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Synchrony Financial (SYF) CEO Margaret Keane on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-18-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.22 beats by $0.09 | Revenue of $3.46B (1.77% Y/Y) beats by $34.23M

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Synchrony Financial (NYSE:SYF) Q3 2019 Earnings Conference Call October 18, 2019 7:30 AM ET

Executives

Greg Ketron - Director of Investor Relations

Margaret Keane - President and Chief Executive Officer

Brian Doubles - President

Brian Wenzel - Chief Financial Officer

Analysts

Sanjay Sakhrani - KBW

Bill Carcache - Nomura

Don Fandetti - Wells Fargo

Betsy Graseck - Morgan Stanley

Bill Ryan - Compass Point

Rick Shane - JPMorgan

Matthew O'Neill - Autonomous Research

Dominick Gabriele - Oppenheimer

Eric Wasserstrom - UBS

Moshe Orenbuch - Credit Suisse

Operator

Welcome to the Synchrony Financial Third Quarter 2019 Earnings Conference Call. My name is Vanessa and I will be your operator for today’s call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded. I will now turn the call over to Mr. Greg Ketron, Director of Investor Relations. Sir, you may begin.

Greg Ketron

Thanks, operator. Good morning everyone and welcome to our quarterly earnings conference call. Thanks for joining us. 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 nor guarantee the accuracy of our earnings teleconference transcripts provided by third parties. The only authorized webcast are located on our website.

Now it's my pleasure to turn the call over to Margaret.

Margaret Keane

Thanks Greg. Good morning everyone and thanks for joining us today. I'll begin by providing an overview of our third quarter accomplishments on Slide 3. We continue to deliver strong results this quarter. Earnings of 1.1 billion or $1.60 per share included a reduction in the reserve related to the Walmart consumer portfolio, which positively impacted results by $0.38 in the third quarter.

Loan receivables were down 5%. However, on a Core basis, excluding the Walmart Portfolio loan receivables grew 6%. Net interest income grew 4%, purchase volume was up 5% and average active accounts increased 2%. Our efficiency ratio of 30.8% was down from 31% in the prior year and was in line with our expectations. During the quarter, we grew deposits 3.7 billion or 6% over last year and much of this growth has come through direct deposits.

Our direct deposit platform remains an important funding source for our growth and we are making ongoing investments to help attract new deposits and retain existing customers. Brian will detail some of our efforts here shortly. We are pleased to share our recent partnership renewals and extensions.

In our Retail Card sales platform, we announced the expansion and extension of our strategic consumer credit relationship with PayPal. We will become the exclusive issuer of a Venmo's co-branded consumer credit card, which will launch in the second half of 2020. The new Venmo credit card program will combine Venmo's expertise in mobile design and social user experience with Synchrony's industry leading technology and data analytics to create personalized shopping and payment experiences for Venmo customers.

We also extended our existing relationship with PayPal. This is a new milestone in our 15-year strategic partnership with PayPal in which we continue to leverage our digital technology and expertise to help our partner grow their business through new innovative consumer experiences. We also renewed our partnership with DICK'S Sporting Goods, a leading omnichannel sporting goods retailer that offers an extensive assortment of sports equipment, apparel, footwear and accessories.

Building on a nearly two-decade partnership, this agreement will continue to provide customers with special financing promotions and accelerated rewards program and digital account management through the score rewards branded credit card and co-branded Mastercard credit programs. These cards can be used on dsg.com and across their 700 plus retail stores, including DICK’s Sporting Goods, Golf and Galaxy and Field & Stream. This strategic partnership strengthens the intersection of digital and instore customer experiences for DICK’s card holders.

In Payment Solutions, we had another active quarter for renewals. Recently signing renewals with Polaris, La-Z-Boy and Conn's. Growing our network to create broader acceptance and utility for our cards is a key priority. We have had many recent successes on that front in our CareCredit network. We continue to extend CareCredit’s network of more than 230,000 healthcare providers and retailers nationwide that accept the CareCredit Card, including 8,500 plus Walgreens and Duane Reade stores.

We also added Loyale, wherein CareCredit will be offered as a payment option on Loyale patient financial manager, an end-to-end patient financial engagement platform. This provides consumers more locations where they can use the CareCredit Card for their health and wellness needs. We also signed a new partnership with St. Luke’s University Health Network.

We are also focused on innovative digital technology, data analytics, and seamless customer experiences all of which are fundamental to the success of our existing programs and to winning new ones as we have proven. We continue to invest in digital innovations to ensure our core holders have access to their cards, rewards, and account information across whatever channel they choose to use.

The digital sales penetration across all of our retail card consumers has been growing. Digital sales penetration was 35% in the third quarter. Overall, 50% of our applications are happening online with the mobile channel alone growing 22% over the same quarter of last year. Our capital allocation strategy drives strong growth at attractive risk adjusted returns, while maintaining a strong balance sheet, and the ability to return capital to shareholders.

During the quarter, we repurchased 550 million of Synchrony Financial common stock and paid 145 million in dividends. Overall, it was a strong quarter. We made progress on a strategic initiative. We continue to develop our digital and data capabilities, which is helping us to win in the marketplace and we are making investments in our direct-to-consumer business.

We maintain broad-based growth growing both organically and via new programs and we continue to expand our network. All of this is happening as we maintain focus on the future and the dynamics that are reshaping the consumer experience. Earlier this month, we successfully completed the sale and conversion of the Walmart portfolio and program. I would like to thank our team for working hard to deliver excellent service ensuring the customer was a top priority throughout the process and executing a seamless transition.

