Industry Surveys

Consumer Finance

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Alexander Yokum, CFA
Equity Analyst

Navin Kalaiselvam
Industry Analyst

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Contacts

Sales Inquires & Client Support
800.220.0502
cservices@cfraresearch.com

Media Inquiries
press@cfraresearch.com

CFRA
977 Seminole Trail, PMB 230
Charlottesville, VA 22901

Contributors

Raymond Jarvis
Senior Editor

Atifi Kuddus, Geraldine Tan
Associate Editors

CHARTS & FIGURES

NEW THEMES

What's Changed: In 2021 and early 2022, credit card issuers had excellent credit, but as consumer finance companies saw their valuations plunge throughout last year, investors anticipate credit normalization in 2023. Check out page 14.

What's Changed: Companies that provide Buy Now, Pay Later (BNPL) services are seen as a potential threat to traditional credit card companies, but given the rapid tightening by the Fed, we expect BNPL growth to be slower than previously expected. See pages 19 and 20

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.

Slowing Revenue Growth Will Likely be Met with Falling Margins in 2023

Following a strong 2022 where we expect most consumer finance companies to report double-digit revenue growth, we see more headwinds in 2023 as the economy likely begins to deteriorate. Margins will likely decline across the industry as elevated rewards, technology, and marketing costs continue to rise. However, the largest impact on results will likely come from credit costs, which should begin to rise following unprecedentedly low levels in 2021 and early 2022. Given this, we expect most consumer finance companies to report negative Y/Y EPS growth in 2023.

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 Loan Growth Comes Storming Back

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 $94 billion through the first three quarters of 2022 (latest available). Consumers appear to be making up for lost time as the increase is well above the 10-year average of $50 billion.

Auto Lenders Are in a Difficult Spot

After remaining relatively steady in the 2000s, auto loan balances have more than doubled since the financial crises. Recent growth was spurred by record-high used vehicle prices as chip shortages slowed new vehicle creation. However, used vehicle prices started to fall in 2022 and we see plenty of room for further downside as prices remain 40% higher than pre-pandemic levels. We see the decline in prices stemming from a fix in the supply chain, which will likely put newer loan originations with high loan-to values underwater. We think loan growth will be muted going forward as added pressure from rising interest rates makes loans less affordable. Signs of an affordability problem have already emerged as Edmunds found that the average car payment jumped 12% in the third quarter of 2022.

The Threat of Buy Now, Pay Later (BNPL) Moderates

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. Merchants tend to be supporters of BNPL solutions as customers often spend significantly more than when paying with other methods. However, given the rapid tightening by the Fed, 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 year has not been kind to BNPL, with valuations plummeting and, 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.

CONSUMER FINANCE

Outlook: Neutral

MARKET CAP BREAKDOWN*

RANK NO.	COMPANY NAME	MARKET CAP ($ billion)
1	American Express	109.9
2	Capital One	35.5
3	Discover	26.5
4	Synchrony	14.6
5	SLM Corp.	4.1
	Others†	14.7

Source: CFRA, S&P Global Market Intelligence.
*Companies included in the S&P 1500 index as of January 3, 2022.
†Refer to the Comparative Company Analysis section of this survey for other companies in the industry.

ETF FOCUS

ETF	AUM ($M)	Expense Ratio
XLF Financial Select Sector SPDR	31,460.9	0.10
VFH Vanguard Financials	8,603.9	0.10
IYF iShares U.S. Financials	2,010.7	0.39
IYG iShares U.S. Financial Services	1,388.9	0.39
FNCL Fidelity MSCI Financials Index	1,519.0	0.08

BY THE NUMBERS

3.5% Unemployment rate in December 2022

2.4% Lowest U.S. savings rate since 2005

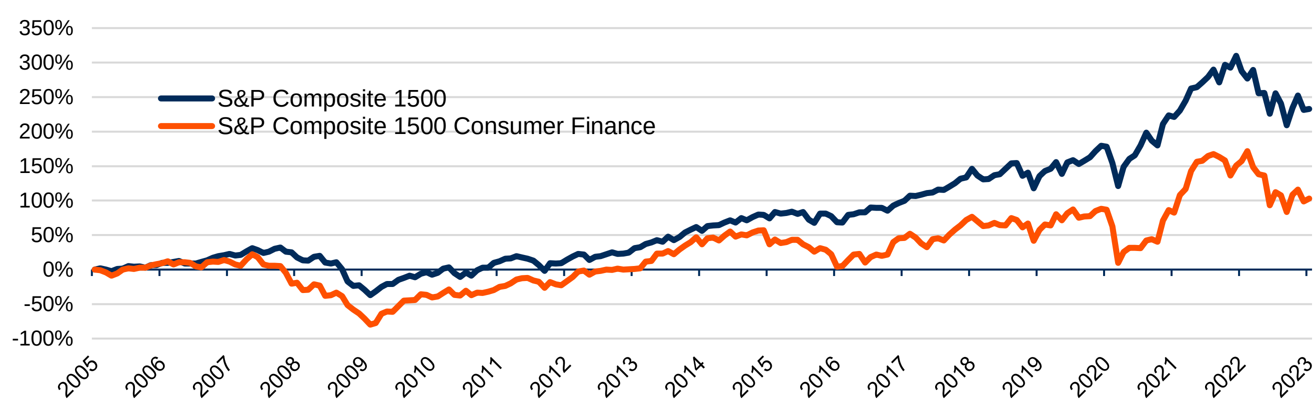
$1.17 trillion Amount of revolving consumer credit reached an all-time high in October 2022

$16.5 trillion Aggregate household debt balances as of Q3 2022

$703 Average new car payment in 3Q 2022 – 12% increase Y/Y

1.13% Average cash-back credit card reward, as of December 2022

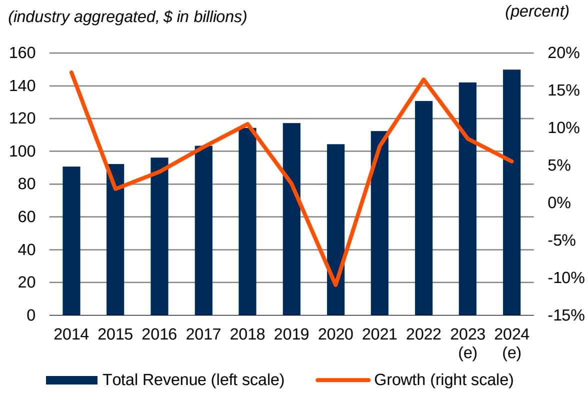
HISTORICAL INDEX PERFORMANCE*



*Data through January 5, 2023. Relative axis is indexed to the first day that all series on the chart have data (Jan-31-2005).
Source: CFRA, S&P Global Market Intelligence.

FINANCIAL METRICS

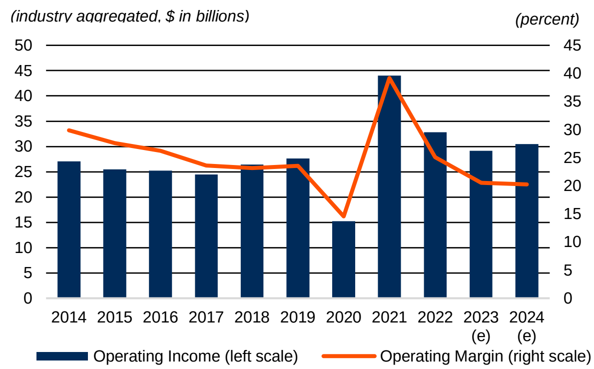
Revenue Growth



Source: CFRA, S&P Global Market Intelligence.

- ◆ We project revenue growth of 8.6% in 2023 and 5.5% in 2024 compared to 16.5% estimated growth in 2022 for constituents in the S&P Composite 1500 Consumer Finance index.
- ◆ 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 elevated inflation and muted savings rates.
- ◆ E-commerce growth drove consumers to spend more using credit cards in 2022 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.

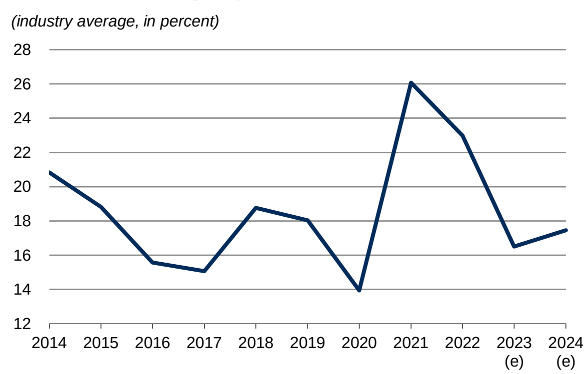
Operating Income & Margin



Source: CFRA, S&P Global Market Intelligence

- ◆ We project operating income will decline to $29.2 billion in 2023, compared to an estimate of $32.8 billion in 2022 for constituents in the S&P Composite 1500 Consumer Finance index.
- ◆ In 2023, CFRA expects operating income to drop 11.2% compared to 2022 as provisions for credit losses begin to mount.
- ◆ We project operating margin to decline to 20.5% in 2023 compared to an estimated 25.1% in 2022. We expect the margin to reduce, in line with the expected lower operating income.

Return on Equity



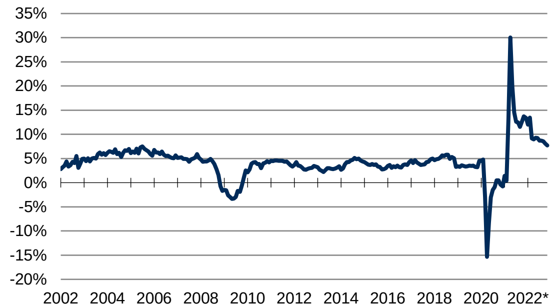
Source: CFRA, S&P Global Market Intelligence.

- ◆ Return on equity (ROE) declined sharply in 2020 as net income fell with lower loan growth and higher provision expenses due to the recession.
- ◆ We project industry ROE to drop to 16.5% in 2023, compared to 23.0% in 2022 as the chance 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)



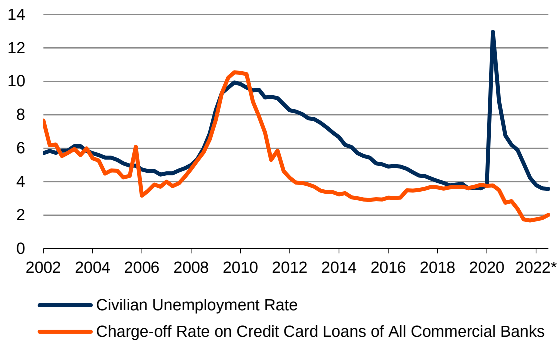
*Data through November 2022.
Source: US Bureau of Economic Analysis.

