

Consumer Finance

ConFin: Preview & Question Bank for the
BofA Financial Services Conference

Industry Overview

BofA Conference in Miami, Florida, February 20-22

Next week on February 20-22, BofA will be hosting 130+ corporates and 300 institutional investors at the 1 Hotel in Miami for the 32nd Annual Financial Services Conference. We will be hosting 130+ public and private companies across banks, fintechs, insurers, and alts for fireside chats, panels, one-on-ones, and group meetings with over 300 institutional investors. In 2025, the BofA Financial Conference will be held from February 10-12, at the same venue.

Consumer Finance / Specialty Payments in attendance

Within our coverage, companies attending the conference include ACT, BFH, COF, ESNT, FLT, MTG, NMIH, and OMF. Given the fluid macro backdrop and investor focus on consumer financial health, interest in meeting with consumer finance and specialty payment companies is strong. Within this note, we are publishing a question bank for investors to serve as an aid or reference to some of the questions and topics we will be focused on for the consumer finance / specialty finance sector.

Key themes for consumer lenders

Given 2024 guides were just established, we would be surprised at any guidance revisions this early in the year. Instead, we think investors will be focused on better understanding company outlook, with the most focus on understanding individual credit expectations. The sector has experienced rising delinquencies and net charge-off rates for the last ~10 quarters and now most large issuers have guided to losses peaking in 1H24. However, there remains investor concern on the back-half weighted credit guides and investors are keen to better understand what is driving management confidence, as well as, optionality to further tighten or loosen underwriting standards. The CFPB's late fee proposal is also likely to be in sharp focus, given the expectation that it will be released imminently (1Q). How companies can make up the lost revenue and adjust underwriting models for a low late-fee environment will be important to understand.

Key themes for mortgage insurers

The biggest question we have had from investors on the mortgage insurers is – is this as good as it gets? Given strong housing credit fundamentals, home price appreciation and elevated persistency, we understand the question. We think companies will highlight the improved capital, risk management and pricing models to argue for better overall business models (and valuation). Whether that convinces investors remains to be seen. In the interim, investors will also be focused on delinquency formation and understanding if price discipline can endure. We also think investors can learn more about mortgage market trends and gain industry color from the insurers, who will have unique insight into new home and first-time homebuyers.

To see the full conference agenda and list of attending companies see: [Agenda](#).

14 February 2024

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Company Questions

Bread Financial (BFH)

- **CFPB late fee rule:** On the 4Q call, you gave a solid framework and guide of impact the CFPB late fee rule would have on the business and what you could do to mitigate those headwinds. Can you speak a little bit about the conversations you are having with your partners? How many of these mitigants are easy to pass on and are palatable, which could be a bit more difficult? What's a reasonable outlook for potential revenue recouperation over time?
- **Credit:** The credit guide of low 8% is a bit above your through the cycle target of 6%, though you've called out a 1H24 peak. How are you thinking about the return to that average loss rate of 6% in this backdrop. Additionally, with the prospect of the late fee ruling and tightening of the credit box, is there potential for this normalized loss level to become stronger if you lean more into general purpose and co brand cards?
- **Vintage performance:** Are there any particular vintages that are performing worse than expected? Other issuers have called out specific years seasoning which are driving their loss profile, but curious to know if this is solely broad-based weakness due to inflation pressure or if any few vintages are underperforming.
- **Loan growth:** Can you talk about the components of your loan growth expectations for the year? How much of the pressure is due to tighter underwriting, reduced card acquisitions, active line management, or just spending trends such as volumes and payment rates?
- **Expenses:** The company still plans to deliver modest operating leverage in 2024 despite low single digit revenue deceleration. Can you talk about your investment priorities for the upcoming year and where you may need to pare back expenses to achieve this guidance. Where do you have the most flexibility?

