

Industry Surveys

Consumer Finance

JULY 2023

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NEW THEMES



What's Changed: After underperforming the broader banking industry during the pandemic, credit card issuers have begun to see deposit growth accelerate. Read more on page 13.



What's Changed: How have credit card issuers' net interest margins fared in the face of rising interest rates? We take a look on page 14.

EXECUTIVE SUMMARY

CFRA has a neutral outlook on the Consumer Finance industry. Here are the key themes we have seen over the past few years and highlights for the future.

Low-End Consumer Finance Companies Could Struggle

Given elevated inflation and interest rates, the chance of a recession over the next 12 months has risen considerably. Given this, we see credit risk quality driving share price performance in the upcoming quarters as economic data likely deteriorates. However, we see high-end consumer finance companies as well-positioned to weather a downturn given their well-capitalized balance sheets and resilient customers. Instead, we see more trouble stemming from companies that target near-prime and subprime consumers as elevated rents and food prices hit this demographic particularly hard.

Credit Card Debt Surges to Record High

After paying off \$82 billion in credit card debt in 2020, consumers added a total of \$86 billion in new credit card debt in 2021 and a record \$180 billion in 2022, according to WalletHub. Consumers are making up for lost time as the increase is well above the 10-year average increase of approximately \$50 billion. We see credit card balances continuing to rise in 2023, as adjusting for inflation, outstanding credit card debt remains 5% below 2019 levels. In our view, rising balances will be driven by continued elevated consumption as consumers are reluctant to cut back on lifestyle choices despite inflation, rising debt service costs, and a retreat in government aid negatively impacting consumer spending power.

Deposit Troubles? Not for Credit Card Issuers...

After underperforming the broader banking industry during the pandemic, credit card issuers have begun to see deposit growth accelerate. We don't view this as a coincidence and note that the outperformance started after the Federal Reserve began to raise interest rates. Credit card issuers tend to offer more competitive rates on deposits and thus customers began to move their deposits as they searched for higher yield. Additionally, credit card issuers faced added pressure to grow deposit balances as surging loan balances pressured the firms to maintain strong proportionate deposit balances. Furthermore, following the banking crises in the spring of 2023, customers looked for safety and large credit card issuers appeared an attractive choice with a vast majority of their deposit balances being Federal Deposit Insurance Corporation (FDIC) insured.

Net Interest Margins Remain Relatively Steady Despite Surging Interest Rates

For most banks, a change in interest rates has a dramatic impact on a bank's net interest margin (NIM) as loans, securities, and deposit balances tend to reprice at different speeds. This was on full display over the last year as a majority of banks saw a steep increase in their NIMs as bank loans typically repriced higher than bank deposits. In contrast, major credit card issuers have seen far less volatility in their NIMs, with American Express expanding the most at 11%, while Synchrony Financial contracted the most at 4%. The minimal volatility comes from the fact that both assets and liabilities of credit card issuers tend to be highly variable and generally move up and down with interest rates.

Declining Credit Quality Could Lead to Lower Earnings in Upcoming Quarters

In 2021 and early 2022, credit card issuers had excellent credit, as well as near record-low delinquencies and charge-offs, leading to reserve releases that turbo-charged their earnings far above what analysts expected. However, 2022 brought a wall of worry and consumer finance companies saw their valuations plunge. Credit quality began to decline, and in the first quarter of 2023, credit quality deteriorated to its worst level in several years. However, credit quality still remained modestly stronger than pre-pandemic levels and it's worth noting that an extremely low unemployment rate has helped slow the normalization trend. Nevertheless, we expect the economy to worsen in upcoming quarters and thus unemployment and delinquencies will likely both rise.

CONSUMER FINANCE

Outlook: Neutral

MARKET CAP BREAKDOWN*

BY THE NUMBERS

RANK NO.	COMPANY NAME	MARKET CAP (\$ billion)
1	American Express	129.5
2	Capital One	41.8
3	Discover	29.7
4	Synchrony Financial	14.5
5	FirstCash Holdings	4.2
	Others†	15.6

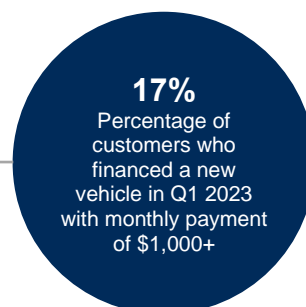
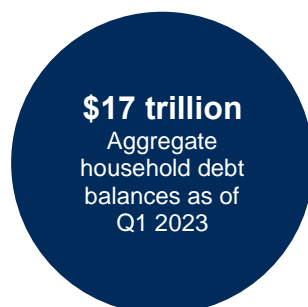
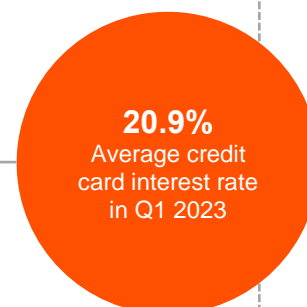
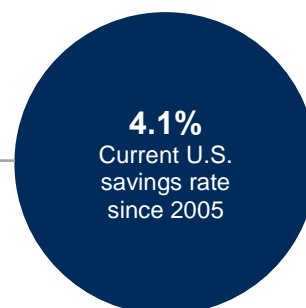
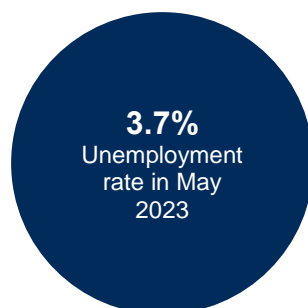
Source: CFRA, S&P Global Market Intelligence.

*Companies included in the S&P 1500 index as of June 30, 2023.

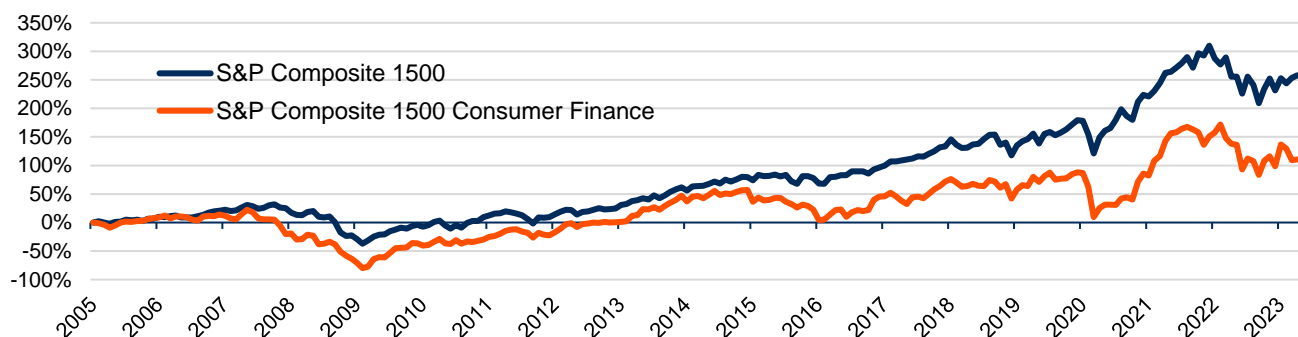
†Refer to the Comparative Company Analysis section of this survey for other companies in the industry.

ETF FOCUS

XLF Financial Select Sector SPDR	AUM (\$M) 32,424	Expense Ratio 0.10
VFH Vanguard Financials	AUM (\$M) 7,863	Expense Ratio 0.10
IYF iShares U.S. Financials	AUM (\$M) 1,783	Expense Ratio 0.39
FNCL Fidelity MSCI Financials Index	AUM (\$M) 1,339	Expense Ratio 0.08
IYG iShares U.S. Financial Services	AUM (\$M) 1,177	Expense Ratio 0.39



HISTORICAL INDEX PERFORMANCE*

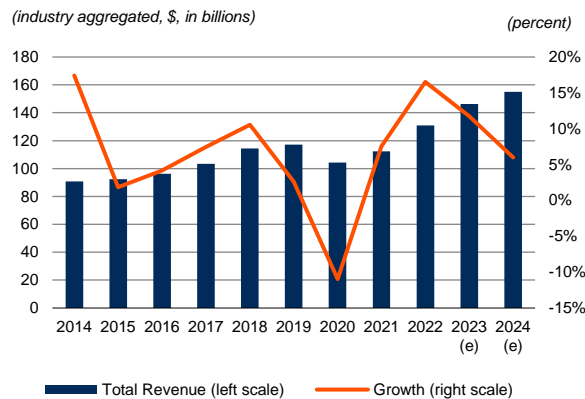


*Data through June 30, 2023. Relative axis is indexed to the first day that all series on the chart have data (Jan-31-2005).

Source: S&P Global Market Intelligence.

FINANCIAL METRICS

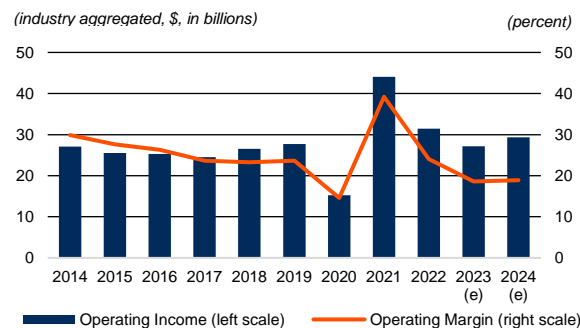
Revenue Growth



e-Estimate
Source: S&P Global Market Intelligence, S&P Capital IQ Consensus Estimates.

- ◆ We project revenue growth of 11.8% in 2023 and 6.0% in 2024 compared to 16.5% growth in 2022 for the Consumer Finance industry.
- ◆ Revenue – mainly from credit card loans – continued to rise in 2022 as the credit cycle turned and consumers became leveraged between credit card, auto, and student loans. CFRA expects consumer credit balances to increase in 2023 due to persistent inflation and muted savings rates.
- ◆ E-commerce growth drove consumers to spend more using credit cards in 2023 despite higher inflation, and wages are no longer keeping up with inflation. As the prices for groceries, gas, and other necessities mount up, CFRA expects consumers will run up their credit card balances.

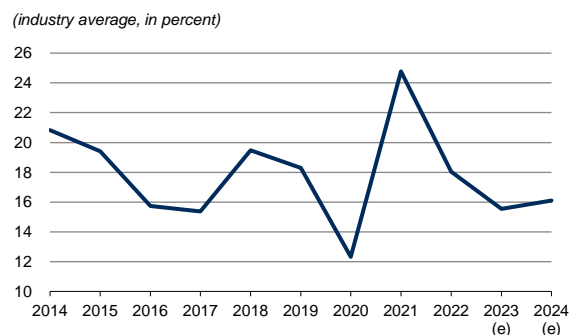
Operating Income & Margin



e-Estimate
Source: S&P Global Market Intelligence, S&P Capital IQ Consensus Estimates.

- ◆ We project operating income for constituents in the Consumer Finance industry to decline to \$27.2 billion in 2023, compared to \$31.5 billion in 2022 – a 13.6% drop Y/Y, which we attribute to mounting provisions for credit losses.
- ◆ We project operating margin to decline to 18.6% in 2023 and 18.9% in 2024. We expect the margin to reduce, in line with the expected lower operating income.

Return on Equity



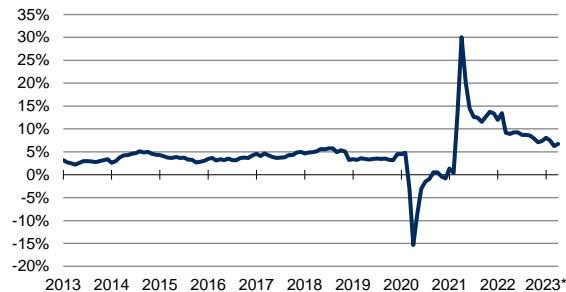
e-Estimate
Source: S&P Global Market Intelligence, S&P Capital IQ Consensus Estimates.

- ◆ Return on equity (ROE) has been on the decline since 2021 as net income fell with higher provision expenses due to companies preparing for declining credit conditions.
- ◆ We project industry ROE to drop further to 15.6% in 2023 and 16.1% in 2024 as the probability of a recession over the next 12 months has risen considerably.
- ◆ Thus, CFRA sees credit risk quality driving share price performance in the upcoming quarters as economic data likely deteriorates, in line with our operating income and margin forecasts.

KEY INDUSTRY DRIVERS

U.S. Personal Consumption Expenditures Growth Rate

(seasonally adjusted, percent change Y/Y)



*Data through April 2023.

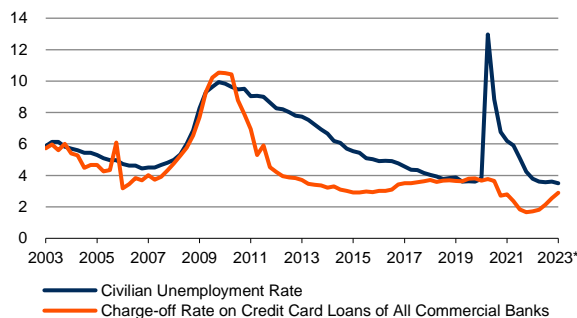
Source: US Bureau of Economic Analysis.

◆ The personal consumption expenditures (PCE) rate is a macroeconomic driver for credit card issuers and networks as the overall spending level by consumers drives both payment volumes and transactions.

◆ The PCE rose 6.7% Y/Y in April 2023 to \$18.2 trillion as goods prices increased 2.1% while food prices rose 6.9% compared to a year ago. The rebound in April was a result of a shift in consumer spending from goods to services. Action Economics expects the PCE to grow moderately at 3.7% in 2023 and 2.1% in 2024.

Civilian Unemployment Rate and Charge-Off Rate

(seasonally adjusted, quarterly, in percent)



*Data through first quarter of 2023.

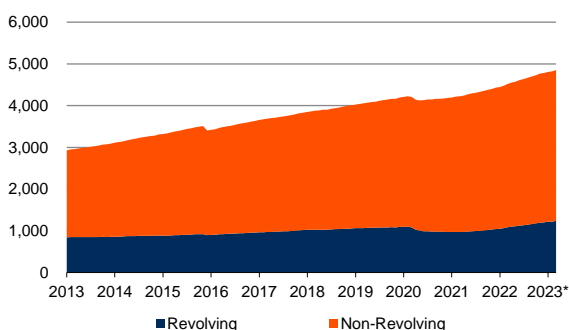
Source: Federal Reserve Economic Data.

◆ The civilian unemployment rate dropped slightly to 3.5% in the first quarter of 2023. The Federal Reserve's (Fed) intent to keep inflation below 2% by hiking interest rates and a strong labor market amid high inflation will be challenging, according to Fed chairman Jerome Powell.

◆ Net charge-off rates have been on the rise since the beginning of 2022 due to multiple geopolitical events that have triggered record inflation and normalization of credit. Going forward, we expect the rates to rise but don't expect a return to normalized levels until late 2023 or early 2024.

Total Consumer Installment Credit

(outstanding at end of month, seasonally adjusted, in \$, billions)



*Data through March 2023.

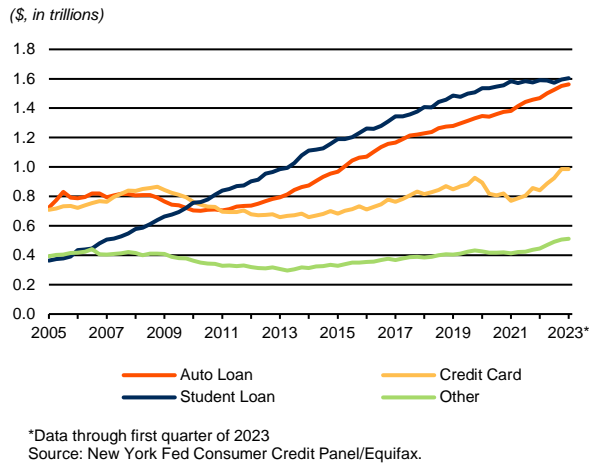
Source: Federal Reserve Board.

◆ Revolving consumer credit reached an all-time high of \$1.24 trillion in March 2023, rising 14.1% year-over-year.

◆ Non-revolving consumer credit has also increased at a faster rate, driven primarily by student loans and auto loans. CFRA expects auto loan growth to slow in 2023 as consumers focus their spending on necessities and struggle with higher monthly payments that are now the norm in today's elevated rate environment.

◆ With the end of various forbearance programs, high inflation, and still-high interest rates, CFRA expects highly leveraged borrowers will be vulnerable for the next 12 months.

Components of Consumer Credit



- ◆ Consumer credit mainly comprises student loans, auto loans, credit card debt, and installment loans. While credit card debt declined during the pandemic, it is seen to be rising again as people are now spending, due to negative real wage growth and the dwindling of pandemic-induced savings.
- ◆ Student loan payments and accrual of interest on those loans are set to resume on August 29, 2023, as there will be no extension granted on those payments.
- ◆ The Biden administration is currently working on a plan to forgive up to \$20,000 in student loans for around 45 million Americans. If the Supreme Court allows for student loan forgiveness to go ahead, 20 million of the 45 million people would have their debt completely erased. The remaining 25 million people will continue to pay off their student debt.
- ◆ CFRA expects U.S. households to incur more credit card debt in 2023, as consumers are resistant to a decline in lifestyle despite tougher economic conditions.

Yield Spread: 10-Year T-Note Yield Minus 2-Year T-Note Yield



- ◆ The 2-year and 10-year Treasury yield curve has been inverted since July 2022 amid aggressive monetary policy tightening by the Fed to fight rising inflation.
- ◆ The Fed has raised the target range for the federal funds rate to 5% to 5.25%. The Fed has paused its rate hike in June 2023 since inflation appears to be easing, and would assess further if they have raised the rates high enough to reduce price increases, while the pursuit of bringing down inflation to the 2% target is ongoing.

