HEDGEYE

Credit Cards Update

COF, DFS, SYF, AXP

June 18th, 2020

FINANCIAL INSTITUTIONS GROUP

Josh Steiner, CFA

Drago Malesevic, CFA

Legal

HEDGEYE

DISCLAIMER

Hedgeye Risk Management, LLC ("Hedgeye") is a registered investment advisor, registered with the State of Connecticut. Hedgeye is not a broker dealer and does not provide investment advice to individuals. This research does not constitute an offer to sell, or a solicitation of an offer to buy any security or investment vehicle. This research is presented without regard for individual investment preferences or risk parameters; it is general information and does not constitute specific investment advice, nor does it constitute or contain any legal or tax opinions. This presentation is based on information from sources believed to be reliable. Hedgeye is not responsible for errors, inaccuracies or omissions of information. The opinions and conclusions contained in this report are those of the individual expressing those opinions or conclusion and are intended solely for the use of Hedgeye's clients and subscribers, and the authorized recipients of the content. In reaching its own opinions and conclusions, Hedgeye and its employees have relied upon research conducted by Hedgeye's employees, which is based upon sources considered credible and reliable within the industry. Neither Hedgeye, nor its employees nor any individual expressing opinions, conclusions or data are responsible for the validity or authenticity of the information upon which it has relied.

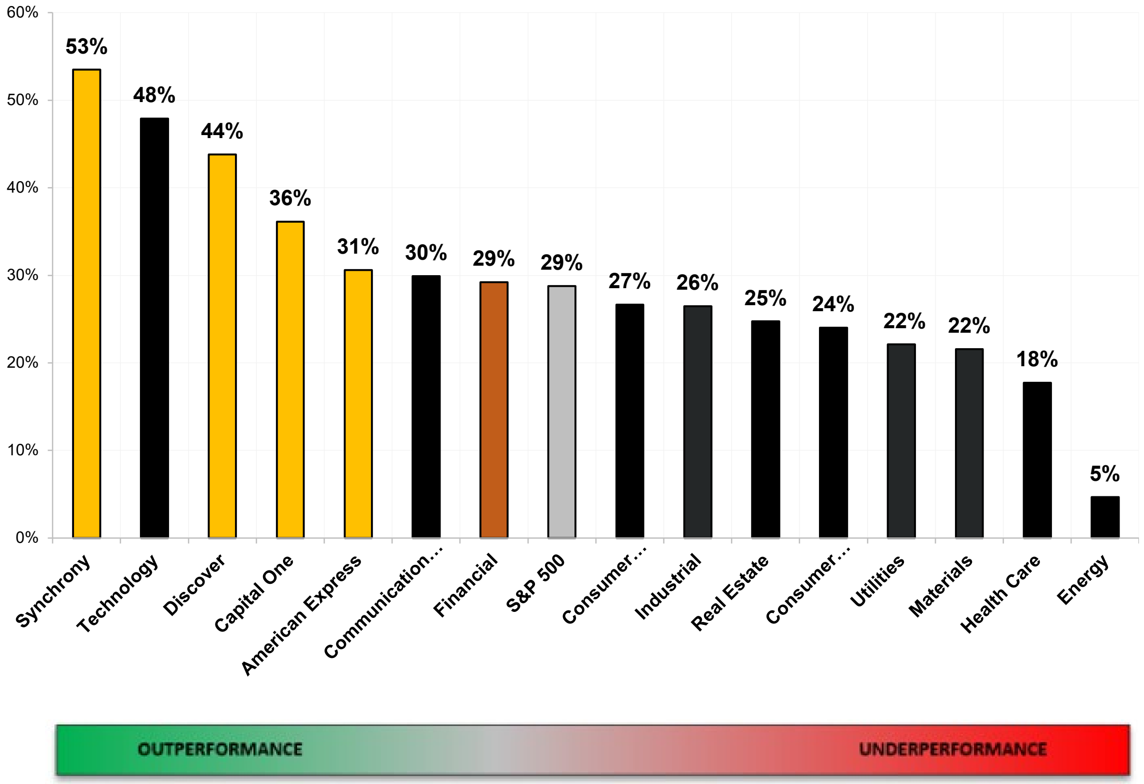
TERMS OF USE

This report is protected by United States and foreign copyright laws and is intended solely for the use of its authorized recipient. Access must be provided directly by Hedgeye. There is a fee associated with access to this report and the information and materials presented during the event. **Redistribution or republication of this report and its contents are strictly prohibited.** By joining this call or possessing these materials, you agree to these Terms. For more detail please refer to the appropriate sections of the Hedgeye Services Agreement and the Terms of Service at https://www.hedgeye.com/terms_of_service.

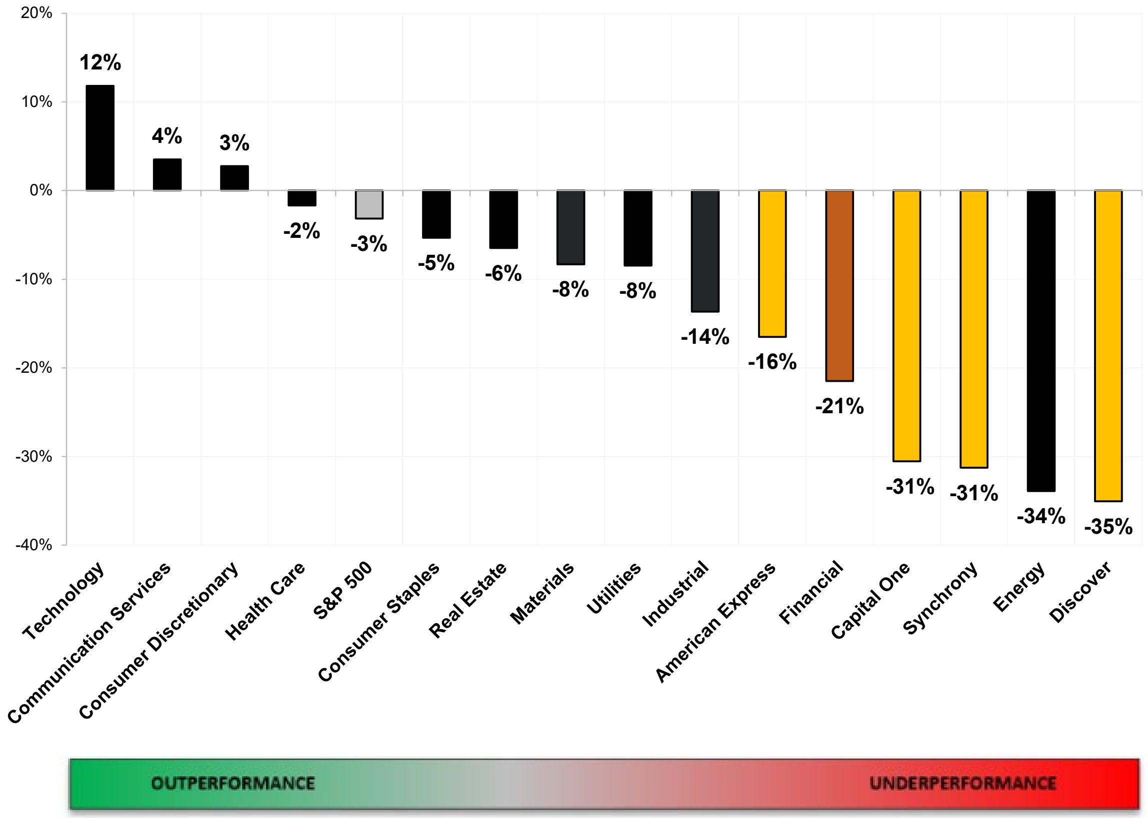
Performance

HEDGEYE

Absolute Performance: 2019



Absolute Performance: YTD

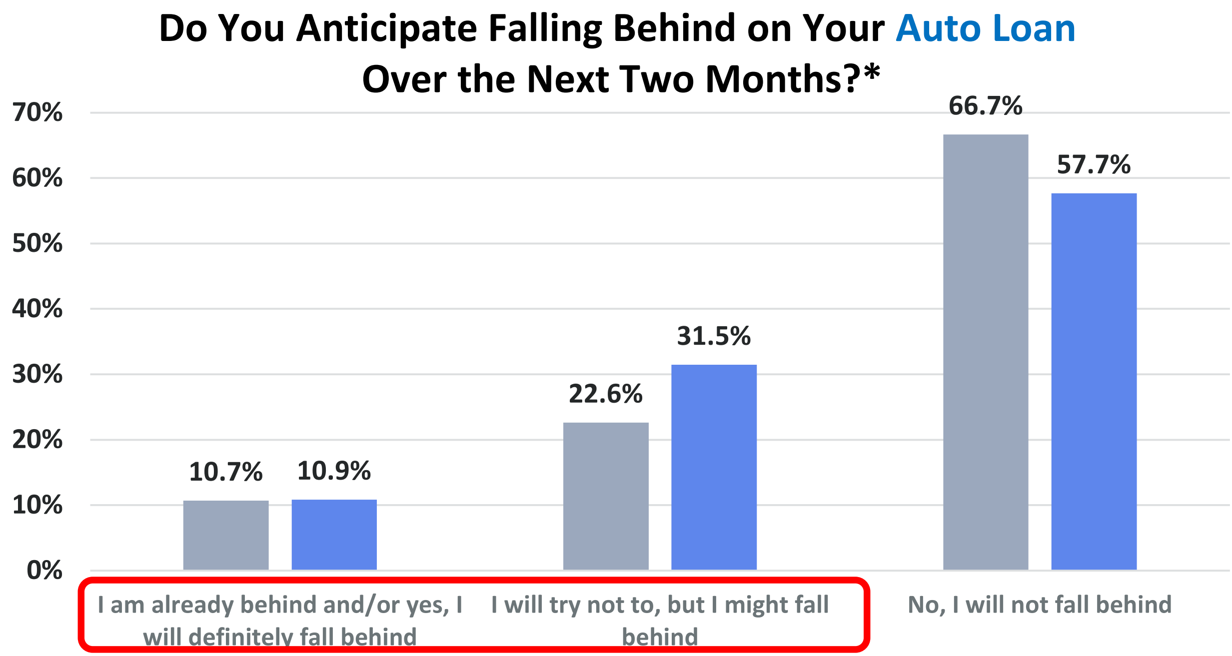


From best to worst.

Financial Concerns

HEDGEYE

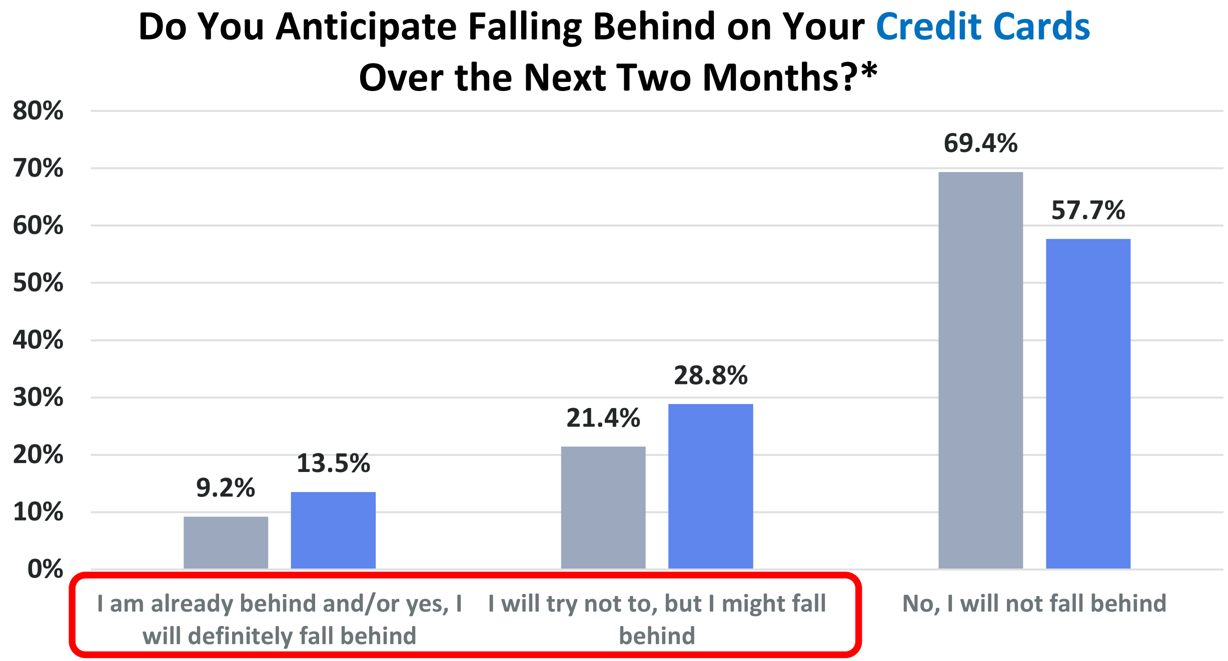
Changes in concern over the last two months.



