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EXCHANGE --- Troubled Borrowers Hurt Discover --- Credit-card company's shares fall 11% after it reports rise in problem consumer debt

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Shares in Discover Financial Services fell 11% Friday after analysts raised questions about troubled borrowers in its credit-card portfolio.

At issue is how Discover classified some customers who have fallen behind on their loans. The company, among the larger U.S. credit-card issuers, is a gauge of the financial health of a broad swath of consumers. It doesn't focus on the affluent, like American Express Co., or subprime borrowers, like Capital One Financial Corp.

The company was the worst performer in the S&P 500 on Friday. On a call with analysts following Thursday's after-hours earning release, Discover executives said the company had $3.4 billion of credit-card balances in a category called troubled debt restructurings, up $1.1 billion from the prior year.

Companies can place loans in the category of troubled debt restructurings, or TDRs, when a customer falls behind on the loan and the company changes the terms to try to help the customer get back on track. That is typically meant to help consumers who are experiencing temporary hardships.

Discover executives described the jump in restructured loans as a good thing. Many of the customers with modified loans are now current, they said. Once an account is placed in the restructurings category, Discover typically keeps it there even if the cardholder returns to paying on time.

In an interview, Chief Executive Roger Hochschild said the company hasn't seen a deterioration of consumer loan performance. Analysts, though, questioned whether so many borrowers needing help could be a sign of broader consumer problems.

"The fact that they talked about TDRs is never good," said Don Fandetti, an analyst at Wells Fargo & Co.

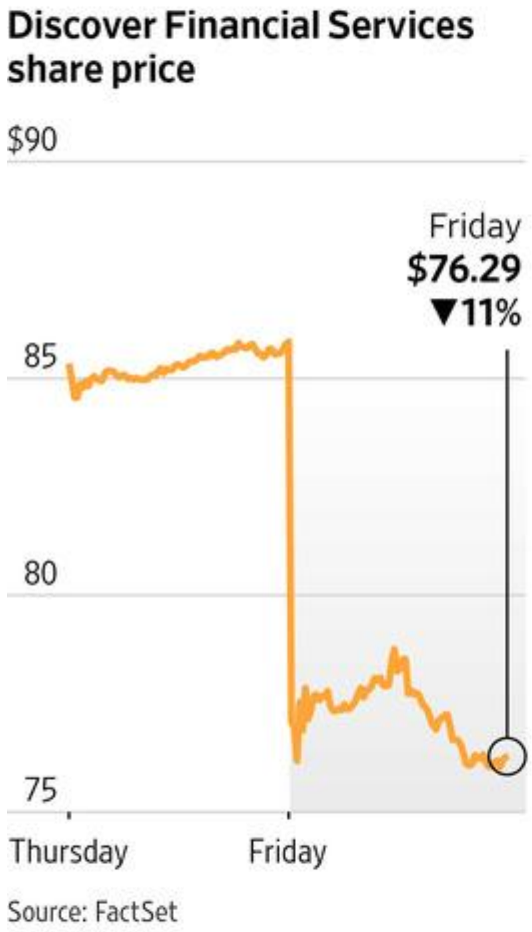
Discover's troubled debt restructurings have been rising for several years. Against that trend, the U.S. economy has been expanding for more than a decade, though many observers wonder how long that will last.

The share of Discover's credit-card balances that are roughly 30 days delinquent was 2.62% in the fourth quarter,up slightly from the year before but within industry norms. One wrinkle, though: If a loan goes delinquent and is moved into troubled debt restructuring, it isn't always factored into a company's delinquency rate, analysts said. That means a greater proportion of customers could fall behind on payments -- but without a company's delinquency rate going up. Late Friday, a Discover spokesman said all of the company's troubled debt restructuring loans are included in total delinquency.

Discover also said it continues to invest in its operations that focus on collecting payments from borrowers who are behind on their debts. "I think that's something that makes a ton of sense just about anytime, but certainly late cycle" in an economic expansion, Mr. Hochschild said on the earnings call.

Discover upped its forecast for operating expenses for 2020, which disappointed some analysts. It said the jump is intended for ongoing investments in its brand, **technology** and increasing acceptance of cards abroad.

Some analysts said they were disappointed in the lack of guidance on the key metrics of net interest margin and rewards costs. The company also said it is increasing its loan-loss reserves due to a new accounting rule.



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