Capital One (COF)

- **Credit:** It's very rare for Capital One to give any type of guidance on an earnings call, yet the company provided a near-term outlook for net charge-offs. Can you speak a bit about what you're seeing in the delinquency data that is providing this confidence, is it early-stage entry rates, roll rates, or overall recoveries driving this? And what, if anything, is unique to COF in this credit environment?
- **Marketing (heavy spender):** Marketing spend ramped up in 4Q and given commentary it appears that it will stay elevated in 2024. The company noted that winning at the top of the market is one of those priorities, can you speak a bit on where exactly you're spending this money, what the competitive dynamics are currently, and what progress you're making.
- **Impact of the growth in heavy spenders in portfolio:** What is the overall impact on the portfolio from the growth at the high-end of the market? At what point do you think it can make a material impact to the profile of losses or spending and how long do you think this higher market push continues, given the market opportunity.
- **Marketing (prime):** Additionally, you do quite well at the lower end of the market and peers have trouble replicating that, how are you thinking about that cohort within this environment.
- **CFPB late fee rule:** The industry is expecting a late fee rule from the CFPB in the quarter and you've previously talked about the adverse effects it might have on consumer behavior and also credit access. How is COF planning to mitigate some of the impact from the rule? Have you started testing yet?

- **Interest rates:** How is COF positioned for lower rates? What are your expectations for deposit beta in a lower rate environment?
- **Auto lending:** The company has been very prudent in the auto lending space – loan balances have been declining modestly over the last few quarters and you’ve spoken a bit about the returns not being attractive currently. What do you need to see in the market to lean back in, is it something specific to the credit or pricing?
- **Technology spend:** COF has invested heavily in technology over the last few years. Can you talk about some of the tangible benefits from those investments? Do we see them in underwriting or marketing improvements? Is it lower costs? Any examples you can share?

FleetCor Technologies (FLT)

- **Guidance:** The initial 2024 guide, was a little light on the revenue side compared to expectations, yet the EPS guide was in-line and EBITDA margin outlook was quite strong – can you talk about where and how you are achieving these efficiencies and what kind of margin the business can run at in a more constructive environment?
- **Strategic review:** On the earnings call, FleetCor closed the chapter of the strategic review and announced how it plans to organize and operate the business moving forward. While you will not be separating the Fuel and Corporate Payments segments into two distinct businesses, can you talk to any of the learnings over the last twelve months and how you plan to utilize it moving forward in current operations / investments, or for new acquisitions?
- **Acquisitions:** You signaled that the M&A opportunity is open for FleetCor in 2024 as the company goes “back to basics”. Are there any specific functionalities you are focused on acquiring or adding onto the business or are you expecting acquisitions to remain in the realm of a “land grab” within existing capabilities?
- **Corporate Payments:** Corp payments is pretty broad – talk about the 2 or 3 businesses inside the segment that really drive the overall growth. Cross border has been growing nicely for a couple of years and you seem to be on a nice cadence of acquiring smaller players there – talk about the runway there. Can you discuss the sale process and drivers of growth for the AP automation business.
- **Cross-sell:** Can you talk about the cross-sell between corporate payments and the other businesses. What has been the historical impediment to cross-sell? What’s different about the new products that will enable more cross-sell?
- **Fleet recession:** We heard all last year about the Fleet recession, and while some data points signal a trough occurred last year, you called out some more unexpected weakness towards the end of the year. While you noted this was somewhat due to lower late fees, was there any other softness in Vehicle worth calling out? And on an industry level do you think we’ve turned a corner?
- **4Q headwinds:** Talk about the drivers of the headwinds in 4Q and why you are confident they are transitory.
- **New products:** Talk about how the business will change as you launch new products on the consumer side. Will Fleet need to develop a consumer side brand and invest in marketing etc.

OneMain Financial (OMF)

- **Macro:** How are you feeling about the current macro backdrop? How does it compare to say six months ago? What needs to happen for you to further tighten or open the credit box?



