Discover Financial Services
Form 10-Q
May 02, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2019
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from to

Commission File Number 001-33378
DISCOVER FINANCIAL SERVICES
(Exact name of registrant as specified in its charter)

Delaware	36-2517428
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2500 Lake Cook Road, Riverwoods, Illinois 60015	(224) 405-0900
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	DFS	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of April 26, 2019, there were 323,728,882 shares of the registrant's Common Stock, par value $0.01 per share, outstanding.

DISCOVER FINANCIAL SERVICES
Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019
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Except as otherwise indicated or unless the context otherwise requires, "Discover Financial Services," "Discover," "DFS," "we," "us," "our," and "the Company" refer to Discover Financial Services and its subsidiaries. See Glossary of Acronyms, located after Part I — Item 4, for terms and abbreviations used throughout the quarterly report.
We own or have rights to use the trademarks, trade names and service marks that we use in conjunction with the operation of our business, including, but not limited to: Discover®, PULSE®, Cashback Bonus®, Discover Cashback Checking®, Discover it®, Freeze it®, College Covered®, and Diners Club International®. All other trademarks, trade names and service marks included in this quarterly report on Form 10-Q are the property of their respective owners.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Financial Condition

	March 31, 2019 (unaudited)	December 31, 2018
	(dollars in millions, except share amounts)	
Assets		
Cash and cash equivalents	$15,169	$ 13,299
Restricted cash	44	1,846
Other short-term investments	1,000	—
Investment securities (includes $5,000 and $3,133 at fair value at March 31, 2019 and December 31, 2018, respectively)	5,243	3,370
Loan receivables		
Loan receivables	88,743	90,512
Allowance for loan losses	(3,134)	(3,041)
Net loan receivables	85,609	87,471
Premises and equipment, net	980	936
Goodwill	255	255
Intangible assets, net	160	161
Other assets	2,260	2,215
Total assets	$110,720	$ 109,553
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Interest-bearing deposit accounts	$68,254	$ 67,084
Non-interest bearing deposit accounts	662	675
Total deposits	68,916	67,759
Long-term borrowings	26,276	27,228
Accrued expenses and other liabilities	4,269	3,436
Total liabilities	99,461	98,423
Commitments, contingencies and guarantees (Notes 8, 11 and 12)		
Stockholders' Equity		
Common stock, par value $0.01 per share; 2,000,000,000 shares authorized; 565,973,417 and 564,851,848 shares issued at March 31, 2019 and December 31, 2018, respectively	6	6
Preferred stock, par value $0.01 per share; 200,000,000 shares authorized; 5,700 shares issued and outstanding and aggregate liquidation preference of $570 at March 31, 2019 and December 31, 2018	563	563
Additional paid-in capital	4,148	4,130
Retained earnings	19,484	18,906
Accumulated other comprehensive loss	(136)	(156)
Treasury stock, at cost; 240,587,890 and 233,406,005 shares at March 31, 2019 and December 31, 2018, respectively	(12,806)	(12,319)
Total stockholders' equity	11,259	11,130
Total liabilities and stockholders' equity	$110,720	$ 109,553

The table below presents the carrying amounts of certain assets and liabilities of Discover Financial Services' consolidated variable interest entities ("VIEs"), which are included in the condensed consolidated statements of financial condition above. The assets in the table below include those assets that can only be used to settle obligations of the consolidated VIEs. The liabilities in the table below include third-party liabilities of consolidated VIEs only and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts for which creditors have recourse to the general credit of Discover Financial Services.