* Includes only those respondents with rent payments.
* Combines those already behind with those who will definitely fall behind.

Source: Hedgeye Survey (500 Respondents)

© Hedgeye Risk Management



* Includes only those respondents with rent payments.
* Combines those already behind with those who will definitely fall behind.

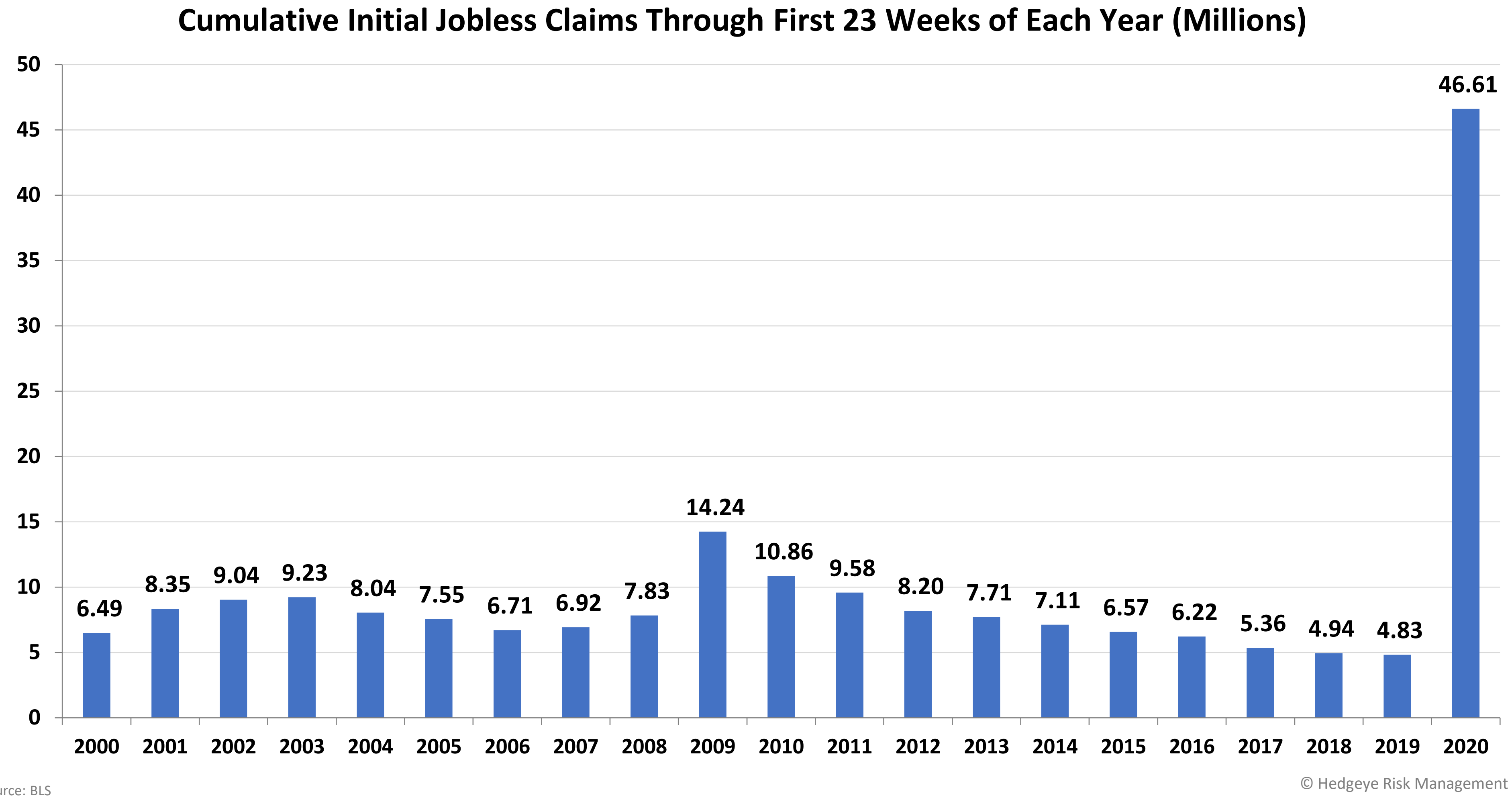
Source: Hedgeye Survey (500 Respondents)

© Hedgeye Risk Management

10.9% of auto loan borrowers indicate they are already behind or will be shortly. 13.5% of credit card borrowers say they are or will be behind shortly. The other category to watch is those who say they'll try not to fall behind but they may fall behind as those are very high shares at 31.5% of auto borrowers and 28.8% of credit card borrowers. Not only are those levels very high, but they also increased significantly in the two months from early April to early June.

Initial Weekly Unemployment Insurance Claims

HEDGEYE



Source: BLS

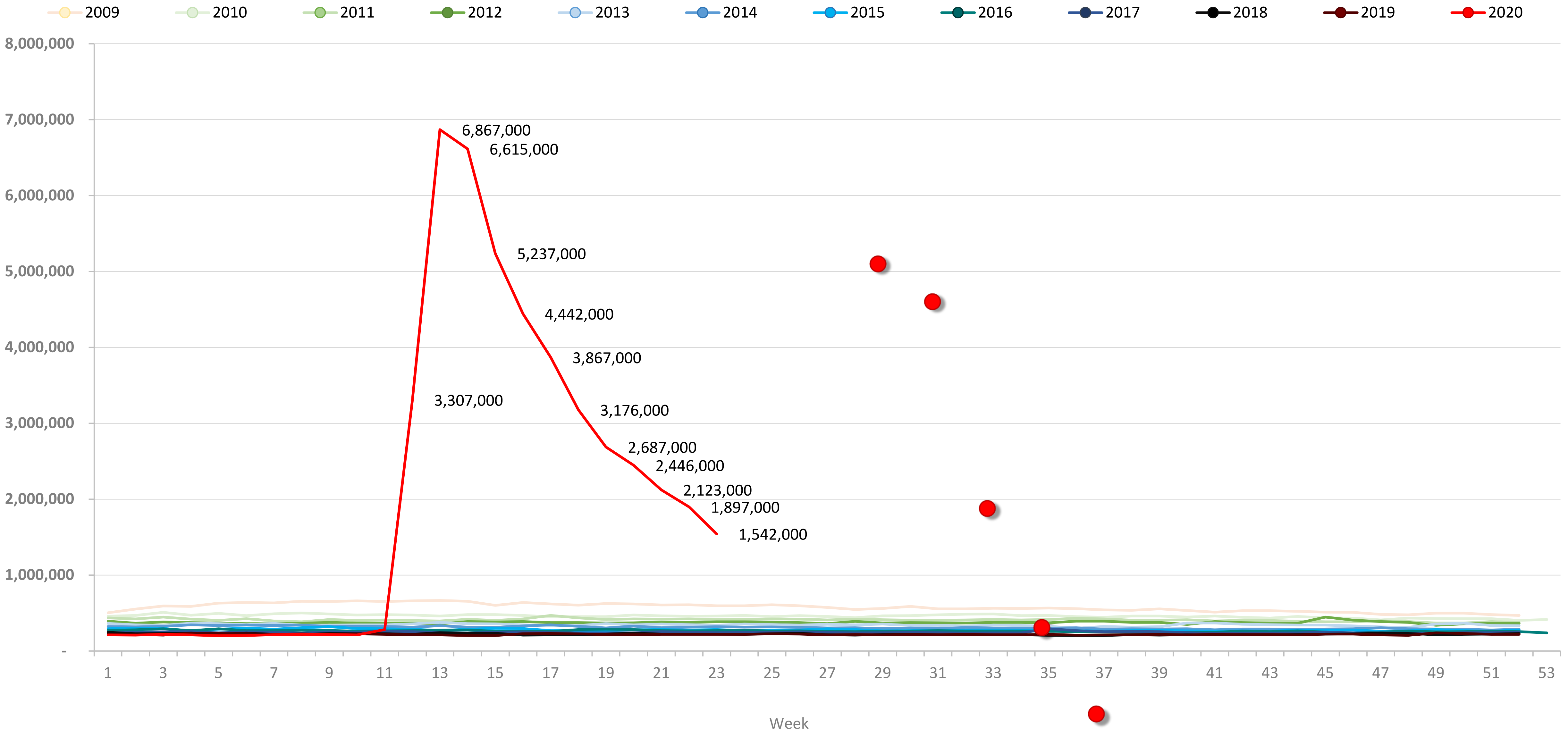
Initial claims for the first 23 weeks of each of the last 20 years are shown here.

2020 is tracking at 44.6 million, which is 9.5x 2019 levels and 3.25x 2009 levels.

It is all the more remarkable considering claims were at record lows for January and February.

Initial Weekly Unemployment Insurance Claims

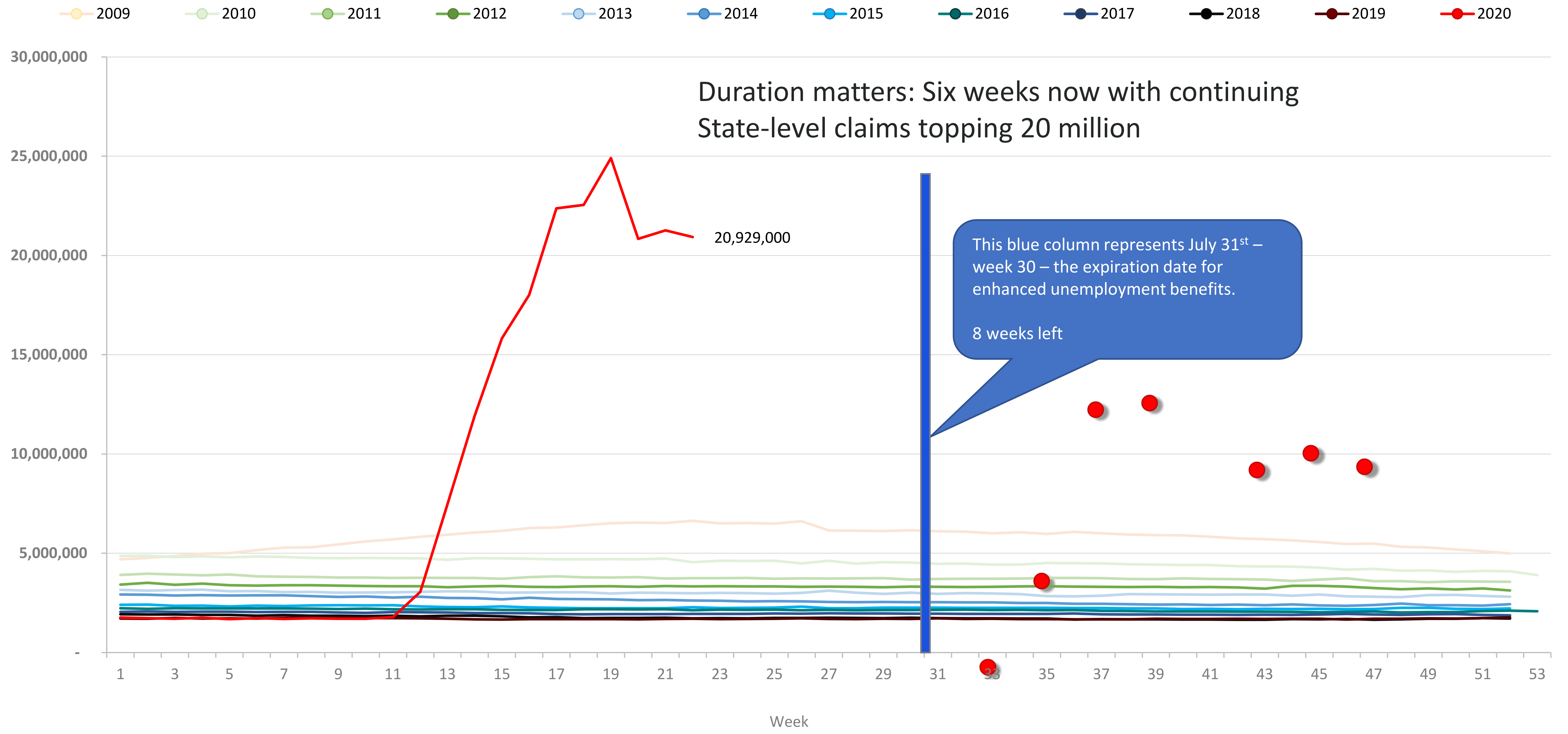
Seasonally Adjusted



Data Source: BLS

Continued Weekly Unemployment Insurance Claims

Seasonally Adjusted



Jobless Claims

HEDGEYE

Don’t forget about PUA

UNEMPLOYMENT INSURANCE DATA FOR REGULAR STATE PROGRAMS

WEEK ENDING	June 6	May 30	Change	May 23	Prior Year[1]
Initial Claims (SA)	1,542,000	1,897,000	-355,000	2,123,000	220,000
Initial Claims (NSA)	1,537,122	1,620,008	-82,886	1,915,138	220,186
4-Wk Moving Average (SA)	2,002,000	2,288,250	-286,250	2,608,000	217,750

