Prepared Remarks:

Operator

Good morning, and welcome to the Synchrony Financial first quarter 2024 earnings conference call. Please refer to the company's investor relations website for access to their earnings materials. Please be advised that today's conference call is being recorded. Currently, all callers have been placed in a listen-only mode.

There will be open questions following the conclusion of the management's prepared remarks. [Operator instructions] I will now turn the call over to Kathryn Miller, senior vice president of investor relations. Thank you. You may begin.

Kathryn Miller -- *Senior Vice President, Investor Relations*

Thank you, and good morning, everyone. Welcome to our quarterly earnings conference call. In addition to today's press release, we have provided a presentation that covers the topics we plan to address during our call. The press release, detailed financial schedules, and presentation are available on our website, synchronyfinancial.com.

This information can be accessed by going to the investor relations section of the website. Before we get started, I wanted to remind you that our comments today will include forward-looking statements. These statements are subject to risks and uncertainty, and actual results could differ materially. We list the factors that might cause actual results to differ materially in our SEC filings, which are available on our website.

During the call, we will refer to non-GAAP financial measures in discussing the company's performance. You can find a reconciliation of these measures to GAAP financial measures in our materials for today's call. Finally, Synchrony Financial is not responsible for and does not edit or guarantee the accuracy of our earnings teleconference transcripts provided by third parties. The only authorized webcast are located on our website.

On the call this morning are Brian Doubles, Synchrony's president and chief executive officer; and Brian Wenzel, executive vice president and chief financial officer. I will now turn the call over to Brian Doubles.

Brian Doubles -- *President and Chief Executive Officer*

Thanks Kathryn, and good morning, everyone. Today's Synchrony reported strong first quarter results, including the successful completion of two previously announced transactions, the sale of our Pets Best insurance business, which generated an $802 million after-tax gain in the quarter and will extend our reach in the rapidly growing pet industry through a minority interest in international pet holdings we received as part of that sale and the acquisition of Ally Lending's $2.2 billion point-of-sale financing business, which will augment the existing offerings in our home and auto and health and wellness sales platforms. Together, these transactions expand Synchrony's differentiated offerings in the market and strengthen our position as the partner of choice as we drive long-term value for our many stakeholders. Excluding the impact of the Pets Best gain on sale, Synchrony delivered adjusted first quarter net earnings of $491 million or $1.18 per diluted share, a return on average assets of 1.7% and a return on tangible common equity of 16.8%.

This performance highlights the resiliency of Synchrony's earnings power over time as we deliver results while positioning the business for strong risk-adjusted growth ahead. Our differentiated model enables us to assess and react quickly through cycles and environments as our broad product suite, compelling value proposition, and innovative technology continue to resonate with both our consumers and partners. We opened 4.8 million new accounts in the first quarter and grew average active accounts by 3%. Our products and value propositions drove $42 billion in first quarter purchase volume, 2% above the prior year and our highest ever first quarter performance.

Health and wellness purchase volume increased 8%, led by pet, dental, and cosmetic and reflecting broad-based growth in active accounts. In diversifying value, purchase volume increased 4% driven by spend both at our partners and outside of our partners. Digital purchase volume increased 3%, reflecting continued consumer engagement through growth in average active accounts. In home and auto, purchase volume decreased 3% as the strong growth in home specialty and auto network and the impact of the Ally Lending acquisition was offset by a combination of lower customer traffic, fewer large ticket purchases, and lower gas prices.

and lifestyle purchase volume decreased 4%, reflecting the impact of lower transaction values. Dual and co-branded cards accounted for 42% of total purchase volume for the quarter and increased 6% as our value propositions continue to drive increased engagement and growth. Synchrony's out of partner spend reflects a comprehensive range of categories, industries and products and offers a deeper view into consumer behavior throughout the quarter. Spending in January was impacted by challenging weather conditions as average transaction frequencies declined 4% versus the prior year.

In February and March, however, we saw a rebound, particularly in nondiscretionary categories. Overall, consumers focused on more nondiscretionary spend in the quarter and shifted out of certain discretionary categories like home furnishings, travel and entertainment. Despite the change in mix over, we continue to see broad-based growth in many discretionary and nondiscretionary categories. Across the business, Synchrony continues to see indications that nonprime borrower spend has slowed, and our portfolio's purchase volume growth continues to be driven by higher credit grade consumers.

Average transaction values among super prime borrowers continue to increase. And similarly, we see average transaction frequency growth from our prime and super prime segments. The relative adjustments in consumer spend behavior generally reflect a financially healthy consumer who is continuing to become more selective in their purchases and align their cash flows. A trend which has also continued to take shape in Synchrony's credit performance.

Portfolio payment rates continue to moderate and reached 15.8% for the first quarter, about 90 basis points lower than last year and about 60 basis points higher than the average payment rate level across our first quarters from 2015 to 2019. The relative pace of payment rate moderation has continued to slow from both a generational and credit grade perspective, which when combined with the spending trends we've observed reinforces our view that borrowers are generally reverting to spending and payment behaviors that are more consistent with pre-pandemic norms. These trends are also supported by a number of our other consumer financial health indicators, including a strong labor market and external deposit data that has shown relative stability across industry savings account balances. Taken together, these dynamics are contributing to Synchrony's recent delinquency performance highlighted on Slide 11, where the year-over-year rate of change has slowed as our portfolio has reached pre-pandemic ranges.

The normalization and recent stabilization of our delinquency performance has occurred at a more gradual pace than the majority of our industry peers, underscoring the powerful combination of our disciplined underwriting, advanced analytics and sophisticated credit management tools. We're encouraged by these trends and continue to expect our portfolios net charge-offs to peak in the first half of this year. We continually monitor indicators across our portfolio, along with the broader industry's credit performance and continue to take credit actions to optimize our portfolio's positioning for 2024 and beyond. Synchrony utilizes a broad range of proprietary and external data, including payment behavior characteristics, billions of transactions, and credit bureau alerts to deliver actionable insights that inform our underwriting, product, and credit management strategies across the account, channel, and port levels.