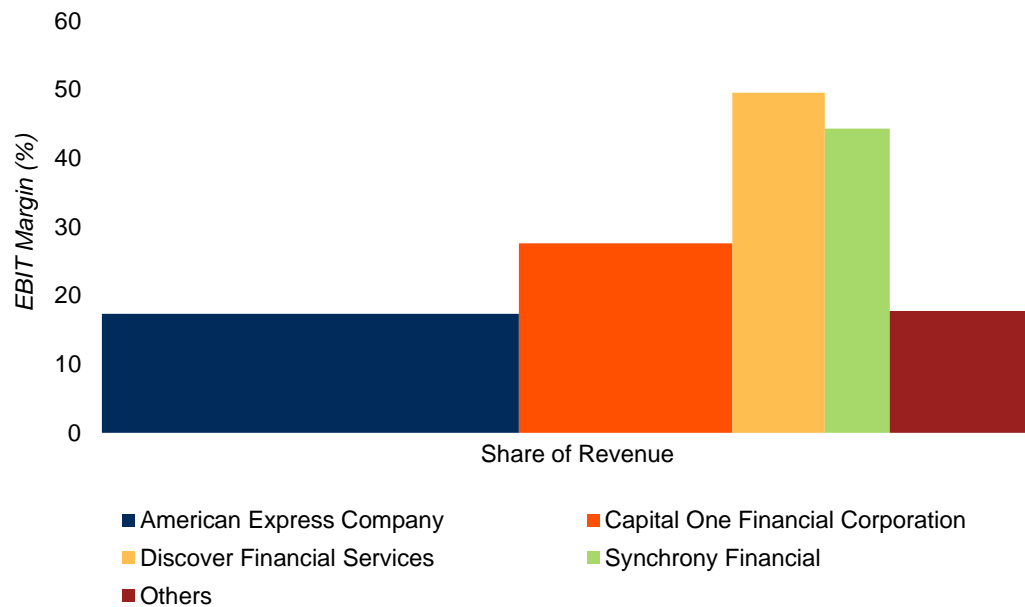
INDUSTRY TRENDS

Competitive Environment

PROFIT SHARE MAP

PROFIT SHARE MAP OF CONSUMER FINANCE INDUSTRY*

(for the last twelve months ended first quarter of 2023)

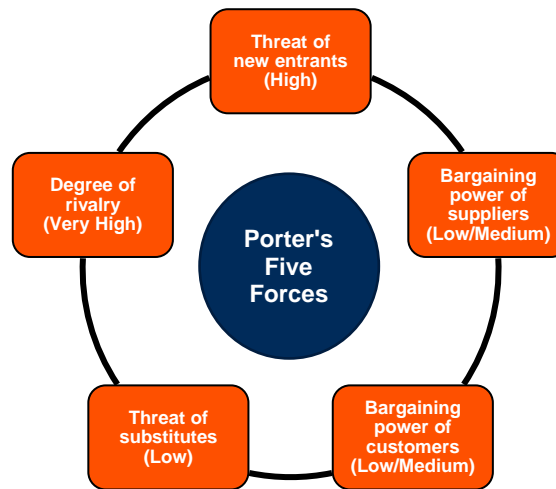


*Companies within the S&P Composite 1500 Consumer Finance Index as of June 1, 2023.
Source: S&P Global Market Intelligence.

While the S&P Composite 1500 Consumer Finance Index only includes large integrated issuing banks and networks, our profit pool map above illustrates the top four constituents of the Consumer Finance industry with a lion's share of around 84.7% of total revenue for the industry. The largest revenue contributors across this industry are American Express (45.1%), Capital One Financial (23.3%), Discover Financial Services (9.4%), and Synchrony Financial (6.9%).

PORTER'S FIVE FORCES

Below, we used Porter's Five Forces framework as a tool to analyze the competitive environment of the Consumer Finance industry.



Threat of Entry or Barriers to Entry – High

The greatest barrier to entry for the credit card market, in our view, is the demand-side benefits of scale, more commonly known as “network effects”. When more people use a product or service, its value increases, usually exponentially. For the credit card space, the more cardholders there are, the more merchants will be willing to accept payments from their cardholders, as it gives them a customer base that they may not have had before. In turn, the more merchants that accept a card as payment, the more valuable the card and related services are to the cardholder. Small networks are not particularly valuable, but national or even global networks of merchants accepting a particular card are invaluable.

This results in a high trust and value in a credit card brand. Both the customer and the merchant place a great amount of trust in the card issuer and network to securely process transactions without error or delay as well as protect them against fraud. Therefore, a related barrier to entry is incumbency advantage.

There are also some supply-side economies of scale, as the larger the group a credit card issuer can have, the more it can diversify its credit risk, as well as obtain better credit underwriting data.

Finally, capital requirements are also high, as a competitor would need to enter the marketplace at scale (*i.e.*, they could not offer a credit card that only works in one town or state) and would also need enough capital to extend credit to many people. Access to low-cost financing can also be a key advantage, giving larger firms an operational advantage.

Power of Suppliers – Low to Medium

The suppliers to credit card companies are the credit providers, usually depositors or capital market participants. These suppliers have some power as depositors, and capital market participants can easily switch to other firms and provide them capital instead. Suppliers of credit do not depend heavily on credit card issuers. However, the provision of credit and capital is a purely homogenous product in a fairly fragmented market, which greatly diminishes supplier power. While suppliers of credit (like banks) could integrate forward and build their own credit card network and processing system, it is unlikely given the barriers to entry listed above.

Power of Buyers – Low to Medium

The buyers in the credit card market include both the consumer or cardholder who uses the service as well as the merchant that accepts the payment. Both are numerous and fragmented, which lowers their power. However, we are beginning to see some large retailers exerting some power by refusing to accept certain payment types or playing competitors against each other to receive lower fees. Cardholders also face very little switching costs, which raises their power, while merchants face higher switching costs. These are certainly not prohibitive, as can be seen with Costco moving away from American Express or Walmart switching from Synchrony Financial to Capital One.

Threat of Substitutes – Low (but may be rising)

We think the current threat of substitutes to credit cards is relatively low. Since the cardholder does not pay an explicit fee for using a credit card, there is little incentive to use another payment method when credit cards are one of the most convenient forms. Cash and checks can be cheaper for merchants but are not without the risk of fraud or additional handling expenses. Debit cards are likely the biggest threat, as they offer the convenience of credit cards but are much cheaper for the merchant. We currently view e-wallets like Google Pay and Apple Pay as helping credit card companies as they currently operate as a “pass-through” service (e.g., a person using Apple Pay is still using their credit card that is loaded into the Apple Pay wallet). We see BNPL as a potential threat given its popularity with a younger demographic, but note their smaller size, lesser-known brand names, and recent regulatory scrutiny. Additionally, traditional credit card companies are starting to offer similar products and we believe the biggest risk here is lower service charge rates.

Rivalry Among Existing Competitors – Very High and Intense

Due to the commodity-like nature of most financial services products, competition is intense. Competitors are roughly equal in size and power (and are even smaller than the network-only payment processors Visa and Mastercard). Industry growth is relatively slow, leaving the players to fight for market share. Firms can also read each other's signals well, knowing exactly what interest rates competitors are charging or promotions they are currently running, forcing all firms to respond.

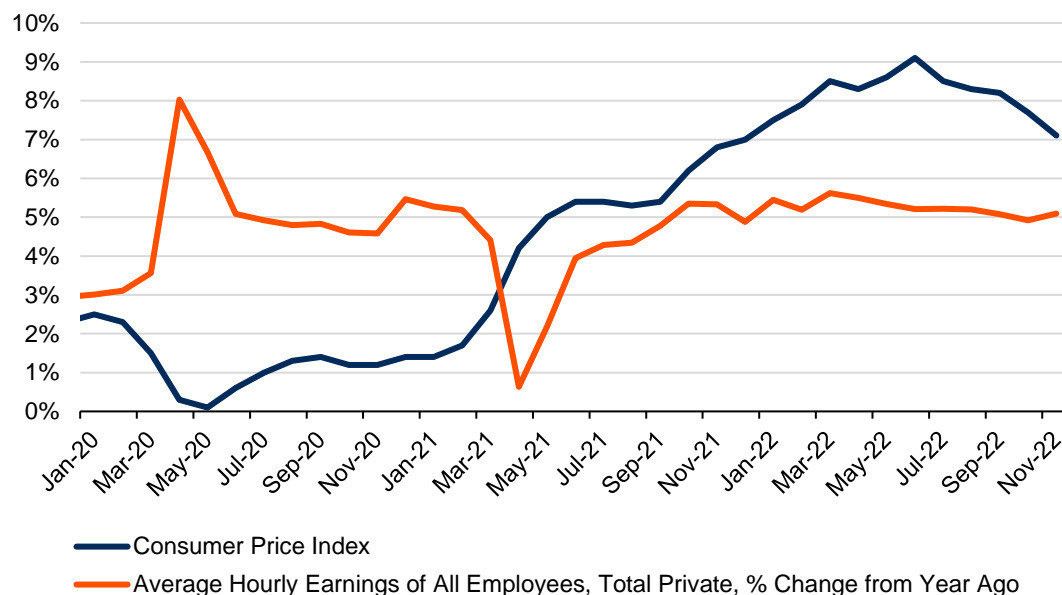
However, we do not believe the industry is entirely a zero-sum game, as players have differentiated their product and carved out various market segments like high-net-worth customers or the sub-prime segment.

Operating Environment

Consumers Curtailed Debt During Covid-19 but Are Quickly Re-Leveraging

People certainly did shed a lot of consumer debt during the Covid-19 pandemic, but it appears they are quickly re-leveraging now that the economy has reopened, and consumers are employing elevated spending behaviors. However, not all spending is voluntary, and elevated inflation has put a strain on the consumer as wages are no longer keeping up with inflation. In fact, inflation has outpaced wage growth since the spring of 2021 and, as a result, savings rates have fallen below historical averages. In general, American consumers tend to rely on credit card debt at an astonishingly high rate. The American Bankers Association recently found that Americans carried a balance on 56% of all active credit card accounts.

CPI VS. WAGE GROWTH

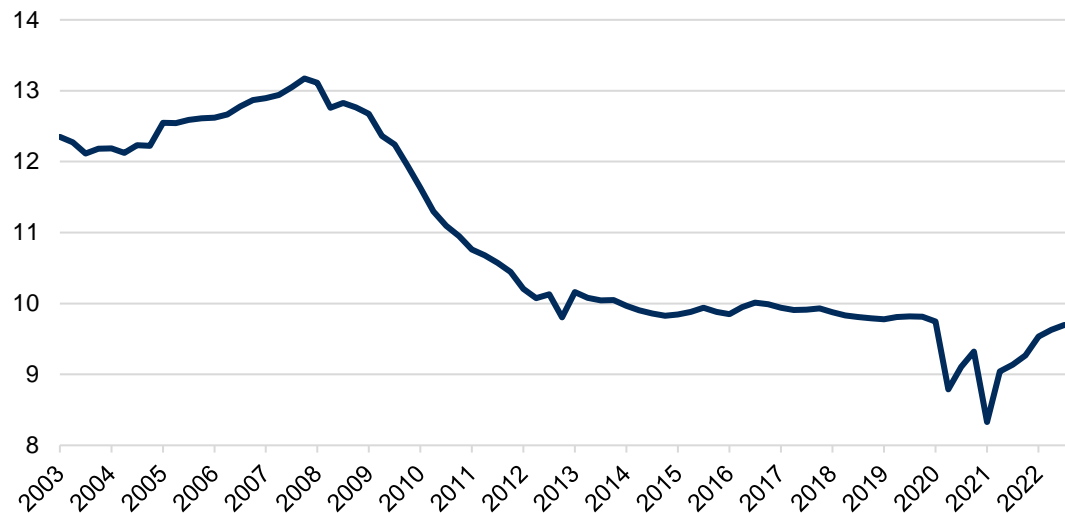


Source: U.S. Bureau of Labor Statistics, St. Louis Federal Reserve.

This fall in real wages marks a stark contrast, as government aid led to wage growth far outpacing inflation when the pandemic began. Aggregate household debt balances stand at \$17.0 trillion as of the first quarter of 2023. Balances are \$2.9 trillion higher than at the end of 2019 and \$1.2 trillion higher than in the first quarter of 2022.

Substantial monetary and targeted fiscal stimulus programs from 2020 and 2021 left the consumer on steady footing. In spite of fears over the recessionary impact, we did not see a dramatic increase in delinquencies and charge-offs during the pandemic like we did during the previous financial crises. However, given elevated inflation and interest rates, the chance of a recession over the next 12 months is high, but we still see high-end consumer finance companies as well-positioned to weather a downturn given their well-capitalized balance sheets and job openings that still outstrip unemployed workers. Instead, we see more trouble stemming from companies that target near-prime and subprime customers as elevated rents and food prices hit this demographic particularly hard.

U.S. HOUSEHOLD DEBT SERVICE RATIO (percent)



Note: Data through fourth quarter of 2022.
Source: Federal Reserve Bank of St. Louis.

Credit Card Issuers See Strong Loan Growth

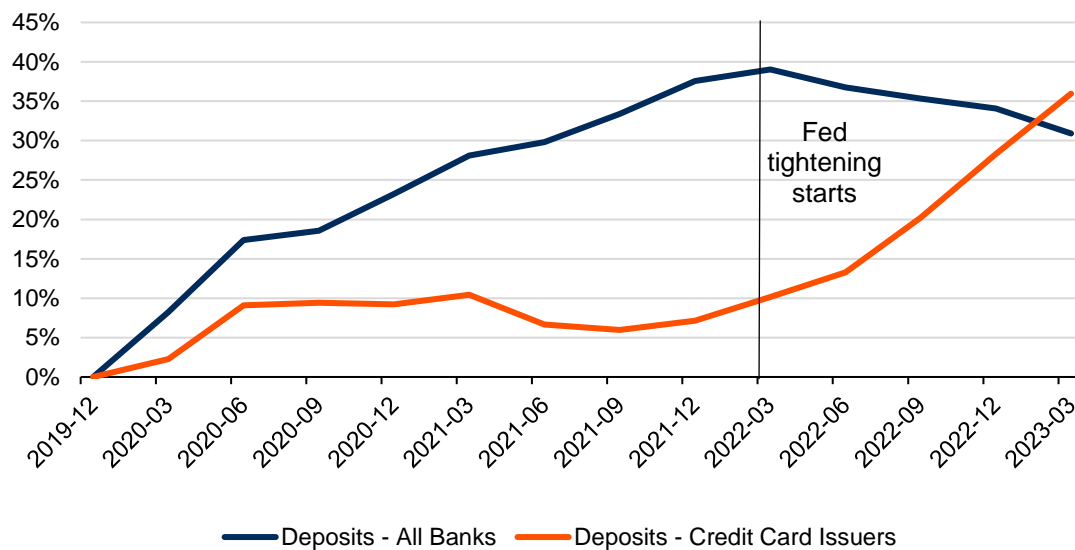
Credit card issuers' biggest problem during the pandemic was slowing loan growth, and according to WalletHub, Americans repaid \$82 billion in credit card debt in 2020. In an effort to improve loan balances, credit card issuers launched sizable marketing campaigns in response. Their targeted efforts paid off as consumers added a total of \$86 billion in new credit card debt in 2021 and a record \$180 billion in 2022. Consumers appeared to be making up for lost time as the increase is well above the 10-year average of approximately \$50 billion.

We see credit card balances continuing to rise in 2023, as adjusting for inflation, outstanding credit card debt remains 5% below 2019 levels and 15% below the peak of the financial crises. In our view, rising balances will be driven by continued elevated consumption as consumers are reluctant to cut back on lifestyle choices despite inflation, rising debt service costs, and a retreat in government aid negatively impacting consumer spending power.

Credit Card Issuers See Dramatic Deposit Outperformance

After underperforming the broader banking industry during the pandemic, credit card issuers have begun to see deposit growth accelerate. We don't view this as a coincidence and note that the outperformance started after the Federal Reserve began to raise interest rates. Credit card issuers tend to offer more competitive rates on deposits and thus customers began to move their deposits as they searched for higher yield. This is in contrast to traditional banks, which only modestly increased the rate they paid on deposits despite short-term interest rates rising from 0% to 5%. Additionally, credit card issuers faced added pressure to grow deposit balances as surging loan balances pressured the firms to maintain strong proportionate deposit balances. Furthermore, following the banking crises in the spring of 2023, customers looked for safety and large credit card issuers appeared an attractive choice with a vast majority of their deposit balances being Federal Deposit Insurance Corporation (FDIC) insured versus just 5% at failed Silicon Valley Bank and 10% at failed Signature Bank.

CREDIT CARD ISSUERS' DEPOSIT GROWTH HAS ACCELERATED



Source: CFRA, FDIC quarterly banking profile, company filings.

Rising Interest Rates Have Not Dramatically Impacted Net Interest Margins

For most banks, a change in interest rates has a dramatic impact on a bank's net interest margin (NIM) as loans, securities, and deposit balances tend to reprice at different speeds. This was on full display in 2022 as a majority of banks saw a steep increase in their NIMs as bank loans typically repriced higher than bank deposits. However, deposit pressures began to mount in 2023 and banks such as Silicon Valley Bank and First Republic failed in the spring as assets did not reprice higher quickly, resulting in large unrealized losses following a steep increase in interest rates. Results have varied significantly across banks with First Republic seeing a 34% year-over-year decline in its NIM in the first quarter of 2023, while other banks such as First Horizon and Comerica saw a more than 60% increase.

In contrast, major credit card issuers have seen far less volatility in their NIMs, with American Express expanding the most at 11%, while Synchrony Financial contracted the most at 4%. The minimal volatility comes from the fact that both assets and liabilities of credit card issuers tend to be highly variable and generally move up and down with interest rates. Given elevated inflation and short-term interest rates, issuers have taken full advantage and the average credit card interest rate hit 20.9% in the first quarter of 2023, higher than at any point since the Federal Reserve started tracking this information in 1994. In contrast, many traditional banks have a large portion of loans in consumer mortgages, which are fixed rate and won't pay more if interest rates go up. Additionally, many traditional banks have more deposits than loans and thus face less pressure to raise the rate they pay on deposits versus credit card issuers, which generally have more loans than deposits.

NET INTEREST MARGINS AT MAJOR CREDIT CARD ISSUERS

	FQ1 2022	FQ2 2022	FQ3 2022	FQ4 2022	FQ1 2023
American Express Company	10.1%	10.2%	10.5%	10.5%	11.2%
Capital One Financial Corp.	6.5%	6.5%	6.8%	6.8%	6.6%
Discover Financial Services	10.9%	10.9%	11.1%	11.3%	11.3%
Synchrony Financial	15.8%	15.6%	15.5%	15.6%	15.2%
Average	10.8%	10.8%	11.0%	11.0%	11.1%

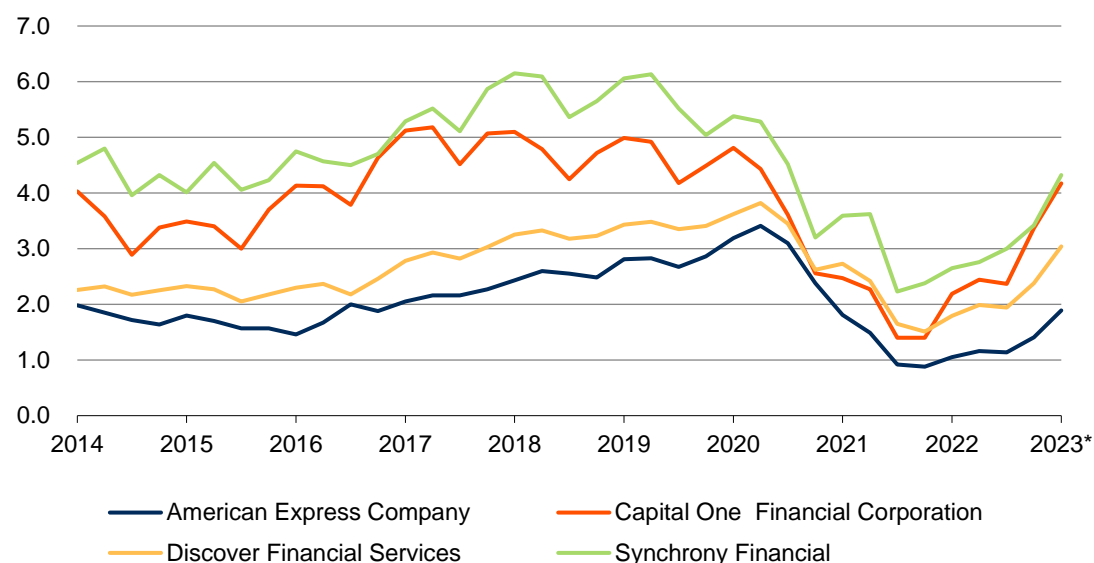
Source: Company filings.