WEEK ENDING	May 30	May 23	Change	May 16	Prior Year[1]
Insured Unemployment (SA)	20,929,000	21,268,000	-339,000	20,841,000	1,700,000
Insured Unemployment (NSA)	18,919,804	19,098,475	-178,671	18,861,428	1,538,065
4-Wk Moving Average (SA)	21,987,500	22,392,250	-404,750	22,669,500	1,688,250
Insured Unemployment Rate (SA)[2]	14.4%	14.6%	-0.2	14.3%	1.2%
Insured Unemployment Rate (NSA)[2]	13.0%	13.1%	-0.1	12.9%	1.1%

INITIAL CLAIMS FILED IN FEDERAL PROGRAMS (UNADJUSTED)

WEEK ENDING	June 6	May 30	Change	May 23
Pandemic Unemployment Assistance	705,676	796,813	-91,137	1,309,730

WEEK ENDING	May 30	May 23	Change	Prior Year[1]
Federal Employees (UCFE)	1,968	2,060	-92	705
Newly Discharged Veterans (UCX)	1,166	1,417	-251	419

PERSONS CLAIMING UI BENEFITS IN ALL PROGRAMS (UNADJUSTED)

WEEK ENDING	May 23	May 16	Change	Prior Year[1]
Regular State	19,022,429	18,791,926	+230,503	1,519,343
Federal Employees	15,269	14,848	+421	6,853
Newly Discharged Veterans	11,866	11,393	+473	5,441
Pandemic Unemployment Assistance[3]	9,715,948	10,926,386	-1,210,438	NA
Pandemic Emergency UC[4]	518,942	222,694	+296,248	NA
Extended Benefits[5]	2,222	1,382	+840	0
State Additional Benefits[6]	4,222	4,603	-381	5,603
STC / Workshare [7]	214,016	193,938	+20,078	8,366
TOTAL[8]	29,504,914	30,167,170	-662,256	1,545,606

Remarkably, the claims levels shown in the previous three slides exclude federal Pandemic Unemployment Assistance claims, which are offered under the CARES Act.

Ongoing PUA claims were at 9.7 million, or roughly half of total state claims, as of May 23rd and were still coming in at a rate of >700k/week in the June 6th report.

For context, the peak level of initial claims during the GFC was <700k in March 2009.

Adding the 29.5mn Total Claims at 5/23/20 to the Initial Claims and PUA Claims for 5/30 and 6/6, we estimate total claims at 34.4mn.

Temporary vs Permanent

HEDGEYE

What to expect

Chicago Booth scholar estimates 42% of pandemic-related layoffs could be permanent

The numbers are finally capturing the full magnitude of the economic downturn caused by the coronavirus pandemic.

The U.S. Bureau of Labor Statistics, for example, recently announced a 14.7% unemployment rate for April. But other data also provide a more nuanced and sobering view: New research co-authored by Prof. Steven J. Davis of the University of Chicago Booth School of Business reveals that for every 10 layoffs induced by the economic slowdown, three new jobs are created.

While this reallocation shock is good news for some sectors, the authors find the news particularly troubling for others.

"We estimate that 42% of recent pandemic-induced layoffs will result in permanent job loss," said Davis, a leading expert on hiring practices, job loss and the effects of economic uncertainty. "If the economic shutdown lingers for many months, or if serious pandemics become a recurring phenomenon, there will be profound, long-term consequences for the reallocation of jobs, workers, and capital across firms and locations."

Working with Jose Maria Barrero of Instituto Tecnológico

After presenting the evidence, we consider implications for the economic outlook and for policy responses to the pandemic. Even if medical advances or natural forces bring an early resolution to the crisis, many pandemic-induced shifts in consumer demand and business practices will persist. Thus, much of the near-term reallocative impact of the pandemic will also persist, as indicated by our forward-looking reallocation measures. Drawing on our survey evidence and historical evidence of how layoffs relate to recalls, we estimate that 42 percent of recent pandemic-induced layoffs will result in permanent job loss. If the pandemic and partial economic shutdown linger for many months, or if pandemics with serious health consequences and high mortality rates become a recurring phenomenon, there will be profound, long-term consequences for the reallocation of jobs, workers and capital across firms and locations.

Historically, creation responses to major reallocation shocks lag the destruction responses by a year or more. Partly for this reason, we anticipate a drawn-out economic recovery from the COVID-19 shock, even if the pandemic is largely controlled within a few months. Multiple economic forces contribute to a delayed creation response, as we discuss. Policy responses to major shocks and inherited features of the policy landscape can further stretch out the creation response, slowing the recovery. In this regard, we discuss four aspects of U.S. policy that can retard creation responses to the pandemic-induced reallocation shock: Unemployment benefit levels that exceed earnings for many American workers under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, policies that subsidize employee retention irrespective of the employer's longer term outlook, occupational licensing restrictions the impede mobility across occupations and states, and regulations that inhibit business formation and expansion.

A recent paper (linked below) looked back through history to measure the transition trends from temporary job loss to permanent unemployment and concluded that we should expect to see 42% of those workers let go due to the pandemic become permanently unemployed. Based on the 34.4 million currently unemployed (see previous slide), this works out to 14.4mn, or 9.6% unemployment.

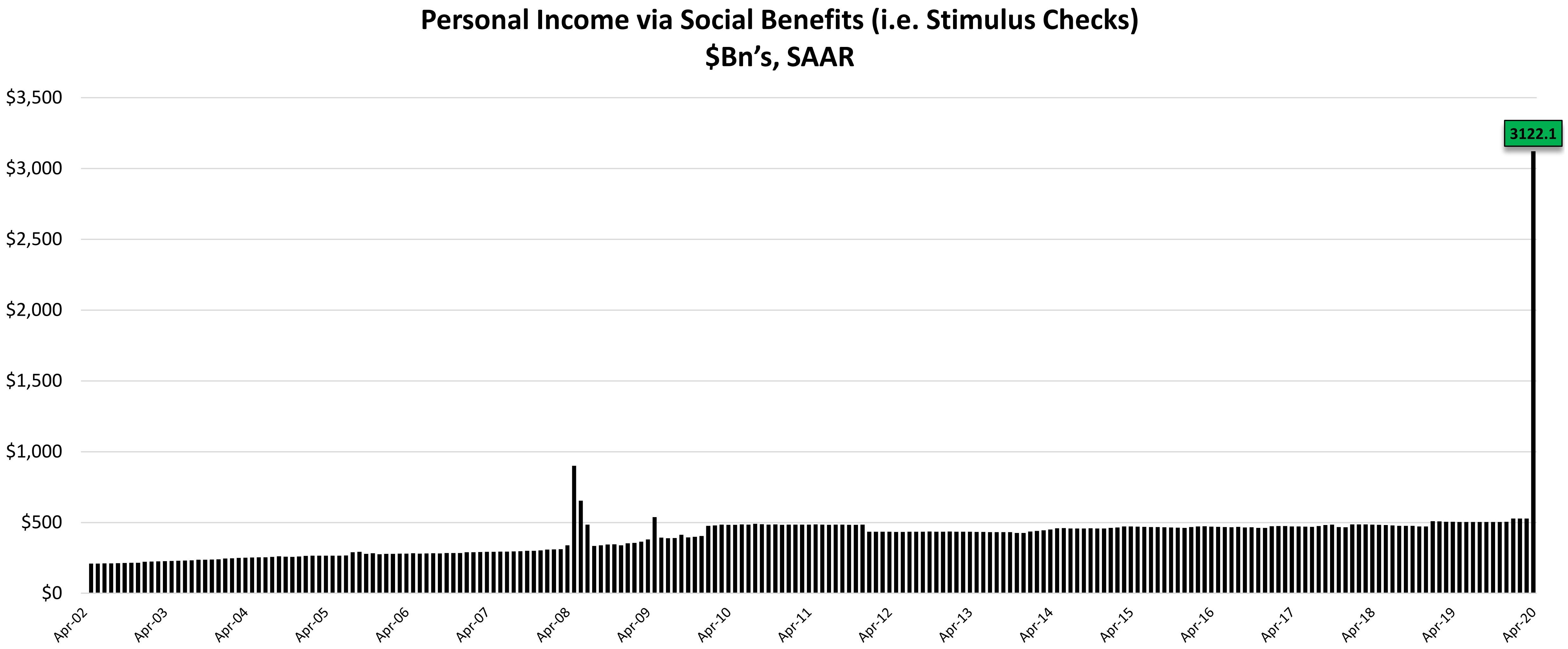
"... we estimate that 42 percent of recent pandemic-induced layoffs will result in permanent job loss."

Data Source: NBER, https://www.nber.org/papers/w27137

This Is Now Rearview ….

HEDGEYE

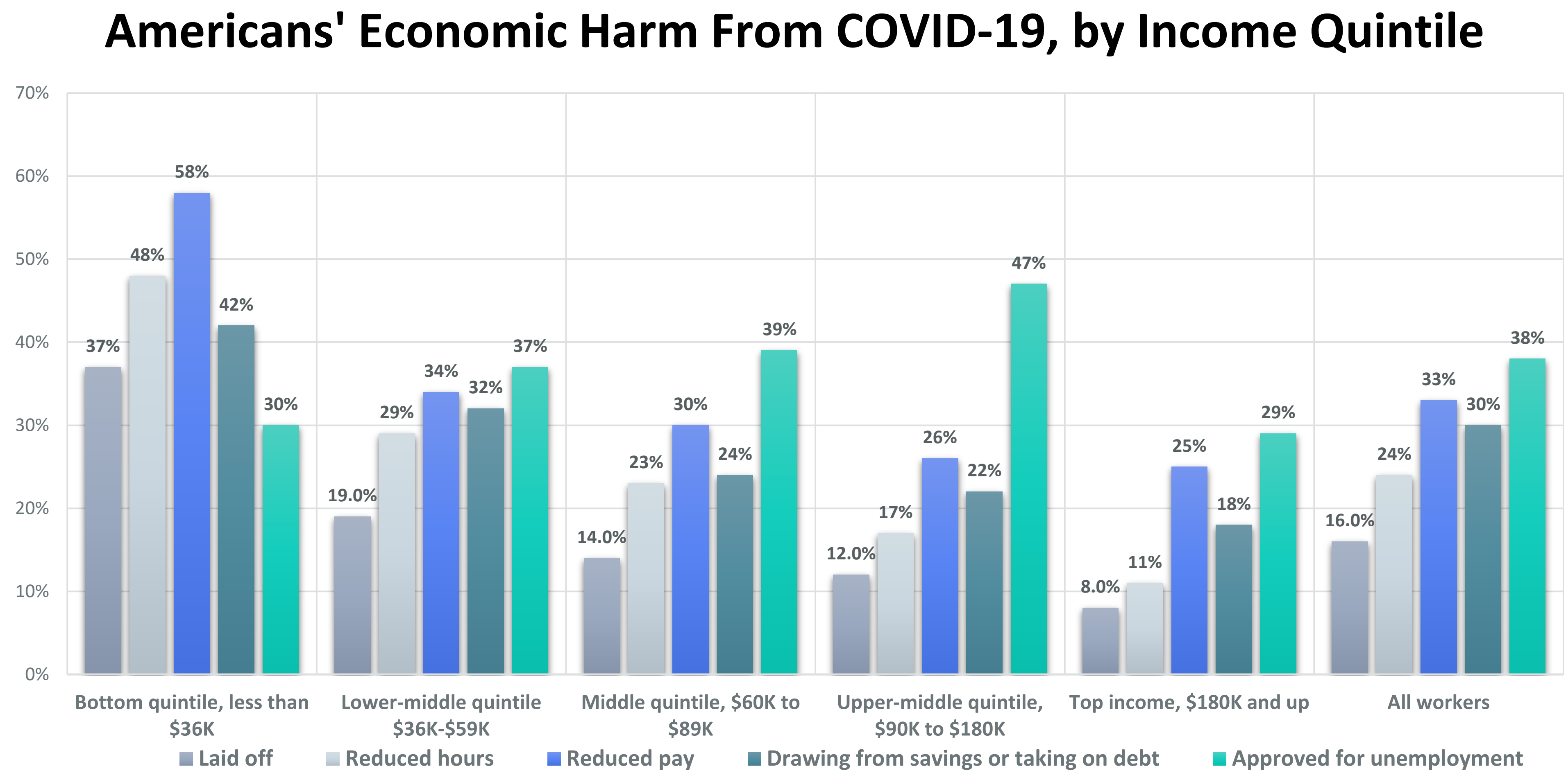
Households received $3.12T in stimulus support in April which buttressed against a complete cratering in the domestic consumption economy. For comparison, $3T is roughly half of total annual Retail Sales.