	March 31, 2019	December 31, 2018
	(unaudited)	
	(dollars in millions)	
Assets		
Restricted cash	$44	$ 1,846
Loan receivables	$31,539	$ 33,424
Allowance for loan losses allocated to securitized loan receivables	$(1,156)	$ (1,150)
Other assets	$5	$ 7
Liabilities		
Long-term borrowings	$15,351	$ 16,917
Accrued expenses and other liabilities	$18	$ 18

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Income

	For the Three Months Ended March 31,	
	2019	2018
	(unaudited) (dollars in millions, except per share amounts)	
Interest income		
Credit card loans	$2,362	$2,090
Other loans	457	417
Investment securities	28	7
Other interest income	90	55
Total interest income	2,937	2,569
Interest expense		
Deposits	386	262
Long-term borrowings	246	207
Total interest expense	632	469
Net interest income	2,305	2,100
Provision for loan losses	809	751
Net interest income after provision for loan losses	1,496	1,349
Other income		
Discount and interchange revenue, net	231	254
Protection products revenue	49	53
Loan fee income	104	96
Transaction processing revenue	46	43
Other income	28	29
Total other income	458	475
Other expense		
Employee compensation and benefits	425	405
Marketing and business development	195	185
Information processing and communications	99	82
Professional fees	167	155
Premises and equipment	28	26
Other expense	110	115
Total other expense	1,024	968
Income before income tax expense	930	856
Income tax expense	204	190
Net income	$726	$666
Net income allocated to common stockholders	$705	$646
Basic earnings per common share	$2.15	$1.82
Diluted earnings per common share	$2.15	$1.82

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Comprehensive Income

	For the Three Months Ended March 31,	
	2019	2018
	(unaudited) (dollars in millions)	
Net income	$726	$666
Other comprehensive income, net of tax		
Unrealized gains (losses) on available-for-sale investment securities, net of tax	31	(7)
Unrealized (losses) gains on cash flow hedges, net of tax	(12)	19
Unrealized pension and post-retirement plan gains, net of tax	1	1
Other comprehensive income	20	13
Comprehensive income	$746	$679

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Changes in Stockholders' Equity

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
	(unaudited)								
	(dollars in millions, shares in thousands)								
	For the Three Months Ended March 31, 2018								
Balance at December 31, 2017	6	$ 563	563,498	$ 6	$ 4,042	$ 16,687	$ (152)	$ (10,254)	$ 10,892
Net income	—	—	—	—	—	666	—	—	666
Other comprehensive income	—	—	—	—	—	—	13	—	13
Purchases of treasury stock	—	—	—	—	—	—	—	(584)	(584)
Common stock issued under employee benefit plans	—	—	23	—	2	—	—	—	2
Common stock issued and stock-based compensation expense	—	—	989	—	24	—	—	—	24
Dividends — common stock ($0.35 per share)	—	—	—	—	—	(126)	—	—	(126)
Dividends — preferred stock ($2,750 per share)	—	—	—	—	—	(16)	—	—	(16)
Balance at March 31, 2018	6	$ 563	564,510	$ 6	$ 4,068	$ 17,211	$ (139)	$ (10,838)	$ 10,871
	For the Three Months Ended March 31, 2019								
Balance at December 31, 2018	6	$ 563	564,852	$ 6	$ 4,130	$ 18,906	$ (156)	$ (12,319)	$ 11,130
Net income	—	—	—	—	—	726	—	—	726
Other comprehensive income	—	—	—	—	—	—	20	—	20
Purchases of treasury stock	—	—	—	—	—	—	—	(487)	(487)
Common stock issued under employee benefit plans	—	—	27	—	2	—	—	—	2
Common stock issued and stock-based compensation expense	—	—	1,094	—	16	—	—	—	16
Dividends — common stock ($0.40 per share)	—	—	—	—	—	(132)	—	—	(132)
Dividends — preferred stock ($2,750 per share)	—	—	—	—	—	(16)	—	—	(16)
Balance at March 31, 2019	6	$ 563	565,973	$ 6	$ 4,148	$ 19,484	$ (136)	$ (12,806)	$ 11,259

See Notes to the Condensed Consolidated Financial Statements.

