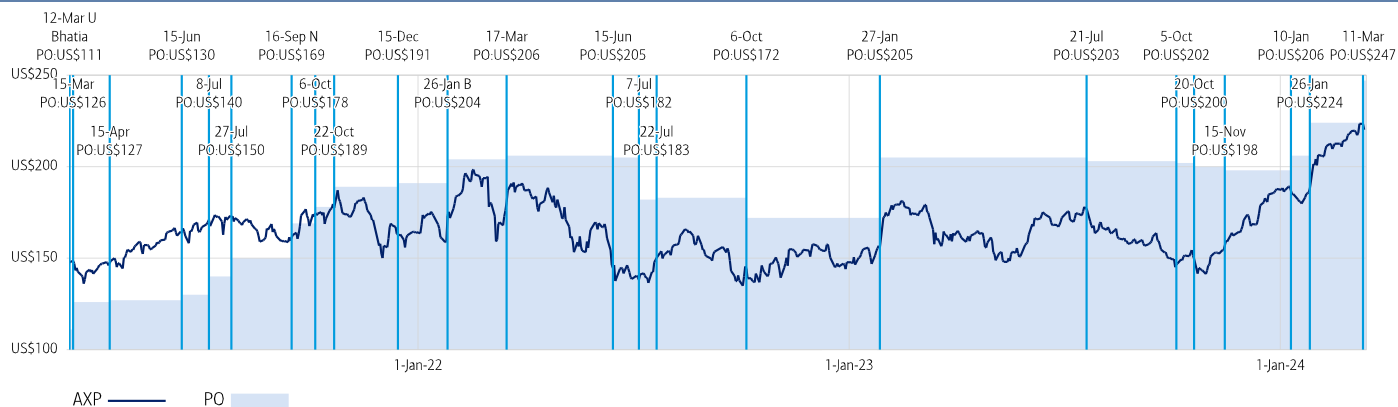
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US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	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
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	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
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
UNDERPERFORM				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	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
	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