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

◆ The PCE rose 7.7% Y/Y in November 2022 to $17.8 trillion as energy prices increased 11.5% while food prices rose 6.2% compared to a year ago. The Y/Y rebound in November is a moderation as consumer spending shifted from goods to services. Action Economics expects the PCE to grow moderately at 1.6% in 2023 and 1.2% in 2024.

Civilian Unemployment Rate and Charge-Off Rate

(seasonally adjusted, quarterly, in percent)



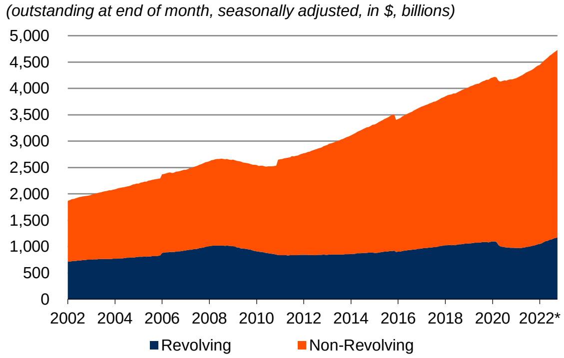
*Data through third quarter of 2022.
Source: Federal Reserve Economic Data.

◆ The civilian unemployment rate dropped slightly to 3.5% in December 2022. 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. Over the next 12 months, 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)



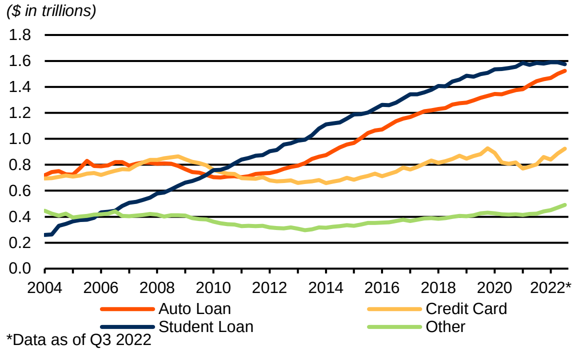
*Data through October 2022.
Source: Federal Reserve Board.

◆ Revolving consumer credit reached an all-time high in October 2022 of $1.17 trillion from the bottom in January 2021.

◆ Non-revolving consumer credit has also increased at a faster rate, driven primarily by student loans and auto loans. CFRA expects auto loans to slow down in 2023 as consumers focus their spending on necessities instead of buying new vehicles.

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

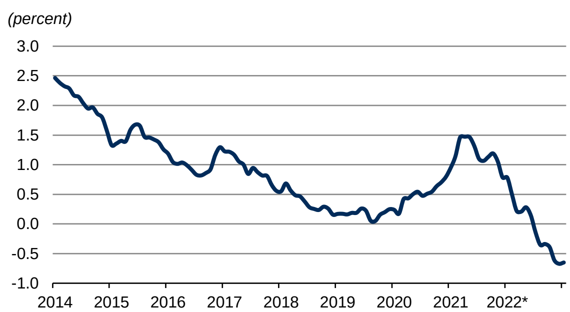
Components of Consumer Credit



*Data as of Q3 2022
Source: New York Fed Consumer Credit Panel/Equifax , CFRA

- ◆ Consumer credit mainly comprises student loans, auto loans, credit card debt, and installment loans. Over the last decade, student and auto loans have grown at a faster pace compared to others. While credit card debt reduced 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.
- ◆ While President Biden considers canceling some student loan debt ($10,000 per borrower, but excluding those earning more than $125,000), this may induce future students to incur more student loan debt with the expectation of debt cancellation in the future. Liberty Street Economics predicts that the White House plan would cancel $441 billion in outstanding loans, accounting for 31.1% of the student loan portfolio owned by the federal government. At the same time, colleges could decide to increase tuition costs, which will lead to higher debt levels than the current $1.57 trillion.
- ◆ 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



*Data through January 1, 2023.
Source: U.S. Treasury Department.

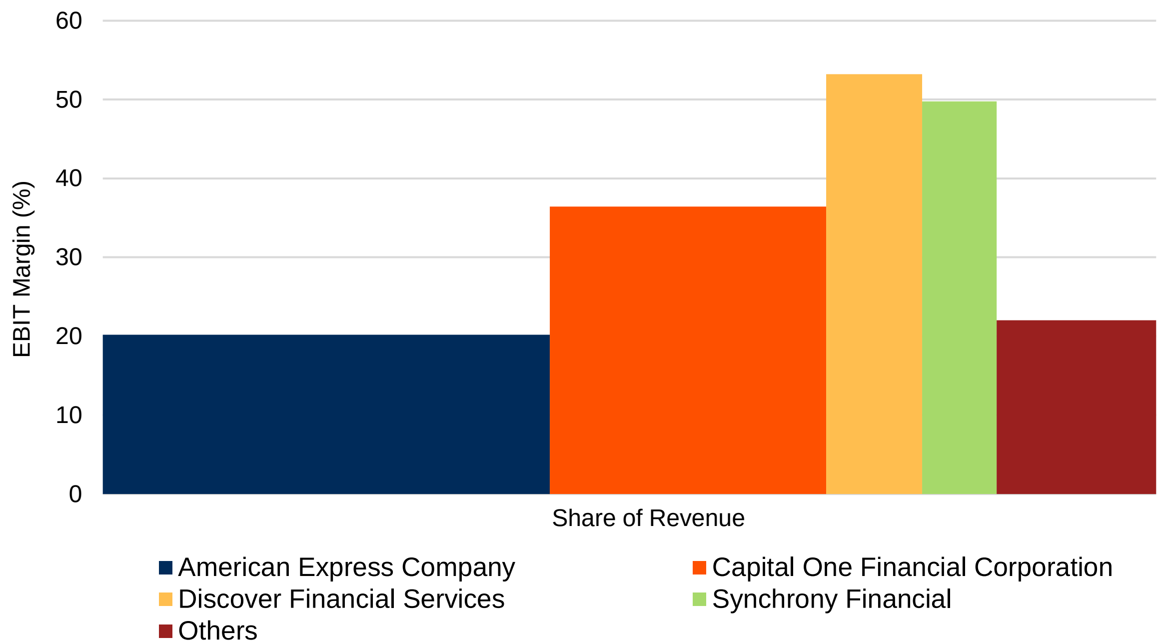
- ◆ The 2-year and 10-year Treasury yield curve inverted for much of 2022 amid aggressive monetary policy tightening by the Fed to fight rising inflation.
- ◆ The Fed has raised the target range for the federal funds rate to 4.25% to 4.50%. The Fed has indicated on January 4, 2023 that the high interest rate environment is expected to persist throughout 2023 unless inflation is brought down to its 2% goal.

INDUSTRY TRENDS

Competitive Environment

PROFIT SHARE MAP

PROFIT SHARE MAP OF CONSUMER FINANCE INDUSTRY*



*Companies within the S&P Composite 1500 Consumer Finance Index as of January 3, 2023.
Source: CFRA, S&P Global Market Intelligence.

While the S&P 1500 Consumer Finance industry 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 over 85.0% of total revenue for the industry. In terms of individual companies, the largest revenue contributors across this industry are American Express (40.1%), Capital One Financial (26.0%), Discover Financial (10.1%), and Synchrony Financial (8.8%).

PORTER'S FIVE FORCES

Threat of Entry or Barriers to Entry – High
The greatest barrier to entry for the credit card industry, 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 industry, 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 of the credit card industry 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 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 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.

Because current credit card companies, and particularly payment network operators, have such high profit margins, we have seen the rise of alternative payment networks looking to displace them – companies like PayPal (and Venmo) as well as Block. PayPal currently has close relationships with existing card companies and networks, paying them their fee whenever someone uses a credit card to fund their PayPal (or Venmo) account or make a purchase with the credit card on file. However, PayPal has noted it aspires to be a financial platform company by creating a more closed-loop ecosystem. If users can receive money directly into their PayPal account (or be paid through PayPal) and then spend or send that money from their PayPal wallet afterward, the incumbent payment networks can be bypassed. We think this is possible and certainly what PayPal is working towards but will likely prove harder than it sounds and take longer than estimated.

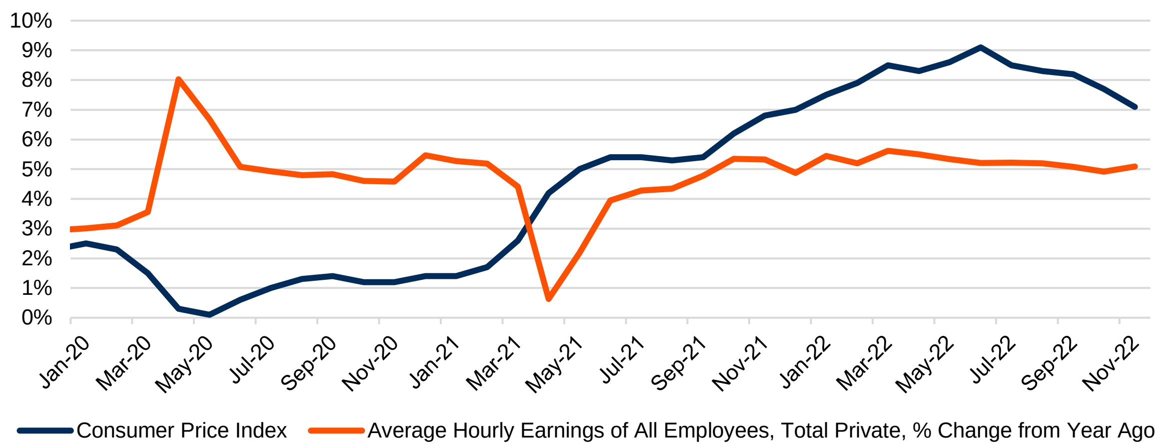
Rivalry Among Existing Competitors – Very High and Intense
Due to the commodity-like nature of most financial services products, competition is intense. Competitors are roughly equal in size and power (and are even smaller than the network-only payment processors Visa and Mastercard). Industry growth 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 Covid-19, but it appears they may be quickly re-leveraging, as the economy has re-opened and consumers are employing elevated spending behavior. 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.