Data Source: Bloomberg

Layoffs Hit the Lowest Income Groups Hardest

HEDGEYE



Source: Gallup Survey (April 17 - May 17, 2020)

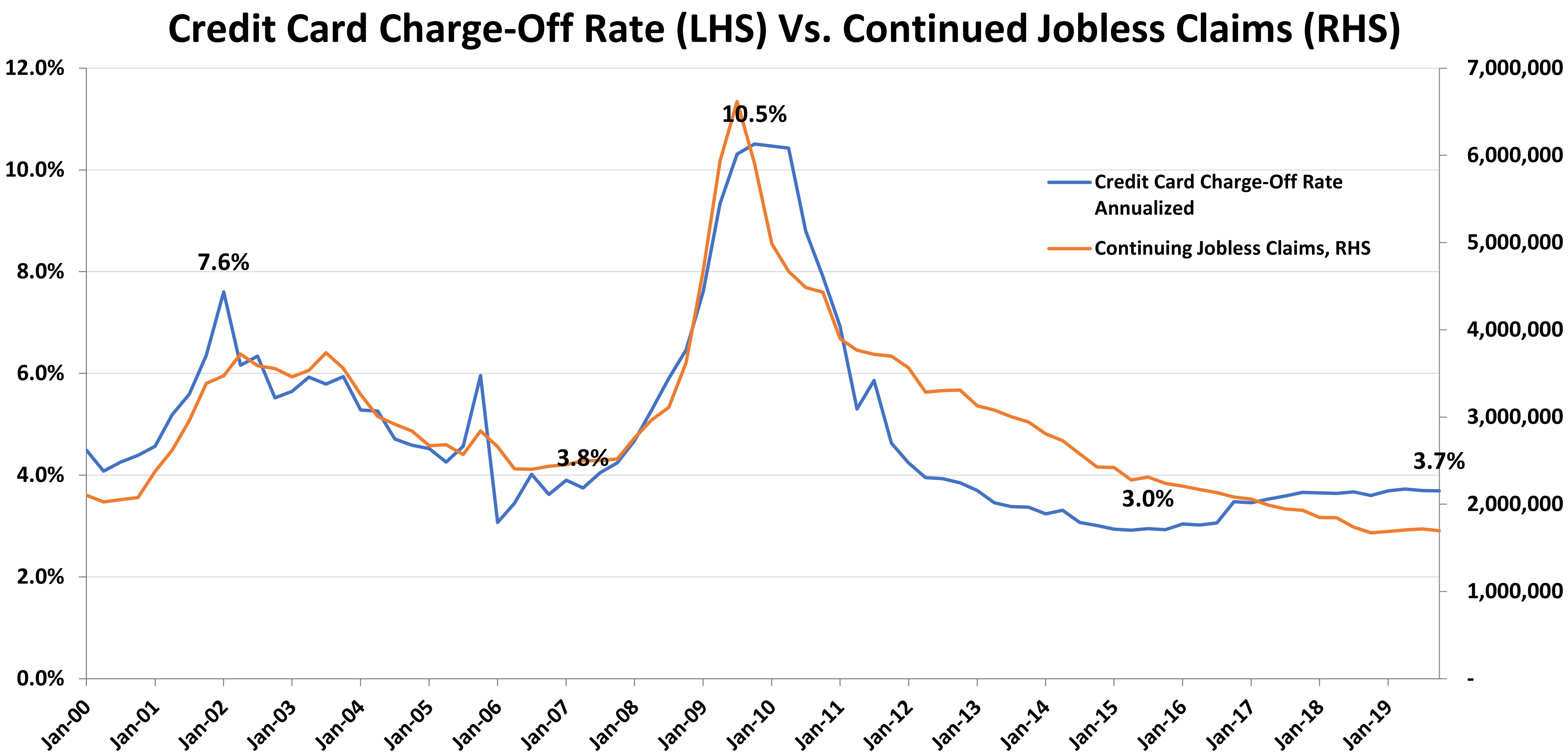
Survey data from Gallup shows 37% of workers in the lowest income quintile (<$36,000/yr) have been laid off. By contrast, 8% of workers in the top income quintile (>$180,000/yr) have been laid off.

Bills now exceed income for 42% of workers in the bottom quintile group, necessitating them to tap into savings or take on debt.

Finally, just 30% of those workers in the bottom quintile who were laid off were approved for unemployment benefits – as compared with 37%, 39% and 47% of the 2nd, 3rd and 4th quintiles.

Quantifying the Relationship – Continued Claims

HEDGEYE

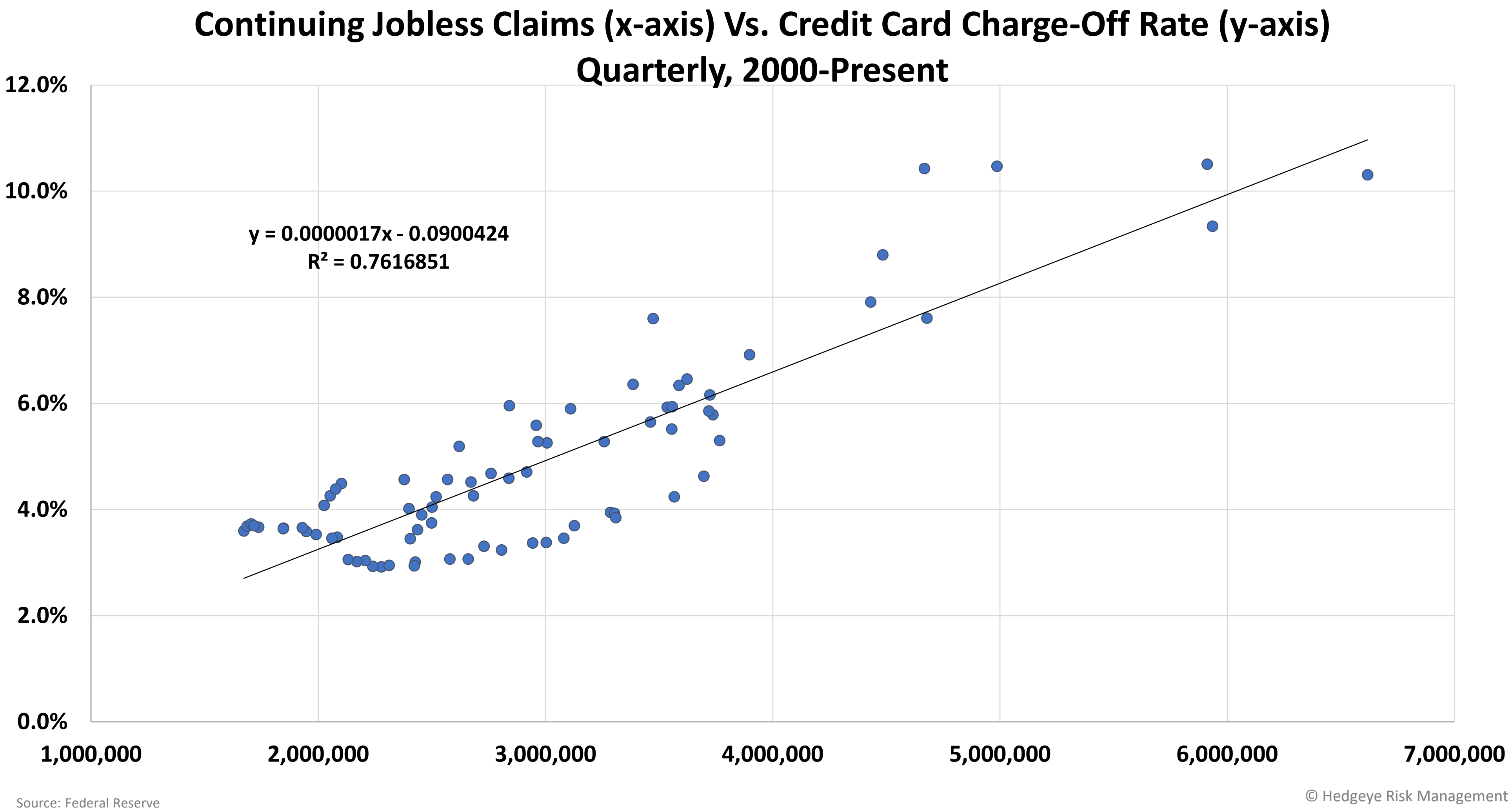


Source: Federal Reserve

Here we shift from initial jobless claims to continued claims, aka insured unemployed.

Quantifying the Relationship – Continued Claims

HEDGEYE



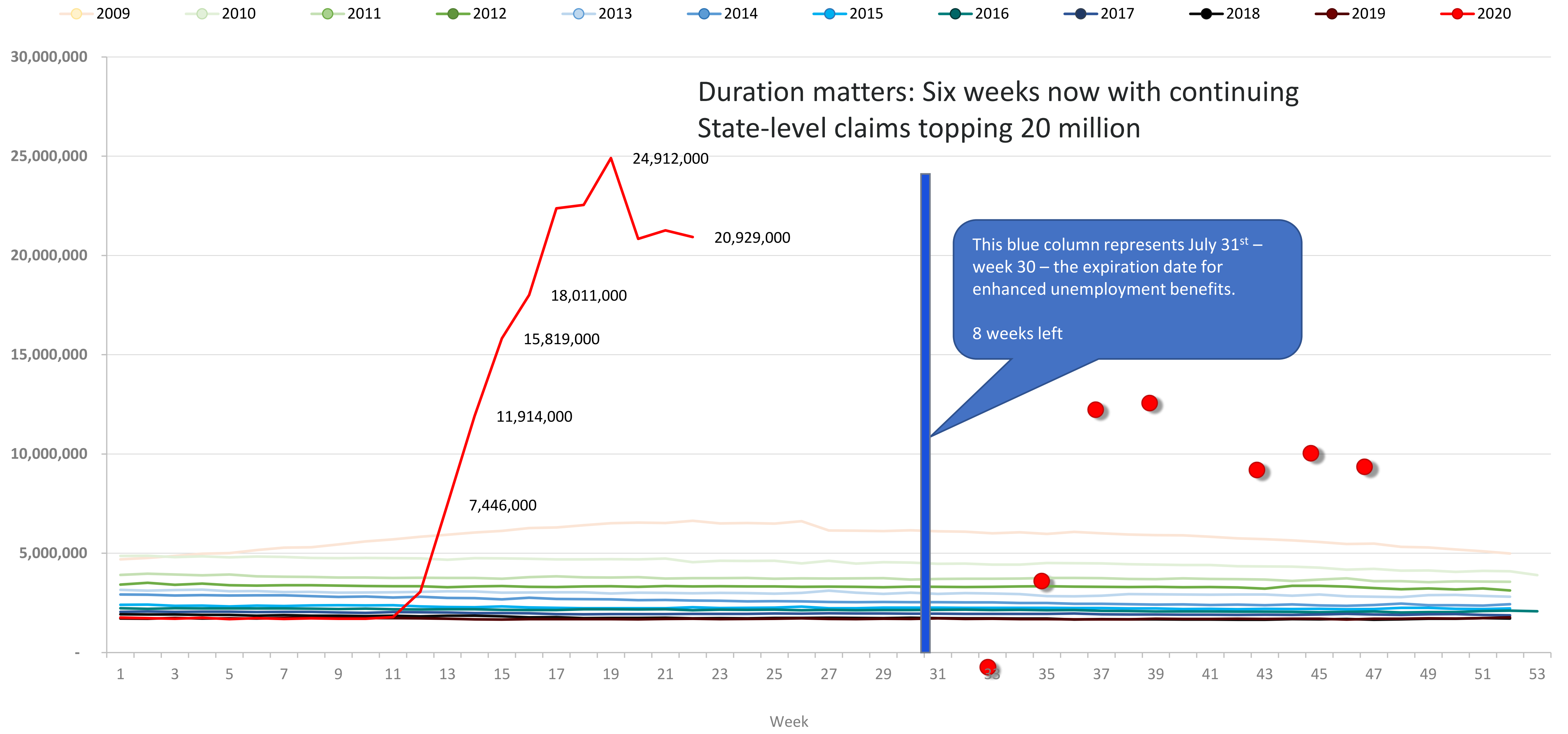
Source: Federal Reserve

As before, here we display that relationship on a regression basis and again find a strong positive correlation.