Credit Costs Are Quickly Rising

In 2021 and early 2022, credit card issuers had excellent credit, as well as near record-low delinquencies and charge-offs, leading to reserve releases that turbo-charged their earnings far above what analysts expected. However, 2022 brought a wall of worry and consumer finance companies saw their valuations plunge. Credit quality began to decline and in the first quarter of 2023, credit quality deteriorated to its worst level in several years. However, credit quality still remained modestly stronger than pre-pandemic levels and it's worth noting that an extremely low unemployment rate has helped slow the normalization trend. However, we expect the economy to worsen in upcoming quarters and thus unemployment and delinquencies will likely both rise. We see credit normalization bringing greater provisions for loan losses and thus we expect most consumer finance companies to report year-over-year EPS contractions in 2023.

CREDIT CARD NET CHARGE-OFF RATES

(percent)



*Data through first quarter of 2023.

Source: S&P Global Market Intelligence.

Delinquencies and charge-offs were largely helped by aid given out during the pandemic. First, forbearance programs were swiftly enacted by the major credit card companies, which allowed cardholders to call and request relief in the form of payment deferral for one to three months. No late fees or minimum payments were assessed, but the interest would continue to accrue. Additionally, under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, financial institutions were provided temporary relief from Generally Accepted Accounting Principles (GAAP) as it relates to troubled debt restructurings (Section 4013 of the CARES Act). We believe the supplemental unemployment benefits (such as the extra \$600 per week) and other government stimulus money (such as the \$1,200 and \$1,400 per person stimulus checks) also helped consumers make loan payments.

We think net charge-off rates will likely rise as the credit cycle turns and higher levels of debt begin to take effect on consumers. We look to initial jobless claims as an early indicator of rising delinquencies and net charge-off rates. Despite high profile tech layoffs and regional bank failures, we note that jobless claims have remained in good standing over the past few months.

Health of the Consumer Varies by Income Bracket

Wealthy consumers remain in a healthy position while we expect low-end consumers to struggle as the economy slows. We believe low-end consumers will begin to struggle in 2023 as pandemic-induced savings run out. We expect persistent inflation to weaken the consumer as elevated prices continue to outpace wage growth. On the positive side, we expect high end consumer-focused companies to weather the tougher environment without serious pain. These customers are better situated for tough times as years of prosperity following the financial crises have led to strong balance sheets among the upper echelon of Americans. Unfortunately, this benefit has not translated to many Americans and LendingClub found that ~80% of consumers making under \$50,000 a year live paycheck to paycheck.

With unemployment sitting at just 3.7%, Americans have managed to keep up with payments at an impressive rate. However, as the Federal Reserve keeps rates elevated, we expect rising unemployment and higher debt costs to result in an uptick in loan defaults for lower-end at-risk Americans. Given our expectation for a dichotomy of outcomes among wealthy and non-wealthy Americans, we expect premium-focused consumer finance companies to fare better in 2023 and 2024 than those that focus on sub-prime or even prime customers.

Card Membership Fees Provide a Reliable Source of Income

Card fees are a reliable source of income for card issuers and tend to be highly predictable. This compares to net interest income, which can be highly volatile from quarter to quarter and is far more cyclical in nature. However, many consumers are not willing to pay a fee to own a card and a majority of cards come with no annual fee. Fees are more common with affluent customers and thus companies such as American Express see the greatest benefit. For American Express, card fees have been a juggernaut, and fees increased in each quarter during the pandemic. This trend was in direct contrast to discount revenue (fell 41% in just two quarters) and net interest income, which were severely impacted by the pandemic. Overall, since 2017, card fees for American Express have risen from 8% of total revenue to nearly 12% in the first quarter of 2023. This rapid rise is not unique to American Express, with the average annual fee for credit cards rising 112% since 2010, according to WalletHub. Although not possible for all card issuers, we think a greater portion of card fees should improve earnings consistency and should lead to multiple expansion.

Cash Usage Continues to Fall

Despite a small uptick in 2021, the decline in cash and check transactions continued in 2022 and will likely continue in upcoming years, in our opinion. The continued decline in the use of cash and checks will continue to drive a steady secular trend to credit card companies. Although there may be a place for cash for some years to come, its declining market share as a payment medium seems inevitable, propelled by a younger generation that is comfortable carrying no currency and making payments with digital wallets on their smartphones or watches. Furthermore, cash is cumbersome from a record-keeping perspective and spending reports from card providers allow for easier budgeting and analysis, in our view.

In terms of transaction volume, cash usage hit an all-time low of 18% in 2022, down from 20% in 2021, 26% in 2019, and 31% in 2016, according to the Federal Reserve Bank of San Francisco's "2023 Findings from the Diary of Consumer Payment Choice" report published in May 2023. On the flip side, credit card usage hit an all-time high of 31%, up from 28% in 2021, 24% in 2019, and 18% in 2016. Debit card usage remained steady at 29% in 2022 up modestly from 27% in 2016. Cash is used largely for small transactions, but we think its use will continue to decline as mobile payments make even small transactions more convenient. Additionally, we expect online shopping to continue to take market share over the long term, as habits built during the pandemic continue and online shopping experiences continue to improve. In the long term, we think efficient online grocery shopping could be one of the largest contributors to the rise of online transactions. We note that a majority of transactions (81%) still occurred in-person in 2022 and expect this number to fall toward 50% over the next decade given improving online experiences.

Barriers to Growth in Mobile Payments

The biggest obstacle appears to be consumers who do not yet see that the advantages of mobile payments outweigh those of traditional methods. Similarly, many think that their payment needs are already being met without mobile options. Mobile payment systems require several key components that typically include a smartphone, data plan, financial account, and financial payment platform, as well as a mobile application that works on a variety of operating systems. They also need lending capabilities, merchant and consumer relationships, and security/trust.

Regulation could be enacted which makes it illegal for businesses to refuse cash. The Federal Reserve Bank of Atlanta found that cash is still the primary choice of payment for many Americans, of which a large percentage are low-income and minorities. Congress is taking action and has proposed “The Payment Choice Act”, which would require brick-and-mortar businesses to accept payments made in physical currency. Proponents of the proposal also point out that cash protects consumers from a privacy perspective as mobile payments come with a significant amount of consumer-specific data.

According to ACI Worldwide, a payments-software company, scams using instant-payment apps like Zelle are expected to cost Americans \$3 billion by 2026. As a result, some small banks have already warned that they may drop Zelle as regulators pressure banks to do more to protect their customers. Therefore, fraud could serve as a headwind in the adoption of mobile payments as Zelle specifically has seen a hefty uptick in scams with banks more likely to help customers with fraud related to debit card and credit card transactions. Furthermore, U.S. payments law is fragmented, and the degree of protection that consumers have depends on whether their mobile payment accounts are linked to a debit card, credit card, prepaid card, or another form of payment. While it is still too early to know how things will play out, linkage of a traditional credit card will likely be the most protected way to use a mobile account; credit card issuers and networks have sophisticated fraud detection strategies, and they have shown commitment to the customer relationship as many purchases have moved online.

The largest driver of mobile payments is the adoption of smartphones and the increasing number of financial transactions done on smartphones. Given that the mobile payments business is still in its infancy, it is difficult to predict its growth or the potential market size. However, given the existing smartphone adoption rates and infrastructure already in place, it is clear that there is a large market potential with high growth rate prospects. Mobile payments are increasingly being used by U.S. consumers as they become more comfortable with the technology. Facts & Factors forecast that the mobile payments market will surpass \$600 billion by 2030 versus just \$53 billion in 2022.

While different countries grapple with the infrastructure requirements of going completely cashless, American businesses have already begun the transition. Popular eateries like Starbucks, Shake Shack, and more have experimented with cashless locations regionally. Amazon has already opened several Amazon Go stores – which require only a smartphone for checkout – in the U.S. and has discussed plans to open thousands more. During the pandemic, Starbucks and Amazon Go opened a combined entity in New York, which, in our opinion, is just the tip of the iceberg of the cashless/cashierless transformation we will see over the next few years.

The cashless transition has further operational benefits for merchants by reducing the risk of theft and the cash deposit processes at banks. With modern technologies and adoption trends accelerating at a steady pace, the transition into a cashless society has accelerated. But until recently, it still seemed far off, particularly in markets like the U.S., where consumers have been slow to abandon the familiarity of cash. But now, as consumers reconsider how they pay, we think an entirely cashless society does not seem so far off. We note that countries like Sweden have almost already reached this reality as just 2% of transaction in the Nordic country are made with cash.

Mobile Payments Are Likely a Benefit to Major Credit Card Companies, Not a Threat

At this point, it appears that the growth in mobile payments will likely complement and strengthen existing credit card companies and their networks rather than compete directly against them. For example, in October 2020, Venmo (the popular peer-to-peer money transfer app owned by PayPal) announced a Venmo credit card issued by consumer finance company Synchrony Financial, running on the Visa payment network. Here is another example: In 2018, PayPal announced a strategic partnership with American Express that would allow cardholders to use their reward points when shopping from PayPal merchants, as well as a more integrated experience within both PayPal and the Amex apps. Previously, PayPal encouraged its users to use the automated clearing house (ACH), which operates separately from the major credit card networks.

Although mobile payment competitors will surely emerge and try to threaten the existing credit card networks and card issuers, it will be difficult to gain the same scale and widespread acceptance, in CFRA's view. Furthermore, while payments made with a mobile device at the point of sale will likely increase, many of these transactions will still use a major credit card to pay for the transaction. For example, Apple Pay is estimated to process \$6 trillion annually, behind just Visa and ahead of behemoths like Mastercard. Apple Pay wallets continue to use credit cards linked to users' accounts, and Apple has launched its own credit card (Apple Card), which uses Goldman Sachs as the issuing bank with Mastercard as the payment network. Therefore, we see companies like Apple and Alphabet driving mobile payment usage while outsourcing the banking and consumer finance functions to current incumbent companies, at least in the near to medium term.

Digital Wallets and Prepaid Accounts

Digital wallets may be one emerging threat to the major credit card companies. For example, Apple Pay, which was launched in late 2014, offers users the ability to store credit cards on their mobile devices and then pay for items conveniently and securely in stores or online through the device. Although Apple Pay works with existing credit card companies and networks, Apple receives a small portion of the interchange fee. If Apple Pay becomes more popular, it could result in fewer fees going to credit card companies. Rivals Android Pay and Samsung Pay do not charge any fees.

Another potential threat from digital wallets is diminished branding. Card companies and networks like American Express spend substantial amounts on marketing and branding, but if consumers load these cards into digital wallets, they may forget entirely if their Apple Pay wallet uses an American Express card or a Visa card. Consumers may instead look for the Apple Pay or Google Pay logo at merchants rather than the traditional American Express or Visa logo. While we do not view this as a significant threat in the near term, it does have the potential to start to degrade the currently valuable brands these companies have spent considerable resources building.

The potential for prepaid accounts is significant, in CFRA's view, as it is a logical way to bring unbanked consumers into the banking system, especially in countries with less developed banking systems. There currently are 1.4 billion adults worldwide who are still unbanked, but nearly half of them live in just five countries, according to the World Bank's estimation. No credit score or credit bureau infrastructure is necessary to provide recommendations attesting to an individual payment history or potential credit quality. Thus, smartphone users with an internet connection or cash could potentially load up their mobile wallet by creating a prepaid account.

Peer-to-Peer Money Transfer Apps Are Expanding Into Traditional Consumer Finance Turf

We think the rise, growth, and expansion in services by peer-to-peer (or P2P) money transfer apps could disrupt major consumer finance companies. For example, PayPal's Venmo service and Block's Cash App have shown tremendous growth due to the quick onboarding nature of the platform (download the app and sign-up within minutes) and the free P2P money transfer service offered, allowing users to send money to friends and family for free.

While the P2P service does not interfere with the large incumbent consumer finance companies, both products are expanding into other services that do. For example, Block's Cash App now allows users to obtain a virtual or physical debit card, which they can then use to pay for items in-store or online from their existing Cash App balance. The service also has a "boost" program that rewards users for shopping at certain stores with coupons or cash back. Users also receive a bank account routing and account number, allowing direct deposit of things like payroll checks. Therefore, if users of the Cash App become comfortable receiving paychecks into their Cash App account, and then spend the money directly at merchants using their Cash App debit card, it effectively eliminates the role of traditional credit card lenders.

Another P2P service comes from Zelle, which is actually owned by a group of banks that include many large players such as JPMorgan and Wells Fargo. Like Venmo and Block, Zelle allows users to send money to friends and family for free. However, given its banking background, it has certain advantages as a vast majority of Americans already use a bank that supports Zelle. As an indication of scale, in 2022, Zelle had \$630 billion of transactions vs. \$240 billion for Venmo. Currently, Zelle is most known for bill paying and large transactions by consumers, and has also been adopted by small businesses to pay bills and take care of health care payments. Despite potentially cutting down debit and credit card volume, several banks are looking to expand Zelle to retail transactions. If enacted, banks would avoid card network fees and would have the opportunity to set their own fees. Given the greater autonomy that this presents, we think it is very likely that banks at least try out this alternative form of payments.

BNPL Takes a Breather Following Explosive Growth

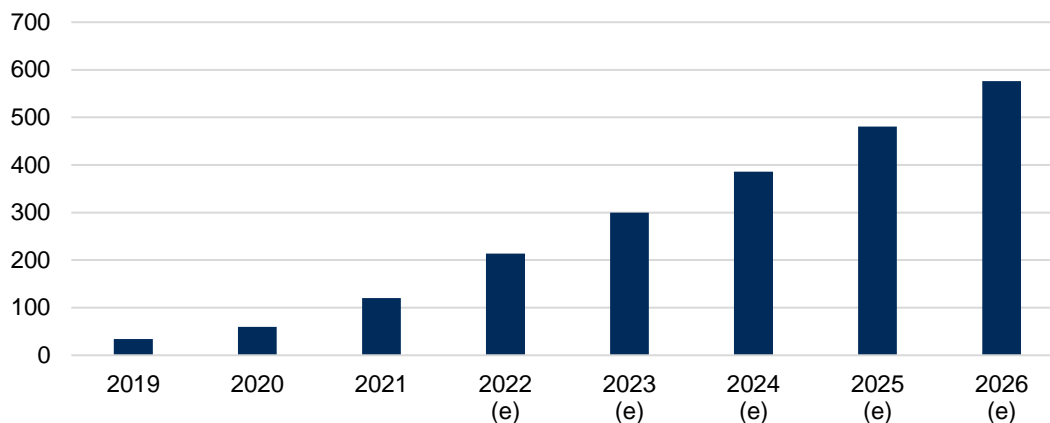
Buy Now, Pay Later (BNPL) is a type of short-term financing that allows consumers to make purchases and pay for them at a future date. Over the past few years, interest in BNPL solutions exploded as they are often interest-free, allow consumers to spread out payments of products, and have a fast approval process that does not require good credit. BNPL fintech companies saw their valuations explode in 2020 and 2021 as expectations got out of control with some calling BNPL an existential threat to the credit and debit card industries. As an indication of the insanity, one of the industry leaders, Affirm, boasted a \$45 billion valuation near the end of 2021 on a P/S of 30x vs. consumer finance industry average P/S of 2x-3x.

Merchants tend to be supporters of BNPL solutions as customers often spend significantly more than when paying with other methods. In fact, a survey by Capterra found that 66% of respondents say they would be more likely to purchase from a business that has a BNPL option. The survey also found that shoppers are more likely to use the option during economically tough times and during the holiday season. Additionally, merchants take no credit risk but typically pay 3%-5% in fees, which is notably higher than the 1.5%-3.0% charged by credit cards. Growth has been quick, with retail giants Amazon and Walmart joining the movement, citing the desire to extend credit to more of their customers.

However, BNPL has started to see a rise in delinquencies as its customers are a majority subprime and many customers admit they often spend more than they would with other payment methods. Additional pressure is coming from rising borrowing costs as the Federal Reserve has rapidly raised rates to the highest level in more than a decade. Furthermore, BNPL's rapid rise has received pushback from the Consumer Financial Protection Bureau (CFPB), which launched a probe into Affirm, Afterpay, Klarna, PayPal, and Zip on the risks and benefits of their products. The CFPB mentioned concerns around consumers' ability to rapidly accumulate debt, BNPL's lack of regulatory disclosures, and the harvesting and monetizing of consumer data.

GLOBAL ONLINE BUY NOW, PAY LATER (BNPL) MARKET VALUE

(\$, in billions)



Source: GlobalData Banking Intelligence Center.

Most BNPL services are being offered by outside fintech companies as their rise has been boosted by online shopping and e-commerce integration. We see these new companies as a potential threat to traditional card companies. However, we note their smaller size and lesser-known brand names and the fact that there is nothing stopping the traditional companies from offering similar services with an already established network of merchants. In fact, traditional credit card companies are already starting to catch up, with American Express, Chase, and Citi already offering BNPL options. We think the risk is lower service charge rates and we see debit cards as more at risk than credit cards given credit cards tend to have more stringent standards.

We see traditional players beefing up their digital capabilities as BNPL providers often have sleeker, more user-friendly solutions. However, given the rapid tightening by the Federal Reserve, we expect BNPL growth to be slower than previously expected as funding for such technology slows given it targets at-risk Americans who are far more likely to default in recessionary times. The past 18 months have not been kind to BNPL, with valuations plummeting and the aforementioned Affirm seeing its market cap get decimated. As a result, we see the slowdown in BNPL as an opportunity for incumbent credit and debit card issuers to perfect their own BNPL solutions.

Bitcoin and Blockchain Payment Networks

The potential rise of Bitcoin and blockchain technology potentially poses a threat to traditional payment networks. Blockchain, a specific application of distributed ledger technology, allows virtual currencies like Bitcoin to be sent and received by anyone connected to the network. Because the network is completely decentralized, there is no governing authority overseeing the network. This allows payments and transactions to be made without the use of traditional banks and payment networks, as well as the ability to bypass capital controls and regulations. Depending on the type of virtual currency or other methods employed, these transactions can be done at various levels of anonymity.

The biggest problem currently facing Bitcoin from becoming a competitor to credit card networks is the scaling problem. Bitcoin makes use of a decentralized *public* ledger, which is essentially a database that records all transactions that everyone can see and must approve. Because of the original Bitcoin programming and security features, transactions are gathered into “blocks,” with new blocks being processed or approved only every 10 minutes on average. Currently, the code running Bitcoin allows for up to seven transactions per second, compared to up to 24,000 transactions per second for Visa’s network. While we believe the scaling issue for Bitcoin or other virtual currencies will be alleviated through various methods that are currently being developed, we don’t see it happening soon given the credit card barriers to entry mentioned above.

We think Bitcoin and other virtual currencies are a major development in the payment processing industry, as blockchain and decentralized ledger technologies solve fundamental problems, such as how to reliably send something of value virtually over a network without the need for a counterparty. However, we also see major hurdles and do not think virtual currencies will overtake current payment processing systems in the near future. One major hurdle is a rapid decline in trust of the crypto industry following the prominent collapse of FTX, the second largest crypto exchange. We expect it to take years for trust to be restored and thus payment changes will likely be slow, at least in the short term.