Before I turn the call over to Brian to discuss our progress in our direct-to-consumer business, I will highlight our platform results on Slide 4. In Retail Card, strong results were driven by our digital partners, which was largely offset by the reclassification of the Walmart portfolio. Loans were down 11%, but excluding the Walmart portfolio they were up 5%. Interest and fees on loans increased 6% over last year and purchase volume grew 5%. Average active accounts were up 1%.

We are happy to expand and extend our relationship with PayPal through the addition of the Venmo co-branded consumer credit card. We are also happy to renew our relationship with DICK's Sporting Goods, which includes their Golf Galaxy, and Field & Stream brands. Payment Solutions also delivered another strong quarter. We generated broad based growth across the sales platform with particular strength in home furnishings and power that resulted in loan receivables growth of 7%.

Interest and seasonal loans increased 6%, primarily driven by the loan receivables growth. Purchase volume was up 5%, and average active accounts increased 3%. We renewed key partnerships this quarter continuing to drive growth organically to our partnerships and also through our Payment Solutions card network. The Synchrony Home and Synchrony card care credit cards.

These loans networks along with other initiatives such as driving higher card reuse, which now stands at approximately 29% of purchase volume excluding oil and gas has helped to drive results and further build the payment solutions platform for future growth. CareCredit also delivered another strong quarter. Receivables growth of 8% was led by dental and veterinary specialties. Interest and fees on loans increased 9%, primarily driven by the loan receivables growth. Purchase volume was up 10% and average active accounts increased 4%.

We continue to expand our network and the utility of our cards helping to drive the reuse rate to 54% of purchase volume in the third quarter. We drove strong growth across our sales platforms. We extended and expanded relationships, grew our payment solutions in CareCredit network, and increased card utility. All providing a strong base for continued future growth.

With that, I'll turn the call over to Brian Doubles.

Brian Doubles

Thanks, Margaret. Good morning everyone. My comments today will center on our efforts to diversify to our direct-to-consumer channel starting on Slide 5. Among our top strategic partners is evolving and growing our business through the development of new Synchrony branded products and services. More specifically, our objective is to become a leading digital bank with competitive products and capabilities that drive deeper customer relationships and provide an attractive source of funding, while also launching innovative lending products.

While we've been introducing synchrony branded consumer products over the past two years through our Synchrony card care and Synchrony home offerings. We have also recently been focused on the Synchrony branded general-purpose card. Today, I will spend a few minutes outlining how we are progressing on both our banking platform and the general-purpose card.

First, on our deposit products. We have made significant progress over the last several years in building our consumer banking from platform. Our deposits are growing faster than the U.S. direct banking industry and we have expanded market share over the last several years. Deposits currently comprised 76% of our funding profile. With consumer deposits becoming an increasingly larger portion of our mix of total funding.

The investments we've made over the past few years have enabled us to rely less on rate to attract new deposit accounts. Our strategic investments have been focused on enhancing our digital advertising, developing the right content and message to the right audiences, as well as enhancing our digital experience. For example, we launched our New Native App earlier this year, as well as redesigned our marketing side with a better user interface and overall customer experience.

On Slide 6, you can see the results of our efforts. Over the past several years, we have grown deposits 20% per year versus an industry growth rate of 5%. During that time period, we have also been less reliant on rate and have successfully reduced our savings product rates below the competition as shown on the slide. We have also reduced our acquisition cost by 20% in the last three years. We remain focused on making investments to reduce rate sensitivity and acquisition costs.

As we look ahead, we plan to invest in additional capabilities, products, and features. We will also continue to improve customer service and launch differentiated rewards and loyalty programs, all of which not only will drive a better customer experience, but also allow us to continue to grow efficiently and effectively.

Importantly, we are focused on all aspects of the customer experience, starting with a quick seamless account opening process all the way through self-servicing features once the account is opened. We are confident that we have built a solid foundation from which to build for the future objective in the deposit platform. Similarly, on the lending side, we have made significant progress with our general-purpose cards.

As you will recall, we successfully rebranded Toys R Us accounts that qualified for a Synchrony MasterCard, which was a substantial portion of the portfolio. This was a cost-effective way to expand into the general-purpose card market, while also providing continuous and improved utility for our formal cardholders.

Slide 7 highlights our initial results for this product. We had a strong activation rate and repeat usage. In fact, we have also increased sales per account by 40% and balances per account by 50%. At the same time, we are [indiscernible] as we no longer pay the RSA and use those savings to fund the value prop on the cards.

Approaching a general-purpose credit card in this manner has allowed us to utilize an iterative test and learn approach to growth. We're leveraging customer insights and data to test general-purpose card value propositions and features with consumers. At launch, we offered an attractive 2% cash back value proposition, as well as spend incentives, which delivered a strong card and spend activation rate.

We are currently testing different combinations of APRs, promotional offers, and incentives. We are taking a very disciplined approach to future product offerings, value propositions and features.

Looking ahead, we will target our marketing efforts to customer segments where we believe we can achieve attractive risk adjusted returns. While our growth expectations are modest in the short-term given the disciplined nature of our approach we're excited about the opportunity and early results we've been able to achieve so far.

As we seek to diversify our offerings in the direct-to-consumer space, we will leverage the strong foundations we have built. We are evaluating opportunities across a large and diverse market and we're very excited about our prospects in this space.

And with that, I'll turn the call over to Brian Wenzel.