Every 1,000,000 increase in continued jobless claims has historically produced a 1.7% increase in the gross credit card charge-off rate.

Continued Weekly Unemployment Insurance Claims

Seasonally Adjusted



Jobless Claims

HEDGEYE

Don't forget about PUA

UNEMPLOYMENT INSURANCE DATA FOR REGULAR STATE PROGRAMS

WEEK ENDING	June 6	May 30	Change	May 23	Prior Year[1]
Initial Claims (SA)	1,542,000	1,897,000	-355,000	2,123,000	220,000
Initial Claims (NSA)	1,537,122	1,620,008	-82,886	1,915,138	220,186
4-Wk Moving Average (SA)	2,002,000	2,288,250	-286,250	2,608,000	217,750

WEEK ENDING	May 30	May 23	Change	May 16	Prior Year[1]
Insured Unemployment (SA)	20,929,000	21,268,000	-339,000	20,841,000	1,700,000
Insured Unemployment (NSA)	18,919,804	19,098,475	-178,671	18,861,428	1,538,065
4-Wk Moving Average (SA)	21,987,500	22,392,250	-404,750	22,669,500	1,688,250
Insured Unemployment Rate (SA)[2]	14.4%	14.6%	-0.2	14.3%	1.2%
Insured Unemployment Rate (NSA)[2]	13.0%	13.1%	-0.1	12.9%	1.1%

INITIAL CLAIMS FILED IN FEDERAL PROGRAMS (UNADJUSTED)

WEEK ENDING	June 6	May 30	Change	May 23
Pandemic Unemployment Assistance	705,676	796,813	-91,137	1,309,730

WEEK ENDING	May 30	May 23	Change	Prior Year[1]
Federal Employees (UCFE)	1,968	2,060	-92	705
Newly Discharged Veterans (UCX)	1,166	1,417	-251	419

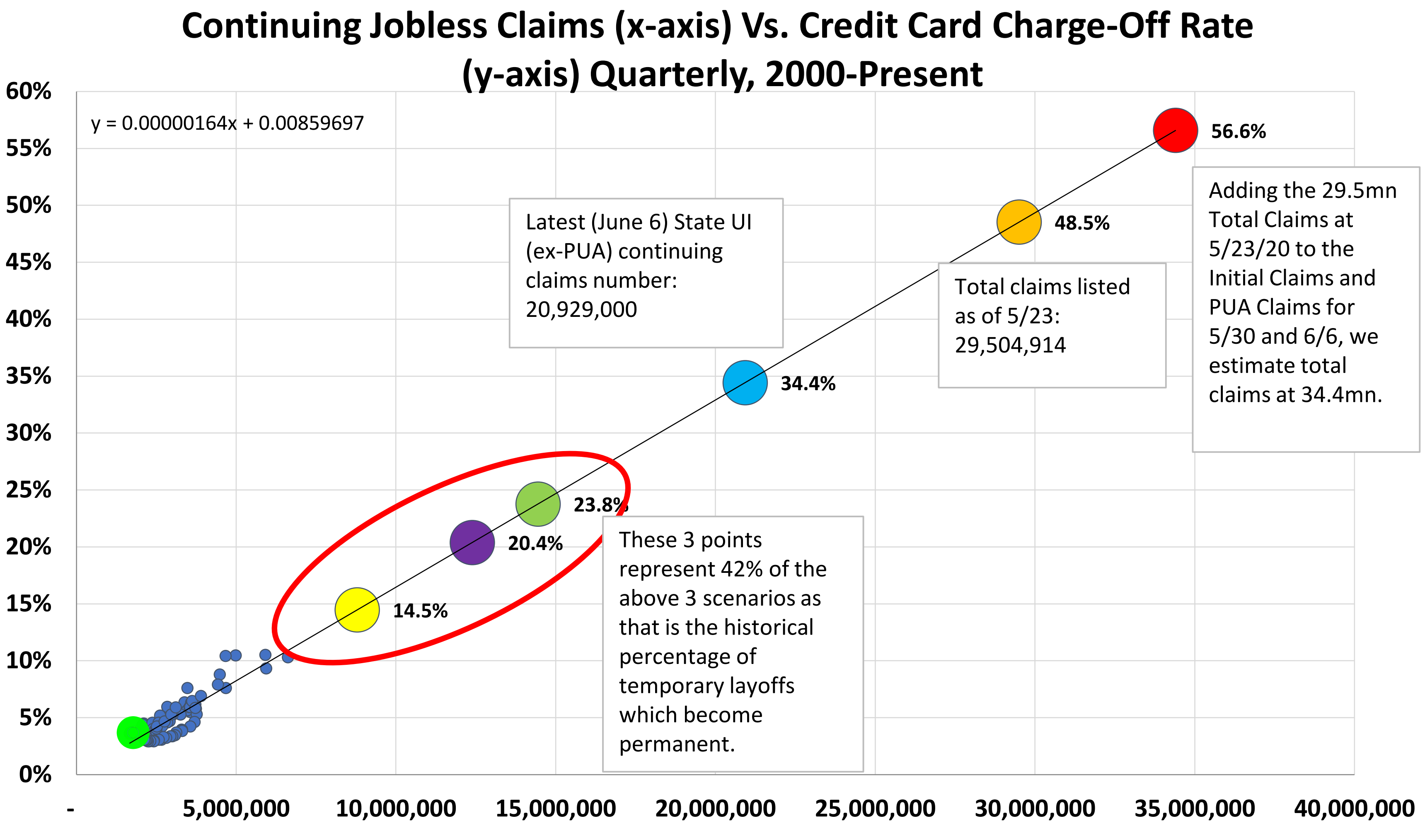
PERSONS CLAIMING UI BENEFITS IN ALL PROGRAMS (UNADJUSTED)

WEEK ENDING	May 23	May 16	Change	Prior Year[1]
Regular State	19,022,429	18,791,926	+230,503	1,519,343
Federal Employees	15,269	14,848	+421	6,853
Newly Discharged Veterans	11,866	11,393	+473	5,441
Pandemic Unemployment Assistance[3]	9,715,948	10,926,386	-1,210,438	NA
Pandemic Emergency UC[4]	518,942	222,694	+296,248	NA
Extended Benefits[5]	2,222	1,382	+840	0
State Additional Benefits[6]	4,222	4,603	-381	5,603
STC / Workshare [7]	214,016	193,938	+20,078	8,366
TOTAL[8]	29,504,914	30,167,170	-662,256	1,545,606

Adding the 29.5mn Total Claims at 5/23/20 to the Initial Claims and PUA Claims for 5/30 and 6/6, we estimate total claims at 34.4mn.

A Significant Increase In Charge-offs Coming

HEDGEYE



Source: Federal Reserve, HRM Estimates

Pre-Covid 19 Continued Claims stood at 1.8mn while charge-offs were 3.7%. This is depicted in the bright green circle at the bottom left of the chart.

The three colored circles in the top right of this chart reflect different scenarios using claims totals from the previous slide. They assume continuing claims levels of 20.9mn, 29.5mn and 34.4mn.

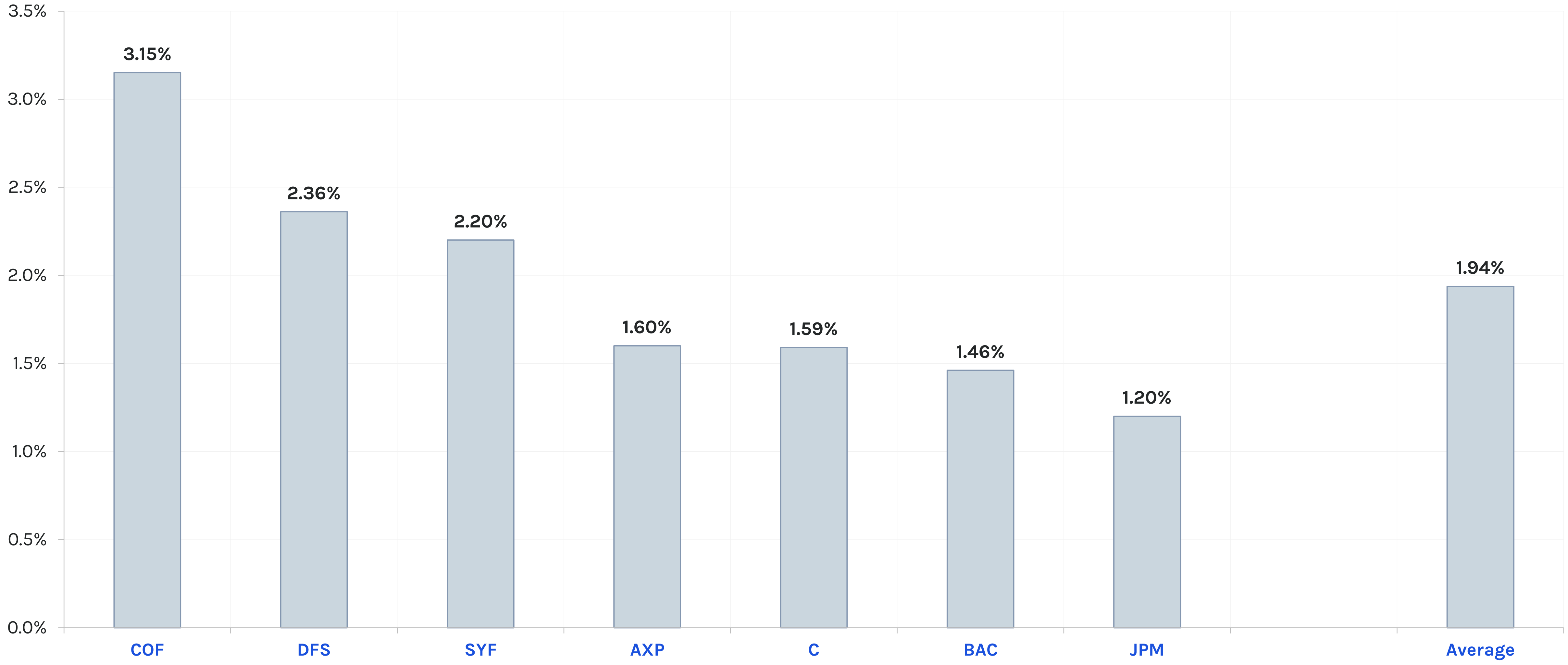
The three colored circles within the red band reflect the above scenarios, but reduced to 42%, based on the paper referenced earlier that found 42% of these pandemic layoffs will likely become permanent based on an historic analysis of the share of temp layoffs that become permanent.

At the peak of the GFC, charge-off rates hit 10.5%. The six scenarios listed here would suggest charge-off rates of 14.5%, 20.4%, 23.8%, 34.4%, 48.5% and 56.6%.

30+ Delinquency Rates

HEDGEYE

By Issuer, May 2020



COF, AXP, DFS reported on a Managed-Basis

Recent Commentary & Disclosures

Latest Management Commentary Conference 05/28/2020

HEDGEYE

Purchase Volume Rebounding

Brian J. Wenzel Sr.

Executive Vice President & Chief Financial Officer, Synchrony Financial

So we talked back in April, if you looked at purchase volume, our purchase volume after mid-April through – or mid-March through the end of March was down 26%. We had indicated in the first two weeks of April, we were going to be down 30% to 35%. That actually came in at 31%. Then, you look at the period, the latter part of April, so the 15th to 30th, down 23%. The first part of May, so, through May 15, down 16%, and now we're down 10%. So we've seen this gradual improvement across the business.

It's really across all platforms. So we are encouraged by the trend. Obviously, it's still largely unknown where sales ultimately go, right, with the economy opening with the retail environment really shifting, consumer behavior shifting as well as some of the credit refinements that we've put in place. But we are encouraged that we're running now down around 10%.

Another thing I just wanted to kind of touch on is forbearance, right? When we talked back in April about earnings, we indicated we had put about 800,000 accounts and $1.6 billion in balances into deferral or forbearance status.

And just to be clear, that number is when you ask for the deferral, that is the amount of the balance at the time which goes in deferral. If you look at the accounts that have totally received forbearance through a couple days earlier this week, we're up to 1.4 million accounts that had received some type of forbearance and $2.7 billion of balances. But when you dial that back a little bit, 75% of those balances have already come out of deferral status. So they are either current, making payments, but are not in a payment deferral status.

So we're very encouraged by that. Majority of the accounts are making payments, only 60% of the accounts were subprime. So when you look at those accounts, they're not necessarily as toxic as some people might think that they went into forbearance, they needed help. Some people called early as they're trying to stabilize but again having most of the accounts making payments 75% not receiving deferrals today. We're pretty encouraged.

For the accounts that are still in forbearance, it's a little bit unclear, right. They're getting help from majority of financial institutions. They're probably getting help from the stimulus package. So we will see how that plays out as we continue to move through and we'll continue to offer forbearance for customers that really need help during this time.