Marketplace Lending

Since its inception in 2006, marketplace lending has threatened to disrupt and take market share from traditional lenders and consumer finance companies. Marketplace lending was initially called “peer-to-peer” lending due to the direct nature of connecting borrowers and lenders.

Instead of a bank acting as an intermediary, taking in deposits and making loans, marketplace lenders (MPLs) connect those that want to borrow and those that want to lend directly through an online platform. Popular MPLs include Lending Club and Prosper. Borrowers must apply and are screened to be accepted on the platform, after which lenders can bid on loans at various interest rates and risk levels. MPLs do not hold the loans on their balance sheet and do not take any credit risk. MPLs are, therefore, more akin to companies like eBay rather than banks, as MPLs only facilitate the transaction, earning a commission and fee for originating and servicing the loan.

These companies will likely not be a major threat to traditional banks as loan amounts are small and the companies do not provide any of the other services typically provided by banks. However, they may be a threat to credit card companies and small consumer lenders as one of the primary reasons consumers use MPLs is to consolidate high-interest debt like credit cards and student loans. This reduces the interest income that credit card companies earn on customers that carry balances from month to month. MPLs also allow the consumer to lock in a fixed rate and payment amount.

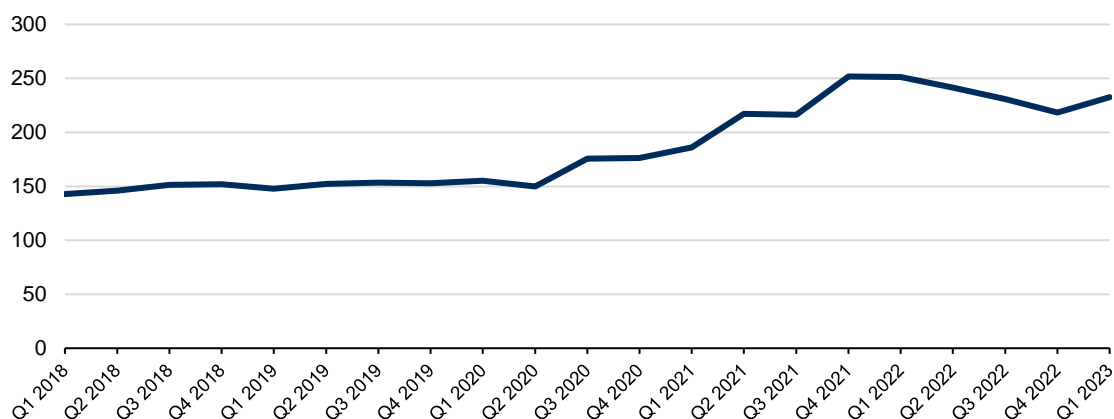
CFRA thinks that it remains to be seen how successful these companies will be and if they can meaningfully take share from other consumer lenders, especially as many MPLs have not experienced a full credit cycle yet, during which their underwriting abilities will be tested.

Auto Loan Balances May Stall, Following More Than a Decade of Growth

After remaining relatively steady in the 2000s, auto loan balances have ballooned since the financial crises, rising from \$710 billion in 2011 to \$1.55 trillion in the first quarter of 2023. Despite supply chain issues, auto loan growth did not slow through the pandemic, with balance reaching record highs in nearly every quarter. Despite chip shortages slowing new vehicle creation, loan growth was spurred by record-high used-vehicle prices and longer loan durations. However, we expect loan growth to slow dramatically in upcoming quarters as rising interest rates have dramatically increased average monthly auto payments. As an indication of scale, Edmunds found that the average annual percentage rate (APR) for used vehicles jumped to 11.1% in the first quarter of 2023 versus 7.8% a year ago. Additionally, nearly 17% of customers who financed a new vehicle in the first quarter of 2023 committed to a monthly payment of \$1,000 or more compared to 10.3% in first-quarter 2022 and 6.2% in first-quarter 2021.

Given elevated payment pressures on consumers, used vehicle prices have started to fall and sit about 10% off its all-time high. However, we see plenty of room for further downside as prices remain 50% higher than pre-pandemic levels. We note this 50% increase is far from ordinary as used vehicle prices grew at a CAGR of just 1.7% in the two decades leading up to the pandemic. We expect there to be outsized pressure for low-income consumers as elevated food and shelter costs make up a far greater percentage of expenditures for this demographic. Given our cautious outlook, we see companies that are dependent on auto loans to be at risk of seeing a slowdown in loan growth and a decline in credit quality as falling prices would put newer originations with high loan-to-values underwater.

MANHEIM USED VEHICLE VALUE INDEX*
(annual average)



*Data until mid-May 2023
Source: Manheim.

Share Repurchases Expected to Stall Out

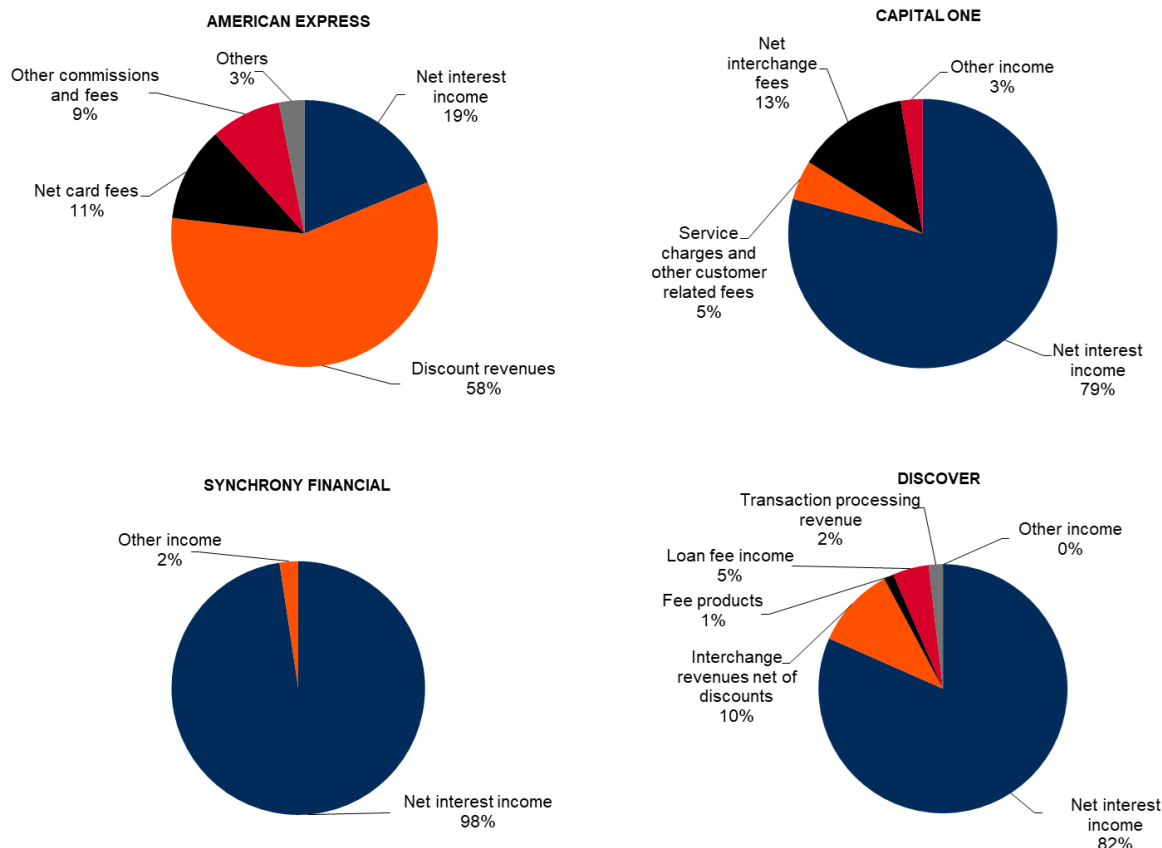
Following the collapse of several prominent regional banks in the spring of 2023, we expect consumer finance companies to return less capital than previously expected. We expect companies to build up excess capital as regulatory changes could require companies to be more conservative. Furthermore, we believe the uncertain banking environment has increased the odds of a recession and thus companies will have less excess capital as more money will need to be set aside to account for bad loans.

Given the mature nature of the credit card industry and high return on equity, returning capital to shareholders has been a major priority for companies and thus our negative expectation for share repurchases will have a larger impact on these companies than companies in industries that derive more value from future growth prospects.

Dividend yields vary significantly in the industry but generally range from 2%-4%. During the pandemic, share repurchases plummeted as companies prepared for the worst and built up large capital buffers in the anticipation of mass credit defaults. However, when this did not occur, companies began to furiously return capital and many companies reduced their total shares outstanding by more than 10% in just 12 months.

As a result of repurchases, Capital One has cut its share count by a third since 2013, while Discover Financial Services cut its share count by over 45%. American Express, the largest consumer finance company by market cap, comes in similar to Capital One with just over 30% of shares repurchased since 2013. Synchrony Financial has picked up activity with rapid repurchases in recent years and has cut its share count by nearly 50% since 2016. However, the most activity in the group comes from Navient, which has struggled to find organic growth opportunities and instead has returned capital at a furious pace. As of the first quarter of 2023, Navient had 127 million shares, down from 517 million shares in 2011, or a stunning 75% decrease.

MAJOR CARD COMPANIES' REVENUE SOURCES
(For fiscal year 2022)



Source: Company reports.

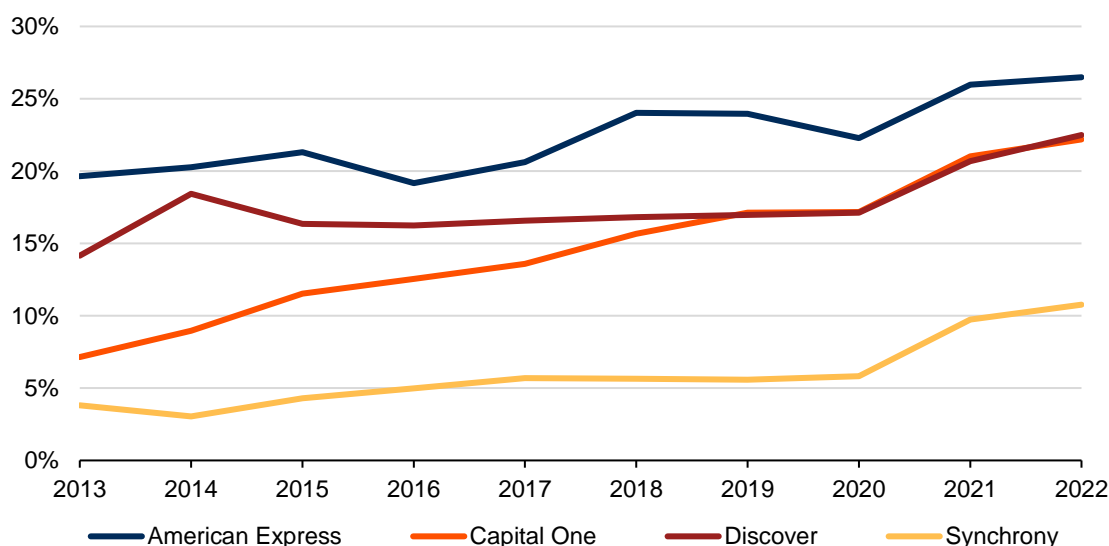
The main source of revenue for Capital One, Discover Financial Services, and Synchrony Financial is net interest margin, or the spread earned between the rate charged as interest on loans and the rate paid on deposits or for funding. On the other hand, most of American Express' revenues come from "discount revenues", or the fees charged to merchants for using its network. (American Express uses the term "discount revenues" instead of interchange fees as the company acts as the issuer and acquirer in the relationship, earning the entire merchant discount rate.) American Express is, therefore, less susceptible to interest rate risk, which may be a disadvantage during periods of rising rates, but will help in a low rate environment or when net interest margins compress.

'Rewards War' Ceased Fire Due to Covid-19 but Stormed Back Quickly

Most card issuers offer reward programs through which purchasers accumulate points they can redeem for travel benefits or free flights on airlines. Issuers devised these programs to encourage loyalty among customers and to boost credit card usage for items typically paid by cash or check. Research has shown that customers with reward cards tend to be more loyal or more likely to remain with the issuer for a longer period. However, the main challenges of running rewards programs are the increasingly competitive environment and the high costs of enhancing and maintaining the program.

In 2020, rewards remained stable or fell for most, particularly American Express, which scaled back rewards and promotions as its typical travel and entertainment-spending customers were grounded due to Covid-19 lockdowns. As lockdowns began to loosen, credit card issuers revamped their effort to attract customers. Despite an overall shift to digital, mailed credit-card solicitations passed pre-pandemic levels in the third quarter of 2021. As of March 2023, cash-back cards offered an average 1.14% per dollar spent, up from 1.08% in the beginning of 2021 and the highest level since at least 2010, according to WalletHub. For 2023, we see competition continuing although rewards may ease slightly as credit card companies scale back expenses with a slowing economy.

REWARDS EXPENSES AS A PERCENTAGE OF REVENUE*



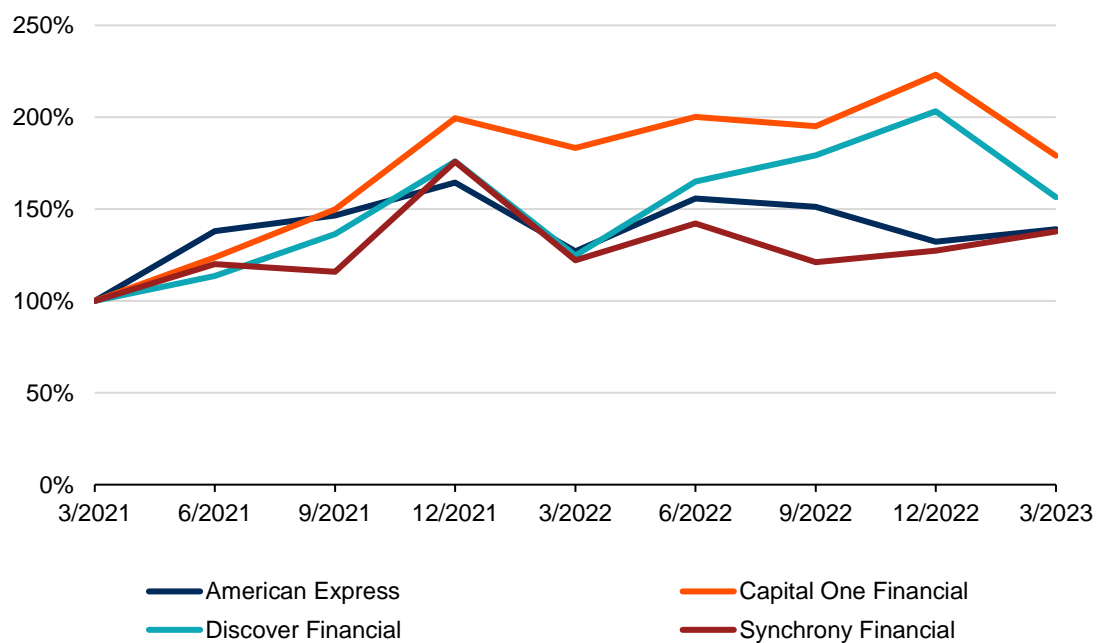
*Data as of 2022.

Source: Company filings.

Marketing Expense Growth Likely to Slow

Since 2021, marketing expenses have jumped across the industry with budgets exploding an average of 50%. Companies have identified an attractive environment for new client acquisitions and results have generally been positive with companies reporting attractive card acquisition figures. However, we expect the industry to cut back on marketing expenses in the next 12 months as a deteriorating economy leads to conservatism. This should lead to less competitive pressure as management teams spend less time on growth prospects and more time on credit quality and resiliency.

MARKETING EXPENSE GROWTH



Source: Company filings.

Co-Branding Can Introduce Revenue Concentration Risk or Margin Pressure

In a co-branding arrangement between a credit card company and a retailer, hotel, or airline, the partner's name and logo appear on the credit card. Such arrangements allow credit card companies to cross-sell other products, encourage credit use, and reach new customers. An exclusive co-brand relationship can be a great asset and a competitive advantage, but also brings risk of revenue concentration or lower fees.

In June 2018, American Express announced it was launching a new Amazon co-brand card for small businesses in the U.S. American Express also announced a new 10-year agreement with Air Canada in 2019, leveraging its premium customer base and assets.

In July 2018, Synchrony Financial lost its nearly 20-year partnership with Walmart stores for both the in-store card and general purpose co-brand card. Walmart instead chose to partner with Capital One. Synchrony Financial's 2017 10-K noted that Walmart comprised more than 10% of its revenue at that time, while news sources noted Walmart accounted for 19% of Synchrony Financial's store card portfolio. Similar to American Express losing Costco as one of its largest cobrand partners, Synchrony Financial struggled for some time as it attempted to rebuild and replace the lost revenue. Notable moves have continued in recent years with Capital One bringing in Williams Sonoma in 2021 and becoming the exclusive issuing partner for BJ's co-brand Mastercard program in early 2023.

Issuers have also developed sponsor relationships with colleges, universities, and professional organizations. The lender provides the funds, typically embossing the logo or insignia of the endorsing organization on the card, while the organization provides the customer list. Thus, card members are encouraged to use the card to show support for the endorsing organization, which may receive a small percentage of the sales proceeds charged with the card.

Regulatory Updates

Proposal for a Reduction in Credit Card Late Fees

In early 2023, the Consumer Financial Protection Bureau (CFPB) proposed a rule that would cut into credit card late fees. The CFPB argued that fees were excessive and they worried that credit card companies may actually be hoping that consumers are a day or two late on payments, given the fees they can then charge them. In the proposal, the CFPB is looking to cut late fees to a maximum of \$8 and seeks to ban late fee amounts above 25% of the consumer's required payments. The agency estimates the proposed rule could reduce late fees by about \$9 billion per year, from \$12 billion to \$3 billion. If passed, CFRA expects the proposal to be a net negative for the industry as the improvement in customer satisfaction would likely be outweighed by losses in revenue. We would expect lower-end consumer finance companies to be the most impacted while high-end companies like American Express would likely only see a minimal impact as these companies tend to rely less on "junk fees". Additionally, we would expect credit card issuers to retaliate with higher APRs, annual fees, and perhaps tighter credit requirements. It is important to note that the proposal has not yet passed, and we expect credit card issuers to fight back through the court system.

New Credit Impairment Model

U.S. companies adopted the new credit impairment model, known as the current expected credit loss model (CECL), effective January 1, 2020. The new model applies to financial assets measured at amortized cost, particularly loans for consumer finance companies. The most significant accounting change is loan loss reserves, which must reflect lifetime expected losses. Under the earlier guidance, credit losses were not recognized until the occurrence of loss was considered probable. Therefore, the new standard results in earlier loss recognition. The guidance does not prescribe a specific method for estimated credit losses; therefore, companies base their estimates on experience, current conditions, and reasonable and supportable forecasts.