Brian Wenzel

Thanks, Brian, and good morning everyone. I'll start on Slide 8 of the presentation. This morning, we reported second quarter earnings of $1.1 billion or $1.60 per diluted share. This included the reduction in the reserve related to the sales of Walmart consumer portfolio on October. As Margaret noted earlier, the reduction totaled $326 million or $248 million after tax and provided an EPS benefit of $0.38 to the quarter.

Now that the portfolio sale and program conversion is complete, I will provide some details on how this and other factors impact our outlook for the fourth quarter and full year. We generate strong year-over-year growth in a number of areas as noted on Slide 9. Excluding the Walmart portfolio, loan receivables were up 6%. Interest and fees on loan receivables were also up 6% over last year, driven by the growth in receivables.

Overall, we're pleased with the growth we generated across the business, as well as the risk adjusted returns on this growth. Purchase volume growth was 5% and average active accounts increased 2% over last year. Excluding the impact of the Walmart program, purchase volume growth of 7%, and average active account growth was 3%.

RSA's increased $145 million or 17% from last year. Improved program performance and growth drove the increase. RSA as a percentage of average receivables was 4.5% for the quarter. The provision for loan losses decreased $432 million or 30% from last year, mainly driven by the reduction in the reserve related to the Walmart portfolio. The core reserve build was $124 million in the quarter.

Other expenses increased $10 million, 1% over last year, driven by growth that was partially offset by the cost savings executed in advance of the Walmart portfolio sale and program conversion. Holding expenses essentially flat enabled us to deliver positive operating leverage for the quarter, reflecting the improvement in an efficiency ratio from 31% last year to 30.8% this quarter. So, overall, the company continued to generate strong results in the third quarter.

I'll move to Slide 10 to cover our net interest income and margin trends. Net interest income was up 4%, driven primarily by the growth in loan receivables. The net interest margin was 16.29%, compared to last year's margin of 16.41%, down 12 basis points. The manufacturers driving the margin performance were, factors lowering our net interest margin include a slightly lower mix of loan receivables as a percent of total earning assets, compared to last year and an increase in total interest-bearing liabilities cost of 35 basis points to 2.71%, primarily due to higher benchmark rates.

These impacts were partially offset by an increase in loan receivables yield of 31 basis points to 21.42%, which include the purchase accounting impact related to the PayPal credit program in the prior year. Later in the call, I will provide more insight on the direction of net interest margin for the fourth quarter, including the impact from the sale of the Walmart portfolio.

Next, I'll cover our key credit trends on Slide 11. In terms of specific dynamics for the quarter, I'll start with delinquency trends. The 30 plus delinquency rate was 4.47%, compared to 4. 59% last year, and a 90 plus delinquency rate was 2.07% versus 2.09% last year. If you exclude the impact of the PayPal credit program, and the Walmart portfolio, the 30 plus delinquency rate was flat to last year, and the 90 plus delinquency rate improved approximately 5 basis points, compared to last year, reflecting continued stabilizing credit trends.

Moving on to net charge offs. Net charge-off rate was 5.35%, compared to 4.97% last year and 6.01% last quarter and was somewhat lower than our expectations over 40 basis points to 50 basis point decline from the second quarter. While credit trends continued to improve, this was partially offset by the purchase accounting impact in 2018 related to the PayPal credit program.

Excluding the impact of the PayPal credit program and the Walmart portfolio, net charge-off rate was approximately 20 basis points lower than last year. The allowance for the loan losses as a percent of loan receivables was 6.74% and the core reserve build in the third quarter was $124 million, excluding the impact from the reduction in the reserve related to the Walmart portfolio.

The reduction related to the Walmart portfolio was $326 million, which was higher than the expected $250 million, due to the timing of the portfolio of sale occurring earlier in October. As a result, the remaining reduction in loan loss reserve in the fourth quarter will be in the $35 million to $40 million range.

We expect the core reserve bill for the fourth quarter will be in the $102 million to $150 million range, driven mainly by growth. Consistent with the outlook we provided, we did see stronger core loan receivable growth in the third quarter of 6% and believe this will continue into the fourth quarter.

The acceleration in growth reflects the opportunities we have in the fast-growing digital space and an expansion of our network and acceptance in CareCredit and the auto and home networks and payment solutions.

Regarding net charge offs, we expect the net charge offs for 2019 will be towards the lower-end of the 5.7% to 5.9% range with the slight increase compared to 2018, driven mainly by the purchase accounting impact related to the PayPal credit portfolio, partially offset by the impact from the sale of the Walmart portfolio in October. Excluding the effects of PayPal and Walmart, the net charge-off rate for 2019 is expected to be similar to 2018.

Finally, regarding the implementation of CECL, which is effective in 2020, we believe the initial impact is consistent with what we disclosed last quarter. We will incorporate the estimated impact of CECL 's transition adjustment and impacted next year's outlook when we provide our guidance during our fourth quarter earnings call in January.

In summary, credit trends are stabilized and are showing improvement. We expect the trends to continue to show stability as we move forward assuming stable economic conditions. We continue to see good opportunities for continued growth at attractive risk adjusted returns.

Moving to Slide 12, I’ll cover expenses for the quarter. Overall expenses came in at $1.1 billion, an increase of $10 million or 1%, compared to last year. The increase was driven by growth or was partially offset by cost savings executed in advance of the Walmart portfolio of sale and program conversion.

Holding expenses basically flat enable us to deliver positive operating leverage for the quarter, reflecting the improvement in the efficiency ratio from 31% last year to 30.8% this quarter in-line with our expectations.

