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**TYLER MATHISEN, CNBC:**

Synchrony financial, that was our mystery chart, up nearly 13% over the past year. But underperforming the likes of Capital One, Visa, and MasterCard, Deutsche Bank attributes that to concerns over the CFPB's impending changes to credit card late fee rules. It says investors are overstating the long-term impact those would have on synchrony's revenues, making the case for a 45% potential upside. Mark DeVries is a research analyst at Deutsche Bank. Mark, welcome, good to have you here. Good to see you.This proposed rules that would limit late fees goes back to when and what would it precisely do?

**MARK DEVRIES, DEUTSCHE BANK:**

Good to be here. Yeah, so the proposal came out of the CFPB early February of last year. And what they're seeking to do, among other things, is effectively drop the maximum late fee that a credit card issuer can charge per billing cycle from $41 to $8. And they suggest just given the averages that that'll reduce the total late fee charged by the industry from $12 billion to $9 million a year. And this has disparate impacts on the credit card issuers depending on the nature of their card business. But Synchrony as a private-label credit card issuer is one of the more affected with roughly 15% on their revenues coming from late fee income, which is why it's become of all the credit card issuers, the one that has been most impacted by this proposed rule.

**MATHISEN:**

So these are material numbers for the likes of Synchrony and others in their credit card business. Let me ask a kind of philosophical question here. I'm curious why the government should get into price setting like this, because that's what it is.

**DEVRIES:**

Yeah, it's a good question. I think it's part of a broader initiative by the Biden administration to eliminate what they consider junk fees in the credit card industry. And this is one of the last remaining substantial fees that are charged to consumers. I think from a devil's advocate perspective it plays a very important role in trying to keep consumers current, but the CFPB has taken a very different role. And I think their intent here is to get the fee cut as much as possible to match what the cost is to these credit card issuers.

**MATHISEN:**

I$41 for a late fee does feel a little steep to me if you're two days late with your charge because you forgot it. Usually if you call the card company and you appeal that, they will often say, okay, we'll wave it, we'll put it back, just don't do it again, they slap your wrist. But for the government to say, okay, you got to cut it to $8, it just seems a little curious to me. Now, let's talk about some of the countervailing things that should these rules go into effect that the credit card companies can do to blunt the impact.

**DEVRIES:**

Sure. Well, one thing Synchrony has at their disposal which a lot of issuers don't is they have contractual agreements with their retail partners. Almost all of their lending is done as a partner to retailers like Amazon, Lowe's and others where they share economics. So half of the loss fees will actually be borne by the retailer. But then there are other things that they can seek to do outside of that, I think that will offset that. A couple of them are more near term and have a more immediate impact. One of the things that they may do is actually add fees for paper billing statements for people who choose not to just receive digital notification. And I think that's something we can expect them to do. They can also provide promotional financing on some of their lending. They may look to increase the rate on that. And also they could consider what's called trailing interest and charging people for the period between the end of the billing cycle and their due date. But the bigger longer term solution is going to be ultimately for the borrowers who are most at risk of being delinquent. And currently this is increasing the APR. In other words, the rate that you pay on your revolving balances. And I think that is what at the end of the day is going to get Synchrony most of the way back to recovering all the revenue they stand to lose from the reduction in the latest.

**MATHISEN:**

In your coverage universe, which stocks do you like the best right here today? And I'd love to get your thoughts on the deal between Discover and Capital One.

**DEVRIES:**

Synchrony and AmEx are the two that we're recommending for very different reasons. Synchrony is because of our view that the market is underestimating their offsets and that once it becomes clear to the market that they're going to in the next couple of years be able to fully offset it that the multiple will re-rate back to levels that are consistent with what’s traded longer term. And that's why you get so much upside to our price target. AmEx is a very different story. It's just a very high quality issuer at a still relatively uncertain time in the cycle where you're seeing credit at a number of issuers like Capital One, Discover, and even Synchrony deteriorating despite relatively low unemployment.

**MATHISEN:**

And Capital One and Discover, tell me a quick thought on that

**DEVRIES:**

Yeah, we're a hold on both of those in part because we think the market is telling us that there's a high probability that this deal does not get approved. So we see risk to Discover trading back down to where it was prior to the deal. But also for Capital One, there's going to be very limited accretion from a gap perspective for the next several years. And so we think even if the deal gets approved, it takes time for that one to work.

**MATHISEN:**

Got to leave it there, Mark DeVries. Thank you very much. Appreciate it. And that'll do it for the Exchange.