The impact resulted in an increase in loss reserves and a negative adjustment to retained earnings at the transition. At the end of 2019, we initially forecast financial companies with high consumer and credit card

portfolios would experience some of the highest increases in reserve levels. This proved to be correct, with Capital One disclosing on January 21, 2020 that it would increase reserves by 40%, at the high end of its previous guidance of 30%-40%. Upon adopting the accounting standard on January 1, 2020, Synchrony Financial recorded an increase to its provision for credit losses of \$3 billion, compared with a provision for credit losses of \$5.6 billion at end-2019. American Express' "day 1" impact of adopting CECL was a \$1.6 billion (or 69%) increase in the beginning balance of its credit card provisions for losses as of January 1, 2020, while its provisions increased 40% year-over-year to \$3.5 billion in 2020 from \$2.5 billion in 2019.

We note that the Covid-19 pandemic highlighted the pro-cyclical nature of the new CECL model as these consumer financial companies took a bigger hit with larger provision expenses as the economy worsened. As part of the response to Covid-19, in August 2020, federal banking regulators issued a final rule that provides banking institutions an option to delay the estimated impact of the adoption of the CECL methodology on regulatory capital for up to two years, followed by a three-year phase-in period from January 1, 2022 through December 31, 2024 at a uniform "scaling factor" of 25%. This was elected by all four major credit card companies.

Annual Stress Tests and CCAR Results

As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, bank holding companies (BHCs) with at least \$50 billion in total assets are required to undergo annual "stress tests" by the Federal Reserve. In addition, these companies are also subject to a Comprehensive Capital Analysis and Review (CCAR), whereby the Federal Reserve evaluates whether the subject companies have sufficient capital to continue operations under various scenarios of economic stress, including after taking into account planned capital distributions.

In June 2023, the Federal Reserve released its annual bank stress test, which showed that large banks continued to have strong capital levels and could continue lending to households and businesses during a severe recession. The Federal Reserve conducted a sensitivity analysis to assess the resiliency of large banks under a hypothetical scenario, which included a severe global recession with substantial stress in commercial real estate and corporate debt markets. The scenario includes: 1) the unemployment rate rises nearly 6.5 percentage points to a peak of 10% from the fourth quarter of 2022 to the third quarter of 2024; 2) a sharp decline in economic activity accompanied by increases in market volatility; 3) a widening of corporate bond spreads, and collapse in asset prices, including a nearly 40% decline in commercial real estate prices. Stress test results in terms of capital ratio adequacy are shown in the following table.

AGGREGATE CAPITAL RATIOS PRIOR AND POST-STRESS TEST SCENARIOS			
REGULATORY RATIO	ACTUAL 2022:Q4	STRESSED MINIMUM CAPITAL RATIOS, SEVERELY ADVERSE	MINIMUM REGULATORY CAPITAL RATIOS
Common equity tier 1 capital ratio	12.4	10.1	4.5
Tier 1 capital ratio	14.1	11.8	6.0
Total capital ratio	16.1	14.1	8.0
Tier 1 leverage ratio	7.5	6.2	4.0
Supplementary leverage ratio	6.3	5.2	3.0
Source: Federal Reserve			

Under the sensitivity analysis, a total of 23 large banks would collectively lose more than \$540 billion. The loan portfolios that constitute the largest amount of losses are credit cards with a 22% of total loan losses, and commercial and industrial loans with an 18% of total loan losses. On a more positive note from the 2023 stress test results, all the major banks could withstand a severe crisis due to their huge capital.

M&A Environment

Over the next year, we think there could be more credit card portfolio spin-offs or merchant partnerships that move from one company to another, but we do not see any major acquisitions given the large and concentrated industry. However, there could be more acquisitions among smaller non-credit card consumer finance companies like the consolidation of pawn shops.

Below is a list of top mergers and acquisitions over the last 12 months as of June 30, 2023.

NOTABLE M&A ACTIVITY

(top deals over the last 12 months as of June 30, 2023; arranged by transaction value)

DATE ANNOUNCED	BUYER	TARGET	TRANSACTION VALUE (\$M)	TRANSACTION STATUS	DATE CLOSED
11/18/2022	Purple Orchid Trust	Angel Oak Mortgage - residential mortgage loan portfolio	284.2	Announced	-
06/22/2023	Robinhood Markets Inc	X1 Inc	95.0	Announced	-
12/02/2022	Undisclosed buyer	Mortgage Servicing Rights	87.5	Completed	12/02/2022
11/16/2022	Park Cities Asset Management	Elevate Credit Inc	67.0	Completed	02/28/2023
05/26/2023	Institutional investor	Nonperforming and chronically delinquent residential real estate loans	36.1	Completed	05/26/2023

Source: S&P Global Market Intelligence.

HOW THE INDUSTRY OPERATES

Four major consumer finance companies – American Express, Capital One Financial, Synchrony Financial, and Discover Financial Services – all provide credit cards and other consumer-related products to their customers. American Express and Discover Financial Services also operate their own payment networks that compete with large global payment companies Visa and Mastercard. Among these three major consumer finance companies, Capital One is the most similar to a traditional bank, although it is more focused on the direct-to-consumer approach (while primarily a credit card lender, it is a top deposit-taking institution in the U.S., as it bought ING Direct and has a substantial auto finance business). Discover Financial Services is also developing its direct banking business. Discover Financial Services' biggest business is credit card lending and it has been growing its private student loan business. In 2012, it began mortgage originations, and in 2013, it entered the home-equity loan business.

The landscape of the Consumer Finance industry has changed dramatically since the mid-1990s. The division between banks and consumer finance companies is no longer as clear as it once was. To add to the confusion, major consumer finance companies have banking subsidiaries. Many of the niche businesses are currently operated by major banks. This is a result of the banks' desire to grow in higher-margin businesses and their history of having better access to funds through deposits and other forms of capital. Hence, the consumer finance companies compete with major diversified banks, primarily Citigroup, JPMorgan Chase, Wells Fargo, and Bank of America.

Credit Card Industry

The modern credit card market began in 1958, with the advent of BankAmericard, the first revolving credit system to be accepted by a wide number of merchants. This was a big step up from merchant-issued cards accepted by only a few merchants. There were more than 572 million total credit card accounts as of the first quarter of 2023, according to the Federal Reserve Bank of New York. In 2022, the average credit card debt per individual increased 13.2% to \$5,910, compared to \$5,221 in 2021, according to Experian.

The credit card market has grown into two branches. The first group consists of card issuers – lenders who provide revolving loans and take all credit risk for these loans. The second group, the credit card network providers, includes companies such as Visa, Mastercard, American Express, and Discover Financial Services. American Express and Discover Financial Services are both card issuers and lenders. Visa and Mastercard are solely card network operators, classified by CFRA as technology companies.

Auto Finance

The market is ultra-competitive, with five different categories of players engaged in automotive financing: retail banks, finance companies, captives of original equipment manufacturers (OEMs), credit unions, and auto dealers. As of the first quarter of 2023, credit unions held 29.8% of vehicle financing in the quarter, banks 27.9%, and finance companies 17.1%, according to Experian's "State of the Automotive Finance Market Q1 2023" report.

The outstanding auto loans balances totaled about \$1.43 trillion as of the first quarter of 2023, up from \$1.32 trillion in the first quarter of 2022, according to Experian. This represents an increase of 8.3% from the prior year period. Growth rates peaked at 9% in late 2014 and early 2015.

The growth in the auto loan segment typically rises with the growth in vehicle sales. SUVs surpassed 60.9% of financing in the first quarter of 2023, up from 60.3% in the first quarter of 2022 as reported by Experian.

Student Loans

Student loans help students pay for university tuition, books, and living expenses, and generally have lower rates of interest and deferred schedules of repayments. The market is divided into two categories: federal loans that are issued directly by the federal government, and private loans that are issued by banks and other financial institutions. Federal lending controls the majority of the student loans, according to the Consumer Financial Protection Bureau (CFPB). As of the first quarter of 2023, federal student loans outstanding totaled \$1.782 trillion, according to data from the Federal Student Aid Office. Private student loans are a fraction (6.9%) of that, at just over \$120 billion as of the first quarter of 2023, as estimated by EducationData.

In August 2022, President Biden announced the forgiveness of between \$10,000 and \$20,000 of federal student loan debt. Also included in the announcement was an extension of the student loan pause for a fifth and final time through December 2022. Since the announcement, around 26 million borrowers have applied for student loan forgiveness, of which the Department of Education (DOE) approved 16 million of those applications. However, the relief will not go through after a Texas court ruling halted the program. As of December 12, 2022, the Supreme Court agreed to hear two cases involving the plan; however, the justices declined to restart the program immediately. On June 30, 2023, the Supreme Court struck down President Biden's student loan forgiveness plan, denying tens of millions of Americans the chance to get up to \$20,000 of their debt erased.

As the debt ceiling saga finally ended, President Biden signed into law a provision to terminate the pause on federal student loan payments on June 3, 2023. Around 45 million people are expected to start their payments in September 2023.

Federal Versus Private Student Loans

For students that qualify, there are a number of benefits to obtaining a federal student loan. Unlike private student loans, the federal government charges a fixed interest rate that is reset each July 1 for the following year. In addition to a fixed interest rate, federal loans have repayment plan options. The standard 10-year repayment period has the highest monthly payment, but accumulates the least interest. Other options include longer repayment periods (which lower the monthly payment, but cost more in interest) and income-based repayment terms. Flexible repayment terms are beneficial during times of financial distress. Federal loans also have more lenient terms than private loans in other respects; for example, federal loans are not considered to be in default until the borrower misses payments for nine months. Default conditions for private loans depend on the lender's contract and can be as strict as only one missed payment.

Private lenders controlled the student loan market until 1965, when the federal government began guaranteeing private student loans provided by banks and nonprofit lenders through the Federal Family Education Loan Program (FFELP). In 1990, direct lending by the federal government started gaining share, but remained relatively subdued until 2010, when the FFELP was eliminated (all government guaranteed loans are now made as direct loans). Following the U.S. government decision, many U.S. banks pulled out of the student lending business.

US Bancorp and JPMorgan Chase stopped accepting student loan applications in March 2012 and October 2013, respectively. However, Discover Financial Services, Truist, Citizens Bank, and PNC Financial Services Group Inc. all provide private student loans. Private student loans are often used to supplement federal loans to help meet the total cost of education. The best interest rates on private student loans (and the loans most likely to be approved) are typically on applications with cosigners, assuming both credit histories are healthy. Lenders require school acceptance letters or current registration to approve a loan. Higher education loans are typically not dischargeable in bankruptcy.

Regulation

The U.S. Consumer Finance industry is highly regulated. Given that the business focuses on money (lending, investing, borrowing, or some combination thereof), heavy regulation is not surprising. In the wake of the 2007-2009 financial crisis, the government focused on protecting the consumer through new legislation (including the Credit Card Accountability Responsibility and Disclosure or CARD Act of 2009) and government agencies (e.g., the CFPB).

Given their diverse nature, consumer finance companies are subject to a wide range of regulations by numerous regulatory agencies; specific regulators vary based on the company's product offerings. The Federal Reserve and the CFPB regulate the majority, while some of these companies' subsidiaries are also insured by the Federal Deposit Insurance Corporation (FDIC) and are therefore subject to the agency's regulatory capital requirements. State and local regulators, including state banking and insurance regulators, also oversee the industry, while companies with international operations must conform to regulations in their host countries.

Regulation E (2010)

Changes were made to Regulation E, requiring customers to opt in for overdraft coverage and one-time debit card transactions. Regulation E provides guidelines for electronic funds transfer and electronic debit cards.

In October 2013, the amendment to Regulation E (subpart B) was implemented, providing new protections to consumers sending remittance transfers in a foreign country.

In September 2014, the CFPB extended the temporary provision that allowed for estimated pricing disclosures of insured institutions pursuant to Section 1073 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under the provision, insured institutions were given five more years, from July 2015 to July 2020, to provide estimated pricing disclosures prior to a remittance transfer in cases where the exact information cannot be determined for reasons beyond their control. This provision was designed to serve as a transition period to allow banks, thrifts, and credit unions to develop better communication schemes with foreign financial institutions.

In October 2016, the CFPB amended Regulation E to extend certain consumer protections on credit cards to prepaid debit cards and mobile wallets. These protections include new disclosures regarding fees, limits on consumers' losses when cards are lost or money is stolen, and free access to account information.

Prepaid Accounts

The CFPB has extended Regulation E and Z coverage to prepaid accounts (CFPB Prepaid Rule). One of the biggest features of the new rule will be a standardized disclosure of fees, especially the monthly maintenance fee, for prepaid cards. Card issuers will also be required to offer liability protection similar to that on credit cards. The rule came into effect on April 1, 2019. Consumer finance companies such as Green Dot Corp., which provides prepaid and reloadable cards, will be most affected. Companies like American Express, which provides cash and reloadable cards, will be affected to a lesser extent. In April 2020, the CFPB issued guidance governing the treatment of pandemic relief payments under Regulation E and application of the compulsory use prohibition. The CFPB has issued a final rule amending the regulation text and official interpretations in Regulation Z, which implements the Truth in Lending Act (TILA). The bureau calculates the dollar amounts for several provisions in Regulation Z annually; this final rule revises, as applicable, the dollar amounts for provisions implementing TILA and amendments to TILA, including under the Home Ownership and Equity Protection Act of 1994 (HOEPA), and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The bureau is adjusting these amounts, where appropriate, based on the annual percentage change reflected in the Consumer Price Index (CPI) in effect on June 1, 2022. This final rule is effective January 1, 2023.

Dodd-Frank Act (2010)

Some of the major provisions of this financial regulatory reform legislation are highlighted below.

◆ **Debit fee regulation.** The Durbin Amendment to the Dodd-Frank Act, which directed the Federal Reserve to regulate interchange fees, went into effect in October 2011. The amendment capped debit interchange fees (the prices banks charge to merchants for their customers' use of debit cards) at \$0.21, plus 0.05% of the transaction, with the possibility of an additional \$0.01 in certain transactions. This reduced average swipe fees by almost 50%, according to some studies conducted by the Federal Reserve. Bank issuers with assets of less than \$10 billion were exempt. To cut costs, several banks terminated their debit card reward programs, according to American Banker. In early 2015, the Supreme Court declined to hear a challenge by some retailers who argued that the charges were unfairly high. The refusal to hear the case kept the March 2014 ruling by the U.S. Court of Appeals for the District of Columbia Circuit, which found that the fees set by the Federal Reserve at \$0.21 per transaction are appropriate.

◆ **The CFPB.** The Dodd-Frank Act established the CFPB as an agency of the Federal Reserve. The CFPB supervises and regulates consumer financial laws and products, including credit cards, mortgage loans, student loans, and auto loans. The goal is to provide fair, sustainable, and transparent financial products for consumers.

The CARD Act (2009)

With the Credit Card Accountability Responsibility and Disclosure (CARD) Act, Congress and the White House took aim at controversial credit card practices, from higher interest rates on past balances to fees for paying by phone or online. Following is a summary of what companies can and cannot do under this law:

- ◆ Payments cannot be treated as late unless consumers have a reasonable amount of time to make the payment (at least three weeks before the due date).
- ◆ Minimum payments must be allocated to balances with the highest rate first.
- ◆ Interest rates cannot be raised from the opening amount unless the rate was variable-rate or introductory, with the increase disclosed; it is a year after the account opened and 45 days' notice is given; or a minimum payment is received 30 days after due date.
- ◆ Double-cycle billing cannot be used (*i.e.*, calculating interest based on a prior month's balance in addition to the current month), even if the prior month's balance had been paid.

Banks and credit card companies began changing their practices to comply even before the law took effect, mitigating its impact on their revenues. Many banks switched their customers from fixed rates to variable rates, so that banks can raise rates more easily. Banks also cut reward programs and added annual fees to cards that previously had none. CFRA saw an impact on results of the big credit card issuers through reduced fee income; however, the bulk of the impact from regulatory change is likely behind us.

Supreme Court Affirms American Express Right To 'Anti-Steering'

In June 2018, the U.S. Supreme Court ruled that American Express did not violate antitrust laws by insisting and putting into its contracts with merchants that they cannot encourage or "steer" patrons to use other cards. Since American Express typically charges higher fees than competing card processing networks, merchants benefit by pushing their customers to use an alternative payment method. However, the court affirmed American Express' right to prohibit such behavior as long as those merchants had a contract with American Express. Merchants can benefit by offering the American Express brand to attract customers and American Express' customer base typically spends more. The ruling is a positive in our view not only for American Express, but for the Consumer Finance industry as a whole since it allows consumer finance companies to freely contract with merchants and continue to find innovative ways to develop strong brands, relationships, and rewards.

Surcharging

In March 2017, the U.S. Supreme Court unanimously ruled that New York's credit card surcharge ban, Section 518, regulates speech. The court remanded the case ("Expressions Hair Design v. Schneiderman") to the Court of Appeals to determine if the ban violates the First Amendment. Following that in December 2017, the Second Circuit, on remand, declined to rule on the merits and has delayed the case by requesting a definitive interpretation of Section 518 from the Court of Appeals. However, in January 2018, the Ninth Circuit ruled that the California ban on credit card surcharges is illegal as it violates the First Amendment of the U.S. Constitution. The state of New York and nine other states currently ban the use of "surcharging" or charging a higher price for goods or services if a customer pays with a credit card.

This could have a potentially adverse effect on credit card companies like American Express, especially if merchants are allowed to selectively surcharge, or charge more for certain cards and not others, which is known as "differential surcharging". American Express has noted an increase in merchant surcharging, specifically on American Express cards in Australia, where merchants are permitted by law to surcharge card purchases.

Regulatory Capital Requirements

To meet day-to-day obligations, consumer finance companies must have capital on hand. In its most basic form, capital is the shareholders' equity, calculated by taking the difference between assets (loans, investments, cash, real estate, and intangible assets) and liabilities (deposits and borrowings, mainly).

Using the international Basel standards – the common name for capital guidelines issued by the Bank for International Settlements in Basel, Switzerland – the Federal Reserve has established two basic measures of regulatory capital adequacy by which U.S. bank holding companies must comply: a risk-based measure and a leverage measure. These ratios are as follows:

◆ **Tier 1 capital ratio.** Calculated by dividing Tier 1 capital by risk-weighted assets.

◆ **Total capital (Tier 1 and Tier 2) ratio.** Calculated by dividing total capital Tier 1 plus Tier 2 capital by risk-weighted assets.

◆ **Leverage ratio.** Calculated by dividing Tier 1 capital by average total consolidated assets.

The first two ratios are risk-based standards. These measures take into account differences in risk profiles among consumer finance companies. Assets both on and off the balance sheet are assigned to risk categories, and different weightings are applied. Tier 1 capital is common equity, certain preferred stock, plus retained earnings, and less goodwill and other intangible assets. Theoretically, it is the most solid type of capital. U.S. regulators consider a Tier 1 capital ratio of around 6% as well capitalized.

The second ratio is the total capital ratio. The minimum ratio of total capital to risk-weighted assets should be around 8% to be considered adequately capitalized. At least half of the total capital must consist of Tier 1 capital. A consumer finance company or financial services company with a total capital ratio of 10% is generally considered well capitalized. There is a more rigorous approach in Basel III capital standards. While the Basel III capital rules will continue to rely on consumer finance companies' risk models, the international committee has narrowed the definition of what counts as capital, and how much capital needs to be held for certain riskier assets.