Now, the sale of the Walmart portfolio, the program conversion has been completed. We do expect the final portion of the cost associated with Walmart program to be eliminated in the fourth quarter and be fully reflected in the expense run rate for 2020.

Moving to Slide 13, over the last year we've grown our deposits $3.7 billion or 6%, primarily through our direct deposit program. This puts deposits at 76% of our funding, compared to 72% last year. In July, we issued $750 million in senior unsecured debt. The issuance has a three-year term with a fixed rate of 2.85% and had strong demand.

Turning to capital and liquidity. We ended the quarter at 14.5% under the fully phased in Basel III rules. This compares to 14.2% on a fully phased in basis last year. The CET1 level increased over the past year even as the company deployed a significant amount of capital through organic growth, program acquisitions, and continued execution of our capital plans reflecting the company's strong capital generation capabilities.

During the quarter, we continue to execute on the capital plan we announced in May. We paid a common stock dividend of $0.22 per share and repurchased $550 million or 15.6 million shares of common stock during the third quarter. At the end of the third quarter, we have approximately $2.7 billion of remaining share repurchase capacity of the $4 billion board authorized plan, which runs through June 30, 2020.

Total liquidity, including undrawn credit facilities was $22 billion, which equated to 20.5% of our total assets. This is down from over 22% last year, reflecting the deployment of some of our liquidity to support growth. Overall, we continue to execute on the strategy that we outlined previously.

We are committed to maintaining a very strong balance sheet with diversified funding sources and strong capital and liquidity levels. We expect to continue deploying capital through growth and further execution of our capital plan in the form of dividends and share repurchases.

Before I conclude, I want to recap our current view for the fourth quarter and the year, as well as the impact from the Walmart program going forward now that the portfolio sale and conversion has been completed. Starting with the net interest margin, the margin is seasonally lower in the fourth quarter, declining as much as 50 basis points from the third to the fourth quarter in the past two years.

In addition to seasonality, the decline will be somewhat more pronounced this quarter, due to the excess liquidity from the sale of the Walmart portfolio. We expect the net interest margin trend towards 15.5% for the fourth quarter. We still expect the net interest margin will be in the 15.75% to 16% range for the year.

Focusing on RSA's, there are several factors impacting the RSA percent for the fourth quarter and the year. First, growth in improved program performance will impact RSA's. Also impacting RSA's is the sale of the Walmart portfolio. Specifically, both the timing of the portfolio of sale, as well as the fact of the Walmart program operated an RSA percent below the company average will have an upwards impact on the RSA percentage.

Considering all these factors, we expect the RSA percent will be approximately 4.5% for the fourth quarter, and for the full-year it'll be slightly above the 4.0% to 4.2% range we had expected.

Moving to credit. We expect the core reserve build for the fourth quarter to be largely driven by growth and will be in the $100 million to $150 million range. As a result of the Walmart portfolio being sold in October, the remaining reduction in the loan loss reserve held against this portfolio will occur in the fourth quarter and will be in the $35 million to $40 million range.

Regarding net charge offs. We expect net charge offs for 2019 will be towards the lower end of the 5.7% to 5.9% range. The slight increase in net charge-offs were 2019, as compared to 2018 is mainly driven by the purchase accounting impact related to the PayPal credit portfolio, partially offset by the impact from the sale of the Walmart portfolio in October. Excluding the effects of PayPal and Walmart, the net charge-off rate is expected to be similar to 2018.

Turning to expenses. We continue to generate positive operating leverage and still expect the efficiency ratio to be around 31% for 2019. In summary, the business continues to generate strong growth with attractive risk adjusted returns.

I'll now turn the call back to Greg to open the Q&A.

Greg Ketron

That concludes our comments on the quarter. We will now begin the Q&A session. So that we can accommodate as many of you as possible, I'd like to ask 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.

Question-and-Answer Session

Operator

Thank you, sir. [Operator Instructions] We have our first question from Sanjay Sakhrani with KBW.

Sanjay Sakhrani

Thanks, good morning. I guess, first question for Brian Wenzel. Just portfolio yield, it's obviously done really well despite the fed rate cuts this quarter and I know you indicated there were some purchase impacts potentially, could we just discuss about the trend going forward, relative to all these different dynamics occurring with the rates, and obviously the mixed changes?

Brian Wenzel

Great. Good morning, Sanjay. As you think about net interest margin for the quarter, a lot of our book – 45% of our book is floating. When you think about transactors it's more like 25%. So, we're not necessarily as exposed to interest rates. We also think about the margin. We have a positive benefit from the purchase accounting last year for PayPal that's not reoccurring again this year, as well as the CIT that we put in place before we purchased the portfolio that's beginning to bleed in.

So, those are positive impacts on the portfolio as we move forward. Obviously, with Walmart coming out of the portfolio there will be a little bit of headwind to net interest margin because that portfolio operated at a higher net interest margin than the over book. So, [again been] our assets and liabilities are fairly well matched we don't see a lot of pressure from the interest rate environment as we move forward.

Sanjay Sakhrani

Okay. And I guess my second question is for Margaret and Brian Doubles on the Synchrony MasterCard. I appreciate the disclosures there. Just want to make sure I understood what the plan was going forward with that product. Going forward, is that product just going to be used for bankruptcy transitions for retailers or are you expecting to grow that portfolio independently and then when we think about the success of that portfolio up until now, has it been consumers basically transitioning to that card as their primary card or have they been transferring balances over? Thank you.