CPI VS. WAGE GROWTH
(percent)

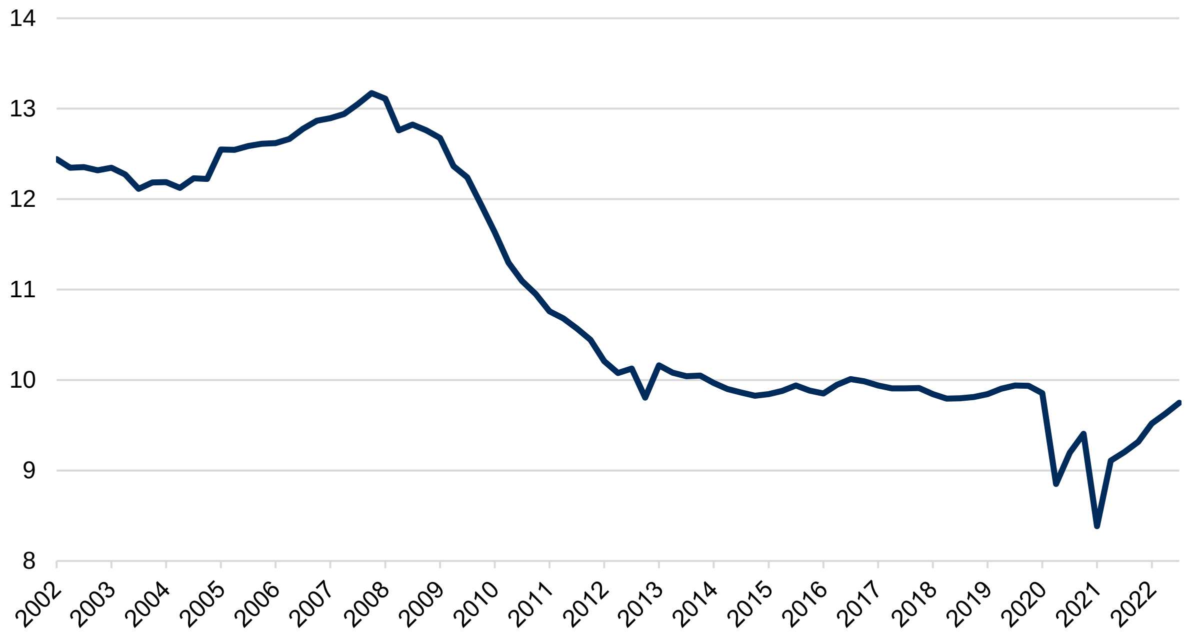


Source: U.S. Bureau of Labor Statistics, St. Louis Federal Reserve.

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 $16.5 trillion as of the third quarter of 2022. Balances are $2.4 trillion higher than at the end of 2019 and $1.3 trillion higher than in the third quarter of 2021.

Substantial monetary and targeted fiscal stimulus programs from 2020 and 2021 have left the consumer on steady footing. In spite of fears over the recessionary impact of Covid-19, 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 a hawkish Fed, the chance of a recession in 2023 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)



Data through third quarter of 2022.
Source: Federal Reserve Economic Data.

Credit Card Issuers See Strong Loan Growth

Credit card issuers' biggest problem in 2020 and early 2021 was slowing loan growth. According to WalletHub's Credit Card Debt Study, Americans repaid $82 billion in credit card debt in 2020. Remember that consumer finance companies that heavily rely on net interest income need people to keep their loan balances, not repay them. So, these companies turned back to marketing to try to get more loan growth. Their targeted efforts appear to have paid off as consumers added a total of $86.2 billion in new credit card debt in 2021 and $94.4 billion through the first three quarters of 2022 (latest available). Consumers appear to be making up for lost time as the increase is well above the 10-year average of $50 billion.

We see credit card balances continuing to rise rapidly in 2023, as adjusting for inflation, outstanding credit card debt remains 11% below 2019 levels and 21% 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. Many consumers still have excess savings from the pandemic but are quickly turning to credit cards as savings rates have plummeted. In fact, as of October 2022 (latest available), the U.S. savings rate plunged to a 17-year low of just 2.3%, well below the historical average of 6%-7%.

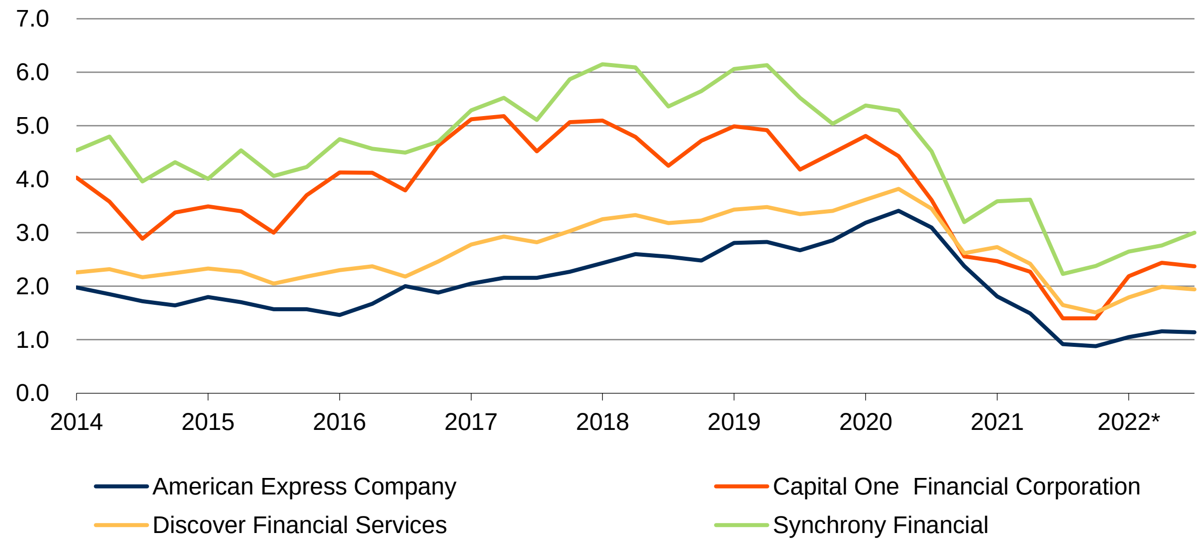
Despite headlines indicating that consumers are struggling with credit card balances, in our view, consumers still have room to grow balances before balances become unsustainable. Evidence of this comes straight from major consumer finance companies with Discover Financial stating that payment rates remain elevated and Synchrony Financial indicating that an elevated payment rate in its customer base is the result of strong consumer balance sheets, low unemployment, and the fact that 60% of consumers still have some stimulus savings left. Furthermore, American Bankers Association found that Americans carried a balance on 53% of all active credit card accounts in the second quarter of 2022 (latest available), still notably lower than the 60% reported in 2019.

Credit Costs are Excellent but are Beginning to Normalize

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 as investors anticipate credit normalization in 2023. Credit normalization will bring greater provisions for loan losses and thus we expect many lower-end consumer finance companies to report year-over-year EPS contractions in 2023.

Looking back, delinquency and net charge-off rates remained surprisingly low in 2020, given the unprecedented spike in initial unemployment claims and the fastest-growing unemployment rate in history due to the Covid-19-related layoffs and furloughing of employees. In fact, all of the four major credit card providers saw a decline in net charge-off rates in 2020. This trend continued in 2021 with expectations for normalized credit getting pushed further and further back as economic conditions continued to improve. In the third quarter of 2022, the net charge-off rates for the four major credit card providers remained well below 2019 levels.

CREDIT CARD NET CHARGE-OFF RATES
(percent)



*Data through third quarter of 2022.
Source: CFRA, S&P Global Market Intelligence, company reports.

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.

Before Covid-19, delinquency rates remained relatively low and within historical ranges. Management of the credit card companies asserted the recent uptick in charge-offs was normal as the credit cycle aged and as previously originated loans “seasoned”. Seasoning refers to how default rates usually rise after approximately two years into the life of a credit card or consumer loan.

The increase in net charge-offs and delinquencies came two years after the peak in deep subprime credit card originations (FICO scores of less than 580). Deep subprime originations peaked in January 2015, but have since declined, according to the Consumer Financial Protection Bureau (CFPB). Subprime (credit scores of 580–619) and near-prime (scores of 620–659) also peaked in early 2015, but have since declined, while lenders continue to originate prime and super-prime accounts.

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. However, given the consumer is starting from a position of strength, this may take some time and we expect normalization for most companies to occur in late 2023 or early 2024. We look to initial jobless claims as an early indicator of rising delinquencies and net charge-off rates. Despite high profile tech layoffs, we note that jobless claims have remained in good standing throughout 2022.

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 begin to 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 3.5%, Americans have managed to keep up with payments at an impressive rate. However, as the Fed continues its hawkish policy, 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 than those that focus on sub-prime or even prime customers.

Reserve Levels Are More Cautious Than Management Rhetoric Would Imply

Initially, as the pandemic started to unfold, consumer finance companies built up hefty levels of reserves to protect against loan losses, as skyrocketing unemployment indicated that a cascade of delinquencies would likely transpire. However, credit quality was excellent, and companies released reserves. This has reversed in 2022 with provision builds, but notably, credit risk quality at most firms is still stronger than pre-pandemic. In 2022, there has been a bit of a disconnect as reserve levels indicate negative and deteriorating economic expectations, but management teams keep reiterating expectations for strong credit quality and the fact that the consumer remains in a position of strength.

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% through three quarters of 2022. 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 Increased Slightly in 2021 but Will Likely Keep Falling in the Long Term

Despite a small uptick in 2021, the decline in cash and check transactions will likely continue**,** 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.

In terms of transaction volume, cash was used for 20% of all transactions in 2021, up from 19% in 2020 but much lower than the 26% recorded in 2019 and the 31% from 2016, according to the Federal Reserve Bank of San Francisco's "2022 Findings from the Diary of Consumer Payment Choice" report published in May 2022. Debit cards were the most often used payment instrument in 2021, accounting for 29% of payments, while credit cards accounted for 28% of payments. 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 long-term, as habits built during the pandemic continue and online shopping experiences continue to improve. We see plenty of room to run as just 18% of transactions occurred online in 2021. Long-term, we think efficient online grocery shopping could be one of the largest contributors to the rise of online transactions.

Transition to a Cashless Economy Accelerated During the Pandemic

The declining usage of cash accelerated following the outbreak of Covid-19, buoyed by the growth of e-commerce and concerns that the coronavirus could be transmitted by virus droplets located on cash/currency. In March 2020, the World Health Organization recommended that people turn to cashless transactions to combat the spread of Covid-19, which can help limit consumer exposure and promote social distancing during the pandemic. Despite scientific evidence indicating that physical currency did not transmit Covid-19, there continues to be an unprecedented wariness around the use of cash altogether. CFRA sees the growth of a cashless economy as a consumer-driven trend and expects it will continue as the U.S leaves the pandemic behind.