Our ability to leverage these insights and deliver optimized financing solutions and experiences for our customers and partners even as needs evolve and market conditions shift is what enables Synchrony to consistently deliver the outcomes that matter most for our many stakeholders and increasingly positions us as the partner of choice. To that end, Synchrony added or renewed more than 25 partners in the first quarter, including BRP and added two new technology partnerships with Adit practice management software and ServiceTitan. We are excited about our new partnership with BRP, a global leader in powersports and marine products which will enable their U.S. dealers to offer secured installment loan products for their well-known line of power sports products, including the Ski-Doo, Sea-Doo, and Can-Am on and off-road vehicles.

Synchrony will deliver our financing offers with flexible terms through their online or in dealership application process, highlighting our ability to address the diverse needs and preferences of our customers. And Synchrony's strategic technology partnerships Adit practice management software and ServiceTitan each represent opportunities to drive seamless customer experiences while also expanding access to our diversified suite of financial solutions and services. Synchrony's partnership with Adit, an industry-leading dental practice management software provider will expand CareCredit access to dental practices nationwide and includes integration with Adit Tech for patients, enabling a seamless and easy-to-use experience for both patients and practitioners. Connecting patients to payment solutions at their dentist office is an essential part of ensuring their care journey is as smooth as possible and dental practices benefit from more timely and effective revenue cycle management.

Similarly, Synchrony will integrate with ServiceTitan, a leading software platform built to power trades businesses, enabling contractors to offer their home improvement financing through our direct-to-device application process. By providing access to flexible financing at their fingertips, customers are empowered to make a choice that gets them closer to their goal while their contractors benefit from a frictionless sales experience. So whether we are building new relationships, or supporting and enhancing existing ones. Synchrony deeply understands what our customers need and expect and what our partners, merchants, and providers are seeking to achieve.

Our ability to deliver for these stakeholders and consistently achieved strong outcomes through varying conditions demonstrates the strength of Synchrony's business model and commitment of our incredible team. And speaking of our team, in today's world, it has never been more important for us to attract and retain the best talent, which we do to our unwavering commitment to our employees and our culture. So I'm proud to share that we've been named among the top best companies to work for in the U.S. by Fortune magazine and Great Places to Work.

Synchrony moved up 15 positions to No. 5 in the 2024 rankings, reflecting our unique and special culture and our relentless focus on putting people first, as we continuously strive to achieve best-in-class experiences for our many stakeholders. And with that, I'll turn the call over to Brian to discuss our financial performance in greater detail.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thanks, Brian, and good morning, everyone. Synchrony's first quarter results reflected the combination of our differentiated business model and a resilient consumer in an evolving macroeconomic environment. We generated $1.3 billion in net earnings or $3.14 per diluted share on a reported basis. Excluding the $802 million after-tax gain from the sale of our Pets Best business, we generated $491 million in net earnings or $1.18 per diluted share.

Lending loan receivables grew 12% to $102 billion. This growth reflected the impacts of the continued purchase volume growth, an approximate 90-basis-point decrease in payment rate and the completion of our Ally Lending acquisition. Net revenue increased $1.6 billion or 50%, driven by the Pets Best gain on sale of approximately $1.1 billion, which was reported through other income. Excluding the Pets Best gain on sale, net revenue increased $530 million or 17%.

Net interest income increased 9% to $4.4 billion, driven by 50% higher interest and fees. This growth in interest and fees reflected the combined impacts of higher loan receivables, a lower payment rate and higher benchmark rates and was partially offset by higher interest expense from benchmark rates. Partly of $764 million in the quarter were 3.04% of average loan receivables, a reduction of $153 million versus the prior year, driven by higher net charge-offs, partially offset by higher net interest income. Provision for credit losses increased to $1.9 billion, reflecting higher net charge-offs and a $299 million reserve build, which included a $190 million bill related to the acquisition of Ally Lending.

Other expenses grew 8% to $1.2 billion, primarily driven by higher employee costs in support of growth and our continued investment in technology. Our efficiency ratio for the quarter excluding the impact of the gain on sale was 32.3%, an improvement of approximately 270 basis points versus last year. Next, I'll cover our key credit trends on Slide 10. At quarter end, our 30-plus frequency rate was 4.74%, compared to 3.81% in the prior year and 18 basis points above our average for the first quarter of 2017 to 2019.

Our 90-plus delinquency rate was 2.42% versus 1.87% last year and 14 basis points above our average for the first quarter of 2017 to 2019. Our net charge-off rate was 6.31% in the first quarter, compared to 4.49% in the prior year, an average of 5.84% in the first quarters of 2017 to 2019. Our allowance for credit losses as a percent of loan receivables was 10.72%, up 46 basis points from the 10.26% in the fourth quarter, primarily reflecting the impact of seasonal trends. The reserve build in the quarter largely reflected the addition of the Ally Lending portfolio.

As Brian discussed, Synchrony's credit performance has been consistent with our expectations. Given that Synchrony shares the consumer with our broader industry peers, we continue to monitor our portfolio and the broader industry's credit performance as we've done periodically since mid-2023, we've been taking incremental credit actions starting in March. Across specific segments of our portfolio that should reinforce our portfolio's performance for 2024 and beyond. As Slide 4 demonstrates, Synchrony has built a track record of achieving consistent, attractive risk-adjusted returns through changing market conditions.

This performance has been enabled by the combination of our disciplined underwriting, which targets a 5.5% to 6% loss rate on average and RSA, which aligns program and portfolio performance. We will continue to leverage our deep consumer lending experience, our diversified product suite, sales platforms and verticals and our sophisticated data analytics and technology to further deliver on that priority. Turning to Slide 12. Synchrony's funding, capital, and liquidity continue to provide a strong foundation for our business.

Our consumer bank offerings continue to resonate with our consumers as we grew deposits $2.4 billion in the first quarter. Deposits represented 84% of our total funding at quarter end, and are complemented by our securitized debt and unsecured funding strategies, which each represent 8% of our total funding. During the quarter, we issued $750 million of secured funding included a preferred stock issuance of $500 million which served to more fully optimize our capital structure. Total liquid assets and undrawn credit facilities were $24.9 billion, up $3.2 billion from last year and at quarter end represented 20.5% of total assets, up 38 basis points from last year.