Brian Doubles

Yes, sure Sanjay. This is Brian. Look, I would say, overall, we have been pleased with the trends in the performance that we're seeing on that MasterCard portfolio, it’s still early, but we're seeing good activation, good usage. We’re seeing a nice retention of balances, good spend on the accounts. As you know, we put a very strong 2% cash back value proposition on the card. Given we are not paying the RSA, we’re able to offer an attractive value prop and still earn a very attractive return.

Look, we’re pleased with what we're seeing. In terms of a broader strategy, we’re certainly evaluating that. We’ve got a great team in place. They’ve got a lot of general-purpose card experience, you know look, we are monitoring the usage, the performance on the portfolio. We also started to do some new account originations. So, we’re testing into different segments, but look I think the thing that’s important to note is, we're going to be disciplined around profitability and returns on this. So, we have some modest growth expectations here in the short-term.

Sanjay Sakhrani

Thank you.

Operator

Thank you. Our next question comes from Bill Carcache with Nomura.

Bill Carcache

Hi, good morning. I had a question on the recent Venmo credit deal with PayPal. So, one of the elements of the Venmo modernization strategy for PayPal has been to enable a pay with Venmo checkout button for merchants that already accept PayPal and would like to accept Venmo. Is it reasonable to conclude that the Venmo credit product won't just act like a standalone credit card, but it will also be, you know, available digitally to Venmo customers who click on pay with Venmo checkout button? So, basically the Venmo credit is going to be integrated across the Venmo platform?

Margaret Keane

You know, I would say that's probably about a question for the Venmo PayPal team, but what I can tell you is that as we work with that organization, they're really looking at how do they expand customer choice and ability for their customers. So, I would expect them to look at all avenues for growth for the use of the Venmo credit card, and, you know, we're going to work closely with them on terms of how we build out the capabilities, the digital experience, really try and understand what are the customer, you know, frictions that are out there that we want to try to solve to really have what we're describing as exclusive in-app great customer credit experience across various channels. So, we're going to work closely with them as we continue to develop both the PayPal program that we have with them as well as Venmo.

Bill Carcache

Got it. Margaret, thanks. And are there any internal studies that you guys have done that give you any kind of sense of what the demand for the product will be like? It just seems like there are a lot of competing alternatives out there on the credit card side and so just wondering if it's reasonable for us to expect that the value prop will include, you know, rewards and I'm just looking for a sense of what, you know, gives you guys confidence that the demand for the product will be there?

Margaret Keane

Sure. Well, you know, first, they have 40 million Venmo customers. So, we think that's a great target market and its growing. Secondly, it has a great brand and we know that, in particular millennials really love Venmo. And so, I think as we look to build out that value proposition, we're going to be looking at what are the type of rewards that those customers are looking for.

So, you know, it could include cash back, but I wouldn't say it's only going to be cash back. I think we really want to get into some deep research with that customer base. And then, the other piece of this is really, as we all know, these particular or this particular segment of customers really look at experiences as a really important element of how they live and choose to live. And so, we're going to be looking at that both from a value prop perspective, as well as the experience they have themselves on using the app.

Bill Carcache

That's great. Thank you so much. I appreciate it.

Operator

Thank you. Our next question is from Don Fandetti with Wells Fargo.

Don Fandetti

Good morning. So, one question is on credit, you know, it sounds like the guide for Q4 on the reserve build is fine, but if you look at the delinquencies year-over-year ex-PayPal, they are sort of flattish from down year-over-year. I was wondering if you could talk a little bit about your expectation in the near term. And then, you know, under the hood, what's going on with PayPal credit in general, I guess losses are going up just on growth and normalization, can you just talk about those two factors?

Brian Wenzel

Great, great. Thanks, Don. First of all, we don't provide necessarily forward-looking guidance relative to delinquencies. They've been consistent and stable throughout 2019. With regard to PayPal, again, we don't provide specific information on one portfolio, but when you look at the guidance, you know, we've guided on net charge-off basis to the low-end of 5.7 to 5.9 range. So, as we move through the quarter, clearly, we've seen stabilization to improving credit trends, which is via reserve rate in the third quarter was below the guidance that we provided back in our second quarter call back in July.

So, as we look at the net charge-off environment and credit environment, we're optimistic we don't see any pressure on the consumer and all the measures that we look at and our collections really have performed. So, again, we view credit to be stabilizing to better and expect the net charge-off rate for the year to be at the low end of 5.7 to 5.9 range, Don.

Don Fandetti

And then, the buybacks, they were a little bit light versus our model, but, you know, they kind of bounced around. I was just curious; do you still feel like you can buy back a significant amount in the open market? Are you still considering maybe a tender? Or do you feel like you can just kind of work through that? And I would assume Q4 would be potentially heavier.

Brian Wenzel

Yes, you know, obviously, you know, as we look at – as we move through the capital planning and the repurchase cadence for the year, there is a basic capital plan, a basic repurchase plan that happens over the four or five quarters that we go out. Then we had the Walmart, they kind of laid in. Obviously, you know, we had to have certainty relative to that transaction. You have to record those reserves getting into earnings. You know, we've purchased $1.3 billion approximately for the first two quarters under the plan. We have $2.7 billion remaining under the $4 billion authorized repurchase plan.

We feel confident that we will be able to execute that plan. If you go back, in our past history, we were able to execute twice, both the fourth quarter of last year and first quarter of this year. We purchased in the open market of $966 million. So, we feel we have the execution to get to $2.7 billion done over the next three quarters. Most certainly we evaluate lots of different options to get the best execution on price, and we'll continue to do that, but we feel confident we can execute on the plan that we outlined.