So then you think about the receivable growth and this is another interesting pattern that you're seeing is we were up 2.6% on receivables in the first quarter. If you looked at what we filed in our 8-K for the end of April we were actually down 2.2%. So we had a sequential swing of 4.4%. So clearly, we talked about the purchase volume being down. What's really echoing Margaret's comments about the strength of the consumer is if you looked at the pre-pandemic period, payment on a cumulative dollar basis right was up 5% to 10%, so it was outpacing purchase volume growth. So it was really strong from the consumer.

In the period of mid-March to mid-April, it was roundabout 5%, so even though sales were down payments were still very stronger in that period. And in the latter part of April, payments were actually up 10% which we really attribute to the stimulus package, dollars flowing through. And now if you think about May, we're essentially flat to prior year, so even though sales are down, there is pressure on the receivable balance, but it just goes to show you that the consumer is deploying their cash to pay down balance and manage their personal balances pretty well. So we are encouraged by that strength, but obviously it puts pressure on our receivable balance.

And the last thing I'll kind of close on is really credit. If you looked at our April delinquencies, our 30 plus delinquencies were 4.1% flat to prior year. Stripping out Walmart and stripping out the decline in the receivables, the core base was about 20 basis points better. So that's really encouraging there.

And then, when you think about the net charge-off rate at 5.90% and then, stripping out Walmart, stripping out the receivables, it was actually 10 basis points better. So I think the message is when you look at the consumer today, the consumer today is strong, but it is clearly being masked and being aided by stimulus, is being aided by forbearance. We clearly expect that when those two fade and the full ramifications come through, we will see higher delinquencies and higher charge-offs as we move later into the year and into 2021 and most certainly from our view from the first quarter, the macroeconomic forecast have deteriorated. So we will have incremental reserve provisioning here in the second quarter to deal with that, but the fundamental base of the business is trending upwards strong, but again clearly benefiting from stimulus and forbearance. So I don't know Margaret if anything else you want to add before we go to Q&A.

Purchase volume:

Last Two Weeks of March:	-26% Y/Y
First Two Weeks of April:	-31% Y/Y
Last Two Weeks of April:	-23% Y/Y
First Two Weeks of May:	-16% Y/Y
Last Two Weeks of May:	-10% Y/Y

Management noted that the rebound was occurring across the company's sales platforms.

Pockets of strength in powersports, furniture, and outdoor activities.

Latest Management Commentary Conference 05/28/2020

HEDGEYE

Forbearance

Brian J. Wenzel Sr.

Executive Vice President & Chief Financial Officer, Synchrony Financial

So we talked back in April, if you looked at purchase volume, our purchase volume after mid-April through – or mid-March through the end of March was down 26%. We had indicated in the first two weeks of April, we were going to be down 30% to 35%. That actually came in at 31%. Then, you look at the period, the latter part of April, so the 15th to 30th, down 23%. The first part of May, so, through May 15, down 16%, and now we're down 10%. So we've seen this gradual improvement across the business.

It's really across all platforms. So we are encouraged by the trend. Obviously, it's still largely unknown where sales ultimately go, right, with the economy opening with the retail environment really shifting, consumer behavior shifting as well as some of the credit refinements that we've put in place. But we are encouraged that we're running now down around 10%.

Another thing I just wanted to kind of touch on is forbearance, right? When we talked back in April about earnings, we indicated we had put about 800,000 accounts and $1.6 billion in balances into deferral or forbearance status.

And just to be clear, that number is when you ask for the deferral, that is the amount of the balance at the time which goes in deferral. If you look at the accounts that have totally received forbearance through a couple days earlier this week, we're up to 1.4 million accounts that had received some type of forbearance and $2.7 billion of balances. But when you dial that back a little bit, 75% of those balances have already come out of deferral status. So they are either current, making payments, but are not in a payment deferral status.

So we're very encouraged by that. Majority of the accounts are making payments, only 60% of the accounts were subprime. So when you look at those accounts, they're not necessarily as toxic as some people might think that they went into forbearance, they needed help. Some people called early as they're trying to stabilize but again having most of the accounts making payments 75% not receiving deferrals today. We're pretty encouraged.

For the accounts that are still in forbearance, it's a little bit unclear, right. They're getting help from majority of financial institutions. They're probably getting help from the stimulus package. So we will see how that plays out as we continue to move through and we'll continue to offer forbearance for customers that really need help during this time.

So then you think about the receivable growth and this is another interesting pattern that you're seeing is we were up 2.6% on receivables in the first quarter. If you looked at what we filed in our 8-K for the end of April we were actually down 2.2%. So we had a sequential swing of 4.4%. So clearly, we talked about the purchase volume being down. What's really echoing Margaret's comments about the strength of the consumer is if you looked at the pre-pandemic period, payment on a cumulative dollar basis right was up 5% to 10%, so it was outpacing purchase volume growth. So it was really strong from the consumer.

In the period of mid-March to mid-April, it was roundabout 5%, so even though sales were down payments were still very stronger in that period. And in the latter part of April, payments were actually up 10% which we really attribute to the stimulus package, dollars flowing through. And now if you think about May, we're essentially flat to prior year, so even though sales are down, there is pressure on the receivable balance, but it just goes to show you that the consumer is deploying their cash to pay down balance and manage their personal balances pretty well. So we are encouraged by that strength, but obviously it puts pressure on our receivable balance.

And the last thing I'll kind of close on is really credit. If you looked at our April delinquencies, our 30 plus delinquencies were 4.1% flat to prior year. Stripping out Walmart and stripping out the decline in the receivables, the core base was about 20 basis points better. So that's really encouraging there.

And then, when you think about the net charge-off rate at 5.90% and then, stripping out Walmart, stripping out the receivables, it was actually 10 basis points better. So I think the message is when you look at the consumer today, the consumer today is strong, but it is clearly being masked and being aided by stimulus, is being aided by forbearance. We clearly expect that when those two fade and the full ramifications come through, we will see higher delinquencies and higher charge-offs as we move later into the year and into 2021 and most certainly from our view from the first quarter, the macroeconomic forecast have deteriorated. So we will have incremental reserve provisioning here in the second quarter to deal with that, but the fundamental base of the business is trending upwards strong, but again clearly benefiting from stimulus and forbearance. So I don't know Margaret if anything else you want to add before we go to Q&A.

Forbearance

April 21st, 2020:

- The company put 800K accounts and $1.6B of balances into deferral or forbearance status

May 28th, 2020:

- In total, the company has so far put 1.4M accounts and $2.7 billion of balances in deferral or forbearance status
- 60% of the accounts were subprime
- 75% of balances have come out of deferral status and are making payments

Latest Management Commentary Conference 05/28/2020

HEDGEYE

Receivables Growth

Brian J. Wenzel Sr.

Executive Vice President & Chief Financial Officer, Synchrony Financial

So we talked back in April, if you looked at purchase volume, our purchase volume after mid-April through – or mid-March through the end of March was down 26%. We had indicated in the first two weeks of April, we were going to be down 30% to 35%. That actually came in at 31%. Then, you look at the period, the latter part of April, so the 15th to 30th, down 23%. The first part of May, so, through May 15, down 16%, and now we're down 10%. So we've seen this gradual improvement across the business.

It's really across all platforms. So we are encouraged by the trend. Obviously, it's still largely unknown where sales ultimately go, right, with the economy opening with the retail environment really shifting, consumer behavior shifting as well as some of the credit refinements that we've put in place. But we are encouraged that we're running now down around 10%.

Another thing I just wanted to kind of touch on is forbearance, right? When we talked back in April about earnings, we indicated we had put about 800,000 accounts and $1.6 billion in balances into deferral or forbearance status.

And just to be clear, that number is when you ask for the deferral, that is the amount of the balance at the time which goes in deferral. If you look at the accounts that have totally received forbearance through a couple days earlier this week, we're up to 1.4 million accounts that had received some type of forbearance and $2.7 billion of balances. But when you dial that back a little bit, 75% of those balances have already come out of deferral status. So they are either current, making payments, but are not in a payment deferral status.

So we're very encouraged by that. Majority of the accounts are making payments, only 60% of the accounts were subprime. So when you look at those accounts, they're not necessarily as toxic as some people might think that they went into forbearance, they needed help. Some people called early as they're trying to stabilize but again having most of the accounts making payments 75% not receiving deferrals today. We're pretty encouraged.

For the accounts that are still in forbearance, it's a little bit unclear, right. They're getting help from majority of financial institutions. They're probably getting help from the stimulus package. So we will see how that plays out as we continue to move through and we'll continue to offer forbearance for customers that really need help during this time.

So then you think about the receivable growth and this is another interesting pattern that you're seeing is we were up 2.6% on receivables in the first quarter. If you looked at what we filed in our 8-K for the end of April we were actually down 2.2%. So we had a sequential swing of 4.4%. So clearly, we talked about the purchase volume being down. What's really echoing Margaret's comments about the strength of the consumer is if you looked at the pre-pandemic period, payment on a cumulative dollar basis right was up 5% to 10%, so it was outpacing purchase volume growth. So it was really strong from the consumer.

In the period of mid-March to mid-April, it was roundabout 5%, so even though sales were down payments were still very stronger in that period. And in the latter part of April, payments were actually up 10% which we really attribute to the stimulus package, dollars flowing through. And now if you think about May, we're essentially flat to prior year, so even though sales are down, there is pressure on the receivable balance, but it just goes to show you that the consumer is deploying their cash to pay down balance and manage their personal balances pretty well. So we are encouraged by that strength, but obviously it puts pressure on our receivable balance.

And the last thing I'll kind of close on is really credit. If you looked at our April delinquencies, our 30 plus delinquencies were 4.1% flat to prior year. Stripping out Walmart and stripping out the decline in the receivables, the core base was about 20 basis points better. So that's really encouraging there.

And then, when you think about the net charge-off rate at 5.90% and then, stripping out Walmart, stripping out the receivables, it was actually 10 basis points better. So I think the message is when you look at the consumer today, the consumer today is strong, but it is clearly being masked and being aided by stimulus, is being aided by forbearance. We clearly expect that when those two fade and the full ramifications come through, we will see higher delinquencies and higher charge-offs as we move later into the year and into 2021 and most certainly from our view from the first quarter, the macroeconomic forecast have deteriorated. So we will have incremental reserve provisioning here in the second quarter to deal with that, but the fundamental base of the business is trending upwards strong, but again clearly benefiting from stimulus and forbearance. So I don't know Margaret if anything else you want to add before we go to Q&A.

Receivables Growth

- +2.6% Y/Y in 1Q20
- -2.2% Y/Y in April
- -3.8% Y/Y In May

May 28th, 2020:

- Management cities pre-pandemic balance repayment trends (+5-10% Y/Y and outpacing purchase volume growth) as evidence of strong consumer before pandemic started
- Latter part of April, payments up +10% which company attributes to stimulus package dollars flowing through.
- In May, payments were essentially flat while purchase volume growth was down, suggesting to management that while the receivable balance is under pressure, the consumer is strong and deploying cash to pay down and manage their balances.

Latest Management Commentary Conference 05/28/2020

HEDGEYE

The consumer today is strong, but the outlook going forward has become seemingly worse.

Brian J. Wenzel Sr.
Executive Vice President & Chief Financial Officer, Synchrony Financial

So we talked back in April, if you looked at purchase volume, our purchase volume after mid-April through – or mid-March through the end of March was down 26%. We had indicated in the first two weeks of April, we were going to be down 30% to 35%. That actually came in at 31%. Then, you look at the period, the latter part of April, so the 15th to 30th, down 23%. The first part of May, so, through May 15, down 16%, and now we're down 10%. So we've seen this gradual improvement across the business.

It's really across all platforms. So we are encouraged by the trend. Obviously, it's still largely unknown where sales ultimately go, right, with the economy opening with the retail environment really shifting, consumer behavior shifting as well as some of the credit refinements that we've put in place. But we are encouraged that we're running now down around 10%.

Another thing I just wanted to kind of touch on is forbearance, right? When we talked back in April about earnings, we indicated we had put about 800,000 accounts and $1.6 billion in balances into deferral or forbearance status.

And just to be clear, that number is when you ask for the deferral, that is the amount of the balance at the time which goes in deferral. If you look at the accounts that have totally received forbearance through a couple days earlier this week, we're up to 1.4 million accounts that had received some type of forbearance and $2.7 billion of balances. But when you dial that back a little bit, 75% of those balances have already come out of deferral status. So they are either current, making payments, but are not in a payment deferral status.