Moving on to our capital ratios. As a reminder, we elected to take the benefit of CECL transition rules issued by the joint federal banking agencies. Synchrony will continue to make its annual transition adjustment to our regulatory capital metrics of approximately 50 basis points each January through 2025. The impact of CECL has already been recognized in our income statement and balance sheet.

Under the CECL transition rules, we ended the first quarter with CET1 ratio of 12.6%, 40 basis points lower than last year's 13%. The net capital impact of our Pets Best sale and Ally Lending acquisition added approximately 40 basis points to our CET1 ratio. Our Tier 1 capital ratio was 13.8%, unchanged compared to last year. Our total capital ratio decreased 10 basis points to 15.8%, and our Tier 1 capital plus reserve ratio on a fully phased-in basis increased to 23.8%, compared to 23% last year.

During the first quarter, we returned $402 million to shareholders, consisting of $300 million of share repurchases and $102 million of common stock dividends. As of March 31, 2024, we had $300 million remaining in our share repurchase authorization. As part of our capital planning approved by the board of directors, our share repurchase authorization was increased by $1 billion, bringing our total authorization to $1.3 billion for the period ending June 30, 2025. Furthermore, the board intends to maintain our current quarterly dividend of $0.25 per share.

Synchrony remains well positioned to return capital to shareholders as guided by our business performance, market conditions, regulatory restrictions, and subject to our capital plan. Turning to Slide 13 for a review of our 2024 business trends. As a reminder, Synchrony previously filed an 8-K on March 5, 2024, with a revised financial outlook, including EPS guidance for the full year 2024, specifically related to the framework around the pending late fee rule change and our product, policy, and pricing changes, there continues to be uncertainty regarding the timing and outcome of the late fee related litigation that was filed in March, the potential changes in consumer behavior that could occur as a result of late fee rule changes and any potential changes in consumer behavior in response to the product, policy, and pricing changes we implement as a result of the new rule. Outcomes and actual performance related to any of these uncertainties could impact the EPS outlook.

Looking at the remainder of the year. Synchrony will continue to execute across our key strategic priorities and prepare our business as we navigate an evolving operating environment. We have commenced the implementation of our product, policy, and pricing changes the majority of which will be completed over the next two to three months, and we anticipate having greater clarity on the impacts of these changes likely in the second half of the year. In the meantime, we continue to expect our business to demonstrate typical season patterns in many of our key metrics.

We expect net charge-offs to peak in the first half of the year and that the reserve coverage at year-end should be lower than the year-end 2023 rate. Finally, we expect that the RSA will continue to align program performance and continue to function as designed. In closing, Synchrony is focused on leveraging our core strengths to optimize our business position and build our long history of delivering steady, growth, and strong risk-adjusted returns. Our depth of consumer lending experience informs our go-to-market and product strategies.

Our investment in sophisticated credit management tools empower our agility and our RSA supports our financial resilience. Together, our differentiated model continues to consistently deliver value to each of our stakeholders through changing environments. I will now turn the call back over to Brian for his closing thoughts.

Brian Doubles -- *President and Chief Executive Officer*

Thanks, Brian. Synchrony's first quarter results were driven by our differentiated business model and our commitment to delivering sustainable, strong results for our customers, partners and stakeholders. We are leveraging our proprietary industry and consumer insights, our diversified products and platforms and our advanced data analytics to consistently provide access to responsible financing solutions for our customers, sales and loyalty for our partners, and sustainable growth as strong risk-adjusted returns for our stakeholders. We're confident that Synchrony is operating from a position of strength as we navigate the year ahead.

We're excited about the opportunities we see to drive still greater long-term value as we continue to partner with hundreds of thousands of small and midsized businesses and health providers to provide access to credit to our more than 70 million customers for their everyday needs and wants. And with that, I'll turn the call back to Kathryn to open the Q&A.

Kathryn Miller -- *Senior Vice President, Investor Relations*

That concludes our prepared remarks. We will now begin the Q&A session. So that we can accommodate as many of you as possible. I'd like to ask the participants to please limit yourself to one primary and one follow-up question.

If you have additional questions, the investor relations team will be available after the call. Operator, please start the Q&A session.

Questions & Answers:

Operator

[Operator instructions]. We'll take our first question from Ryan Nash with Goldman Sachs. Please go ahead.

Ryan Nash -- *Goldman Sachs -- Analyst*

Hey, good morning, guys.

Brian Doubles -- *President and Chief Executive Officer*

Good morning, Ryan.

Ryan Nash -- *Goldman Sachs -- Analyst*

So it seems like charge-offs are coming in a little bit higher than expected, but we've now seen delinquencies potentially inflect and starting to follow seasonal patterns. So can you maybe talk about what this means for the full year loss rate? And where do you see losses in the allowance settling out over the intermediate time frame if your forward view proves accurate?

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Yes. Thanks for the question, Ryan. So again, I think we have been somewhat clear that we believe charge-offs when you look at the delinquency trend as we entered into 2024 that charge-offs will peak in the first half of the year and decline. I think you see that, well, certainly in the end in the first quarter.

I think when you see the results in April when we put out a rate, you will see delinquencies down on both a 30-plus and 90-plus basis relative to what we just reported here today. So I think when you start looking at that, you look at the seasoning of the credit actions that we took really in the second and third quarter of last year. We feel good that the charge-off rate will decline in the back half of the year. And certainly, we haven't changed our underwriting targets to be in the 5.5% to 6% range, generally speaking.

So we feel good about that, which leads us to the belief that if you see that lower net charge-off rate in the back half of the year and you project that forward into 2025 that the reserve coverage rate should be below the 10.26 rate that we had really at the end of last year and really the increase in the first quarter here was reflective more of the seasonal patterns than anything else.

Ryan Nash -- *Goldman Sachs -- Analyst*

Got it. And then maybe as a follow-up. So the RSA has beaten several quarters in a row. 1Q was well below that $3.50 to $3.75, I think you had outlined in the prior guidance.