Don Fandetti

Thank you.

Operator

And thank you. Our next question comes from Betsy Graseck with Morgan Stanley.

Betsy Graseck

Hi, good morning.

Margaret Keane

Good morning.

Betsy Graseck

A couple questions, one just on the health CareCredit. Gentlemen I know you called out dental and veterinary, but I just wanted to understand a little bit more and some of the verticals there, as well as plans to, you know, continue your dominance in that field. I see a lot of interest from other – you know, either fintechies or, you know, financials coming after the area, so if you give us a sense of how you're pushing back against that competition? Thanks.

Margaret Keane

Sure. So, you know, we've said since the beginning of the year, one of our strategies was really to grow the CareCredit platform. So, in the core business itself we continue to see really good growth, and that's really the dental and vet businesses that we highlighted this quarter. But as we look to expand into more of what we're calling a health and wellness card, you know, we've expanded the utility of the card over the year to latest being the Walgreens' acceptance, and we'll continue to look at those. But our other strategy is really in two areas.

One, is really shifting from what we're calling [vets to pets]. So, the acquisition of Pets Best this year is a function of that and really looking at ways to leverage both the insurance side of settlement in our card product to really ensure that the consumers are getting a really efficient process going forward as they pay their vet bills. The other part of this is really going after, when I call, payment management systems where we can integrate into those system and have care credit as an option in that system.

So, the Loyale example is one of those. And then, lastly is, really expanding into what we're calling health network, so hospital network. So, I think in the past we've describe we've gone out and sold dentist office by dentist office, vet office by vet office. We continue to look at various verticals where we think our card can be used and are now working with hospital networks to integrate CareCredit as a payment option in the hospital network.

So, you know, our view is, we have a lot of expertise and experience in this space. We've been at it for over 30 years, and we think this is a great growth opportunity for us. And, you know, while fintechs are there, we see them, we're still very confident in our capabilities and what we've built out and where we want to go.

Operator

Betsy, do you have anything further?

Betsy Graseck

Oh! Yes. Sorry about that. Thanks so much. On RSAs, it's just a separate question; I know you gave us a sense of 4Q and what the outlook is for that. Could you just give us a sense of how we should anticipate it projecting, you know, a little bit longer term? I'm just basically looking for ex-Wal-Mart, should the 4Q run rate be something that, you know, seasonally it differs, you know, obviously, but should that be a good run rate that we should take for the 2020 outlook? Or is there anything else that we should be considering in that?

Brian Wenzel

Great. Thanks, Betsy. You know we'll provide guidance on RSAs in our call in January encompassing full guidance for the year when we think about all the other elements. As you think about Walmart, Walmart did operate at a lower RSA percentage than the company average, which is why we see it, you know, slightly up in the fourth quarter versus past seasonal trends. Obviously, that will impact us as we move forward into 2020, but we'll provide that guidance in January.

Betsy Graseck

Okay, thanks.

Operator

And thank you. Our next question – we have our next question from Bill Ryan with Compass Point.

Bill Ryan

Thank you and good morning and thanks for taking my questions. Also just in relation to the RSA, I know you're not providing 2020 guidance, but just as you kind of think about it structurally and directionally going into next year, do you expect it to be driven – you know you mentioned how Walmart's going to impact it, but, you know, looking at your contract renewals earlier this year, will they have any impact directionally in 2020? Or, you know, given the economics of the renewals, is it pretty much the same and is this called a nominal influence next year? Thank you.

Brian Wenzel

Yes. Thanks, Bill, for the question. So, as you think about the RSA, when we renewed transactions, the economic formula is kind of set at the store. So, those formulas don't change as we move forward. So, really what's going to drive the RSA as we move forward absent the Walmart portfolio is really good to be the underlying performance of the portfolio from growth, from net interest margin, charge-offs etcetera. That's going to be the bigger drivers as we move forward.

To the extent that we have, you know, improved performance on those lines, there will be more RSAs, to the extent it's going to be less, then the RSAs will decrease. So, that's the benefit to us as a company have that RSA buffer, but they participate in both sides. So, again, the contracts are generally set and won't change. It's really just a performance and growth of the underlying portfolios.

Bill Ryan

Thank you.

Operator

And thank you. Our next question comes from Rick Shane with JPMorgan.

Rick Shane

Hi, guys. Thanks for taking my questions this morning. I just want to talk about the general purpose a little bit. Historically, part of the value proposition on private label to the retailers is that you are providing their customers with spending money that they can use exclusively in their stores, and I assume that that's part of the, sort of, pitch to retailers. I'm curious as you sort of dip your toe into – and I don't want to overstate the general-purpose proposition, but as you dip your toe in there, how do you think that will resonate with your existing retail partners?

Brian Doubles

Yes, thanks, Rick. Look we don't see it as a competing product. If you think about who we're in there competing against, they all have general purpose card portfolio that are much more substantial than what we have here. You know, while we like this as a product and it does give us some nice diversification; it's pretty small today; we're in the very early innings here. There's a lot of positives I think in terms of what we've rolled out. We like the trend that we're seeing on the new account originations that we've done so far, but, you know, look, this is still a small piece of the overall portfolio. We're still a partner-led business. That'll remain the case for the foreseeable future.

Rick Shane

Okay, great. Thanks Brian.

Brian Doubles

Yes.

Operator

And thank you. We have our next question from Matthew O'Neill with Autonomous Research.