Covid-19 May Have Given Mobile Payments a Permanent Boost

The largest driver of mobile payments is the adoption of smartphones and the increasing number of financial transactions done on smartphones, and more recently, the increasingly widespread practice of social distancing may have had permanent effects. 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. eMarketer forecasts the number of proximity mobile payments users in the U.S. to reach 125 million in 2025 from 92.3 million in 2020, representing a compound annual growth rate (CAGR) of 6.25%. (In-store payments via smartphones are referred to as "proximity mobile payments".)

While the U.S. has historically been slow to adopt digital payments compared to other regions, the practice of social distancing rapidly accelerated the trend. Many Americans have traditionally relied on cash as a safer and more reliable payment option. However, as the country adapted to measures intended to slow the spread of the virus and looked to reduce points of contact in public, cash was viewed as potentially riskier than contactless payments using digital wallets and smart devices.

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 of more. In November 2021, 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 transformation will likely be accelerated by relentless widespread labor shortages and the fact that low wage earnings have outstripped overall wage growth.

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.

QR codes have been around for years, but Covid-19 gave new life to the much-maligned barcode as an enabler of contactless commerce. China's Alipay's and Tencent's co-pursuit of QR code standardization has created a consortium of platforms processing such transactions using a unified standard in Asia. Amid the pandemic, U.S. companies rushed to replicate QR codes' success. For example, Walgreens accepts payments via Alibaba's Alipay platform and Apple activated QR code functionality for Apple Pay (Apple's mobile wallet exclusive on Apple devices). Meanwhile, Walmart changed its Walmart Pay app to seamlessly process QR codes and go totally contactless post-pandemic. PayPal also introduced QR codes in May 2020 to 28 markets worldwide, with transaction fees waived for QR code sales.

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 account for 5% of global credit card transactions and is on track to hit 10% by 2025, according to research firm Bernstein. 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. We, therefore, see companies like Apple and Google driving mobile payment use 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 1.6 billion adults worldwide who are still unbanked, but nearly half of them live in just five countries, according to the estimation of the World Bank. 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. One of the big winners would be Green Dot Corp., which provides reloadable prepaid debit cards and cash reload processing in the U.S. Since launching in 2006, the Walmart MoneyCard, created by Walmart and Green Dot, has grown into the largest retailer exclusive prepaid account program in the U.S.

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. The pandemic resulted in explosive growth for both players, with PayPal's Venmo reaching over 80 million users in 2021, while Block's Cash App reached 70 million users. However, 2022 has cooled off and growth rates have slowed as people have returned to in-person interactions.

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 2021 Zelle had $490 billion of transactions vs. $230 billion for Venmo. Currently, Zelle is most known for bill paying and large transactions by consumers, and Zelle 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.

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 about 7.1 million 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, up from $1.6 billion in 2021. 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.

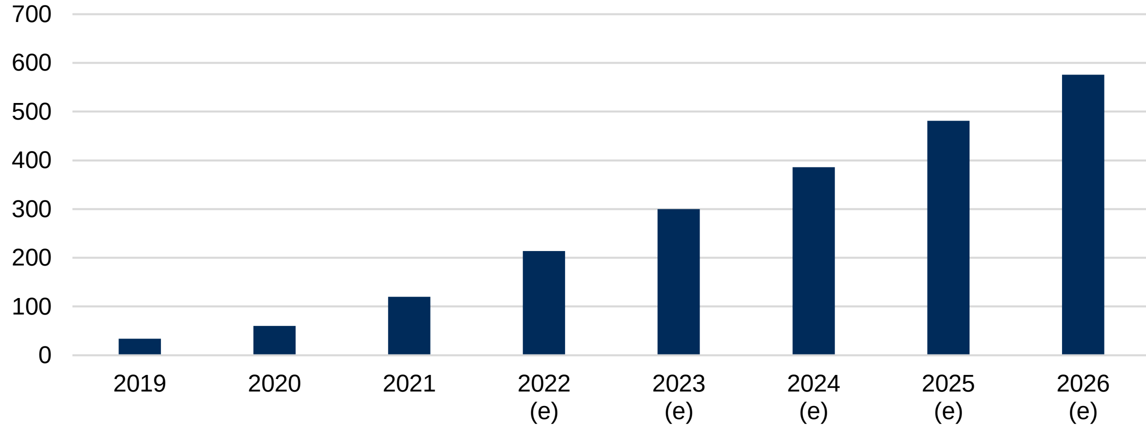
Buy Now, Pay Later (BNPL) Takes a Breather Following Explosive Growth

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 to 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 (Fed) has rapidly raised rates to the highest level since 2008. 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 concern 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
(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 Fed, 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 year has not been kind to BNPL, with valuations plummeting and the aforementioned Affirm seeing its market cap cut by more than 90%. 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 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 issuing 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. The MPL does not hold the loans on its balance sheet and does not take any credit risk. The MPL is, therefore, more akin to companies like eBay rather than banks, as the MPL only facilitates 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.

MPLs have the competitive advantage of no capital requirements, no retail branch networks to fund loans, and a streamlined infrastructure system that has been built from the ground up on new systems, as opposed to most banking systems that rely on legacy hardware and programming. All of this results in lower costs and MPLs can therefore charge lower interest rates. However, MPLs still face the cost of acquiring borrowers (*e.g.*, direct marketing and promotions), servicing the loan, and attracting lenders, who will require a substantial premium for assuming the default risk.

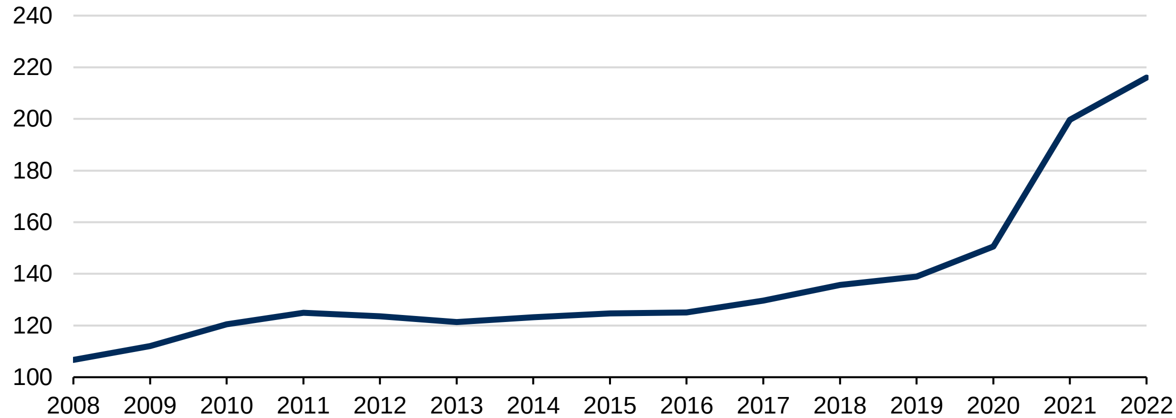
CFRA thinks that it remains to be seen how successful these companies will be and if they can meaningfully take share from other consumer lenders, especially as many MPLs have not experienced a full credit cycle yet, during which their underwriting abilities will be tested.

Auto Loan Balances May Stall, Following 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 $1.52 trillion in the third quarter of 2022. Despite supply chain issues, auto loan growth did not slow through the pandemic, with 12% growth over the last two years. This growth has been spurred by record-high used vehicle prices as chip shortages slowed new vehicle creation. Used vehicle prices have started to fall in 2022, but we see plenty of room for further downside as prices remain 40% higher than pre-pandemic levels. We see the decline in prices stemming from a fix in the supply chain, which will likely push prices lower and put newer loan originations with high loan-to values underwater.

With auto loan balances at elevated levels, we think loan growth will be muted going forward as added pressure from rising interest rates makes loans less affordable. Signs of an affordability problem have already quickly emerged as Edmunds found that the average new car payment jumped 12% in the third quarter of 2022 to $703 a month, while the average used car payment jumped a similar 12% to $565 a month. Additionally, there may be further 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.

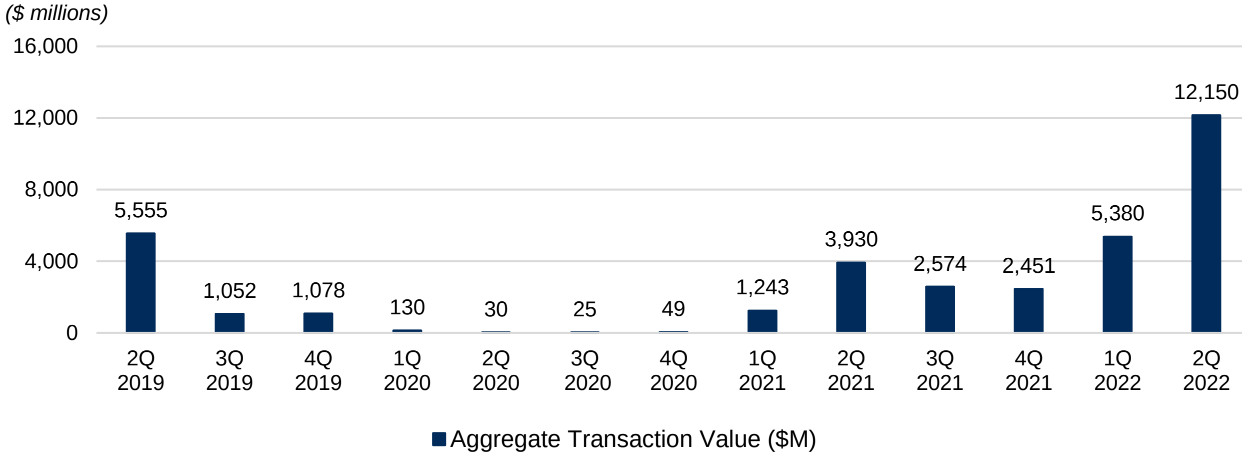
MANHEIM USED VEHICLE VALUE INDEX
(annual average)



Source: Manheim.

Share Repurchases Remain A Popular Option
Given the mature nature of the industry and high return on equity, returning capital to shareholders is a major priority for consumer finance companies. Dividend yields vary significantly in the industry but generally range from 1%-3%. Additionally, share repurchases have emerged as a popular option with an acceleration in 2021 and into 2022 as many firms were overcapitalized. We see this trend remaining strong but slowing over the next 12 months as most firms remain above their internal capitalization targets but may be forced to put more reserves aside for bad loans as the economy likely begins to deteriorate.