So we're very encouraged by that. Majority of the accounts are making payments, only 60% of the accounts were subprime. So when you look at those accounts, they're not necessarily as toxic as some people might think that they went into forbearance, they needed help. Some people called early as they're trying to stabilize but again having most of the accounts making payments 75% not receiving deferrals today. We're pretty encouraged.

For the accounts that are still in forbearance, it's a little bit unclear, right. They're getting help from majority of financial institutions. They're probably getting help from the stimulus package. So we will see how that plays out as we continue to move through and we'll continue to offer forbearance for customers that really need help during this time.

So then you think about the receivable growth and this is another interesting pattern that you're seeing is we were up 2.6% on receivables in the first quarter. If you looked at what we filed in our 8-K for the end of April we were actually down 2.2%. So we had a sequential swing of 4.4%. So clearly, we talked about the purchase volume being down. What's really echoing Margaret's comments about the strength of the consumer is if you looked at the pre-pandemic period, payment on a cumulative dollar basis right was up 5% to 10%, so it was outpacing purchase volume growth. So it was really strong from the consumer.

In the period of mid-March to mid-April, it was roundabout 5%, so even though sales were down payments were still very stronger in that period. And in the latter part of April, payments were actually up 10% which we really attribute to the stimulus package, dollars flowing through. And now if you think about May, we're essentially flat to prior year, so even though sales are down, there is pressure on the receivable balance, but it just goes to show you that the consumer is deploying their cash to pay down balance and manage their personal balances pretty well. So we are encouraged by that strength, but obviously it puts pressure on our receivable balance.

And the last thing I'll kind of close on is really credit. If you looked at our April delinquencies, our 30 plus delinquencies were 4.1% flat to prior year. Stripping out Walmart and stripping out the decline in the receivables, the core base was about 20 basis points better. So that's really encouraging there.

And then, when you think about the net charge-off rate at 5.90% and then, stripping out Walmart, stripping out the receivables, it was actually 10 basis points better. So I think the message is when you look at the consumer today, the consumer today is strong, but it is clearly being masked and being aided by stimulus, is being aided by forbearance. We clearly expect that when those two fade and the full ramifications come through, we will see higher delinquencies and higher charge-offs as we move later into the year and into 2021 and most certainly from our view from the first quarter, the macroeconomic forecast have deteriorated. So we will have incremental reserve provisioning here in the second quarter to deal with that, but the fundamental base of the business is trending upwards strong, but again clearly benefiting from stimulus and forbearance. So I don't know Margaret if anything else you want to add before we go to Q&A.

"So I think the message is when you look at the consumer today, the consumer today is strong, but it is clearly being masked and being aided by stimulus, is being aided by forbearance.

We clearly expect that when those two fade and the full ramifications come through, we will see higher delinquencies and higher charge-offs as we move later into the year and into 2021 and most certainly from our view from the first quarter, the macroeconomic forecast have deteriorated.

So we will have incremental reserve provisioning here in the second quarter to deal with that, but the fundamental base of the business is trending upwards strong, but again clearly benefiting from stimulus and forbearance."

Recent Commentary & Disclosures

Latest Management Commentary Conference 06/10/2020

HEDGEYE

Purchase Volume Rebounding

Richard D. Fairbank

Chairman, President & Chief Executive Officer, Capital One Financial Corp.

A

So, one recent trend that we've seen is a rebound, though, in purchase volume in our Domestic Card business. So, purchase volume is still down year-over-year, very consistent with cautious consumer behavior. But in March – and late March, generally April, as people were really into that free fall, purchase volume was down about 30% year-over-year. Over the last couple of weeks, the decline was about 10% year-over-year. But I do want to point out one thing that given that our purchase volume was up 13% year-over-year before March, the decline is greater than the numbers indicate. And I think all companies are going out giving year-over-year numbers, but I think that if you want to see the real impact, you kind of have to start with where they were right before that. So, I think that the decline is greater than our year-over-year numbers indicate.

Purchase volume:

Pre-Covid 19:	+13% Y/Y
Late March / Early April:	-30% Y/Y
Last Two Weeks of May:	-10% Y/Y

Management flags that the volume growth rate is still down around 23% from pre-Covid rates of +13%.

Latest Management Commentary Conference 06/10/2020

HEDGEYE

Forbearance Programs

Richard D. Fairbank

Chairman, President & Chief Executive Officer, Capital One Financial Corp.

A

Yeah. Well, let me – can I just seize the moment for a second, Betsy, and just get to the other part of your first question, which was the deferral request? Let me just do that, if I can. In Domestic Card, we currently offer forbearance to customers who are current or less than 60 days delinquent. And for card customers, who enroll, we're allowing them to skip a payment with no late fee on a month-to-month basis and the interest continues to accrue.

For auto, we're offering short-term payment deferrals to both current and delinquent customers as we've historically seen a reasonable portion of later-stage delinquent customers in that business end up making sufficient payments to become current again. Interest continues to accrue and payments are added to the end of the loan.

So, here's what we're seeing through the end of May. The volume of forbearance request is slowing. So, in our Domestic Card business, we had about 70,000 requests in the last week of May. That's down from about 175,000 requests in the final week in March. In auto, forbearance requests were trending at around 35,000 weekly requests at the end of May, down from the peak of 125,000 requests in the final week of March. The requests include accounts asking for forbearance for the first time, as well as accounts renewing for another month. And over half of the requests for card and auto are renewals because we have this month-to-month program.

As I mentioned on our earnings call, as of April 17, Domestic Card forbearance cumulative enrollments were about 1% of active accounts and 2% of loan balances, and in our auto business, about 9% of accounts and 11% of balances. At the end of May, the cumulative totals were about 2% of active accounts and 3% of loan balances in Domestic Card, and in auto, 13% of accounts and 15% of loans in – yeah. And roughly half of the cumulative enrollments in both Domestic Card and auto have made a payment.

Forbearance Trends:

Card requests have slowed to 70k/week at end of May from 175k/week at end of March.

Similarly, Auto requests have slowed to 35k/week from 125k/week.

As of April 17th, 1% of card accounts and 2% of card balances were in forbearance. At the same point, 9% of auto accounts and 11% of auto balances were in forbearance.

As the end of May, card was at 2% and 3%, respectively, of accounts and balances. Meanwhile, auto was at 13% and 15%, respectively.

Roughly half the cumulative enrollments in Domestic Card and Auto have made a payment.

Latest Management Commentary Conference 06/10/2020

HEDGEYE

Losses & Reserves

Richard D. Fairbank

Chairman, President & Chief Executive Officer, Capital One Financial Corp.

A

Sure. Betsy, I'm sure as you can imagine, this is a particularly tough time to try and estimate what will happen with losses and reserves from here. And I would just say that there's a few factors that we know or that we can estimate with confidence, and then there's some factors which are far less certain. I'll start off with what we know. So, we know that the unemployment rate has reached levels that are well above the assumptions of peak unemployment that we had in Q1, which was in the mid-9% range. That was in the primary scenario we used there. So, we're at a starting point with our Q2 allowance where that allowance is going to be based off of a higher un-assumed level of employment.

We also know that the credit results at Capital One and really across the industry have yet to really show adverse effects from COVID-related shutdown of economic activity. And we can pretty confidently conclude that the continued strength of the credit results is in part driven by the positive impact of the significant government stimulus and the broad-based forbearance, which has really been across the financial industry.

So, the thing that I would just point out here is that we really don't know how long the favorable impacts of stimulus and forbearance will sustain. And I expect that in our second quarter allowance, our assumptions will include less estimated benefit from stimulus to account for that uncertainty, which I think will be an important factor in the total size of our allowance. So, when I kind of look at all of those factors together and bring it together, if I were doing our Q2 reserves today, I would expect a healthy allowance build. We're going to continue to look at economic information and indicators through the end of the quarter. We haven't run our full process, but that's where I see things if we were doing the allowance today.

Losses & Reserves:

- Tough time to estimate losses
- Unemployment rate is higher than what was assumed in Q1 loss reserving
- Credit results so far have been better than expected and yet to show adverse effects of Covid-19. This is due to government stimulus and forbearance programs.
- Don't know how long the favorable impacts of stimulus and forbearance will last.
- Expect Q2 allowance to include less assumed benefit.
- If Q2 reserves were being set today, they would show a healthy build.

HEDGEYE

Recent Commentary & Disclosures

DISCOVER®

Latest Management Commentary Conference 06/9/2020

HEDGEYE

Purchase Volume Rebounding

Roger C. Hochschild

President, Chief Executive Officer & Director, Discover Financial Services

A

Sure. So in terms of credit card spending, the trough was probably about down 30%. And if you go to late May, that's recovered to more down 12% to 13% and it's continued to improve in June. And what's interesting is, we see about a 4% to 5% gap between the states that have reopened or never put too stringent contingents and those that haven't. So, clearly, reopening, as we all know, drives increased economic activity, but we can size it and then sort of start forecasting based on additional states pulling back on restrictions.

Retail is now performing well. It's up about 12% compared to trough of 14%; home improvement, very, very strong as a category, up over 25%; and, I think, a lot of people are using their time and, certainly spending a lot more time in their houses and investing in that.

Travel, as a category, is starting to improve, but still lagging tremendously. At a peak, the decline was 100% or even more as credits were more than sales. So, travel is still down probably close to 80% and, I think, will be the laggard in terms or recovery.

Purchase volume:

Late March / Early April: -30% Y/Y

Last Two Weeks of May: -12-13% Y/Y

Seeing states reopening generating 4-5% higher Y/Y sales than states that remain closed.

Travel is still down 80% Y/Y but recovering off the lows of being down 100%+.

Latest Management Commentary Conference 06/9/2020

HEDGEYE

Forbearance

Roger C. Hochschild

President, Chief Executive Officer & Director, Discover Financial Services

A

Sure. So I'll with the flow. The peak enrollments in Skip-a-Pay was probably the first week of April at a little over $670 million. If you look at the week of May 31, that's down more than 90%, so roughly $64 million. So much fewer people going into the program. And actually, a lot of people took one month and are not renewing for the second month.

So temporary hardship. It might be the amount of government stimulus or other benefits kicking in. It might be that they were able to put their mortgage payments on hold. But we did see a lot of people go in for one month and not again. So through the end of May, we had a total of about $3.3 billion of card loans enrolled in Skip-a-Pay. But again, the reenrollment rate is relatively low. So of the customers no longer enrolled, more than 80% are making payments the following cycle and getting back on their feet.

Discover Financial Services
Weekly Credit Card Skip-a-Pay (Payment Deferral) Program Enrollment Statistics
(dollars in millions)

	Apr 13, 2020 - Apr 19, 2020	Apr 20, 2020 - Apr 26, 2020	Apr 27, 2020 - May 3, 2020	May 4, 2020 - May 10, 2020	May 11, 2020 - May 17, 2020	May 18, 2020 - May 24, 2020	May 25, 2020 - May 31, 2020	June 1, 2020 - June 7, 2020
Credit Card Balances Enrolled[1]	$ 368	$ 230	$ 202	$ 142	$ 119	$ 85	$ 65	$ 61

(1) Represents total balance of credit card receivables newly enrolled in the Skip-a-Pay (payment deferral) program for cardmembers impacted by COVID-19 for each of the weeks presented.

As of June 7, 2020, $3.3Bn of credit card receivables have been enrolled in the Skip-a-Pay program. As of June 7, 2020, 30% of eligible accounts have been re-enrolled in a second month of the Skip-a-Pay program.

Forbearance:

Forbearance enrollments for card were $670mn/week in early April but just $64mn/week by end of May

As of June 7, 2020, $3.3 billion or 4.7% of credit card receivables have been enrolled in the Skip-a-Pay program, up from $2.4 billion or 3.25% reported at the end of 1Q20. Of the $3.0 billion, 30% has been enrolled in a second month of the Skip-a-Pay program.

Latest Management Commentary Conference 06/9/2020

HEDGEYE

Reserve Build

Roger C. Hochschild
President, Chief Executive Officer & Director, Discover Financial Services

A

Yeah. So, it does point to one of the challenges in how we do reserves and how the whole industry does. You have to pull up and shoot with what the economic assumptions are at the end of the quarter and use those. So, to your point, the 9% we used for Q1 reserve as peak unemployment does seem low. And I would say where we sit now, we're probably looking at a reserve build in the second quarter that's around the same level as what we did in Q1. But I would caveat that, we'll have to wait and look at the economic assumptions at the end of the quarter.

We've re-looked at our models and so aren't using to the earlier discussion the traditional relationship with unemployment. The other factor is it's not so much the initial spike. The duration of unemployment is also very important in terms of calculating the amount of reserve you need to put up.

Reserves:

The 9% unemployment rate assumption used in Q1 is probably too low for Q2.

Likely there will be a reserve building in Q2 that is similar to that seen in Q1.

The spike in unemployment is less important than the ultimate duration of that spike.