Matthew O'Neill

Yes, hi. Thanks for taking my question. I know you're not providing any 2020 guidance yet, but I was hoping you could potentially give us a little bit more insights around the planning ahead of the seasonal implementation? So, I know we know the 50% to 60% initial build, but maybe just kind of the knock-on effects or any following impacts as far as, you know, the ongoing provisioning needs and/or sort of capital level/buyback capability once we get through the remaining 2.7 billion on the current authorization? Just any thoughts there will be helpful. Thanks.

Brian Doubles

Yes, great. You know first with regard to CECL again, we indicated on the call earlier that, you know, our expectation now is consistent with the second quarter and the range we provided back then. You know as we think about the ultimate amount that will get posted at the end of the year, that's really going to depend upon the asset composition, the economy and our kind of view that economy as it moves forward. So, there are some moving pieces and as well as we're finalizing some of the assumptions. So, it's a little bit premature to talk about the seasonal impact as well, you know, there is going to be an RSA offset, not for the day one transition adjustment, for day two. We're still working through that with our partner.

So, as we finalize that here in the fourth quarter, we'll provide, you know, comprehensive guidance with regard to that in January. With regard to your second part of your question with [CECL] impact capital, you know, first I'd say again, it does not impact our capital plan that runs through June 30, 2020. We incorporated our view of that with our submission to the regulators back in the first quarter. So, from the [first plan] perspective, it's already addressed.

You know as we think about [CECL] and the post up of the incremental reserves, we obviously have been in contact and in discussion with our regulators and stakeholders the fact that we should be getting capital credit for the post up of those reserves as we move forward and we're in ongoing dialogues on how that should occur. So, it's a little bit premature to talk about that relative to future capital plans, but we plan to incorporate it as we move forward, and will you give guidance when we have greater clarity.

Matthew O'Neill

That makes a lot of sense. Thanks. And you kind of front ran my follow-up, which was going to be around the discrete contracts and the RSA structure. With respect to CECL, it sounds like that will require kind of a discussion, at least with some, if not all, of the main partners. Is that safe to say?

Brian Wenzel

Yes. Obviously, we're in discussions with them. First of all, educating them on the CECL standard, make sure they understand it. And as we finalize our adjustment, how that impact then flows through the RSA structures. Again, I think we've said in the past that day one transition adjustment, there will be no impact from an RSA perspective. I mean, it does not go through the P&L. But as we move to day two, we are going through and really working with the partners, explaining the implications to them, and then we'll come back with – again, in January, with the complete guidance, with how it impacts RSA, as well as the provision line.

Matthew O'Neill

All right. Great. Thanks. We will wait till then.

Brian Wenzel

Thank you.

Operator

And thank you. Our next question comes from Dominick Gabriele with Oppenheimer.

Dominick Gabriele

Hi. Thank so much for taking my questions. When we just think about the general-purpose card initiatives and given your efficiency has been pretty stable for quite some time, should we expect some of the initiatives on – for general-purpose buildout, if there is any to pressure the efficiency ratio as we look forward in any way? Or is this just part of – is this so small and part of your kind of normal investment builds when you think about it moving forward anyway that it shouldn't have any material impact on your efficiency ratio moving forward?

Brian Doubles

Yes. I don't think in the short term, certainly, you're going to see this pressure, the efficiency ratio at all, I think. Just going back, one important thing I said earlier. We're testing into new account originations, we're testing into different customer segments, different APRs, etcetera, but it's very important to note that we're going to be very disciplined around profitability and returns. So, we're being very disciplined here in the short-term as we run new tabs, we're trying to find those sales where we can, one, where we can compete. It's obviously a very competitive market. We're trying to find those areas where we can compete, but still earn a very attractive return. So, that's our primary focus here.

Dominick Gabriele

Yes. Sounds like a great run rate for expansion. And then just separately, can you talk about the Retail Card segment exposure to home improvement outside of Lowe's when you think about the total Retail Card NII and fees? And then we've seen a spike in mortgage applications. Can you talk about what you've seen in the past, even pre-IPO of your spending trends as mortgage applications ramp, it seems like there is a really good opportunity that's unique to Synchrony right now unfolding, where you may see some accelerated NII growth in the future due to some of this home improvement possible ramp from mortgage applications. Can you just talk about the pre-IPO trends you've seen and some of the [indiscernible]?

Margaret Keane

Sure. So, I would say that – obviously, we have Lowe's, which is a big retailer related to the home. But our Payment Solutions business is really where the verticals are really dedicated to a lot of the home, particularly furniture, home improvement, HVAC, all those types of things. And I think you've seen us talk about the fact that home has definitely helped us I would say over the last probably 18 months, and we're seeing people invest in their home. So, we're seeing that on the Payment Solutions side, for sure, and in loans.

I think the other thing we did this year is, we launched the HOME Network, which is a card that allows you to purchase in a number of our retail partners and others. It's a network card, particularly dedicated to purchasing a home, which – the launch was very good. We're continuing to invest in that network. So, to your point, we see the home as a critical element of growth as we look forward in this business and feel that we have a number of merchants across the system that are particularly dedicated to that vertical. So, definitely a nice opportunity for us as we see home purchasing increase and home improvement being a big part of that.

Dominick Gabriele

Excellent. Congrats on the quarter. Thank you.

Margaret Keane

Thank you.

Operator

And thank you. Our next question is from Eric Wasserstrom with UBS.

Eric Wasserstrom

Thanks very much. Maybe just getting back to the PayPal-Venmo relationship. One phenomenon that I'm sure you guys have also noticed is the growing use of buy-now, pay-later functionality, which in many ways is similar to what you do on promotional finance. So, I'm wondering if there is any discussion that you are having about maybe integrating those functionalities and capabilities into your relationship with PayPal?