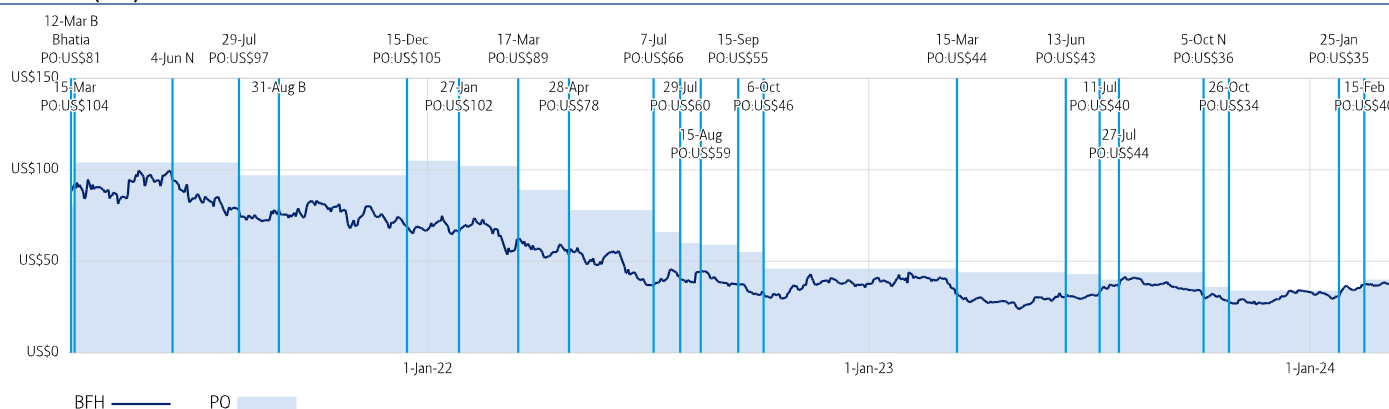
Disclosures

Important Disclosures

American Express (AXP) Price Chart

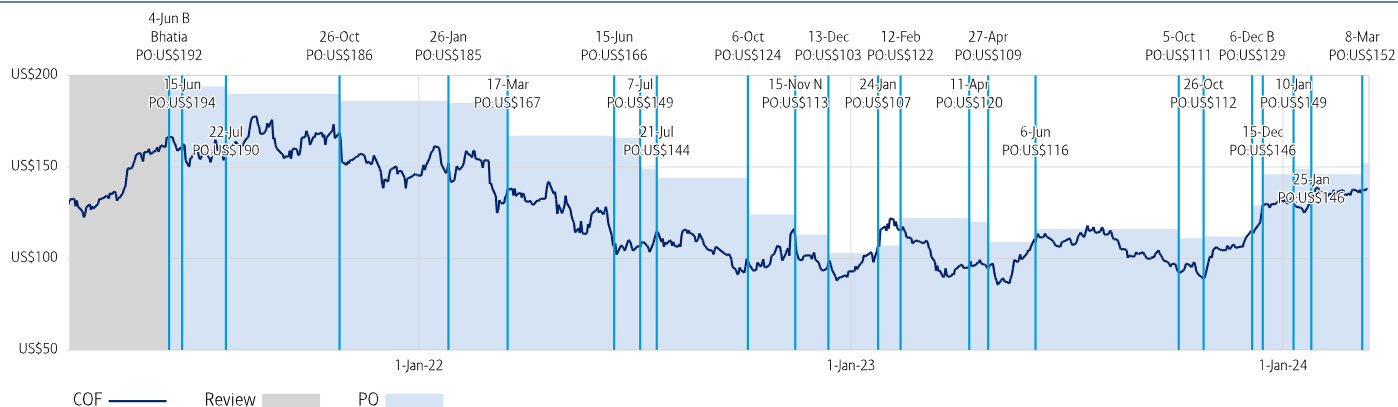
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Bread Financial (BFH) Price Chart

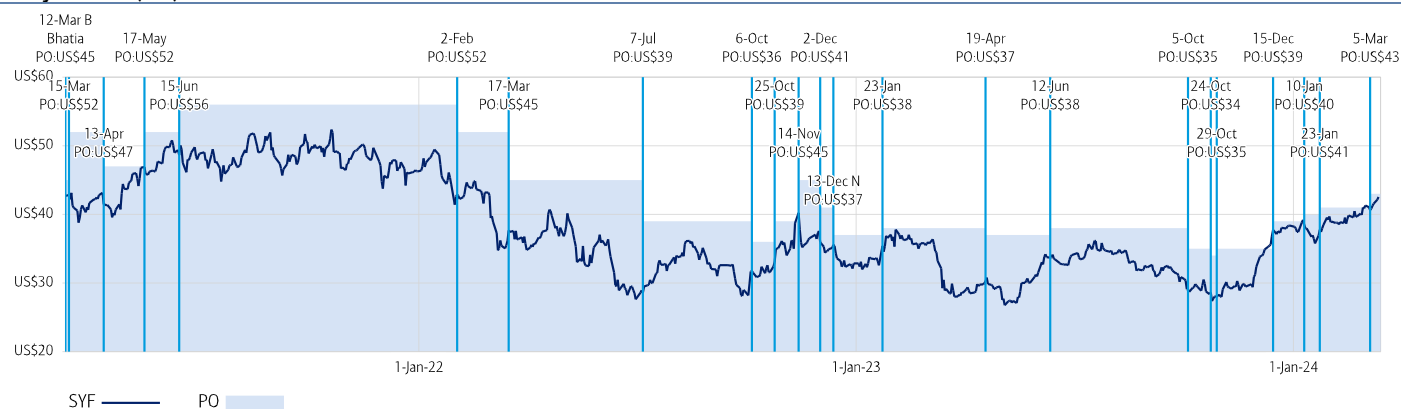
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Capital One (COF) Price Chart

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Synchrony Financial (SYF) Price Chart

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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} 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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Underperform	N/A	≥ 20%

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