CONSUMER FINANCE INDUSTRY SHARE BUYBACK
(from June 2019 to June 2022)
($ millions)

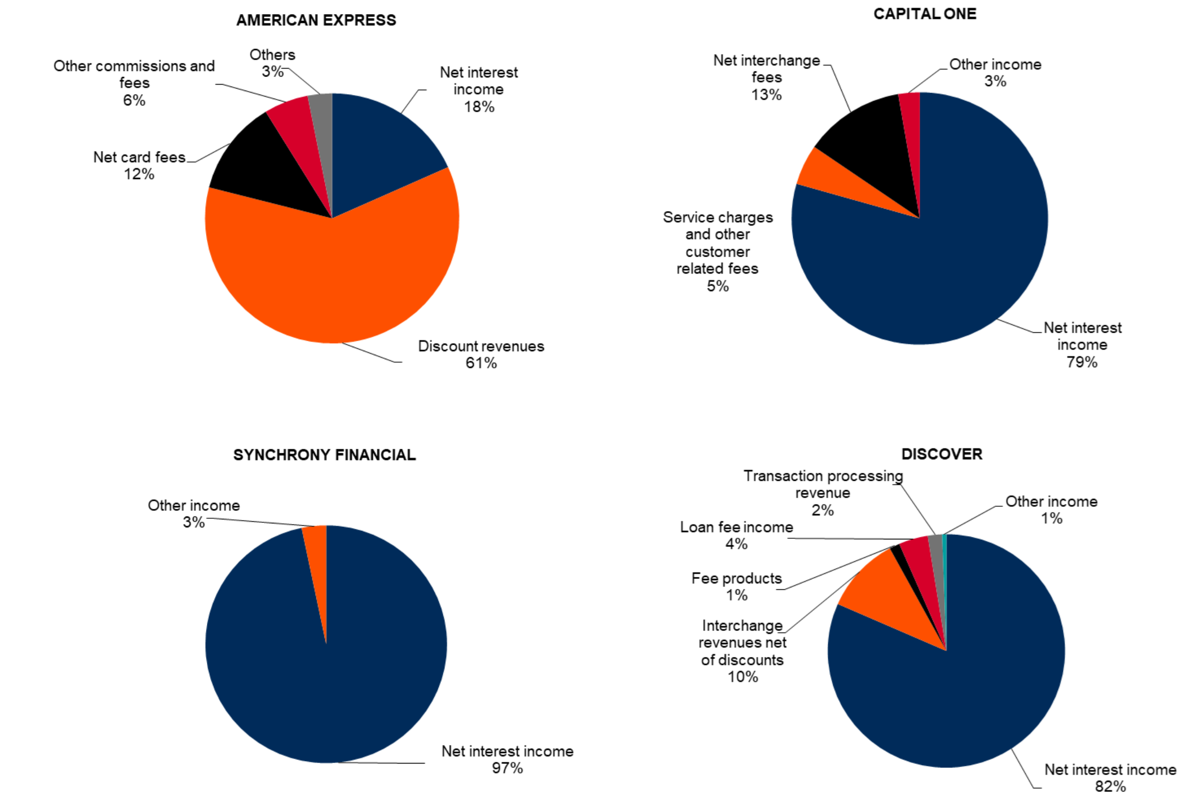


Source: S&P Global Market Intelligence.

As the result of repurchases, Capital One has cut its share count by over 30% since 2013, while Discover Financial cut its share count by over 40%. 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 over 35% since 2017. 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 third quarter of 2022, Navient had 150 million shares, down from 517 million shares in 2011, or a stunning 71% decrease.

MAJOR CARD COMPANIES' REVENUE SOURCES
(For fiscal year 2021)



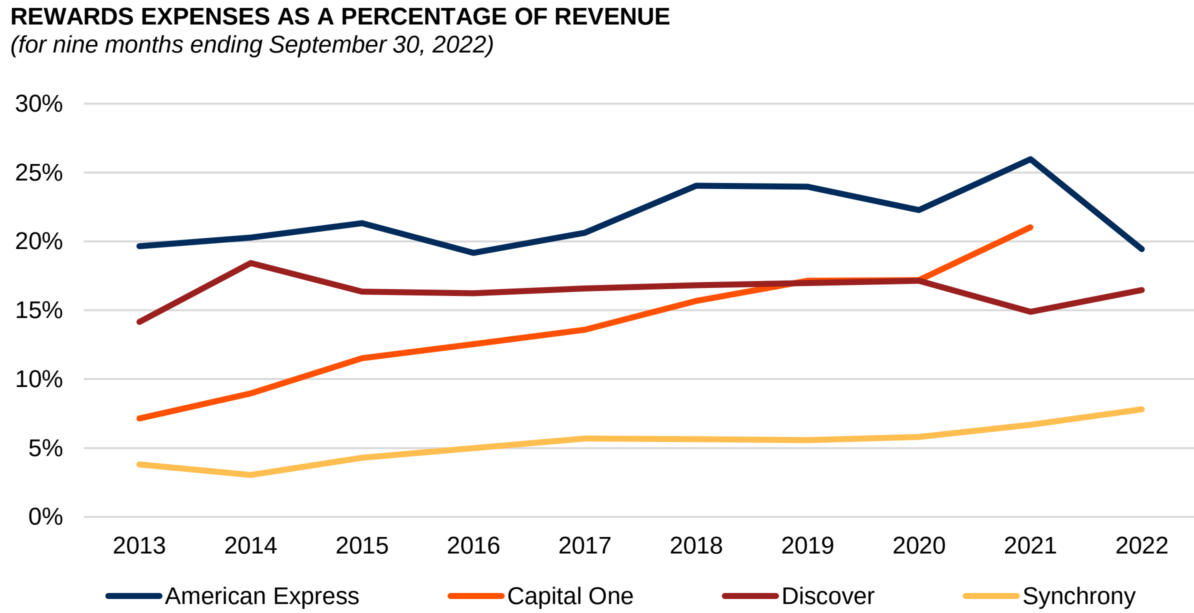
Source: Company reports.

The main source of revenue for Capital One, Discover, and Synchrony 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 the current ultra-low rate environment or when net interest margins compress.

'Rewards War' Ceased Fire Due to Covid-19 but is Storming Back

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 December 2022, cash-back cards offered an average 1.13% 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. That being said, we believe credit card issuers will continue to aggressively target new customers and try and retain their current customer base from leaving to competitors or BNPL solutions.



*Data for Capital One are as of 2021.
Source: CFRA, 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'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's store card portfolio. Similar to American Express losing Costco as one of its largest cobrand partners, Synchrony 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 announcing it will become 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

New Credit Impairment Model (CECL)
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 Covid-19 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 Fed. In addition, these companies are also subject to a Comprehensive Capital Analysis and Review (CCAR), whereby the Fed 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 2022, the Fed 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 Fed 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 by 5.75 percentage points to a peak of 10% from the fourth quarter of 2021 to the third quarter of 2023; 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 2021:Q4	STRESSED MINIMUM CAPITAL RATIOS, SEVERELY ADVERSE	MINIMUM REGULATORY CAPITAL RATIOS
Common equity tier 1 capital ratio	12.4	9.7	4.5
Tier 1 capital ratio	14.1	11.4	6.0
Total capital ratio	16.1	13.7	8.0
Tier 1 leverage ratio	7.5	6.0	4.0
Supplementary leverage ratio	6.1	4.8	3.0

Source: Federal Reserve

Under the sensitivity analysis, a total of 34 banks would collectively lose more than $612 billion. (In 2021, 23 banks participated in the stress test because the smallest banks subject to supervisory stress test are generally only required to participate in the test every other year. Thus, the aggregate results reported for the 2022 stress test are not fully comparable with the 2021 stress test results.) The loan portfolios that constitute the largest amount of losses are commercial and industrial (C&I) loans and credit cards, each representing 26% of total loan losses.

On a more positive note from the 2022 stress test results, all the major banks could withstand severe crisis due to their huge capital. Nonetheless, JPMorgan, Citigroup, and Goldman Sachs have been informed to increase their capital to defend against systemic risks they pose.

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 January 5, 2023.

NOTABLE M&A ACTIVITY

(top deals as of January 5, 2023)

DATE ANNOUNCED	BUYER	TARGET	TRANSACTION VALUE ($M)	TRANSACTION STATUS	DATE CLOSED
05/19/2022	Community Choice Financial Inc.	CURO Group Holdings Corp. - Direct Lending business	345.0	Completed	07/08/2022
11/18/2022	Purple Orchid Trust	Angel Oak Mortgage - residential mortgage loan portfolio	284.2	Announced	-
05/19/2022	CURO Group Holdings Corp	First Heritage Credit LLC	140.0	Completed	07/13/2022
07/01/2022	ECN Capital Corp	Intercoastal Financial Group, LLC	75.0	Completed	07/01/2022

Sources: CFRA, S&P Global Market Intelligence.

HOW THE INDUSTRY OPERATES

Four major consumer finance companies – American Express Co., Capital One Financial Corp., Synchrony Financial, and Discover Financial Services – all provide credit cards and other consumer-related products to their customers. American Express and Discover 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 is also developing its direct banking business. Discover's 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 industry 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 555 million total credit card accounts as of the third quarter of 2022, according to the Federal Reserve Bank of New York. In 2021, the average credit card debt per individual decreased 6.3% to $5,525, compared to $5,897 in 2020, according to Experian's 2021 "State of Credit" study.

The credit card industry 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. American Express and Discover 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 third quarter of 2022, credit unions held 28.44% of vehicle financing this quarter, banks 27.32%, and captive lenders 21.89%, according to Experian's "State of the Automotive Finance Market Q3 2022" report.

The outstanding auto loans balances totaled about $1.39 trillion as of the third quarter of 2022, up from $1.29 trillion in the third quarter of 2021, according to Experian. This represents an increase of 7.7% 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% of financing in the third quarter of 2022, up from 58.03% in the third quarter of 2021 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 CFPB. As of the third quarter of 2022, federal student loans outstanding totaled $1.617 trillion, according to data from the Federal Student Aid Office. Private student loans are a fraction (8.4%) of that, at just over $140 billion as of the third quarter of 2022, 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 the 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. They indicated arguments would be heard in February 2023, as reported in Accounting Today.

SLM Corp. (also known as Sallie Mae), which was the largest private lender of student loans in the U.S., split into two publicly traded companies in April 2014. One of these companies is Navient Corp., which manages portfolios of federally guaranteed (Federal Family Education Loan Program, or FFELP) and private education loans, as well as most related servicing and collection activities. The private education-loan origination and servicing businesses, including Sallie Mae Bank and the private education loans it currently holds, operate separately under the Sallie Mae brand.