So maybe just talk a little bit about how you're thinking about the RSA for '24. This is, of course, excellent fees. And do you think the new normal for this is below that 4% to

4.25%, 4.5% you've outlined in the past? Thank you.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Yes, Ryan, as I look the RSA trend, the first quarter was it that clearly, when you look at year-over-year on the higher net charge-offs, which was a substantial amount of the decrease in the RSA partially offset about a third of it offset by really NII growth. And the NII was a little bit suppressed because you had the last full impact on your interest-bearing liabilities. If I take a step back for a second and think about the core business, Ryan, I believe we're at a point where we have peaked on assuming no rate increases and peaked on our interest-bearing liability costs as I talked about the net charge-off rate taking in the first half, you should see an upward bias than in the RSA as we step through the remaining quarters of the year, the other variable will be volume. So even if you looked on a linked quarter basis, volume being down and being down a little bit year-over-year for some of the RSA clients will play a factor, but it should trend upwards as we step through, given the peaking nature of the interest-bearing liability costs and charge-offs.

Ryan Nash -- *Goldman Sachs -- Analyst*

Thanks for the color, Brian.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thanks, Ryan.

Operator

Thank you. We'll take our next question from Sanjay Sakhrani with KBW. Please go ahead.

Sanjay Sakhrani -- *Keefe, Bruyette and Woods -- Analyst*

Thank you. Good morning. I guess my first question on purchase volume. Obviously, that continues to remain weak.

Could we just talk about sort of how we get it back to a baseline that accelerates? I know inflation is sort of weighing in on the consumer. But maybe just talk about what's driving that and how and when we get it back to a baseline that's higher.

Brian Doubles -- *President and Chief Executive Officer*

Yes, Sanjay, maybe I'll start on this and then pass it to Brian. I mean, look, I think generally, we're pretty pleased with the growth that we're seeing in the business. I think the consumer is still in good shape. Obviously, the job market is very strong, that's helping.

But you are seeing a lot of that spend being driven by the higher end consumer -- the higher income consumer. And that's actually not a bad thing. I think they're benefiting obviously job market, house prices are up, stock prices are up. On the lower end, that's where you're seeing some of the slowdown.

And from a credit perspective, that's not the worst thing. I think we see people being prudent. I think they're managing to a budget, they're managing to their cash flows. They're not overextending.

So I think there's a positive read-through from a credit perspective on that. I don't know, Brian, if you want to add.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

The first thing, Sanjay, I want to remind people, we're comping off of what I'd say is a really strong quarter last year. So when you look at a 2% up, that is very strong. It's a record for our company for the first quarter. Brian highlighted some of the differences, I think you're plus 8% on the higher freight cost is down a little bit year-over-year in lower freight cost.

We are seeing most certainly the consumer step back in certain bigger ticket areas, right, either going down in transaction values, which I think you see reflected in the home and auto purchase line being down and really in lifestyle. But what you see strengths in those pockets. Our home specialty business is up in double digits or our outdoor business is up. So it's selected.

The consumer is just being more prudent with the dollars. Again, we see transaction frequency up even though transaction values are down. So the consumer, I'd say, is managing through this period. So I wouldn't necessarily read too much into it that there's a big change in the consumer profile and what they're doing.

Sanjay Sakhrani -- *Keefe, Bruyette and Woods -- Analyst*

OK. Very helpful. Thank you. And I couldn't let you guys get away without a late fee question.

So maybe just as we're waiting here on the courts at this point. Maybe you can just talk about how you're planning for a mid-May implementation and how much flexibility you have if there's an injunction after the current planned implementation period? And any early observations on the PPPC behavior changes? I know most of that will be in the second half. Thank you.

Brian Doubles -- *President and Chief Executive Officer*

Yes, Sanjay. So we're not surprised this was the second question, we thought it might be the first. Obviously, we are waiting on the outcome of litigation that is uncertain but we're executing our plan. We said from the beginning that we weren't going to wait for the outcome on litigation, just given the uncertainty.

So we began the implementation of our changes in December. We're already over 60% done with those. We've got to send out the changes in terms, etc. The vast majority of those will be done in the next two months.

So look, we're executing the plan. In terms of timing, our basis was October 1 that assumed an injunction. With that said, it will be extremely operationally challenging to get this implemented in May, but we're preparing for that as well as a scenario.

Sanjay Sakhrani -- *Keefe, Bruyette and Woods -- Analyst*

Thank you.

Brian Doubles -- *President and Chief Executive Officer*

Thanks, Sanjay.

Operator

Thank you. We'll take our next question from Terry Ma with Barclays. Please go ahead.

Terry Ma -- *Barclays -- Analyst*

Thanks. Good morning. I just wanted to follow up on the product policy and pricing changes. Is there any way we should think about how those benefits sort of materialize once it's kind of fully phased in? Is there a way to think about whether or not it's a slower ramp through the year, a step up or kind of like a quicker ramp?

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

I'll take this and see if Brian has a follow-on. I think what you should expect to see is beginning an impact in a little bit in the second quarter, more in the third quarter with regard to the mitigants and then it continues to build from there. I've gotten the question in the past, and we really hadn't talked very much about it. When you think about how the APR phases in for the consumer.

So when the APR becomes effective, which again, think about that as 60 days after notice, you'll begin to feel the effects of that, I'd say 50% in the first 12 months if you roll that out, 75% of 24 months. So you begin to fill that out. Now some of the other fees that come in and some of the other policy changes, they are more immediate. When it comes through year now, we'll certainly will see, as that flows through, there will be some adoption really relating to going with the e-statements and things like that, but it flow through different parts of the P&L that we expect.

So again, I think you begin to see a ramp with some of the things that are more immediate and it gives you a sense on how the APR comes in. But that's why there was a blend in order to kind of get to that neutrality point a little bit sooner than just relying upon APRs.

Terry Ma -- *Barclays -- Analyst*

Got it. That's helpful. And then for my follow-up, I just had a question on your cash balances. It looked quite elevated this quarter relative to last year.

Any color you can provide there on how we should think about that going forward?