The third ratio is the leverage ratio. The Federal Reserve's guidelines for bank holding companies is to provide for a 4% minimum ratio of Tier 1 capital to average assets, less goodwill and certain intangible assets. Bank holding companies making acquisitions are expected to maintain capital positions substantially above the minimum supervisory level. To meet the regulatory requirement that would allow them to be classified as well capitalized, the financial institution must have a leverage ratio of at least 5%.

Consumer Protection Laws

The most important U.S. laws and their main provisions are as follows:

- ◆ The Truth in Lending Act of 1968 requires extensive disclosure of the terms upon which credit is granted.
- ◆ The Fair Credit Reporting Act of 1970 regulates use of consumer credit reports and credit prescreening practices by creditors, and requires certain disclosures when a credit application is rejected.
- ◆ The Fair Credit Billing Act of 1974 regulates how billing inquiries are handled, and specifies certain billing requirements.
- ◆ The Equal Credit Opportunity Act of 1974 generally prohibits discrimination in the granting and handling of credit.
- ◆ The Electronic Funds Transfer Act of 1978, also known as “Regulation E”, regulates disclosures and settlement of transactions for electronic funds transfers, including those at automated teller machines (ATMs).
- ◆ The Fair Credit and Charge Card Disclosure Act of 1988 mandates certain disclosures on credit and charge card applications.

Banking Laws

Because many consumer finance companies operate as bank holding companies, they are also subject to regulation by various federal bank regulatory agencies, specifically the Bank Holding Company Act of 1956 (BHCA). The BHCA prohibits bank holding companies from directly or indirectly acquiring or controlling more than 5% of the voting shares, or substantially all of the assets of any company, including a bank, without the prior approval of the Federal Reserve. The BHCA generally prohibited bank holding companies from engaging in nonbanking activities, subject to certain exceptions, though many of these restrictions were relaxed with the passage of the Gramm-Leach-Bliley Act.

Costs: Credit Losses

The practice of lending money sometimes results in extra costs to lenders, as when a customer stops repaying a loan. Naturally, lenders try to limit these types of losses. However, when the worst happens, these companies take other steps.

As with any other cost of doing business, consumer finance companies attempt to minimize their loan losses, while at the same time take on enough risk that they can grow their loan portfolio. Individual companies may set limits on what they perceive as acceptable levels of losses, depending on the type and duration of loans they make and the interest rates they charge.

Delinquencies, Charge-Offs, and Default

Default occurs when the borrower has stopped servicing a debt obligation for a certain number of months. Credit managers generally determine the point at which default occurs once they have exhausted all methods of collecting on the obligation.

Delinquencies and charge-offs are generally higher during periods of adverse or recessionary economic conditions. These conditions may include rising unemployment, declining home values, and inflationary pressures, all of which can affect a borrower's ability to repay loans. At such times, financial services companies may limit the number and amount of loans they are willing to make. The ways they can do this include placing stricter standards on credit availability or charging higher interest rates to compensate for greater perceived risk.

In general, loans to individuals have averaged a net charge-off rate of 1%-2%, based on data from the Federal Reserve. However, the range varies widely based on the type of product and demographic and credit profile of the targeted customer. The net charge-off ratio for credit card loans in the first quarter of 2023 was 3.02%, a significant improvement from the peak of 10.97% in the second quarter of 2010.

Loan Loss Provisions

Consumer finance companies set aside funds called “reserves” for loan losses. Loan loss provisions, which replenish the reserves, appear on a firm’s income statement, where they represent a charge taken against earnings to cover potential loan defaults. Provisions are based on management’s assessment of current and expected lending conditions.

Unpaid consumer finance loans are grouped according to the time that has elapsed since the time payment should have been received: 0-30 days, 30-90 days, or more than 90 days. After 30 days, loans are categorized as delinquent; after 90 days, they are often deemed uncollectible and are charged off. Charged-off loans are removed from the balance sheet, and are subtracted from the reserve for loan losses. Net charge-offs include any asset recoveries.

Types of Bankruptcy

Bankruptcies generally cause lenders immediately to charge-off a customer’s loan, as repayment is considered unlikely. The different types of bankruptcy are described below. Individual consumers typically file under Chapter 7 or Chapter 13, while Chapter 11 is typically used for business bankruptcies and restructuring.

◆ **Chapter 7.** This bankruptcy filing is essentially liquidation. It lets a debtor retain certain exempt property, while a trustee liquidates the debtor’s remaining assets. The proceeds are then distributed according to priorities set by the bankruptcy court.

◆ **Chapter 11.** This filing, known as reorganization, lets individuals reorganize their financial obligations, such as state or federal taxes, over an extended period of time.

◆ **Chapter 13.** Generally referred to as the wage-earner chapter, this filing is designed for individuals with regular income who wish to repay their debts but who are currently unable to do so. Under the supervision of the bankruptcy court, such individuals carry out a repayment plan in which their obligations to creditors are paid over an extended period.

Funding Sources and Margins

The mix of yields earned on assets and the rates paid for funding are of utmost importance to financial services firms. Like all firms, financial services companies try to maximize their profit from each sale – in this case, from each loan – and they must seek the best available interest rates for funding, as well as lend at the highest possible interest rates and stay competitive.

To be successful, a financial services company must have access to funds at competitive interest rates, terms, and conditions. To obtain such funds, most firms turn to the global capital markets by issuing commercial paper, medium-term notes, long-term debt, asset-backed securities, or equity (such as common or preferred stock). Additionally, they may also offer customers deposit services.

Operating Costs

Credit costs are typically the largest cost for consumer finance companies, followed by marketing, advertising, and distribution costs, and employee compensation. Other costs such as technology and occupancy/rent are meaningful, but a lesser factor for earnings.

Marketing and Distribution

Because competition among consumer finance companies is intense, the costs of soliciting new business and retaining existing customers can be substantial. Response rates tend to be low, and competitors often try to lure customers away.

Marketing and advertising efforts are geared toward the specific market segments where companies have expertise or where they offer the most products and services at the most competitive prices. In this manner, a firm can maximize available resources in hopes of attracting the greatest number of customers. Distribution channels often include media, direct mail, telemarketing, branch networks, event marketing, and retail relationships.

◆ **Media.** Companies promote their brands and products through advertising on their own websites, via television, social networking websites, and more. Establishing a national brand name and trust is helpful to attracting customers. However, it is worth noting that consumers that seek credit are often more likely to have credit difficulties, making the internet a less productive way to source customers than it is for retailers.

◆ **Direct mail.** Direct mail involves the prescreening of credit rating databases for individuals with favorable credit criteria; these individuals receive offers of lending products, like home-equity loans or credit cards, via mail. These mass mailings are inexpensive, but they also have a low success rate. Although direct mail is generally cheap, the volume is enormous, resulting in considerable outlays for postage and delivery charges.

◆ **Telemarketing.** These techniques often use the same financial criteria as direct mail in locating potential clients, but the process involves a representative calling the prospect directly. Telemarketing campaigns tend to be more expensive than direct mail campaigns. They are also more successful, and can often be used to reach existing customers to cross-sell ancillary products, such as insurance.

◆ **Branch networks.** Branch networks usually cover a geographic region, such as the Southeast or the Midwest, with offices located in high-traffic areas. This enables firms to leverage marketing and production efforts. At branch offices, walk-in customers may meet with financial representatives to find out about lending products or other offerings. This brick-and-mortar approach to business is costly, but also highly effective. Customers entering branch offices are already looking to borrow money, and the face-to-face contact makes it easier for financial representatives to close the deal. Branch networks are more common among banks than among consumer finance companies, as consumer finance companies and card networks have taken a more national approach.

◆ **Event marketing and event sponsorships.** Event marketing typically involves setting up booths at sporting events or other well-attended activities, where product offerings are made. This kind of marketing has a fairly high success rate, reflecting the combination of face-to-face contact with customers and the use of promotional tie-ins, such as T-shirts and hats, which encourage people to apply for credit. Event sponsorship of a sport, concert, or other entertainment can also help reinforce a company's brand name.

◆ **Retail outlets.** Retail outlets often let financial services companies provide brochures or applications to customers, who may seek financial assistance in purchasing the items they want. This practice is common among electronics and appliance retailers, which sell high-cost consumer durable goods. This method is also helpful to the retailer, since sales of high-priced items could be limited if financing were not available.

Compensation Costs

After interest expense, compensation costs – salaries, bonuses, profit sharing, payroll taxes, and benefits paid to or incurred for various employees – are the most significant expense item at most consumer finance companies. Large credit card issuers, such as Capital One, often employ thousands of part-time telemarketers to promote their products to customers, numerous credit underwriters to approve credit, and collection specialists to help speed up payments from late-paying customers and to help limit credit card loan defaults.

Technology Costs

Given the industry's increasing reliance on technology, especially for computer-driven credit scoring and evaluation, it is not surprising that technology-related costs are often a sizable part of a firm's expenses.

HOW TO ANALYZE A COMPANY IN THIS INDUSTRY

At CFRA, we recommend a top-down approach to valuation. An examination of the industry drivers outlined on pages 7 and 8 – personal consumption expenditures, unemployment rate, net charge-offs, consumer credit, and yield curve – is a good starting point.

Industry Drivers

◆ **Personal consumption expenditures.** This is a measure of price changes in consumer goods and services. It consists of the actual and imputed expenditures of households, including data pertaining to durables, nondurables, and services. The personal consumption expenditures (PCE) measure is included in the personal income report published by the U.S. Bureau of Economic Analysis (BEA) of the Department of Commerce. The PCE is considered to be a fairly predictable report that has little impact on the markets, but it is a measure commonly discussed by card networks such as Visa and Mastercard.

◆ **Unemployment rate.** Reported each month by the Bureau of Labor Statistics of the U.S. Department of Labor, this is an important measure of employment and unemployment across the nation. Changes in the unemployment rate are meaningful to financial services companies as predictive measures of potential inflation (and, hence, of possibly rising interest rates) due to a tight labor market, or as an indicator of conceivably higher charge-offs and delinquencies due to rising unemployment.

◆ **Net charge-offs.** Net charge-offs represent a periodic recognition of reductions in the value of loans, net of any recovery on previously charged-off loans. Net charge-offs are subtracted from the allowance for loan losses. To maintain its allowance for loan losses, a consumer finance company needs to make allowance for loan losses (an income statement item) in an amount that is equal to net charge-offs.

◆ **Consumer credit.** The Federal Reserve reports consumer installment and revolving credit outstanding monthly.

◆ **Yield curve.** Investors watch short- and long-term interest rates closely, as well as the relationship between those rates, which can be graphed and is referred to as the “yield curve”.

The yield curve is a graph that plots the yields of similar-quality bonds, with maturities that range from the shortest to the longest available. Hence, it illustrates the structure of interest rates across the economy. When short-term rates are lower than long-term rates (which is the typical pattern), the result is a positive yield curve. When short-term rates are higher, the yield curve is negative or inverted.

When long-term rates decline but short-term rates do not, the difference between the two diminishes, and the yield curve begins to flatten. A flat yield curve is undesirable for the industry because it reduces the difference between the rates lenders must pay to borrow funds and what they can charge their customers. Reducing the spread cuts into their profit margins.

◆ **Interest rates.** Interest rates are a key macroeconomic indicator of the Consumer Finance industry's overall performance.

Short-term rates are generally represented by the federal funds rate and the discount rate. The monetary policy of the Federal Reserve, which takes into account current economic conditions, influences the federal funds rate and directly controls the discount rate. For example, strong economic growth and/or employment activity, which can generate shortages in labor and goods and therefore cause higher inflation, may cause the Federal Reserve to raise its target for the federal funds rate, which, in turn, affects other interest rates.

Market forces determine long-term rates, commonly represented by the yield on the 10-year Treasury note. However, long-term rates are subject to the same factors as short-term rates; strong economic and

employment conditions can fuel inflation and cause them to rise. Because they are subject to market forces rather than to regulation, long-term interest rates react more swiftly than short-term rates to daily economic developments. Hence, they can be viewed as a leading indicator for future interest rate levels and economic activity.

Declining interest rates tend to stimulate economic activity and the demand for borrowing. Rising interest rates tend to make loan payments less affordable, reduce loan demand, and generally result in higher delinquencies and charge-offs, thus weakening financial services firms' profits. To anticipate the direction of interest rates, the investor should evaluate the levels of domestic economic growth and inflation. Interest rates tend to rise when economic growth is strong, because healthy demand for borrowing makes lenders less willing to compromise on credit rates. A strong economy often means higher employment and consumer confidence levels; however, strong economic growth may also put upward pressure on inflation, as goods and services may be in short supply. Higher inflation limits an individual's purchasing power.

Net interest income is usually about half the revenues of a major bank, and is dependent on interest rate spreads, growth of interest-earning assets, and level of nonperforming loans.

◆ **Net interest margin.** This is net interest income divided by average earning assets, and it constitutes the industry's profit margin. For example, an average loan to customers was \$1,000 in a year, while it earned interest income of \$50 and paid interest of \$25. The yearly net interest margin (NIM) is then computed as $(\$50 - \$25) / \$1,000 = 2.5\%$. Quarterly NIMs are calculated by consumer finance companies, and are important barometers of profitability.

◆ **Net interest spread.** This is interest yield on earning assets minus the interest rate paid on borrowed funds. For example, interest-earning assets (loans plus investment securities) yield 5% in a year, while their interest-bearing liabilities (deposits and debts) pay 3% in the same year. Using these numbers, the net interest spread for the year would be 2% (5% minus 3%).

◆ **Level of nonperforming assets.** Nonperforming assets (NPAs) are comprised of restructurings of troubled debt – loans in which the lender has made concessions to the borrower to keep the loan current – and problem assets. Problem assets are defined as the sum of loans that are delinquent by 90 days or more, plus foreclosed real estate.

◆ **Noninterest expense.** A useful measure to compare the efficiency of various institutions is to look at noninterest expenses as a percentage of average assets. This indicates how well the institution manages its cost base relative to its asset base and, in turn, how much of that revenue flows to the bottom line. Another measure of noninterest expense is the efficiency ratio, which is adjusted core expenses divided by core net revenues. An efficient institution can endure relatively adverse credit conditions or interest-spread tightening while remaining profitable.

◆ **Disposable personal income.** Reported each month by the BEA, disposable personal income is a measure of inflation-adjusted income minus taxes. Changes in disposable personal income are important to financial services companies because they influence consumer spending and borrowing. Healthy growth in disposable personal income indicates a higher capacity to borrow and spend. Real disposable personal income growth has shown signs of recovery from the Great Recession.

◆ **Consumer confidence index.** The consumer confidence index reflects U.S. consumers' views on current and future business and economic trends, and the ways they expect to be affected by those trends. The Conference Board, a private research organization, which polls 5,000 representative U.S. households to gauge consumer sentiment, compiles the consumer confidence index monthly. Historically, the level of consumer confidence has been a good predictor of future borrowing and spending habits. People's expectations of future economic, employment, and income levels affect their ability to repay borrowed money and can be key in making purchase decisions. Consumer borrowing often moves in tandem with job growth and can be influenced by the direction of interest rates (lower rates may stimulate borrowing).

◆ **Delinquency trends.** Delinquency statistics are collected by the Federal Reserve, the FDIC, and other regulators.

◆ **Bankruptcy trends.** The number of U.S. bankruptcy filings increases when consumers try to spend beyond their means. When a borrower declares bankruptcy, the lending company is forced to write off the loan as a loss. In addition, bankruptcy implies that an individual's ability to borrow is limited. The number of U.S. bankruptcy filings is calculated quarterly by the Administrative Office of the U.S. Courts and disseminated by the American Bankruptcy.

Company Analysis

After gaining an understanding of the industry's drivers, an analyst should then focus on company-specific analysis. Company-specific analysis focuses on a range of factors – both qualitative and quantitative – and should be used to evaluate a firm's strengths and weaknesses, as well as assess its overall position within the overall consumer finance landscape.

Qualitative Measures

Lines of Business

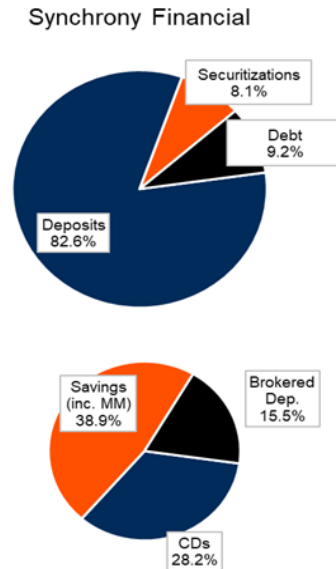
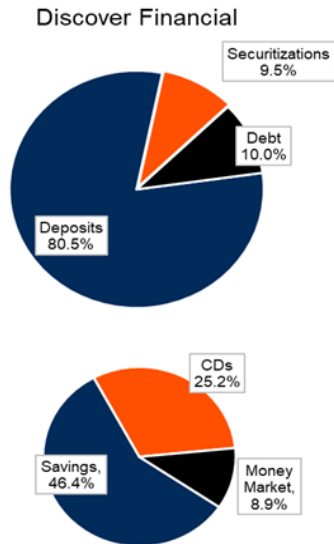
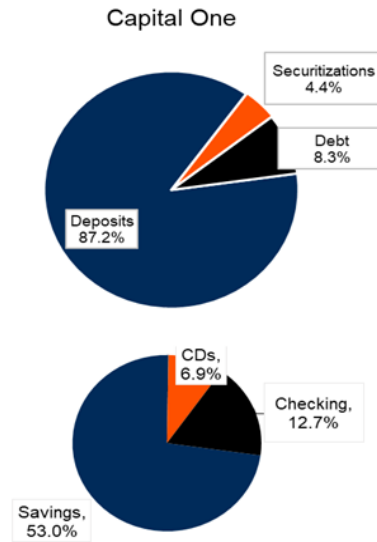
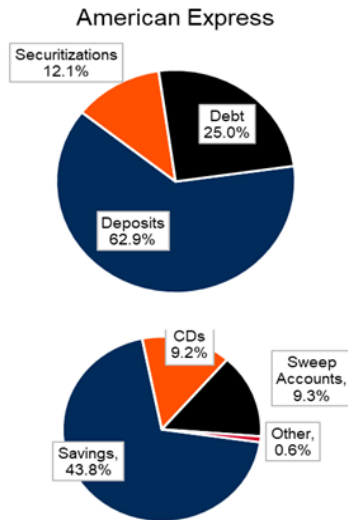
The Consumer Finance industry includes a variety of different business models, most of which have roots in the credit card market. Therefore, an analysis of any company in this industry must begin with an evaluation of what the company does, its products, and how it generates revenues. Companies with multiple business lines typically report revenue and profit contributions from different segments in their annual reports.

For example, Capital One Financial has diverse business lines including consumer banking (retail deposits, mortgage, and auto finance), credit card, direct brokerage, and commercial banking. American Express and Discover Financial Services compete partially with financial services providers (primarily other consumer finance companies and banks), but also with the major network services providers Visa and Mastercard; these companies are technically part of the Information Technology sector of the Global Industry Classification Standard (GICS). Visa and Mastercard are business-to-business companies that do not lend money.