On March 14, 2022, the Communications Workers of America (CWA) and the Student Borrower Protection Center (SBPC) released results of their investigations into Maximus and found that Maximus was: 1) sloppy in student loan servicing, 2) involved in unfair debt collection practices, and 3) involved in unlawful wage garnishment and improper seizure of public benefits. CWA and SBPC have also launched a website to track abuses by Maximus and ensure fair treatment for all people with student debt.

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 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, 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 crises, 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 Fed 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 Consumer Financial Protection Bureau (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 Fed 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 Fed. 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 Fed at $0.21 per transaction are appropriate.

◆ **The CFPB.** The Dodd-Frank Act established the CFPB as an agency of the Fed. 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 Fed 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 service 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 Fed'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 Fed. 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 Fed. 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 third quarter of 2022 was 1.94%, 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). To a lesser extent, they may also offer customers limited 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 page 7 – 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 (BLS) 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 Fed 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 Fed, 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 Fed 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 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 Fed, 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.

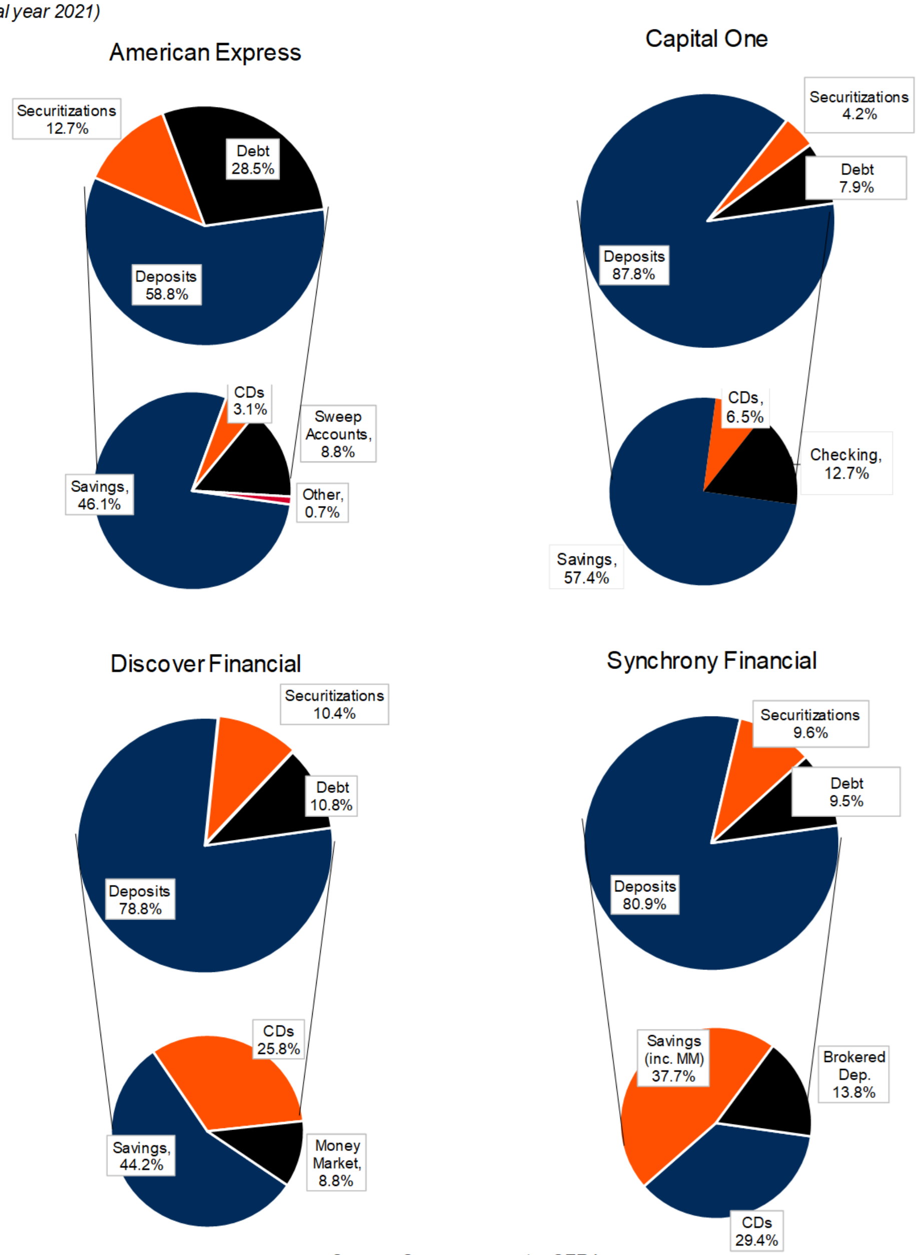
Qualitative Measures

Lines of Business
The Consumer Finance industry includes a variety of different business models, most of which have roots in the credit card industry. 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 markets. 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 2021)



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, return on managed receivables, 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 Fed 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 (NYSE:SC) 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.

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.

Near Field Communication (NFC)—A short-range wireless technology that enables simple and secure communication between electronic devices.

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.

Quick Response (QR) Code—A machine-readable code consisting of an array of black and white squares, typically used for storing URLs or other information for reading by the camera on a smartphone.

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.

Stablecoin—A cryptocurrency designed to minimize the volatility of its price relative to some "stable" asset or basket of goods. It may be pegged to a currency like the U.S. dollar or to a commodity's price such as gold.

Total enterprise value (TEV)—Market capitalization plus debt and preferred stock, less cash.

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.

Financial Times
ft.com
A daily newspaper that focuses on business and economic current affairs.

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
Trade association for the U.S. consumer credit industry.

Electronic Transactions Association
electran.org
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
Provider of marketing data and analytics.

eMarketer
emarketer.com
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.

Forrester Research
go.forrester.com
Research firm that provides advice on impacts of technology.

The Strawhecker Group
Thestrawgroup.com
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
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
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
Principal fact-finding arm of the federal government in the broad fields of labor, economics, and statistics. Among its major programs are the consumer price index (CPI), producer price index (PPI), employment cost index, and national compensation survey.

ONLINE RESOURCES

AccountingToday
accountingtoday.com
Leading information resource for public accountants – serving the community of professionals who provide tax preparation, bookkeeping, auditing, financial planning and business advisory and consulting services to individuals and small businesses.

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
Multidisciplinary, nonpartisan organization dedicated to research and education on insolvency matters; 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
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 $ 2021	2020	2019	2018	2017	2016	2015	CAGR (%) 10-Yr.	5-Yr.	1-Yr.	Index Basis (2014=100) 2021	2020	2019	2018	2017	2016
CONSUMER FINANCE																			
AXP	AMERICAN EXPRESS COMPANY		DEC	43,799.0	31,357.0	39,983.0	36,986.0	33,872.0	33,227.0	30,747.0	4.3	5.7	39.7	142	102	130	120	110	108
:BFH	BREAD FINANCIAL HOLDINGS, INC.		DEC	2,728.0	2,012.0	2,818.0	4,108.3	3,879.2	5,769.1	5,441.3	0.6	-13.9	35.6	50	37	52	76	71	106
COF	CAPITAL ONE FINANCIAL CORPORATION		DEC	32,379.0	18,259.0	22,357.0	22,220.0	19,686.0	19,042.0	18,877.0	8.8	11.2	77.3	172	97	118	118	104	101
DFS	DISCOVER FINANCIAL SERVICES		DEC	11,869.0	5,954.0	8,228.0	7,674.0	7,318.0	7,240.0	7,227.0	7.0	10.4	99.3	164	82	114	106	101	100
ECPG	ENCORE CAPITAL GROUP, INC.		DEC	1,614.5	1,501.4	1,405.8	1,320.6	1,145.8	1,113.4	1,130.0	13.7	7.7	7.5	143	133	124	117	101	99
ENVA	ENOVA INTERNATIONAL, INC.		DEC	947.8	597.5	1,099.2	893.3	654.9	680.0	599.7	7.4	6.9	58.6	158	100	183	149	109	113
EZPW	EZCORP, INC.		SEP	729.6	822.8	847.2	812.2	748.0	730.5	720.0	-1.5	0.0	-11.3	101	114	118	113	104	101
FCFS	FIRSTCASH HOLDINGS, INC		DEC	1,699.0	1,631.3	1,864.4	1,780.9	1,779.8	1,088.4	704.6	12.7	9.3	4.1	241	232	265	253	253	154
GDOT	GREEN DOT CORPORATION		DEC	1,433.0	1,258.1	1,106.7	1,060.5	895.3	717.0	696.0	11.4	14.9	13.9	206	181	159	152	129	103
TREE	LENDINGTREE, INC.		DEC	1,098.5	910.0	1,106.6	764.9	617.7	384.4	254.2	35.0	23.4	20.7	432	358	435	301	243	151
NAVI	NAVIENT CORPORATION		DEC	2,272.0	1,533.0	1,738.0	1,553.0	1,785.0	2,094.0	2,521.0	1.8	1.6	48.2	90	61	69	62	71	83
PRAA	PRA GROUP, INC.		DEC	1,095.7	1,065.4	1,017.1	908.3	828.2	930.6	942.0	9.1	3.3	2.8	116	113	108	96	88	99
PRG	PROG HOLDINGS, INC.		DEC	2,677.9	2,484.6	2,163.2	2,036.3	3,383.7	3,207.7	3,179.8	2.9	-3.5	7.8	84	78	68	64	106	101
SLM	SLM CORPORATION		DEC	2,060.2	1,707.3	1,318.0	1,116.3	940.6	790.7	795.0	NA	21.1	20.7	259	215	166	140	118	99
SYF	SYNCHRONY FINANCIAL		DEC	9,466.0	5,852.0	9,132.0	7,739.0	7,071.0	6,986.0	6,795.0	6.5	6.3	61.8	139	86	134	114	104	103
WRLD	WORLD ACCEPTANCE CORPORATION	#	MAR	582.8	528.4	590.6	544.5	502.7	490.8	557.5	0.7	-1.1	-10.5	105	95	106	98	90	88

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.

Souce: S&P Capital IQ.