Margaret Keane

So, we actually have a product out there already called SetPay that we've tested a pilot in the market. That is a product like that. What I would say is, from a PayPal and Venmo perspective, first of all, they are obviously a very customer focused, digitally focused organization, and I would say they look at all opportunities as a way to grow their business, which is a benefit to us growing our business.

So, we're in talks with them on a bunch of different things, both on the PayPal side – I'd like to remind everyone we only converted PayPal in June. So, just on the pure PayPal side, we have a list of initiatives that we want to work on and execute on, particularly from a growth, marketing, product design perspective going forward. And now we have the added opportunity of Venmo.

So, I would say the teams are looking at all different types of ways to really leverage the opportunity that's out there in the marketplace and really make sure we have the right offer for the right product in front of the customer as they're making their purchases. And that would all be in-app and digital.

Eric Wasserstrom

Thanks. And if I can just follow up – and I know there's been a series of questions on this already, but just with respect to the general purpose product that you're experimenting with, what – maybe just at a high level, what is the thesis there that you're pursuing given, as I think others have pointed out, it's a reasonably crowded marketplace, particularly in cash back where there has been an acceleration towards the 2% level and such, but as Apple Card and others kind of demonstrate, in and of itself does not really might – driving consumers to adoption?

Brian Doubles

Yes. Look, first I'd say this is a very close adjacency to what we do today in our core business. We have very experienced underwriting credit teams, very experienced marketing teams. We have had a dual card product, which is a top of wallet general purpose card like product for years. So, this is a space we actually know really well.

We actually have a great team in place that has a lot of general-purpose card expertise. And this is – part of the strategy is merging kind of practical reality with future long-term objectives. And when we have the opportunity to convert the Toys R Us portfolio, that was a great way to kind of maintain utility for those cardholders, give them an attractive value proposition, and has frankly provided us with a great test bed now to kind of learn and see how we want to enter into the space.

It's been on our strategic roadmap for years. I think the conversion allowed us to accelerate that. And we're pretty excited. But we're also cautious. We're not confused that this is a very competitive market. We're very focused on targeting profitable accounts that have a good risk adjusted return. And so, we're – I would say, our growth expectations in the short-term are modest, but we're excited about getting some nice diversification, but laser-like focused on maintaining our return profile as well.

Eric Wasserstrom

Thanks very much.

Operator

And thank you. Our last question comes from Moshe Orenbuch with Credit Suisse.

Moshe Orenbuch

Great. Thanks. Most of my questions have been asked and answered. But picking up on your comments, Margaret, on PayPal Credit, could you talk a little bit about maybe the priorities as you go forward? Because it is really – I mean, it's sort of greenfield in terms of allowing you kind of the ability to access retailers – either deeper penetrate retailers that are your partners or retailers that aren't, and maybe how we should think about the opportunities and how you're going to prioritize them?

Margaret Keane

I think the opportunities are in a couple of key areas. One is just pure marketing. In the past, we were kind of on the PayPal side competing because they had their product, we had our product. So, I think from a merge on how we're kind of targeting customers, I think that's a real opportunity. The second thing that I think has been – has proven to be very beneficial is the sharing of data on both sides, meaning, we have a lot of information, they have a lot of information, so how do we leverage that information, both from a growth perspective, which I think is the most exciting part, but then also making sure from an underwriting perspective we're making the right decisions and, more importantly, is protecting on the fraud side.

So, we see lots of opportunity to just be – what I would say, more efficient on the marketing side, and then more robust on the credit underwriting and protecting the consumer. I think we are still in early days as we've laid out the conversion, which was as you know a big one. We have a bunch of what I would call technological advances that we're going to make together that we're really driving and that's really going to be more around the customer and merchant experience.

Really trying to make that as seamless as possible and ensure that customer never leaves the PayPal App if you will and it's all done within the App and so we have teams of people, and I mean teams working on a bunch of initiatives to really drive all of that. And it's all around what I would say two key things, growth and experience, both on the consumer side and the merchant side, which is very important here for PayPal.

Moshe Orenbuch

Great, thanks. And kind of in a similar vein, you talked a little bit about some of the health care and pet-type networks. Is there any thought given to kind of talking about these in terms of the networks that you've kind of built yourself as a vertical that you would give disclosure on because I think, you know one of the things that I heard during the call was this idea that there is some concern about incursion by fintechs and when – sort of it seems like the opposite that you have the ability to build those networks and so whether that's something you think about kind of outlining in greater detail?

Margaret Keane

Yes. That's something we'll probably look at as we talk about the strategy for 2020 going forward, but generally speaking, you know, we have, first of all we have, first of all I would say, the space itself is fairly fragmented right. So, one of the advantages we have is just the fact that we have created a brand name for ourselves and are recognized by a lot of folks in that space, but we are still, honestly I would say we're still learning, particularly on the big hospital network side, each of these networks operate very differently. And I think you know that we brought on our board an expert in this area who is helping us think through how to target and where to go after. So, we'll talk more about that as we go into 2020.

Moshe Orenbuch

Great. Thanks so much.

Margaret Keane

Thank you.

Greg Ketron

Okay. Thanks everyone for joining us this morning and your interest in Synchrony Financial. The investor relations team will be available to answer any further questions you may have. We hope you have a great day.

Operator

Thank you, ladies and gentlemen. This concludes today's conference call. Thank you for participating. You may now disconnect.