Funding Mix

Funding sources for the major credit card companies differ and have contrasting characteristics. Companies that leverage a physical bank branch network can secure low-cost deposits, while others must rely more on the debt market. Deposits are usually the cheapest form of funding while debt is more expensive. Deposits also tend to be “stickier” forms of funding as consumers usually do not move deposits for only marginal gains in interest rates. Further, within the deposits category, savings are stickier, while certificates of deposit are usually at higher risk of leaving as consumers must make an active rollover decision when the deposit matures.

SOURCES OF FUNDING FOR THE MAJOR CREDIT CARD COMPANIES
(as of fiscal year 2022)



Source: Company reports, CFRA.

Quantitative Measures

Although companies in this segment operate different types of businesses, many similar quantitative measures can be used to compare industry participants. Key measures of financial performance are loan growth, NIM, credit quality, and efficiency ratios. The two main drivers of a lender's earnings are net interest income and noninterest income.

◆ **Net revenue growth.** Revenues tracked by investors are typically net of interest expense for diversified financials, and are referred to as “total net revenues”. Investors compare a firm's net revenue growth with its historical growth rate and with that of its competitors. Is growth accelerating or decelerating? Is the company outperforming others in its markets, and, if so, why? Are there unique seasonal trends to consider? Determining what is behind the growth trends, such as acquisitions or new products, can provide insight into prospects for future growth. Note that with a lender, faster growth is not always better. If a company grows loans too rapidly, it may sacrifice future credit quality.

◆ **Loan growth.** To predict loan growth, it is important to understand the mix of a company's lending business. Given that loans are the biggest component of interest-earning assets, it is easy to see the relationship between loan growth and earnings growth. While some companies with higher-risk profiles might outgrow those with higher credit standards in certain periods, the group with stricter lending standards is inherently less risky and more likely to succeed over the long term. A consumer finance company that grows too fast can lose control of credit quality and ultimately put itself out of business.

◆ **Net interest income.** Net interest income is driven by loan growth. Net interest income represents income on total interest-earning assets, less the interest expense on total interest-bearing liabilities.



Watch Out! Asset-liability management (ALM) is a required risk management component of any institution that uses short-term liabilities to fund longer-term assets. The extent of the mismatch between the weighted average maturities of assets and liabilities can lead to significant interest rate risk. Inflection points in the interest rate cycle (e.g., when the Federal Reserve changes its interest rate policy) or significant changes in the shape of the yield curve are challenging environments that require financial institutions to adjust their balance sheets to maximize interest income. Failure to adequately hedge the portfolio can result in significant reductions in earnings.

◆ **Fee income (noninterest income).** Loan growth, add-on products, and/or credit quality (late payment fees or other penalties) drive fee income.

◆ **Net interest margin.** Net interest margin (net interest income divided by average interest-earning assets), or NIM, indicates how much new profit can be expected from a given level of loan growth. For companies that have significant lending operations – banks, savings, and loans, or consumer finance companies – this is a key profitability measure. NIM trends are affected due to factors such as funding costs and business mix. NIM may not fully reflect the risks that a company is taking; therefore, some investors look at risk-adjusted NIM that accounts for net credit losses.



Watch Out! In a rising interest rate environment, fixed rate debt securities in the investment portfolio will decline in value, resulting in a falling tangible book value and downward pressure on the net interest margin. This can induce banks to restructure their investment portfolio, or reclassify securities (e.g., from available-for-sale to held-to-maturity).

◆ **Return on assets.** For historical comparisons, it is best to use return on assets (ROA). Managed assets include a company's securitized loan portfolio; historically, they were considered off-balance sheet assets.

◆ **Return on equity.** Return on equity or ROE (net income divided by average shareholders' equity) is a telling indicator of financial performance. It measures how efficiently a company uses shareholders' capital. Not surprisingly, the ROE of financial firms varies widely. Although ROE is a useful tool for evaluating performance, it is not a perfect measure, as it is affected by leverage. All else being equal, the higher a company's level of debt as a percentage of its capital structure or the greater use of leverage, the greater the ROE.

◆ **Credit quality.** Sometimes the individuals that financial services companies lend to do not pay. Therefore, lenders set aside reserves to offset the impact of future potential credit losses. Evaluating a firm's credit quality – its ability to withstand loan losses – over the course of several quarters or years is a key differentiating aspect among peers.

◆ **Delinquency ratio.** The delinquency ratio is calculated by dividing loans delinquent by end-of-period (managed) receivables. This represents the percentage of loans in a company's portfolio that are delinquent. Typically, a loan is termed delinquent if the payment is not received within 30 days of its due date.

◆ **Charge-off ratio.** Delinquent loans are typically determined uncollectible after 180 days of no payment, and are considered as losses and written off the balance sheet. The net charge-off ratio or write-off rate can be calculated by dividing charge-offs minus loan recoveries on balances previously charged off over average receivables during the period.



Watch Out! Failing to put assets on nonaccrual overstates earnings. Restructuring or re-aging (more common with consumer lending) loans can delay putting loans on nonaccrual and mask deteriorating credit quality. In 2015, subprime auto lender Santander Consumer sharply increased its use of loan deferrals, a practice that allowed delinquent borrowers to suspend loan payments for two to three months. This practice artificially reduced the company's delinquency metrics, as the loans were marked current upon deferment of the payment. Increased use of deferrals also increased the credit risk of the overall portfolio, as loans that otherwise would have been liquidated were kept on the balance sheet. The following year, the company announced that it had under-reserved for losses on its modified loans, resulting in a large provision charge to earnings and a sharp sell-off of the stock when investors soured on the company's ability to manage its credit profile.

◆ **Reserve ratio.** Comparing a company's reserves for loan losses to total receivables can help determine whether it is adequately prepared for an unexpected deterioration in credit quality. CFRA recommends assessing if a company's quarterly loan loss provisions cover charge-offs, if the reserve level is rising or falling, and if reserves are growing at a similar rate as loans.



Watch Out! Setting proper reserve levels for inherent credit losses is one of the most significant issues for financial sector companies, and it is the single most important accounting issue for any company specializing in lending. Not only is reserving for credit losses inherently subjective, but it is also subject to differing points of view depending on regulatory perspective. Unforeseen or ignored adverse trends in credit quality can result in significant earnings surprises.

◆ **Efficiency ratio.** Efficiency is measured by dividing expenses by revenues. Efficiencies typically improve as a firm grows in size, reflecting economies of scale. Companies generally strive to keep the growth rate of expenses below that of revenues.

◆ **Pretax and net margins.** Whether a company makes loans or not, the pretax margin and net margin can be evaluated. The ratios are typically calculated by dividing either the pretax income or net income by total net revenues. Companies with commodity-like, undifferentiated products tend to have lower pretax and net profit margins than companies that provide customers with proprietary products and value-added services.

Valuation Measures

◆ **Price-to-earnings ratio.** Among valuation methods, the price-to-earnings (P/E) ratio is the most commonly used yardstick for consumer finance companies. All else being equal, companies that have superior earnings growth prospects will command higher P/E ratios. Investors compare a firm's P/E ratio with that of its peers and with the P/E ratio of the broader market. Most financial services companies typically trade at a discount to the overall market because of the cyclical, interest-rate-sensitive nature of their business. One useful technique is to estimate normalized earnings per share (EPS), and apply a multiple to it, based on longer-term historical trends. Normalized EPS can be estimated by forecasting the revenues based on an assumption of a moderate growth economic environment, with loan loss provisions that just cover net charge-offs, and expenses that are free of legacy legal and credit-related costs.

◆ **Price-to-tangible book value.** Tangible book value is typically common shareholders' equity less goodwill and/or other intangible assets. A key indicator of investors' perception of future value of a company is if the company trades above or below 1x its tangible book value per share, and how that compares with peers. Differences in valuation can be explained by asset quality trends, growth, geographical mix, and/or quality of management. This measure is often applied when a company is in distress and when earnings are volatile. A company trading at a price that is at a discount to its book value per share is typically perceived as facing potential stress or in distress already.

Glossary

Blockchain—A decentralized shared ledger of transactions, which require no central authority, which accurately approve or reject entries that cannot be retroactively adjusted.

Captive finance company—A company (usually a wholly owned subsidiary) that finances consumer purchases from a parent company, such as Ford Motor Credit Co.

Credit bureau—An agency that tracks consumers' credit history, which it relays to credit grantors for a fee, including credit lines applied for and received, and timeliness of payment. The three major national credit bureaus are Equifax, Experian, and TransUnion.

Credit rating—A formal evaluation of an individual's credit history and ability to repay obligations.

Debit card—A bank card that allows depositors to pay for the cost of goods and services directly from their checking accounts, electronically. Debit cards often combine the convenience of an automated teller machine (ATM) card and a general-purpose credit card; however, protection is more limited for a debit card than a credit card.

Delinquency—A loan payment that is past due, typically by 30 or more days.

FICO score—A widely used measure developed by Fair Isaac & Co. to predict the likelihood that credit users will pay their bills based on an analysis of an individual's credit history compared with others, as well as historical performance. Scores range from 300 to 850.

Junk fees—A type of surcharge applied on credit cards, bills, loans, air travel, etc. Common types of surcharges include fees for overdraft or nonsufficient funds, late fees for not paying a bill on time, convenience fees, prepaid card fees, and closing costs and homebuying fees.

Managed receivables—The total amount of receivables (*i.e.*, credit card, mortgage, or other forms of loans), including both securitized receivables and receivables on a company's balance sheet.

Net charge-off—The portion of a loan that a financial services company is unlikely to collect and writes off as a bad debt expense; can be reduced by recoveries of payments for loans previously charged off.

Net interest income—Total interest revenues less total interest expenses.

Net interest margin (NIM)—A measure of the profitability of a lending business, calculated as net interest income divided by average earning assets. Does not consider risks incurred.

Return on assets (ROA)—An indicator of operating efficiency, ROA is calculated by dividing net operating income by total average assets.

Return on equity (ROE)—A performance ratio, calculated as net operating income divided by total average equity.

INDUSTRY REFERENCES

PERIODICALS

ABA Banking Journal

bankingjournal.aba.com

Journal of the American Bankers Association; covers regulatory developments and compliance issues.

Action Economics

actioneconomics.com

Provides economic reports and commentary.

American Banker

americanbanker.com

News on legislative, product, and financial developments affecting financial services companies.

Federal Reserve Bank of New York—Center for Microeconomic Data

newyorkfed.org/microeconomics

Provides data and analysis specifically for household debt and credit such as credit card, auto, and student debt.

Federal Reserve Bulletin

federalreserve.gov/publications/bulletin.htm

Provides data and articles on financial and economic developments.

The Nilson Report

nilsonreport.com

Covers consumer payment systems worldwide.

TRADE ASSOCIATIONS

American Bankers Association

aba.com

Represents the interests of the banking industry.

American Financial Services Association

afsaonline.org

A trade association for the U.S. consumer credit industry.

Electronic Transactions Association

electran.org

A leading trade association for the payments industry, representing over 500 companies worldwide involved in electronic transaction processing products and services.

RESEARCH FIRMS

ComScore

comscore.com

Provides marketing data and analytics.

eMarketer

emarketer.com

A subscription-based market research company that provides insights and trends related to digital marketing, media, and commerce.

Experian

experian.com

Provides consumer and business credit reporting and marketing services.

Facts and Factors

fnfresearch.com

A consulting and market research organization from India that prides itself in offering out-of-the box strategies to uncover the best of market data for its clients.

Forrester Research

go.forrester.com

A research firm that provides advice on impacts of technology.

The Strawhecker Group

thestrwegroup.com

An analytics and consulting firm focused on the electronic payments industry.

REGULATORY AND GOVERNMENT AGENCIES

Board of Governors of the Federal Reserve System

federalreserve.gov

Supervises and regulates banks; maintains the stability of the financial system; conducts U.S. monetary policy; and provides certain financial services to the U.S. government, the public, financial institutions, and foreign official institutions.

Consumer Financial Protection Bureau

consumerfinance.gov

An independent federal agency responsible for consumer protection in the financial sector. The agency has jurisdiction over various consumer finance companies such as debt collectors, credit card companies, and consumer lenders.

Federal Deposit Insurance Corporation

fdic.gov

An independent deposit insurance agency created by Congress to maintain stability and public confidence in the U.S. banking system by identifying, monitoring, and addressing risks to insured depository institutions.

Federal Student Aid

studentaid.gov

Part of the U.S. Department of Education, it is the largest provider of student financial aid in the nation.

US Bureau of Labor Statistics

bls.gov

The principal fact-finding arm of the federal government in the broad fields of labor, economics, and statistics.

ONLINE RESOURCES

AccountingToday

accountingtoday.com

Provides online business news for the accounting community, offering breaking news, in-depth features, and a host of resources and services.

ACI Worldwide

aciworldwide.com

Delivers mission-critical real-time payments software solutions that enable corporations to process and manage digital payments, power omni-commerce payments, present and process bill payments, and manage fraud and risk.

American Bankruptcy Institute

abi.org

A nonpartisan organization dedicated to research and education on insolvency matters; its membership includes more than 5,800 attorneys, bankers, judges, professors, turnaround specialists, accountants, and other bankruptcy professionals. It publishes information for both insolvency practitioners and the public.

Capterra

capterra.com

Free resource for business software help; connects its customers to insights and software to help them work better.

CreditCards.com

creditcards.com

Online publisher of information about all types of credit cards. Part of the Bankrate Online Network.

Edmunds

edmunds.com

Provides the latest insights and trends on the automotive industry.

MeasureOne

measureone.com

Consumer-permissioned data exchange platform that transforms the way in which businesses access and use consumer data.

WalletHub

wallethub.com

A personal finance website that also provides free daily credit reports, credit monitoring, and credit scores.

COMPARATIVE COMPANY ANALYSIS

		Operating Revenues																	
Ticker	Company	Yr. End	Million \$							CAGR (%)			Index Basis (2014=100)						
			2022	2021	2020	2019	2018	2017	2016	10-Yr.	5-Yr.	1-Yr.	2022	2021	2020	2019	2018	2017	
CONSUMER FINANCE																			
AXP	AMERICAN EXPRESS COMPANY	DEC	50,680.0	43,799.0	31,357.0	39,983.0	36,986.0	33,872.0	33,227.0	5.4	8.4	15.7	153	132	94	120	111	102	
BFH	BREAD FINANCIAL HOLDINGS, INC.	DEC	2,232.0	2,728.0	2,032.0	2,818.0	4,108.3	3,879.2	5,769.1	-3.1	-10.5	-18.2	39	47	35	49	71	67	
COF	CAPITAL ONE FINANCIAL CORPORATION	DEC	28,403.0	32,379.0	18,259.0	22,357.0	22,220.0	19,686.0	19,042.0	5.7	7.6	-12.3	149	170	96	117	117	103	
DFS	DISCOVER FINANCIAL SERVICES	DEC	10,978.0	11,869.0	5,954.0	8,228.0	7,674.0	7,318.0	7,240.0	5.9	8.4	-7.5	152	164	82	114	106	101	
ECPG	ENCORE CAPITAL GROUP, INC.	DEC	1,398.3	1,614.5	1,501.4	1,405.8	1,320.6	1,145.8	1,113.4	9.6	4.1	-13.4	126	145	135	126	119	103	
ENVA	ENOVA INTERNATIONAL, INC.	DEC	1,001.7	947.8	597.5	1,099.2	893.3	654.9	680.0	4.6	8.9	5.7	147	139	88	162	131	96	
EZPW	EZ CORP, INC.	SEP	886.2	729.6	822.8	847.2	812.2	748.0	730.5	-0.8	3.5	21.5	121	100	113	116	111	102	
FCFS	FIRSTCASH HOLDINGS, INC.	DEC	2,728.9	1,699.0	1,631.3	1,864.4	1,780.9	1,779.8	1,088.4	16.5	8.9	60.6	251	156	150	171	164	164	
GDOT	GREEN DOT CORPORATION	DEC	1,449.3	1,433.0	1,258.1	1,106.7	1,060.5	895.3	717.0	10.0	10.1	1.1	202	200	175	154	148	125	
NAVI	NAVIENT CORPORATION	DEC	1,658.0	2,272.0	1,533.0	1,738.0	1,553.0	1,785.0	2,094.0	-3.7	-1.5	-27.0	79	109	73	83	74	85	
PRAA	PRA GROUP, INC.	DEC	966.5	1,095.7	1,065.4	1,017.1	908.3	828.2	930.6	5.0	3.1	-11.8	104	118	114	109	98	89	
PRG	PROG HOLDINGS, INC.	DEC	2,597.8	2,677.9	2,484.6	2,163.2	2,036.3	3,383.7	3,207.7	1.6	-5.1	-3.0	81	83	77	67	63	105	
SLM	SLM CORPORATION	DEC	1,190.0	2,049.2	1,718.3	1,318.0	1,116.3	940.6	790.7	6.9	4.8	-41.9	150	259	217	167	141	119	
SYF	SYNCHRONY FINANCIAL	DEC	8,299.0	9,466.0	5,852.0	9,132.0	7,739.0	7,071.0	6,986.0	4.2	3.3	-12.3	119	135	84	131	111	101	
WRLD	WORLD ACCEPTANCE CORPORATION	#	MAR	616.6	585.6	530.8	590.6	544.5	502.7	490.8	0.8	3.6	10.3	126	119	108	120	111	102

Note: Data as originally reported. CAGR-Compound annual growth rate.

[]Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.

Source: S&P Capital IQ.

Net Income

Ticker	Company	Yr. End	Million \$							CAGR (%)			Index Basis (2014=100)					
			2022	2021	2020	2019	2018	2017	2016	10-Yr.	5-Yr.	1-Yr.	2022	2021	2020	2019	2018	2017
CONSUMER FINANCE																		
AXP	AMERICAN EXPRESS COMPANY	DEC	7514.0	8060.0	3135.0	6759.0	6921.0	2748.0	5375.0	5.3	22.3	-6.8	140	150	58	126	129	51
BFH	BREAD FINANCIAL HOLDINGS, INC.	DEC	223.0	801.0	214.0	278.0	963.1	788.7	515.8	-6.2	-22.3	-72.2	43	155	41	54	187	153
COF	CAPITAL ONE FINANCIAL CORPORATION	DEC	7360.0	12390.0	2714.0	5546.0	6015.0	1982.0	3751.0	7.7	30.0	-40.6	196	330	72	148	160	53
DFS	DISCOVER FINANCIAL SERVICES	DEC	4392.0	5449.0	1141.0	2957.0	2742.0	2099.0	2393.0	8.0	15.9	-19.4	184	228	48	124	115	88
ECPG	ENCORE CAPITAL GROUP, INC.	DEC	194.6	350.8	211.8	167.9	115.9	83.2	76.6	10.8	18.5	-44.5	254	458	277	219	151	109
ENVA	ENOVA INTERNATIONAL, INC.	DEC	207.4	256.3	377.8	36.6	70.1	29.2	34.6	13.4	48.0	-19.1	599	741	1092	106	203	85
EZPW	EZ CORP, INC.	SEP	50.2	8.6	-68.5	2.5	37.3	31.4	-80.7	-9.5	9.8	482.4	-62	-11	85	-3	-46	-39
FCFS	FIRSTCASH HOLDINGS, INC.	DEC	253.5	124.9	106.6	164.6	153.2	143.9	60.1	12.2	12.0	102.9	422	208	177	274	255	239
GDOT	GREEN DOT CORPORATION	DEC	64.2	47.5	23.1	99.9	118.7	85.9	41.6	3.1	-5.7	35.2	154	114	56	240	285	206
NAVI	NAVIENT CORPORATION	DEC	645.0	717.0	412.0	597.0	395.0	292.0	681.0	-3.7	17.2	-10.0	95	105	60	88	58	43
PRAA	PRA GROUP, INC.	DEC	117.1	183.2	149.3	86.2	65.6	164.3	86.3	-0.8	-6.5	-36.0	136	212	173	100	76	190
PRG	PROG HOLDINGS, INC.	DEC	98.7	243.6	-61.5	31.5	196.2	292.5	139.3	-5.5	-19.5	-59.5	71	175	-44	23	141	210
SLM	SLM CORPORATION	DEC	469.0	1160.5	880.7	578.3	487.5	288.9	250.3	8.0	10.2	-59.6	187	464	352	231	195	115
SYF	SYNCHRONY FINANCIAL	DEC	3016.0	4221.0	1385.0	3747.0	2790.0	1935.0	2251.0	3.6	9.3	-28.5	134	188	62	166	124	86
WRLD	WORLD ACCEPTANCE CORPORATION	# MAR	21.2	53.9	88.3	28.2	37.2	53.7	73.6	-6.1	-6.0	-38.9	29	73	120	38	51	73

Note: Data as originally reported. CAGR-Compound annual growth rate.