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Terry, to be honest with you, we have excess liquidity this quarter. I go back and attribute that really to the strength of our deposit franchise. I think when you just look at the core retail deposits were up $3.4 billion from the end of last year. And then you put the seasonal nature of the cash that kind of comes in, it served us well as we purchased Ally for $2 million, but we also got $600 million coming in from the sale of the Pets Best franchise.

So I'd say liquidity is kind of peaking. So I think if you think about margin and the effects on margins, you step through, net interest margin is probably at a low point for the year in the first quarter, given all that excess liquidity. And listen, I think we've heard other lenders over the last week or two talk about balances being down, flatter balance sheets. That's not what we're expecting.

So clearly, we're still in deposit gathering mode. We haven't really done anything to significantly track new deposits. It's just the strength and attractiveness of our digital franchise.

Terry Ma -- *Barclays -- Analyst*

OK. Great. Thank you.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thanks, Terry.

Operator

We'll take our next question from John Hecht with Jefferies. Please go ahead.

John Hecht -- *Jefferies -- Analyst*

Yes, guys. Good morning. Thanks for taking my question. I guess just a little bit more on the net interest margin, Brian, I know there's always a seasonal impact in Q1 as you gather deposits to kind of prefund for growth later in the year.

And then you mentioned the PetSmart kind of causing incremental cash balances. But maybe could you give us some sense for like the -- parse out the -- what drove the margin decline this quarter relative to, say, 1Q '23? And then maybe talk about marginal deposit pricing and where you're kind of in the CD markets and the savings account markets and when deposit costs should level out.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thanks for the question, John. So when I think about year-over-year net interest margin, right, it's down 67 basis points. The biggest driver of that if I do net funding costs, so think about your interest-bearing liability costs offset by your income coming off the investment portfolio, that's about 88 points of decline that came off of that. There's another 19 basis points decline of having a higher -- at a higher liquidity portfolio year-over-year.

That's been offset by the interest of fee yield, which is plus 40. Again, as we think about how that develops for the year, the asset -- the ALR kind of mix will neutralize back out. We believe we peaked on interest-bearing liability costs from here. So in theory, as you step through, net interest margin should really improve as you move throughout the year.

To your second question around pricing, really, when you think about the various tenors. If you looked at our 12-month CD rate, we're down 50 basis points from the end of the year 4Q '23 down to 48 days. We followed our people down which is generally flat to the second quarter of 2023. All issuers or all digital banks do have promo rates.

So we have one promo rate still over 5%, which is our lever 15-month, and that's really to manage at the end of the day, our retention on CDs and be competitive with other people, which have kind of off tenor. I would expect, as we see people who are trying to manage their balancing, their liquidity down, we'll follow the market down here. We generally lag the brick-and-mortar banks, but we will follow the digital banks down as we move throughout the year. The final piece I'd say, John, is we still have three rate cuts in, but we didn't really have them coming into September, so there's no real impact unless something was more significant and moved sooner in the year from the Fed.

John Hecht -- *Jefferies -- Analyst*

OK. And then maybe this is a little sticky of a question, but if -- and I know you've pulled EPS guidance, but ex rate fees with the -- your original $5.75 to $6 EPS still hold? Or are there other changes that we should consider reflective of kind of just the trend changes that we want to consider in terms of modeling?

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Yes. So just to be clear, John, we put out the 8-K on March 5 that had the EPA guidance, we have not pulled that guidance. We just didn't reiterate it because it's only 45 days ago, so we did put it on the page this morning. If I think about that core business, what I'd say, Brian and I would probably tell you is that we're ahead of what we thought we're going to be.

I think it's just bearing liability costs are up were better than our expectations. Charge drops generally in line with our expectations. And then when you start to think about some of the things I've highlighted about. Number one, your interest-bearing liabilities cost peaking; number two, charge-offs peaking in the second half.

And I mentioned on this call that you're going to see a sequential decline in delinquencies. That's in line I think when you then think about the reserve rate being lower than 10, 26, I think that sets up and is consistent with the guidance we provided out in March 5. But again, it's only 45 days or so ago.

John Hecht -- *Jefferies -- Analyst*

That's great color. Thanks so much.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thanks, John.

Operator

Thank you. We'll take our next question from Jeff Adelson with Morgan Stanley. Please go ahead.

Jeff Adelson -- *Morgan Stanley -- Analyst*

Good morning, guys. Thanks for taking my questions. Just on the credit outlook, I wanted to dig in a little bit more on the mid-'24 versus first half '24. Just given the nice delinquency formation improvement you've been seeing and your second quarter tends to be the seasonally best for NCO.

Just wanted to help understand what mid-2024 looks like here. Is that more of a seasonally adjusted peak year-over-year growth peak? Or -- and maybe just help us understand what you're thinking about there.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Yes. Maybe I'll try to simplify this, Jeff, but thanks for the question. Everything is seasonally adjusted. So we built our plan.

It has a seasonal overlays, which have been muted the last couple of years, given the normalization to happen as we move back to the pre-pandemic levels of delinquency. I would think about it in this way and just fairly simple. First half losses will be higher than second half losses and I think if you just kind of rolled most certainly are 30-plus and 90-plus out, you can kind of see how that will play through if you believe that you're going to get a band here in April, further than in dollars. You can see how it flows out.

So I just think about it in half to simplify versus trying to get to an exact date when it peaks.

Jeff Adelson -- *Morgan Stanley -- Analyst*

Got it. And again, on the late fee I think you mentioned how difficult it would be to implement operationally in May. Could you just talk about what that specifically might look like for you? And how we maybe can think about the $0.15 to $0.25 impact you made out previously, if that does happen? And kind of as part of the question as well, I know you mentioned 60% of the changes are out. Can you just talk a little bit about the consumer behavior, response rate in terms of how they're reacting to those changes so far?

Brian Doubles -- *President and Chief Executive Officer*

Yes, I'll take the first part of that. So operationally, it's very challenging from a number of different angles. And obviously, it's for the issuer, but also the vendors that the issuers rely on. I think it's important to note, too, that this is across the industry.

It's not specific to us. Everybody has got the same challenges. If any event we do have to implement this on May 14. I think we were prepared to make the systematic changes and things like that.