- **Credit:** You've spoken a good amount about your credit guidance and how it's primarily driven by back book weakness, but can you give some more information about how the front book is performing? Have credit results there been in-line with your expectations? Is the current underwriting posture tighter than where OneMain normally operates?
- **Consumer:** How do you view the consumer's financial health in the current backdrop? How much of a factor is the pressure from inflation and the prospect of higher unemployment driving your underwriting decisions compared to the existing portfolio performance?
- **Pricing:** Can you speak a little bit about the driving forces beyond pricing and how you see the yield of the overall portfolio? As you've tightened over the last year+ you've noted that pricing has increased across your products, but where should yield settle out longer-term.
- **Foursight:** Discuss the opportunity from Foursight? Why did this acquisition make sense for OneMain at this time?
- **(Indirect) Auto:** How do you view the indirect Auto business within the broader portfolio? Interested to hear your thoughts in that channel, why it works for OneMain, and what the overall strategy is there.
- **Competition:** What is the current competitive environment like? You have been able to lend to a higher credit quality customer as others pulled back, is that still the case or are you seeing competitors re-enter?
- **Credit card:** Can you talk about the progress of your BrightWay credit card rollout? The operating environment for card issuers over the last year as been interesting given rising delinquencies and losses, and now the impending CFPB late fee rule. Curious to hear your thoughts on the progress there, how your strategy and posture has changed over the last year or two, and the overall value prop of the products.
- **Cross-sell / learnings:** As OMF expands to more products, can you talk about the cross-sell opportunity. Is that something you are focused on? Are there learnings from product that can be applied to other products?
- **Hybrid model:** How is the company thinking about the branch footprint as financial products become increasingly digital. We think the physical stores are a material factor to your credit performance compared to other near-prime and prime lenders, but how do you think that footprint evolves over time?
- **Liquidity / funding:** Talk about your liquidity and funding profile? As you manage the company what are some of the markers you are managing too.
- **Long-term guide:** What does the path to \$30B receivables / \$12.50/share capital generation look like. Is growth in certain products necessary or can you get there even if one of the products see's slower growth.

General questions for mortgage insurers

- What's the next leg-up for the industry in your mind? What's the positive catalyst from here?
- How are you thinking about the overall market for industry NIW this year? While rates still remain high, mortgage insurance is still most applied to purchase origination – so can you also touch on what you're hearing from originators?

- Has the population of first-time home buyers changed in any material way over the last five-seven years? What are the implications of this change?
- How are you thinking about the macro backdrop and how that changes the management of the company? Are there any pockets where you are being more cautious or pulling back?
- How does the prospect of higher for longer rates change the business? Either in return potential, persistency, or even in how you position in the investment portfolio.
- Admittedly from a very low base, we're starting to see delinquent balances and default rates increase across mortgage insurers. Can you talk a bit about where you see delinquencies trending? What is a normalized delinquency rate?
- Given home price appreciation (HPA), how has the claim process changed? What kind of HPA do you assume in your underwriting? Are you finding more claims resolving without a payment?
- How are you viewing the pricing environment currently? Average premium rates were falling for several years and now it appears to be stabilizing across the industry – how would you describe the competitive intensity currently and how do you think pricing evolves from here?
- Can you touch on your reinsurance transactions and the economics of utilizing reinsurance? Is reinsurance usage driven by risk management or capital efficiency?
- How do you see this driving average premium rates and do you have a target amount of transactions based on portfolio size or is it more dependent on the macro environment?
- Discuss the potential for M&A in the industry? Do the recent changes to the S&P changes make MI acquisitions more palatable for other large insurers?
- Are there any regulatory developments management has their eye on and what the potential impacts would be to the business, if there are any?



Consumer Finance Fireside Schedule

Exhibit 1: Schedule of Consumer Finance related presentations
List only contains fireside chats, presentations, and panels

Tuesday, February 20		
1:20pm	MGIC Investment Corp	CEO, Tim Mattke
4:40pm	OneMain Holdings	CEO, Doug Shulman
Wednesday, February 21		
11:20am	Bread Financial	CEO, Ralph Andretta
		CFO, Perry Beberman
12:10pm	FleetCor Technologies	CFO, Tom Panther

Source: BofA Global Research

BofA GLOBAL RESEARCH

Abbreviations

- ACT: Enact Holdings
- BFH: Bread Financial
- CFPB: Consumer Financial Protection Bureau
- COF: Capital One
- ESNT: Essent Group
- FLT: FleetCor Technologies
- MI: Mortgage insurance
- MTG: MGIC Investment Corp
- NIW: New insurance written
- NMIH: NMI Holdings
- OMF: OneMain Holdings



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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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