[]Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.

Source: S&P Capital IQ.

Ticker	Company	Yr. End	Return on Revenues (%)							Return on Assets (%)							Return on Equity (%)						
			2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017			
CONSUMER FINANCE																							
AXP	AMERICAN EXPRESS COMPANY	DEC	14.8	18.4	10.0	16.9	18.7	8.1	3.3	4.3	1.6	3.4	3.7	1.5	32.1	35.7	13.6	29.8	34.1	14.2			
BFH	BREAD FINANCIAL HOLDINGS, INC.	DEC	10.0	29.4	10.5	9.9	23.4	20.3	0.9	3.7	0.9	1.0	3.2	2.6	10.3	44.2	13.4	25.8	45.2	43.8			
COF	CAPITAL ONE FINANCIAL CORPORATION	DEC	25.9	38.3	14.9	24.8	27.1	10.1	1.6	2.9	0.6	1.4	1.6	0.5	13.0	20.4	4.6	10.1	12.0	4.4			
DFS	DISCOVER FINANCIAL SERVICES	DEC	40.0	45.9	19.2	35.9	35.7	28.7	3.3	4.9	1.0	2.6	2.5	2.1	31.4	44.9	10.0	25.7	24.9	18.9			
ECPG	ENCORE CAPITAL GROUP, INC.	DEC	13.9	21.7	14.1	11.9	8.8	7.3	4.3	7.6	4.4	3.4	2.5	1.9	16.5	29.2	18.9	18.3	14.2	12.0			
ENVA	ENOVA INTERNATIONAL, INC.	DEC	20.7	27.0	63.2	3.3	7.8	4.5	5.5	9.3	17.9	2.3	5.3	2.5	18.2	25.6	58.4	35.3	20.2	6.7			
EZPW	EZCORP, INC.	SEP	5.7	1.2	NM	0.3	4.6	4.2	3.7	0.7	NM	0.2	3.0	3.1	7.4	1.3	NM	0.2	5.3	5.0			
FCFS	FIRSTCASH HOLDINGS, INC.	DEC	9.3	7.4	6.5	8.8	8.6	8.1	6.5	3.3	4.5	6.7	7.3	7.0	13.7	8.1	8.1	12.3	11.0	9.8			
GDOT	GREEN DOT CORPORATION	DEC	4.4	3.3	1.8	9.0	11.2	9.6	1.3	1.0	0.6	4.1	5.2	3.9	6.9	4.6	2.4	10.9	14.2	11.9			
NAVI	NAVIENT CORPORATION	DEC	38.9	31.6	26.9	34.3	25.4	16.4	0.9	0.9	0.5	0.6	0.4	0.3	23.1	28.4	14.2	17.3	11.2	8.1			
PRAA	PRA GROUP, INC.	DEC	12.1	16.7	14.0	8.5	7.2	19.8	2.8	4.2	3.4	1.9	1.7	4.4	9.0	14.5	12.9	8.3	6.6	16.5			
PRG	PROG HOLDINGS, INC.	DEC	3.8	9.1	NM	1.5	9.6	8.6	6.6	15.0	NM	1.0	6.9	10.9	15.8	29.2	17.2	NM	7.2	18.2			
SLM	SLM CORPORATION	DEC	39.4	56.6	51.3	43.9	43.7	30.7	1.6	4.0	2.9	1.8	1.8	1.3	24.2	49.3	30.0	18.4	17.9	12.0			
SYF	SYNCHRONY FINANCIAL	DEC	36.3	44.6	23.7	41.0	36.1	27.4	2.9	4.4	1.4	3.6	2.6	2.0	22.7	32.0	10.0	25.2	19.3	13.6			
WRLD	WORLD ACCEPTANCE CORPORATION	#	MAR	3.4	9.2	16.6	4.8	6.8	10.7	1.9	4.4	9.3	2.7	4.4	6.4	5.6	13.9	21.6	5.8	13.5	9.8		

Note: Data as originally reported. CAGR-Compound annual growth rate.

[]Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.

Source: S&P Capital IQ.

Ticker	Company	Yr. End	Current Ratio						Debt/Capital Ratio (%)						Debt as a % of Net Working Capital						
			2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017	
CONSUMER FINANCE																					
AXP	AMERICAN EXPRESS COMPANY	DEC	1.5	1.6	1.4	1.8	1.9	1.8	65.8	67.3	68.9	79.9	76.3	83.6	65.5	70.2	109.8	88.0	79.6	86.2	
BFH	BREAD FINANCIAL HOLDINGS, INC.	DEC	1.6	1.7	1.7	1.4	1.5	1.7	77.9	78.1	84.8	81.5	81.9	87.9	94.8	92.9	99.2	99.6	132.0	134.2	
COF	CAPITAL ONE FINANCIAL CORPORATION	DEC	0.0	0.0	0.0	0.0	0.0	0.0	49.1	43.0	41.2	52.9	59.1	56.2	(14.8)	(15.4)	(15.5)	(21.7)	(24.1)	(26.3)	
DFS	DISCOVER FINANCIAL SERVICES	DEC	1.1	1.3	1.2	1.3	1.5	1.5	52.8	63.4	66.1	68.4	71.0	70.7	113.8	96.4	130.6	105.9	83.7	79.4	
ECPG	ENCORE CAPITAL GROUP, INC.	DEC	7.0	13.5	16.2	15.2	11.6	11.5	69.4	71.6	72.8	77.4	80.9	82.6	93.5	97.1	97.4	105.6	111.3	115.0	
ENVA	ENOVA INTERNATIONAL, INC.	DEC	16.0	14.8	13.2	10.0	11.3	10.8	65.9	56.2	51.0	72.5	71.2	74.0	73.0	64.8	61.8	90.6	93.6	105.0	
EZPW	EZCORP, INC.	SEP	4.2	3.9	4.5	6.7	2.9	8.0	31.1	28.2	27.9	24.2	23.5	30.1	63.7	58.0	54.5	46.3	46.3	56.0	
FCFS	FIRSTCASH HOLDINGS, INC.	DEC	3.8	2.9	3.0	3.7	5.9	7.0	42.2	41.7	32.4	31.9	31.0	21.4	164.6	175.4	147.3	117.4	90.0	55.7	
GDOT	GREEN DOT CORPORATION	DEC	0.0	0.0	0.0	0.0	0.0	0.0	4.3	0.0	0.0	3.7	0.2	7.3	(1.4)	(0.0)	(0.0)	NM	11.4	NM	
NAVI	NAVIENT CORPORATION	DEC	11.3	28.8	12.1	10.2	16.5	20.7	95.9	97.3	98.0	97.2	102.7	97.9	97.0	98.2	99.1	98.3	103.6	98.8	
PRAA	PRA GROUP, INC.	DEC	12.0	12.4	13.7	17.5	17.7	14.6	66.0	66.4	66.3	69.7	68.6	65.4	78.9	79.9	79.7	81.7	80.7	79.4	
PRG	PROG HOLDINGS, INC.	DEC	2.7	3.0	2.6	1.5	0.8	1.1	50.9	46.5	4.8	0.0	16.0	13.6	244.8	218.7	39.9	0.0	NM	913.9	
SLM	SLM CORPORATION	DEC	1.2	1.3	1.3	1.3	1.4	1.4	75.2	73.4	66.9	60.6	59.0	57.0	113.0	106.7	88.7	63.0	58.6	57.0	
SYF	SYNCHRONY FINANCIAL	DEC	0.0	0.0	0.0	0.0	0.0	0.0	52.4	51.5	52.9	55.9	62.0	59.4	(21.2)	(26.7)	(25.0)	(33.5)	(41.7)	(42.7)	
WRLD	WORLD ACCEPTANCE CORPORATION	#	MAR	11.9	15.3	14.3	12.8	15.0	14.0	60.7	65.0	50.0	52.3	31.3	31.2	71.9	73.7	58.0	59.7	35.3	34.2

Note: Data as originally reported. CAGR-Compound annual growth rate.

[]Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.

Source: S&P Capital IQ.

Ticker	Company	Yr. End	Price/Earnings Ratio (High-Low)						Dividend Payout Ratio (%)						Dividend Yield (High-Low, %)					
			2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017
CONSUMER FINANCE																				
AXP	AMERICAN EXPRESS COMPANY	DEC	20 - 14	19 - 11	36 - 18	16 - 12	14 - 11	33 - 25	20.8	18.0	47.0	21.0	19.1	45.5	1.6 - 1.3	1.5 - 1.0	1.5 - 0.9	2.5 - 1.3	1.7 - 1.2	1.6 - 1.3
BFH	BREAD FINANCIAL HOLDINGS, INC.	DEC	17 - 7	8 - 4	25 - 5	34 - 19	16 - 8	19 - 15	19.3	5.2	28.5	45.7	13.0	14.6	3.5 - 1.9	2.8 - 1.1	1.2 - 0.7	11.1 - 1.1	2.5 - 1.1	1.2 - 0.8
COF	CAPITAL ONE FINANCIAL CORPORATION	DEC	9 - 5	7 - 4	21 - 8	9 - 7	9 - 6	29 - 22	16.0	11.5	27.3	18.7	17.3	52.7	2.8 - 2.0	2.6 - 1.5	1.7 - 0.3	3.8 - 0.4	2.3 - 1.6	1.9 - 1.5
DFS	DISCOVER FINANCIAL SERVICES	DEC	8 - 6	8 - 5	25 - 7	10 - 6	10 - 7	14 - 11	16.0	11.7	50.5	19.4	20.1	25.1	3.0 - 2.0	2.7 - 1.5	2.2 - 1.4	7.0 - 2.0	2.9 - 1.9	2.4 - 1.7
ECPG	ENCORE CAPITAL GROUP, INC.	DEC	9 - 6	5 - 3	7 - 2	7 - 4	11 - 5	15 - 9	0.0	0.0	0.0	0.0	0.0	0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
ENVA	ENOVA INTERNATIONAL, INC.	DEC	7 - 4	6 - 3	2 - 1	28 - 18	19 - 7	19 - 13	0.0	0.0	0.0	0.0	0.0	0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
EZPW	EZCORP, INC.	SEP	11 - 6	52 - 29	NM - NM	244 - 144	22 - 14	20 - 13	0.0	0.0	0.0	0.0	0.0	0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
FCFS	FIRSTCASH HOLDINGS, INC.	DEC	18 - 11	31 - 18	34 - 20	28 - 18	28 - 20	23 - 14	23.5	38.1	42.0	26.7	26.7	25.6	1.5 - 1.3	2.0 - 1.3	1.9 - 1.3	2.1 - 1.2	1.5 - 0.9	1.3 - 0.9
GDOT	GREEN DOT CORPORATION	DEC	31 - 13	69 - 39	149 - 39	43 - 12	41 - 25	38 - 14	0.0	0.0	0.0	0.0	0.0	0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
NAVI	NAVIENT CORPORATION	DEC	5 - 3	6 - 2	7 - 2	6 - 3	10 - 6	16 - 11	14.1	14.9	29.9	24.6	42.0	60.3	4.4 - 3.3	5.1 - 2.9	6.9 - 2.7	12.8 - 4.1	7.6 - 4.2	6.0 - 4.3
PRAA	PRA GROUP, INC.	DEC	17 - 10	12 - 8	14 - 6	20 - 13	30 - 16	12 - 7	0.0	0.0	0.0	0.0	0.0	0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0
PRG	PROG HOLDINGS, INC.	DEC	24 - 7	16 - 11	NM - NM	167 - 89	20 - 13	12 - 7	0.0	0.0	NM	30.0	3.2	2.7	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	1.1 - 0.0	0.4 - 0.2	0.3 - 0.2
SLM	SLM CORPORATION	DEC	12 - 8	6 - 3	5 - 3	9 - 6	11 - 7	20 - 16	26.0	5.6	6.4	11.8	3.2	5.4	3.9 - 2.5	3.2 - 2.1	2.5 - 0.6	2.0 - 1.0	1.5 - 1.0	0.0 - 0.0
SYF	SYNCHRONY FINANCIAL	DEC	8 - 4	7 - 5	16 - 6	7 - 4	11 - 6	16 - 11	15.8	12.8	40.6	15.5	19.1	23.0	3.4 - 2.4	3.3 - 1.8	2.8 - 1.7	6.9 - 2.3	3.8 - 2.3	3.3 - 1.5
WRLD	WORLD ACCEPTANCE CORPORATION	#	MAR	29 - 14	12 - 3	47 - 15	30 - 23	19 - 8	8 - 4	0.0	0.0	0.0	0.0	0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0	0.0 - 0.0

Note: Data as originally reported. CAGR-Compound annual growth rate.

[]Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.

Source: S&P Capital IQ.

Ticker	Company	Yr. End	Earnings per Share (\$)						Tangible Book Value per Share (\$)						Share Price (High-Low, \$)					
			2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017	2022	2021	2020	2019	2018	2017
CONSUMER FINANCE																				
AXP	AMERICAN EXPRESS COMPANY	DEC	9.9	10.0	3.8	8.0	7.9	3.0	28.0	23.9	23.4	24.1	22.4	16.7	199.6 - 130.7	189.0 - 112.1	138.1 - 67.0	129.3 - 93.2	114.6 - 87.5	100.5 - 74.7
BFH	BREAD FINANCIAL HOLDINGS, INC.	DEC	4.5	16.0	4.5	5.4	17.5	14.1	29.4	28.0	16.3	10.1	20.1	(55.1)	75.6 - 28.9	128.2 - 63.4	115.6 - 20.5	183.0 - 99.2	278.3 - 142.6	266.3 - 209.0
COF	CAPITAL ONE FINANCIAL CORPORATION	DEC	17.9	26.9	5.2	11.0	11.8	3.5	86.0	99.8	88.5	84.0	69.5	60.6	162.4 - 87.0	178.0 - 97.0	107.6 - 38.0	105.7 - 74.4	106.5 - 69.9	101.4 - 76.1
DFS	DISCOVER FINANCIAL SERVICES	DEC	15.5	17.8	3.6	9.1	7.8	5.4	47.4	40.0	29.2	33.4	29.3	26.7	130.8 - 87.6	135.7 - 81.3	90.7 - 23.3	93.0 - 57.8	81.9 - 54.4	77.8 - 57.5
ECPG	ENCORE CAPITAL GROUP, INC.	DEC	7.5	11.3	6.7	5.3	4.1	3.2	14.4	10.2	8.5	2.8	(3.6)	(16.4)	72.7 - 44.1	62.4 - 29.2	49.0 - 15.3	39.2 - 22.2	47.8 - 20.4	52.0 - 27.8
ENVA	ENOVA INTERNATIONAL, INC.	DEC	6.2	6.8	11.7	1.1	2.0	0.9	25.9	20.9	15.9	2.1	1.5	(0.5)	47.9 - 25.8	43.5 - 22.0	29.3 - 7.8	32.0 - 19.2	39.0 - 15.3	16.8 - 11.2
EZPW	EZCORP, INC.	SEP	0.7	0.2	(1.2)	0.0	0.6	0.6	6.2	5.8	6.0	6.8	7.1	6.9	10.7 - 5.5	8.8 - 4.5	7.0 - 3.4	11.3 - 4.8	15.1 - 7.5	12.5 - 7.6
FCFS	FIRSTCASH HOLDINGS, INC.	DEC	5.4	3.0	2.6	3.8	3.4	3.0	(0.7)	(2.4)	5.4	7.5	7.2	11.7	100.0 - 58.3	97.0 - 54.9	90.6 - 51.2	106.8 - 69.8	95.4 - 66.3	68.6 - 39.8
GDOT	GREEN DOT CORPORATION	DEC	1.2	0.9	0.4	1.9	2.2	1.6	3.6	8.7	7.4	5.5	5.0	2.2	38.1 - 15.0	61.9 - 33.3	65.0 - 14.2	84.0 - 22.0	93.0 - 54.1	65.9 - 23.4
NAVI	NAVIENT CORPORATION	DEC	4.5	4.2	2.1	2.6	1.5	1.0	17.4	12.2	9.1	12.0	11.0	10.1	22.6 - 12.5	23.8 - 9.9	15.5 - 4.1	15.7 - 8.6	15.0 - 8.2	17.1 - 11.5
PRAA	PRA GROUP, INC.	DEC	2.9	4.0	3.3	1.9	1.4	3.6	20.3	19.7	18.6	15.2	13.8	12.0	51.0 - 29.7	50.7 - 32.8	47.4 - 19.4	38.1 - 24.0	43.8 - 22.6	42.7 - 25.7
PRG	PROG HOLDINGS, INC.	DEC	1.9	3.7	(0.9)	0.5	2.8	4.1	3.0	3.9	7.8	18.9	11.2	11.8	46.9 - 12.1	60.5 - 39.9	67.2 - 13.0	78.7 - 41.2	56.0 - 36.2	48.2 - 26.1
SLM	SLM CORPORATION	DEC	1.8	3.6	2.3	1.3	1.1	0.6	5.6	6.8	6.2	6.9	5.9	4.8	20.9 - 13.7	21.4 - 12.0	12.5 - 5.6	11.5 - 7.8	12.5 - 7.9	13.2 - 9.7
SYF	SYNCHRONY FINANCIAL	DEC	6.2	7.3	2.3	5.6	3.7	2.4	22.2	20.2	16.7	19.5	17.4	16.2	50.2 - 27.2	52.5 - 33.4	36.4 - 12.2	38.2 - 23.1	40.6 - 21.8	39.2 - 26.0
WRLD	WORLD ACCEPTANCE CORPORATION	# MAR	3.6	8.5	13.2	3.5	4.0	6.0	62.8	59.7	60.4	53.5	62.3	58.3	243.2 - 58.4	265.8 - 100.7	124.0 - 43.2	175.8 - 84.6	125.1 - 80.4	88.3 - 42.0

Note: Data as originally reported. CAGR-Compound annual growth rate.

[]Company included in the S&P 500. †Company included in the S&P MidCap 400. §Company included in the S&P SmallCap 600. #Of the following calendar year.

Source: S&P Capital IQ.

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