The real challenges come around terms changes and updating collateral and things like that. So that's where a lot of the operational complexity is. And I'll turn it over to Brian.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Yes. So to try to provide a dimension, really more a framework to think about it, Jeff. Our base case assumption as we walked in was an October implementation day, we thought that's going to be the case. There are a lot of scenarios between here and when the courts will take action on the pending litigation and the injunction.

So it's difficult to speculate on any particular scenario because it's just so uncertain. I think everyone would have thought something different, at least everyone on this call would have had a different opinion. That being said, if you want to think about a framework for one second. Number one, I'd say this doesn't impact where you exit out of 2025 from projective whether it's October or earlier than October, that exit point is exactly the same, number one.

Number two, it doesn't really impact the stability of our business and what we're doing from our PPPC changes. As Brian talked about how much we've rolled out. So that -- those two things fundamentally don't change. That being said, if you think about an implementation date, there's a much larger impact in 2024 on EPS.

But then as you think about 2025, that EPS generally then would be higher than either the October scenario or significantly higher on an actual '24 to '25 basis as you look at it. So once we have greater clarity with regard to when the actual implementation date happens or occurs or will occur. We'll then when it provide incremental transparency relative to the financial implications, both on '24 and try to dimensionalize '25 for people as well. But I think it's important to understand those frameworks about how we exit '25 and then any incremental detriment in '24 in theory get a benefit in '25.

Brian Doubles -- *President and Chief Executive Officer*

And then just on your last question on consumer behavior and impact. I'd say we haven't seen anything yet that's different than our expectations. I'd say it's largely in line. But the only caution I would have is it's very early.

There's a bleed in period for a lot of these terms changes. But so far, what we're seeing from the consumer side is generally in line with what we expected.

Jeff Adelson -- *Morgan Stanley -- Analyst*

Great. Thank you.

Brian Doubles -- *President and Chief Executive Officer*

Thanks, Jeff.

Operator

Thank you. We will take our next question from Saul Martinez with HSBC. Please go ahead.

Saul Martinez -- *HSBC -- Analyst*

Thank you. Good morning. Thanks for taking my question. So just a follow up on the response to the last question on the PPPC impact.

So as I hear you right, the March 5 8-K, the guidance that -- or the estimates that you gave there of the offsets ranging from $650 million to $700 million pre-tax, which does imply a pretty significant ramp given the time rises gave into the fourth quarter. We should assume -- those are still good benchmarks to use and -- because it obviously does imply a pretty significant ramp in the back end of the year in terms of NII. That's the other late fee impact. So I just want to make sure that those numbers are still applicable or am I missing something there?

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Well, let me just start with. That's based off on October implementation date. And the way to think about it is you begin to have some of the PPPC changes happen in the second and third quarters, partially offset by RSA, then you come into the fourth quarter, you would have the detriment from the late fee going away, but a higher RSA offset in that quarter. Obviously, that all shifts if you went to an earlier implementation date.

So that range will change materially in a situation where you had a potential implementation day prior to October. Again, I think if that does happen, we'll come back and provide greater clarity on the impact on the late fees as well as the impact on the changes that we're doing.

Saul Martinez -- *HSBC -- Analyst*

OK. OK. That's helpful. And I guess just a broader question.

You did in your presentation reiterate the long-term target, 2.5-plus percent ROA, 28-plus percent RPC. I get the offsets and you guys are working to fully offset that. But it is a pretty significant -- if it gets implemented, it is a pretty significant reduction or the source of revenue that effectively goes away and we'll see what happens with Basel III, but at least maybe it's not going to be an impact. But the direction of travel at least on capital is moving higher.

I'm just curious like how you're thinking about the long-term targets for profitability going forward, your degree of confidence in how you -- where you think those are still applicable targets?

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Yes. Obviously, we look at it and Brian and I have been very clear that the organization, our goal is to be ROA neutral at the end of the impact of the late fee rule change. And we -- again, when we get better clarity with regard to the implementation date, we could talk a little bit about that timing. So the goal is to get back to ROA neutral.

And that's the plan that we are rolling out and beginning to execute today. Understand there are a lot of assumptions with regard to consumer behavior that are in there and other things that can impact it. That being said, if you think about a more normalized environment, right? So I think 5.5% interest rates are not normalized. When you think about an inflation rate that's evolving when they normalize, you should be able to come back to that ROA profile that's -- and that's one of the strengths of the RSA itself that kind of helps us get back to that.

From a capital standpoint, I can't really forecast and I'm not sure other people can, where exactly the Fed may or may not go with regard to Basel III. I mean certainly, there has not been a lot of support around that. So we'll see what those changes are. That being said, we actually have excess capital, and we're going to continue to move down toward our target, which helps us get to the ROTCE.

So again, the focus on being ROA neutral through the rule team, number one, deploying our excess capital, whether that being to our RWA, that's accretive to earnings in ROA or when we turn it back to shareholders. Our goal is to get back to those medium to long-term targets we put out a couple of years ago.

Saul Martinez -- *HSBC -- Analyst*

OK. Thank you.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thank you. Have a good day.

Operator

Thank you. We will take our next question from Don Fandetti with Wells Fargo. Please go ahead.

Don Fandetti -- *Wells Fargo Securities -- Analyst*

Good morning. Your capital position is still pretty strong. I was just curious if you thought the CFPB changes could lead to some portfolio movements over the next year or two? And do you see any more opportunistic deals like Ally?

Brian Doubles -- *President and Chief Executive Officer*

Yes. Look, we're always on the lookout for potential acquisitions or new programs, Ally fit our business model perfectly. It's exactly the type of acquisition that we look for. It's in industries that we know really well.

We understand the products, a great cultural fit, like it just -- it checked all the boxes. So we have excess capital today. We generate a lot of capital over the calendar year. And if we have the opportunity to do something opportunistic, we certainly have the financial resources to do it.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Yes. The only thing I'd add on to that, just to dimensionalize it for you, if you look at Page 12 of our earnings deck, we showed that the earnings power of this business does generate that capital, you look year-over-year, last 12 months, we generated 2.5% CET1 just from the net earnings of the business. So really positive effects that you can look at and lean into plus you have the excess capital that weigh between there and our target level of the CET1.