Net Income

				Million $							CAGR (%)			Index Basis (2014=100)					
Ticker	**Company**		**Yr. End**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**10-Yr.**	**5-Yr.**	**1-Yr.**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
CONSUMER FINANCE																			
AXP	AMERICAN EXPRESS COMPANY		DEC	8060.0	3135.0	6759.0	6921.0	2748.0	5375.0	5163.0	5.0	8.4	157.1	156	61	131	134	53	104
BFH	BREAD FINANCIAL HOLDINGS, INC.		DEC	801.0	214.0	278.0	963.1	788.7	515.8	596.5	9.8	9.2	274.3	134	36	47	161	132	86
COF	CAPITAL ONE FINANCIAL CORPORATION		DEC	12390.0	2714.0	5546.0	6015.0	1982.0	3751.0	4050.0	14.7	27.0	356.5	306	67	137	149	49	93
DFS	DISCOVER FINANCIAL SERVICES		DEC	5449.0	1141.0	2957.0	2742.0	2099.0	2393.0	2297.0	9.4	17.9	377.6	237	50	129	119	91	104
ECPG	ENCORE CAPITAL GROUP, INC.		DEC	350.8	211.8	167.9	115.9	83.2	76.6	45.1	19.1	35.6	65.6	777	469	372	257	184	170
ENVA	ENOVA INTERNATIONAL, INC.		DEC	256.3	377.8	36.6	70.1	29.2	34.6	44.0	21.3	49.3	-32.2	583	859	83	159	66	79
EZPW	EZCORP, INC.		SEP	8.6	-68.5	2.5	37.3	31.4	-80.7	-89.2	-23.3	NM	NM	-10	77	-3	-42	-35	91
FCFS	FIRSTCASH HOLDINGS, INC		DEC	124.9	106.6	164.6	153.2	143.9	60.1	60.7	4.9	15.7	17.2	206	176	271	252	237	99
GDOT	GREEN DOT CORPORATION		DEC	47.5	23.1	99.9	118.7	85.9	41.6	38.4	-0.9	2.7	105.3	124	60	260	309	224	108
TREE	LENDINGTREE, INC.		DEC	69.1	-48.3	17.8	96.5	15.6	27.5	48.0	NA	20.2	NM	144	-100	37	201	32	57
NAVI	NAVIENT CORPORATION		DEC	717.0	412.0	597.0	395.0	292.0	681.0	984.0	1.3	1.0	74.0	73	42	61	40	30	69
PRAA	PRA GROUP, INC.		DEC	183.2	149.3	86.2	65.6	164.3	86.3	167.9	6.2	16.3	22.6	109	89	51	39	98	51
PRG	PROG HOLDINGS, INC.		DEC	243.6	-61.5	31.5	196.2	292.5	139.3	135.7	7.9	11.8	NM	179	-45	23	145	216	103
SLM	SLM CORPORATION		DEC	1160.5	880.7	578.3	487.5	288.9	250.3	274.3	NA	35.9	31.8	423	321	211	178	105	91
SYF	SYNCHRONY FINANCIAL		DEC	4221.0	1385.0	3747.0	2790.0	1935.0	2251.0	2214.0	8.4	13.4	204.8	191	63	169	126	87	102
WRLD	WORLD ACCEPTANCE CORPORATION	#	MAR	53.9	88.3	28.2	37.2	53.7	73.6	87.4	-0.3	0.2	213.5	62	101	32	43	61	84

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.

Souce: S&P Capital IQ.

			Return on Revenues (%)						Return on Assets (%)						Return on Equity (%)					
Ticker	Company	Yr. End	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016	2021	2020	2019	2018	2017	2016
CONSUMER FINANCE																				
AXP	AMERICAN EXPRESS COMPANY	DEC	18.4	10.0	16.9	18.7	8.1	16.2	4.3	1.6	3.4	3.7	1.5	3.4	35.7	13.6	29.8	34.1	14.2	26.1
BFH	BREAD FINANCIAL HOLDINGS, INC.	DEC	29.4	10.6	9.9	23.4	20.3	8.9	3.7	0.9	1.0	3.2	2.6	2.0	44.2	13.4	25.8	45.2	43.8	27.0
COF	CAPITAL ONE FINANCIAL CORPORATION	DEC	38.3	14.9	24.8	27.1	10.1	19.7	2.9	0.6	1.4	1.6	0.5	1.1	20.4	4.6	10.1	12.0	4.4	8.0
DFS	DISCOVER FINANCIAL SERVICES	DEC	45.9	19.2	35.9	35.7	28.7	33.1	4.9	1.0	2.6	2.5	2.1	2.6	44.9	10.0	25.7	24.9	18.9	21.2
ECPG	ENCORE CAPITAL GROUP, INC.	DEC	21.7	14.1	11.9	8.8	7.3	6.9	7.6	4.4	3.4	2.5	1.9	2.1	29.2	18.9	18.3	14.2	12.0	3.1
ENVA	ENOVA INTERNATIONAL, INC.	DEC	27.0	63.2	3.3	7.8	4.5	5.1	9.3	17.9	2.3	5.3	2.5	3.5	25.6	58.4	35.3	20.2	6.7	15.5
EZPW	EZCORP, INC.	SEP	1.2	NM	0.3	4.6	4.2	NM	0.7	NM	0.2	3.0	3.1	NM	1.3	NM	0.2	5.3	5.0	NM
FCFS	FIRSTCASH HOLDINGS, INC	DEC	7.4	6.5	8.8	8.6	8.1	5.5	3.3	4.5	6.7	7.3	7.0	2.8	8.1	8.1	12.3	11.0	9.8	6.4
GDOT	GREEN DOT CORPORATION	DEC	3.3	1.8	9.0	11.2	9.6	5.8	1.0	0.6	4.1	5.2	3.9	2.4	4.6	2.4	10.9	14.2	11.9	6.2
TREE	LENDINGTREE, INC.	DEC	6.3	NM	1.6	12.6	2.5	7.2	5.3	NM	1.9	10.8	2.2	8.5	18.0	NM	10.5	34.1	7.4	13.2
NAVI	NAVIENT CORPORATION	DEC	31.6	26.9	34.3	25.4	16.4	32.5	0.9	0.5	0.6	0.4	0.3	0.6	28.4	14.2	17.3	11.2	8.1	17.8
PRAA	PRA GROUP, INC.	DEC	16.7	14.0	8.5	7.2	19.8	9.3	4.2	3.4	1.9	1.7	4.4	2.7	14.5	12.9	8.3	6.6	16.5	10.4
PRG	PROG HOLDINGS, INC.	DEC	9.1	NM	1.5	9.6	8.6	4.3	15.0	NM	1.0	6.9	10.9	5.3	29.2	17.2	NM	7.2	18.2	9.8
SLM	SLM CORPORATION	DEC	56.3	51.6	43.9	43.7	30.7	31.7	4.0	2.9	1.8	1.8	1.3	1.4	49.3	30.0	18.4	17.9	12.0	11.3
SYF	SYNCHRONY FINANCIAL	DEC	44.6	23.7	41.0	36.1	27.4	32.2	4.4	1.4	3.6	2.6	2.0	2.5	32.0	10.0	25.2	19.3	13.6	16.8
WRLD	WORLD ACCEPTANCE CORPORATION #	MAR	9.3	16.7	4.8	6.8	10.7	15.0	4.4	9.3	2.7	4.4	6.4	9.2	13.9	21.6	5.8	13.5	9.8	15.9

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.
Souce: S&P Capital IQ.

			Current Ratio						Debt/Capital Ratio (%)						Debt as a % of Net Working Capital					
Ticker	**Company**	**Yr. End**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
CONSUMER FINANCE																				
AXP	AMERICAN EXPRESS COMPANY	DEC	1.5	1.4	1.8	1.9	1.8	1.8	67.3	68.9	79.9	76.3	83.6	81.2	70.4	109.8	88.0	79.6	86.2	85.7
BFH	BREAD FINANCIAL HOLDINGS, INC.	DEC	1.7	1.7	1.4	1.5	1.7	1.5	78.1	84.8	81.5	81.9	87.9	85.9	93.1	99.2	99.6	132.0	134.2	152.1
COF	CAPITAL ONE FINANCIAL CORPORATION	DEC	0.0	0.0	0.0	0.0	0.0	0.0	38.2	41.2	52.9	59.1	56.2	57.5	(12.3)	(15.5)	(21.7)	(24.1)	(26.3)	(27.2)
DFS	DISCOVER FINANCIAL SERVICES	DEC	1.2	1.2	1.3	1.5	1.5	1.6	56.3	66.1	68.4	71.0	70.7	69.5	95.2	130.6	105.9	83.7	79.4	78.7
ECPG	ENCORE CAPITAL GROUP, INC.	DEC	12.4	16.2	15.2	11.6	11.5	11.1	71.6	72.8	77.4	80.9	82.6	82.4	97.8	97.4	105.6	111.3	115.0	118.0
ENVA	ENOVA INTERNATIONAL, INC.	DEC	13.8	13.2	10.0	11.3	10.8	9.0	56.2	51.0	72.5	71.2	74.0	73.2	65.1	61.8	90.6	93.6	105.0	113.5
EZPW	EZCORP, INC.	SEP	3.9	4.5	6.7	2.9	8.0	5.1	28.2	27.9	24.2	23.5	30.1	32.3	58.0	54.5	46.3	46.3	56.0	73.3
FCFS	FIRSTCASH HOLDINGS, INC	DEC	2.9	3.0	3.7	5.9	7.0	6.2	41.7	32.4	31.9	31.0	21.4	23.9	175.4	147.3	117.4	90.0	55.7	61.0
GDOT	GREEN DOT CORPORATION	DEC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.7	0.2	7.3	10.6	(0.0)	(0.0)	NM	11.4	NM	2601.4
TREE	LENDINGTREE, INC.	DEC	1.4	2.7	0.8	0.9	3.0	2.1	51.6	62.6	50.9	63.0	44.7	0.0	478.4	331.3	NM	NM	82.0	0.0
NAVI	NAVIENT CORPORATION	DEC	28.8	12.1	10.2	16.5	20.7	29.7	97.3	98.0	97.2	102.7	97.9	100.2	98.2	99.1	98.3	103.6	98.8	101.1
PRAA	PRA GROUP, INC.	DEC	12.0	13.7	17.5	17.7	14.6	13.1	66.4	66.3	69.7	68.6	65.4	65.8	80.2	79.7	81.7	80.7	79.4	78.3
PRG	PROG HOLDINGS, INC.	DEC	2.9	2.6	1.5	0.8	1.1	2.0	46.5	4.8	0.0	16.0	13.6	24.9	223.6	39.9	0.0	NM	913.9	162.8
SLM	SLM CORPORATION	DEC	1.3	1.3	1.3	1.4	1.4	1.3	73.4	66.9	60.6	59.0	57.0	48.4	106.7	88.7	63.0	58.6	57.0	48.1
SYF	SYNCHRONY FINANCIAL	DEC	0.0	0.0	0.0	0.0	0.0	0.0	50.2	52.9	55.9	62.0	59.4	58.7	(25.0)	(25.0)	(33.5)	(41.7)	(42.7)	(43.6)
WRLD	WORLD ACCEPTANCE CORPORATION #	MAR	11.2	14.3	12.8	15.0	14.0	16.0	65.0	50.0	52.3	31.3	31.2	39.0	75.7	58.0	59.7	35.3	34.2	44.3

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.