Recent Commentary & Disclosures

Latest Management Commentary Conference 05/28/2020

HEDGEYE

Spending

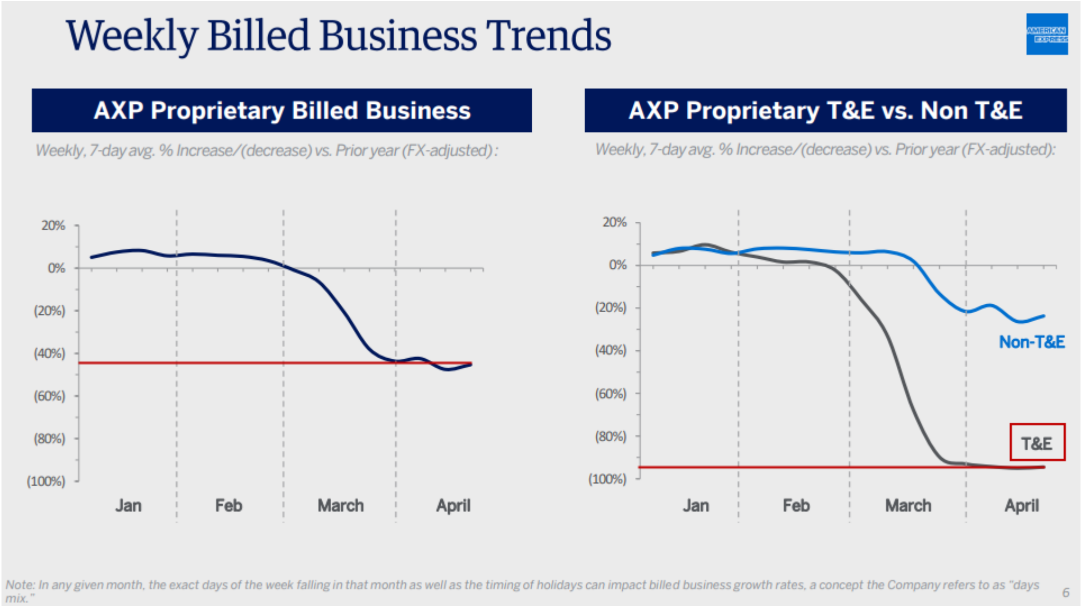
Stephen J. Squeri
Chairman & Chief Executive Officer, American Express Co.

Yeah. [indiscernible] (00:06:02) I'll be 35 years in September. I've never seen – anybody has ever seen anything like this. And we're chugging along really nicely in January and February. March, you're starting to see lots of holes in the boat here. And all of a sudden, come mid-April, you've got about a 45% dip in overall billings.

And just to put that in perspective, during the financial crisis, the worst quarter that anybody, that we saw was negative 15%. So, this is really truly – when you say unprecedented, it's unprecedented to see that kind of a drop. And obviously, you saw a T&E just completely fall off the map. I mean, that was down about 95%, yet non-T&E down 20%, 25%. That was probably around mid-April, April 14 or so when I think we've hit the low.

We've come back. And I never thought I would say sort of down mid-30s is bouncing back. But back down mid-30s right now we've bounced back. You see non-T&E is maybe in the low-teens right now from a decline perspective. But T&E is still down sort of 90% at this point. You've seen an uptick in online spend. I mean, traditionally, about 60% of our spend is either card not present or online. 70% of that spend is that way right now. And that's what some of the travel stuff taken out. And year-over-year, we're seeing an increase in online. I think everybody's probably seeing that, as you're seeing habits completely change. So, that's where we are right now from a spending perspective.

04/24/2020:



Management indicated that spending has bounced back to down mid-30s, which is about a 10 percentage point improvement over the mid-40s decline seen in April, with the recovery being led by non-T&E spend.

Latest Management Commentary Conference 05/28/2020

HEDGEYE

T&E Detail

Q

Okay. Maybe we can dig into that T&E discussion a little bit. We're starting to see in the data that we get from certain partners is that you're starting to see an increase in lodging, but Airlines hasn't really caught up. Is this something that you're seeing as well that maybe states are opening up, consumers want to get out of [ph] dodge (00:08:02) and maybe take a driving vacation, and maybe that's helping a little bit in that segment?

Stephen J. Squeri

Chairman & Chief Executive Officer, American Express Co.

A

Yeah. I think that when you look at the segment, right, you look at restaurants, you look at lodging, and you look at airlines. Airlines and cruise lines are – as I said, we're at 90% T&E decline. Airlines and cruise lines are above – beyond that at this point. So they are beyond that with refunds and everything else.

You're seeing restaurants come back a little bit more. Restaurants had been down about 80%. You're seeing that down to about 70% now. You're seeing more restaurants open up. And again a lot of us have a perspective of New York. But New York is not the rest of the United States and certainly not the world. In the rest of the United States, you're seeing restaurants open. You're seeing restaurants open at 25% first and then 50%, and some of them are up to 75% spreading their tables apart. New York will get to that point at some point. You got a lot of restaurants obviously in New York. But we're seeing restaurants come back a lot more and they had the ability to do [indiscernible] (00:09:08) takeout, and what have you.

Lodging, lodging is at this particular point in time probably more like the T&E industry, I mean, so we're seeing that probably 90% down, 85% down at this point. So – but I think here's what I think will happen. I think you will see exactly what you said. You will see some stay vacations, you will see driving vacations, and you will see the lodging industry I think come back certainly. And if you talk to Chris Nassetta or you talk to Arne Sorenson from Marriott, they'll tell you it's not going to come back really soon but it will come back over time. I think when you think about conventions and things like that we're a long way from those kinds of things.

The airline industry is different. You've heard Ed Bastian say this. You've heard a number of the other CEOs say this from the airline industry. It will probably take three years for them to come back to where they were, and it will probably be at reduced capacity of 15% to 20%. But what I do think is going to happen in airline is you will see sort of in-market, let's call, intra United States, short term, short trips happen before you see cross-border trips happen. You won't see a lot of Americans going to Europe. You won't see a lot of Americans go to Asia. And business travel, we talk to a lot of CFOs. I talk to a lot of CEOs. They're not going to be rushing to get back to business travel anytime soon.

And I think when you think about business travel, I think we're looking for – we're looking at a fundamental shift over time. I mean think about any anybody that's on this WebEx today, how are you doing business today. I mean, the reality is there's a lot of things that you have done in person by getting on a plane and flying somewhere that you realized now you can do via video, once you've established that relationships. So, I think corporate travel maybe changed forever. And that's – look, that's a big business for us at this particular point in time. But it's a big business in terms of our market share. But when you think about the percent of overall billings and just put that in context for you, our corporate business is about 9% of our billings. Our T&E piece of that is about 5%. And so, you could look at a decline of maybe 50%. They are 25%. I'm speculating but we'll see. Our corporate card business right now is probably about half of what it was

- Restaurant spending was down to a low of -80% y/y in April and has recovered to down -70% y/y as of 05/28/2020
- Lodging spend has improved from an April low of down -90% y/y to down -85% y/y as of 05/28/2020.
- Management expects restaurants and lodging to come back slow and steady
- Meanwhile, Amex holds the view that it will likely take three years for the airline industry to return to its pre-pandemic state, and even then it will be at reduced capacity of 15 to 20%.
    - Amex expects domestic travel to help airlines while remaining bearish on cross-border travel and business travel over the near-to-intermediate term.

Latest Management Commentary Conference 05/28/2020

HEDGEYE

Forbearance / Credit

Q

Got it. Okay. So, dovetailing into overall health of the consumer, how are you feeling right now considering unemployment levels are staggering, don't know how temporary those levels are. Any concerning signals within the Amex portfolio that you see now that we should be aware of?

Stephen J. Squeri
Chairman & Chief Executive Officer, American Express Co.

A

I think – look, I think time will – I think time will really tell. I mean, look you've got unemployment right now at levels that we haven't seen in this country and again go back to the great financial crisis it took six quarters for us to get to where we got to in eight weeks and we surpassed that right now with almost 40 million people unemployed. This unemployment right now is primarily a service industry, small business phenomenon. You think about hotels, airlines, restaurants, small retailers and so forth, that's where you're seeing it.

When I look at our portfolio, we have – again, I'll compare this back to the financial crisis, but 33% less, low FICO, about half of – half less low tenure. We've put – look, we've enrolled people in our pandemic relief program that you wouldn't have thought you would have ever enrolled those people in. But when you look at that percentage, and I'll talk about pandemic relief for a second because I'm sure it's on people's minds. When we – when this thing started, we came up with what we call our CPR program, which is Customer Pandemic Relief and that was either a 30-day programming reenrolled or then move to one of our shorter-term hardship programs which is 12 months or sort of longer-term, 36 to 60.

And remember in April, when we came out, we talked about $8.5 billion and 845,000 accounts that were enrolled in pandemic relief. And I think that may have raised – could have raised some eyebrows at the time. And that was made up of people that were just struggling at the moment, waiting either for government assistance, waiting for whatever they were waiting for.

Since that point in time, as of mid-May, we've got about 500,000 accounts now in pandemic in that short-term pandemic relief. We've had a trickle that have come in. We'll probably shut that down over the next couple of weeks or so. And we've got about $5 billion in there. Out of the people that have left that pandemic relief program, two thirds of those 345,000 accounts are now current and are paying their bills. And the other third, some have gone delinquent. The others have either enrolled in our 12-month program or one of our longer-term programs.

And so, when I look at those that are outside of that particular program, our roll rates are as good as they've ever been. So, I think we have a lot of people that were in stress in there. You saw a lot more – half of the balances that we had was small business versus consumer, which makes a lot of sense, given small businesses completely shut down. So, I think time will tell. There will probably be another shock and maybe even a shock after that. But we feel with the book business that we have and with the programs that we have for our customers, we'll be able to navigate this quite elegantly.

Forbearance

April 24th, 2020:

- The company put 845K accounts and $8.5B of balances into deferral or forbearance status

May 28th, 2020:

- 500K accounts and $5 billion of balances remain in deferral or forbearance status
- Two thirds of the 345K accounts are now current and paying their bills
- Of the remaining third, some accounts have gone delinquent.
- Others have enrolled in the company's shorter-term hardship program of 12 months or its longer-term programs.

Latest Management Commentary Conference 05/28/2020

HEDGEYE

Credit / Reserving

Q

So, a question from the audience that is well-timed into the conversation. Do you think loan loss reserves peak in the first quarter, second quarter or will the third quarter potentially see a larger reserve build as well? Will charge-offs remain below loan loss reserves basically?

A

Stephen J. Squeri
Chairman & Chief Executive Officer, American Express Co.

Yeah. So, look, I think that – and I think Jamie said this yesterday when he was talking at a conference. I think CECL requires us to look at economic forecasts and to make our predictions on reserves and loss rates based on what the economic forecasts are to look at the life of the loan. Our anticipation is you will have another big reserve in the second quarter and then we'll see where we see we go from there. And big reserve, remember our reserve was $1.7 billion or so last quarter, and so, I probably see it's been around the same amount of money.

Another big reserve expected for 2Q, in the neighborhood of the $1.7 build taken in 1Q20, while management taking a quarter-by-quarter approach into the latter half of the year and beyond.

Latest Management Commentary Conference 05/28/2020

HEDGEYE

Receivables Growth

A

Got it. Okay. Another question from the audience. How much of the decline in loan growth since February is attributable to lower spending volume versus the leveraging from revolving borrowers versus Amex just also pulling back on credit?

Stephen J. Squeri
Chairman & Chief Executive Officer, American Express Co.

A

Yeah. Look, I think that we're different than everybody else. And so, just to reinforce the model, right? We charge more fees for cards than anybody else does and that's why we have such high fee revenue, which we're trying to drive spend and we're trying to drive lend. And so when you look at our AR, it's transactors and it's revolvers. Transactors are coming down a lot faster. I mean you could see it because if you have a 45% decline in billings in April and now you're down 35%, all that transactor volume does come down.

So a lot of it – look, it's not to say that we're not declining from a lend – from what you call a traditional lend, revolve perspective, but a lot of it's being driven by transactor, more being driven by transactor than lending or more than us tightening up on some of the stuff. But again, you also have a situation where we are not aggressively acquiring cards, right, as well. But the transact – in a spend-centric model, the transactor volume will drive the AR down. On the flipside, what will happen with our base is when we come out of this, you will see the AR increase a lot quicker than you'll see others increase their AR. So, what I don't want to hear from why increasing your AR so quickly? It's [ph] because it is spent (00:44:06).

U.S. Card Member Loans

- -2.5% Y/Y in 1Q20
- -11.5% Y/Y in April
- -13.2% Y/Y In May

May 28th, 2020:

- Management notes that while it is indeed tightening lending, transactor loss is having a larger impact on the balance of U.S. card member loans