Brian Doubles -- *President and Chief Executive Officer*

Yes. The only other point I'd make on this is we are very disciplined when it comes to accretive acquisitions that have a really good strategic fit. I mean, I think you've seen that discipline over the years. We haven't done really large-scale M&A.

We've been very thoughtful about finding things that are relatively modest from a capital outlay perspective, but our businesses that we can grow really well. That's a great example of that, a perfect example of that, a leg row I think Ally is going to be a home run for us. So we are very disciplined in terms of what we look for.

Don Fandetti -- *Wells Fargo Securities -- Analyst*

Thank you.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thanks, Don.

Operator

Thank you. We'll take the next question Rick Shane with J.P. Morgan. Please go ahead.

Rick Shane -- *JPMorgan Chase and Company -- Analyst*

Hi, guys. Two questions this morning. First, on the CFPB, one of the consequences that the industry has raised in terms of the rule changes, the loss of deterrents, would suggest that DQs will be higher. I'm curious if you guys have had discussions with your accountants related to how you will treat reserve policies if you have higher delinquencies but potentially assume lower pull-throughs?

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Rick, thanks for the question. Well, certainly, we've had internal conversations about the effects of deterrents and it's really going to be how we model any potential change in delinquency. And again, what you're looking at here are individuals who are making a choice not to pay, those who lost their job or had a health event, and roll in delinquency, you're not going to rehabilitate that this wasn't a deterrent for them. They're going to roll to loss or roll the settlement, etc.

This is people who made an active decision to -- they prioritize one payment over another payment. We would have to model that out and then we'll certainly get the accounts comfortable with how it is. But again, we'll have to see because no one really did a lot of testing control at this level of the turn. Most certainly, there's things done back in the CARD Act that demonstrated deterrence, but we'll have to see how it plays out, Rick.

Rick Shane -- *JPMorgan Chase and Company -- Analyst*

Got it. Thank you. And then in terms of the concept of charge-off peak in the middle of the year, seasonality works in your favor really steadily over the next six months and then starts to reverse in the fourth quarter. When you're talking about a peak, are you suggesting that as we move into the fourth quarter, charge-offs will continue to decline or that they will normally seasonally rebound but perhaps not quite as much as they have in the past.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Yes. Thanks for the question again, Rick. We haven't given quarterly guidance. Again, I'm just going to give you the framework.

We applied seasonal patterns to how the loss rate works again. We believe we're more normalized and back to the pre-pandemic levels. And I think as you begin to see, you will see, again, in April, dollar declines in 30 plus and 90 plus, which have a flow-through effect both on the third quarter and the fourth quarter as they kind of come through. So we're not going to get into specific quarter guidance now.

But again, the rates in the first half of the year will be higher than the rates in the second half of the year.

Rick Shane -- *JPMorgan Chase and Company -- Analyst*

Got it. Brian, thank you very much.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thanks for coming. Good day.

Operator

We'll take our next question from Brian Foran with Autonomous Research. Please go ahead.

Brian Foran -- *Autonomous Research -- Analyst*

HI. I was wondering if you could just speak to your annual internal stress testing process. And it's a little screwy, I guess, in this two-year window because you've got the late fee folding in, but then you would already weakened the business with peak losses. Does that become a constraint at all for capital considerations? Or do you feel like you have enough excess capital and enough line of sight to this ROA neutrality that you can kind of look through that maybe a temporarily elevated stress test result.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thanks, Brian. So first, let me just be clear. We have submitted our capital plan to the -- that they were part of the horizontals, were part of the CCAR group, albeit we do not get a stress capital buffer until 2026. So the process remains somewhat the same as in prior years other than will engage a little bit differently with the Fed than we have in the past.

But again, the stress capital buffer comes in 2026. When you specifically look at the capital plan that our board just approved and management presented to them, there were scenarios or scenario in there around late fees and the impact of late fees that put it there. That doesn't -- that informed our overall capital decision, but doesn't necessarily restrict the plans that we had. Even if I came back and said I had an earlier implementation date, which we talked a little bit on this call, that would not necessarily interfere with our capital targets and our plans.

Again, all that's subject to the normal things we'd say is the market conditions and everything else, Brian. But the impact of the late fee roll doesn't necessarily impact the capital plan that we announced this morning.

Brian Foran -- *Autonomous Research -- Analyst*

That's very helpful. And maybe if I could sneak in on competition. Are you generally seeing competitors in the market respond in common ways on these kind of PPPC efforts? Is there any evidence of any putting to big divergence or people breaking from the pack? Or is kind of everyone doing different combinations of similar things.

Brian Doubles -- *President and Chief Executive Officer*

We only see what's out there in terms of public changes in terms. But I would tell you, my expectation is that everybody is going to do a combination of the same things that we're doing. It's a pretty -- it's a relatively standard playbook. You might see some issuers do a couple of things differently.

But I think on the whole, it's going to be the APR increases, different types of fees, etc., to offset this. And it's important that we do. Our goal from the beginning has been to protect our partners and continue to provide credit to the customers that we do today. And unfortunately, that's impossible to do without these offsets.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

The only thing I'd add, Brian, I do think the one thing you will see we probably have been a little bit more -- or surprise showed a little bit more sense of urgency and gotten out ahead of this based upon discussions with our partners. So that may pay a little bit, but I think Brian is right over the medium term here. That's where you're going to see the convergence.

Brian Foran -- *Autonomous Research -- Analyst*

Thank you.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thanks, Brian. Have a good day.

Operator

We'll take our next question from John Pancari with Evercore. Please go ahead.

John Pancari -- *Evercore ISI -- Analyst*

Good morning. Some of your -- on that very last point, they just brought up some of the peer card vendors that have somewhat smaller private label and co-brand card businesses that have begun to indicate maybe a willingness to absorb the late fee -- the foregone late fees as a result of the rule change. Can you talk about if we do see that happen at some players where late fees are a smaller piece of their overall revenue, but they're in the private label in co-brand business, do you view that as a competitive threat? They do absorb the impact?