Souce: S&P Capital IQ.

Ticker	Company	Yr. End	Price/Earnings Ratio (High-Low) 2021	2020	2019	2018	2017	2016	Dividend Payout Ratio (%) 2021	2020	2019	2018	2017	2016	Dividend Yield (High-Low, %) 2021	2020	2019	2018	2017	2016
CONSUMER FINANCE																				
AXP	AMERICAN EXPRESS COMPANY	DEC	19 - 11	36 - 18	16 - 12	14 - 11	33 - 25	13 - 9	18.0	47.0	21.0	19.1	45.5	22.5	1.5 - 1.0	1.5 - 0.9	2.5 - 1.3	1.7 - 1.2	1.6 - 1.3	1.8 - 1.4
BFH	BREAD FINANCIAL HOLDINGS, INC.	DEC	8 - 4	25 - 5	34 - 19	16 - 8	19 - 15	38 - 24	5.2	28.5	45.7	13.0	14.6	5.8	2.8 - 1.1	1.2 - 0.7	11.1 - 1.1	2.5 - 1.1	1.2 - 0.8	1.0 - 0.8
COF	CAPITAL ONE FINANCIAL CORPORATION	DEC	7 - 4	21 - 8	9 - 7	9 - 6	29 - 22	13 - 8	9.3	27.3	18.7	17.3	52.7	27.4	2.6 - 1.5	1.7 - 0.3	3.8 - 0.4	2.3 - 1.6	1.9 - 1.5	2.1 - 1.7
DFS	DISCOVER FINANCIAL SERVICES	DEC	8 - 5	25 - 7	10 - 6	10 - 7	14 - 11	13 - 7	11.7	50.5	19.4	20.1	25.1	21.5	2.7 - 1.5	2.2 - 1.4	7.0 - 2.0	2.9 - 1.9	2.4 - 1.7	2.4 - 1.6
ECPG	ENCORE CAPITAL GROUP, INC.	DEC	5 - 3	7 - 2	7 - 4	11 - 5	15 - 9	10 - 6	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	6 - 3	2 - 1	28 - 18	19 - 7	19 - 13	13 - 5	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	52 - 29	NM - NM	244 - 144	22 - 14	20 - 13	NM - NM	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	31 - 18	34 - 20	28 - 18	28 - 20	23 - 14	31 - 18	38.1	42.0	26.7	26.7	25.6	32.9	2.0 - 1.3	1.9 - 1.3	2.1 - 1.2	1.5 - 0.9	1.3 - 0.9	1.8 - 1.2
GDOT	GREEN DOT CORPORATION	DEC	69 - 39	149 - 39	43 - 12	41 - 25	38 - 14	31 - 19	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
TREE	LENDINGTREE, INC.	DEC	67 - 20	NM - NM	312 - 157	52 - 24	270 - 75	48 - 24	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	6 - 2	7 - 2	6 - 3	10 - 6	16 - 11	8 - 4	14.9	29.9	24.6	42.0	60.3	29.5	5.1 - 2.9	6.9 - 2.7	12.8 - 4.1	7.6 - 4.2	6.0 - 4.3	5.5 - 3.7
PRAA	PRA GROUP, INC.	DEC	12 - 8	14 - 6	20 - 13	30 - 16	12 - 7	21 - 12	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	16 - 11	NM - NM	167 - 89	20 - 13	12 - 7	18 - 11	0.0	NM	30.0	3.2	2.7	5.3	0.0 - 0.0	0.0 - 0.0	1.1 - 0.0	0.4 - 0.2	0.3 - 0.2	0.4 - 0.2
SLM	SLM CORPORATION	DEC	6 - 3	5 - 3	9 - 6	11 - 7	20 - 16	22 - 10	5.6	6.4	11.8	3.2	5.4	8.5	3.2 - 2.1	2.5 - 0.6	2.0 - 1.0	1.5 - 1.0	0.0 - 0.0	0.0 - 0.0
SYF	SYNCHRONY FINANCIAL	DEC	7 - 5	16 - 6	7 - 4	11 - 6	16 - 11	14 - 9	12.8	40.6	15.5	19.1	23.0	9.5	3.2 - 1.8	2.8 - 1.7	6.9 - 2.3	3.8 - 2.3	3.3 - 1.5	2.1 - 1.4
WRLD	WORLD ACCEPTANCE CORPORATION #	MAR	12 - 3	47 - 15	30 - 23	19 - 8	8 - 4	9 - 3	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

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.
Souce: S&P Capital IQ.

			Earnings per Share ($)						Tangible Book Value per Share ($)						Share Price (High-Low, $)					
Ticker	**Company**	**Yr. End**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
CONSUMER FINANCE																				
AXP	AMERICAN EXPRESS COMPANY	DEC	10.0	3.8	8.0	7.9	3.0	5.6	23.9	23.4	24.1	22.4	16.7	18.5	189.0 - 112.1	138.1 - 67.0	129.3 - 93.2	114.6 - 87.5	100.5 - 74.7	75.7 - 50.3
BFH	BREAD FINANCIAL HOLDINGS, INC.	DEC	16.0	4.5	5.4	17.5	14.1	7.3	28.0	16.3	10.1	20.1	(55.1)	(54.8)	128.2 - 63.4	115.6 - 20.5	183.0 - 99.2	278.3 - 142.6	266.3 - 209.0	275.9 - 176.6
COF	CAPITAL ONE FINANCIAL CORPORATION	DEC	26.9	5.2	11.0	11.8	3.5	6.9	99.8	88.5	84.0	69.5	60.6	58.3	178.0 - 97.0	107.6 - 38.0	105.7 - 74.4	106.5 - 69.9	101.4 - 76.1	91.6 - 58.0
DFS	DISCOVER FINANCIAL SERVICES	DEC	17.8	3.6	9.1	7.8	5.4	5.8	40.0	29.2	33.4	29.3	26.7	25.9	135.7 - 81.3	90.7 - 23.3	93.0 - 57.8	81.9 - 54.4	77.8 - 57.5	73.6 - 42.9
ECPG	ENCORE CAPITAL GROUP, INC.	DEC	11.3	6.7	5.3	4.1	3.2	3.0	10.2	8.5	2.8	(3.6)	(16.4)	(9.9)	62.4 - 29.2	49.0 - 15.3	39.2 - 22.2	47.8 - 20.4	52.0 - 27.8	30.4 - 16.1
ENVA	ENOVA INTERNATIONAL, INC.	DEC	6.8	11.7	1.1	2.0	0.9	1.0	20.9	15.9	2.1	1.5	(0.5)	(1.6)	43.5 - 22.0	29.3 - 7.8	32.0 - 19.2	39.0 - 15.3	16.8 - 11.2	13.9 - 4.6
EZPW	EZCORP, INC.	SEP	0.2	(1.2)	0.0	0.6	0.6	(1.5)	5.8	6.0	6.8	7.1	6.9	5.7	8.8 - 4.5	7.0 - 3.4	11.3 - 4.8	15.1 - 7.5	12.5 - 7.6	12.0 - 2.4
FCFS	FIRSTCASH HOLDINGS, INC	DEC	3.0	2.6	3.8	3.4	3.0	1.7	(2.4)	5.4	7.5	7.2	11.7	10.6	97.0 - 54.9	90.6 - 51.2	106.8 - 69.8	95.4 - 66.3	68.6 - 39.8	54.0 - 29.6
GDOT	GREEN DOT CORPORATION	DEC	0.9	0.4	1.9	2.2	1.6	0.8	8.7	7.4	5.5	5.0	2.2	3.5	61.9 - 33.3	65.0 - 14.2	84.0 - 22.0	93.0 - 54.1	65.9 - 23.4	25.4 - 15.3
TREE	LENDINGTREE, INC.	DEC	5.0	(3.7)	1.2	6.8	1.1	2.1	(4.4)	(14.0)	(15.3)	(16.2)	8.3	8.8	372.6 - 105.0	368.7 - 135.7	434.9 - 211.1	404.4 - 183.3	355.8 - 96.2	112.0 - 52.1
NAVI	NAVIENT CORPORATION	DEC	4.2	2.1	2.6	1.5	1.0	2.1	12.2	9.1	12.0	11.0	10.1	10.4	23.8 - 9.9	15.5 - 4.1	15.7 - 8.6	15.0 - 8.2	17.1 - 11.5	18.0 - 8.2
PRAA	PRA GROUP, INC.	DEC	4.0	3.3	1.9	1.4	3.6	1.9	19.7	18.6	15.2	13.8	12.0	7.3	50.7 - 32.8	47.4 - 19.4	38.1 - 24.0	43.8 - 22.6	42.7 - 25.7	39.7 - 20.0
PRG	PROG HOLDINGS, INC.	DEC	3.7	(0.9)	0.5	2.8	4.1	1.9	3.9	7.8	18.9	11.2	11.8	9.3	60.5 - 39.9	67.2 - 13.0	78.7 - 41.2	56.0 - 36.2	48.2 - 26.1	34.2 - 20.2
SLM	SLM CORPORATION	DEC	3.6	2.3	1.3	1.1	0.6	0.5	6.8	6.2	6.9	5.9	4.8	4.2	21.4 - 12.0	12.5 - 5.6	11.5 - 7.8	12.5 - 7.9	13.2 - 9.7	11.7 - 5.1
SYF	SYNCHRONY FINANCIAL	DEC	7.3	2.3	5.6	3.7	2.4	2.7	20.2	16.7	19.5	17.4	16.2	15.3	52.5 - 33.4	36.4 - 12.2	38.2 - 23.1	40.6 - 21.8	39.2 - 26.0	37.3 - 23.3
WRLD	WORLD ACCEPTANCE CORPORATION #	MAR	8.5	13.2	3.5	4.0	6.0	8.4	59.7	60.4	53.5	62.3	58.3	51.7	265.8 - 100.7	124.0 - 43.2	175.8 - 84.6	125.1 - 80.4	88.3 - 42.0	68.7 - 26.9

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.

Souce: S&P Capital IQ.

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