Brian Doubles -- *President and Chief Executive Officer*

I don't see it as a competitive threat today. I think in our space, in the vast majority of our business, I think you're going to see issuers do the same types of things that we're doing. I think it's going to be really important in terms of the economic sharing with the partners. I think we're obviously focused on providing credit to the customers that we do today.

And fortunately, you need to do some of these things in order to protect that and protect our partners. So I do think you'll start to see -- and we're starting to see this now. You'll start to see some issuers. We're building this into pricing models as we look at new business.

We're starting to build it as we bring on portfolios from our competitors you've got to contemplate an $8 late fee. You have to assume that while we're hoping for a better outcome on the litigation, obviously, you got to build in scenarios where we have a much lower late fee. So I think it will even out over time across the industry, primarily in the space that we operate in today.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

The one thing, John, you just took it up a level for a second. So if you had a theoretical case where someone who has a smaller business than ours decides to absorb some of that late fee, what you end up into is a suboptimal return profile. And inside a large institutionwide may be immaterial. The question would be, does it attract capital? And how long can you sustain that? And we've seen over history, businesses come out of flavor in certain larger institutions where this is a small part.

This is what we do in the same way that we look inside our businesses, our platforms and allocate capital to some of our better performing, higher returning portions of the portfolio that, I think, over time will have to happen to these institutions. So I'm not sure that that's a long-term viable strategy if someone wants to do that. But again, it's very theoretical your question.

John Pancari -- *Evercore ISI -- Analyst*

Got it. No, that makes sense. Thanks for that. And then separately, back to the EPS, sorry to believe that, but the -- I know you're not reiterating that $5.70 to $6 guide.

And I just want to understand, it's just because it was only 45 days ago, and the underlying components that you had baked in at that point in March have not changed materially enough to change how you're thinking about your underlying trends? I know we've had moves in rates, had some development on the late fee dynamics. But I just want to make sure that the core expectations that were part of that $5.7 to $6 have not changed at all.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Yes. Again, I'm going to just say it again, we put that guidance up 45 days ago. I didn't feel a need to -- or I think Brian feel the need to put it back on this page or two kind of update again, what I've said is the quarter and the points I raised about net interest margin, losses, reserves, positive on expenses, I think should be viewed favorably relative to that kind of base based BAU performance of the business. So we're very pleased on how we're exiting out of the first quarter and moving in on a core BAU basis.

John Pancari -- *Evercore ISI -- Analyst*

OK, Brian. Thanks a lot. [Inaudible]

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Great. Thanks. Have a good day.

Operator

And we are almost at our allotted time. We will take one final question from Mihir Bhatia with Bank of America. Please go ahead.

Mihir Bhatia -- *Bank of America Merrill Lynch -- Analyst*

Hi. Thanks for squeezing me in, and good morning. Just wanted to -- two big picture questions. Maybe to start first just on the competitive situation.

And really more -- not so much necessarily on the new programs, but just in terms of the financing offers that are already out there for consumers. How is the purchase volume being impacted at all by consumers just having more choices today? Are there any market share or penetration with sophisticating share in terms of how often consumers turning to Symphony versus others? As a percent of your retail partner sales or anything like that? I'm sure you track it.

Brian Doubles -- *President and Chief Executive Officer*

Yes, we do track it by partner. We look at the penetration rate, sales on our card versus other products. I'll tell you, generally, we're very pleased that inside of the majority of our partner programs that we're gaining share. I think one of the things that helps us do that as we think about a multiproduct strategy, we see our partners engaging more on being able to offer a revolving product, maybe a secured card, buy now pay later.

And I think that's helping us gain share. If you stick to a one product strategy, I think over time, that's a losing strategy and I think you will lose share, which is why we think the multiproduct strategy over time is a winning one. So we feel really good about our ability to continue to take share inside of our partner programs, but also just more generally and even some of the smaller to midsized space.

Mihir Bhatia -- *Bank of America Merrill Lynch -- Analyst*

Got it. Thank you. And then, Brian, just last question. In terms of your -- in the prepared remarks, I think in the press release today, you highlighted the partnership with small- and medium-sized businesses as well as health providers.

I think the emphasis is a little bit of a new emphasis on the small- and medium-sized businesses relative to the old one. So I was just curious, is the growth focus that Synchrony switching a little bit to smaller or maybe the more proprietary programs versus maybe a historical focus on just being the partner of choice for large retailers.

Brian Doubles -- *President and Chief Executive Officer*

Well, I definitely think that's an underappreciated part of our business model. I think people tend to focus on the large partner programs, but we serve hundreds of thousands of providers and small- to medium-sized businesses. And sometimes that gets lost a little bit. So we're definitely leaning in more there.

I'd say we've shifted investment dollars into the health and wellness space, you see that paying off when you look at the health and wellness numbers, I think receivables were up 20%, like we're really reaping the benefits of those investments. So that's a very attractive space for us. The large partner space is still very attractive as well, but I think that part of the business always gets a lot of attention. We're trying to make sure that we talk enough about all the small- to medium-sized businesses and the hundreds of thousands of dentists and pet care specialists across the country that we serve.

Mihir Bhatia -- *Bank of America Merrill Lynch -- Analyst*

Thank you.

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Thanks, Mihir. Have a good day.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

Kathryn Miller -- *Senior Vice President, Investor Relations*

Brian Doubles -- *President and Chief Executive Officer*

Brian Wenzel -- *Executive Vice President, Chief Financial Officer*

Ryan Nash -- *Goldman Sachs -- Analyst*

Sanjay Sakhrani -- *Keefe, Bruyette and Woods -- Analyst*

Terry Ma -- *Barclays -- Analyst*

John Hecht -- *Jefferies -- Analyst*

Jeff Adelson -- *Morgan Stanley -- Analyst*

Saul Martinez -- *HSBC -- Analyst*

Don Fandetti -- *Wells Fargo Securities -- Analyst*

Rick Shane -- *JPMorgan Chase and Company -- Analyst*

Brian Foran -- *Autonomous Research -- Analyst*

John Pancari -- *Evercore ISI -- Analyst*

Mihir Bhatia -- *Bank of America Merrill Lynch -- Analyst*