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DISCOVER FINANCIAL SERVICES
Condensed Consolidated Statements of Cash Flows

	For the Three Months Ended March 31,	
	2019	2018
	(unaudited)	
	(dollars in millions)	
Cash flows from operating activities		
Net income	$726	$666
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	809	751
Depreciation and amortization	99	107
Amortization of deferred revenues and accretion of accretable yield on acquired loans	(101)	(101)
Net loss on investments and other assets	10	11
Other, net	(1)	(96)
Changes in assets and liabilities		
(Increase) decrease in other assets	(29)	251
Increase (decrease) in accrued expenses and other liabilities	822	(351)
Net cash provided by operating activities	2,335	1,238
Cash flows from investing activities		
Purchases of other short-term investments	(1,000)	—
Maturities of available-for-sale investment securities	34	44
Purchases of available-for-sale investment securities	(1,856)	—
Maturities of held-to-maturity investment securities	6	4
Purchases of held-to-maturity investment securities	(12)	(33)
Net principal repaid on loans originated for investment	1,148	959
Purchases of other investments	(6)	—
Purchases of premises and equipment	(82)	(58)
Net cash (used for) provided by investing activities	(1,768)	916
Cash flows from financing activities		
Proceeds from issuance of securitized debt	1,241	1,666
Maturities and repayment of securitized debt	(2,860)	(1,794)
Proceeds from issuance of other long-term borrowings	596	822
Maturities and repayment of other long-term borrowings	(3)	(751)
Proceeds from issuance of common stock	2	2
Purchases of treasury stock	(487)	(584)
Net increase in deposits	1,146	2,338
Dividends paid on common and preferred stock	(134)	(142)
Net cash (used for) provided by financing activities	(499)	1,557
Net increase in cash, cash equivalents and restricted cash	68	3,711
Cash, cash equivalents and restricted cash, at beginning of period	15,145	13,387
Cash, cash equivalents and restricted cash, at end of period	$15,213	$17,098
Reconciliation of cash, cash equivalents and restricted cash		
Cash and cash equivalents	$15,169	$17,011
Restricted cash	44	87

Cash, cash equivalents and restricted cash, at end of period	$15,213	$17,098

See Notes to the Condensed Consolidated Financial Statements.

Notes to the Condensed Consolidated Financial Statements
(unaudited)

1. Background and Basis of Presentation

Description of Business

Discover Financial Services ("DFS" or the "Company") is a direct banking and payment services company. The Company is a bank holding company under the Bank Holding Company Act of 1956 as well as a financial holding company under the Gramm-Leach-Bliley Act and therefore is subject to oversight, regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company provides direct banking products and services and payment services through its subsidiaries. The Company offers its customers credit card loans, private student loans, personal loans, home equity loans and deposit products. The Company also operates the Discover Network, the PULSE network ("PULSE") and Diners Club International ("Diners Club"). The Discover Network processes transactions for Discover-branded credit and debit cards and provides payment transaction processing and settlement services. PULSE operates an electronic funds transfer network, providing financial institutions issuing debit cards on the PULSE network with access to ATMs domestically and internationally, as well as merchant acceptance throughout the U.S. for debit card transactions. Diners Club is a global payments network of licensees, which are generally financial institutions, that issue Diners Club branded charge cards and/or provide card acceptance services.

The Company's business activities are managed in two segments, Direct Banking and Payment Services, based on the products and services provided. For a detailed description of the operations of each segment, as well as the allocation conventions used in business segment reporting, see Note 15: Segment Disclosures.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments which are necessary for a fair presentation of the results for the interim period. All such adjustments are of a normal, recurring nature. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the condensed consolidated financial statements. The Company believes that the estimates used in the preparation of the condensed consolidated financial statements are reasonable. Actual results could differ from these estimates. These interim condensed consolidated financial statements should be read in conjunction with the Company's 2018 audited consolidated financial statements filed with the Company's annual report on Form 10-K for the year ended December 31, 2018.

Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU replaces the incurred loss model with the current expected credit loss ("CECL") approach. For loans carried at amortized cost, the allowance for loan losses will be based on management's current estimate of all expected credit losses over the remaining contractual term of the loans. Upon the origination of a loan, the Company will have to record its estimate of all expected credit losses on that loan through an immediate charge to earnings. Updates to that estimate each period will be recorded through provision expense. The CECL estimate is to be based on historical experience, current conditions and reasonable and supportable forecasts.

The CECL approach is expected to increase the Company's allowance for loan losses as a result of: (1) recording reserves for expected losses, not simply those deemed to be already incurred, (2) extending the loss estimate period over the entire life of the loan and (3) reclassification of the credit loss component of the purchased credit-impaired ("PCI") loan portfolio out of loan carrying value and into the allowance for loan losses. The allowance for loan losses on all loans carried at amortized cost, including PCI loans and loans modified in a troubled debt restructuring ("TDR") will be measured under the CECL approach. Existing specialized measurement guidance for PCI loans, which the

ASU refers to as purchased credit-deteriorated ("PCD"), and TDRs will be eliminated, although certain separate disclosure guidance will be retained. Measurement of credit impairment of available-for-sale debt securities will generally remain unchanged under the new rules, but any such impairment will be recorded through an allowance, rather than a direct write-down of the security.

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The ASU is effective for the Company on January 1, 2020. A cross-functional governance structure is in place to oversee the implementation of the standard. The Company is refining loss forecasting models and technological solutions, and advancing processes and controls in support of the new standard. Management continues to evaluate key accounting interpretations and the time period over which losses can be reasonably estimated. Upon adoption, the allowance for loan losses is expected to increase with an offsetting adjustment to retained earnings. Additionally, the carrying value of PCD loans will be increased through an offsetting addition to the allowance for loan losses. Adoption of the standard has the potential to materially impact stockholders' equity and regulatory capital as well as the Company's consolidated financial condition and results of operations. The extent of the impact upon adoption will likely depend on the characteristics of the Company's loan portfolio and economic conditions at that date, as well as forecasted conditions thereafter.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance requires lessees to capitalize most leases on their balance sheet whereas under previous GAAP, only leases previously identified as capital leases were recognized on the lessee's balance sheet. Leases previously identified as capital leases are generally identified as financing leases under the new guidance but otherwise their accounting treatment remains relatively unchanged. Leases previously identified as operating leases generally remain in that category under the new standard, but both a right-of-use asset and a liability for remaining lease payments are required to be recognized on the balance sheet for this type of lease. The manner in which expenses associated with all leases are reported on the income statement remains mostly unchanged. Lessor accounting also remains substantially unchanged by the new standard. The new guidance became effective for the Company on January 1, 2019 and, as permitted by the standard, management elected to recognize a cumulative-effect adjustment as of the effective date without adjusting comparative prior periods. Additionally, management elected the package of practical expedients to not reassess prior conclusions related to (1) contracts containing leases, (2) lease classification and (3) initial direct costs. Management also made an accounting policy election to exclude short-term leases of one year or less from the balance sheet. As a result of adoption, the Company recorded immaterial adjustments to other assets and accrued expenses and other liabilities to recognize operating lease right-of-use assets of $49 million and operating lease liabilities of $56 million, respectively. Leases are not material to the Company or its consolidated financial statements.

2. Investments

The Company's other short-term investments and investment securities consist of the following (dollars in millions):

	March 31, 2019	December 31, 2018
Certificates of deposit[(1)]	$ 1,000	$ —
Total other short-term investments	$ 1,000	$ —
U.S. Treasury securities[(2)]	$ 4,482	$ 2,586
Residential mortgage-backed securities - Agency[(3)]	761	784
Total investment securities	$ 5,243	$ 3,370

(1) Includes certificates of deposit with maturity dates greater than 90 days but less than on year at the time of acquisition.

(2) Includes $47 million and $42 million of U.S. Treasury securities pledged as swap collateral as of March 31, 2019 and December 31, 2018, respectively.

(3) Consists of residential mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

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The amortized cost, gross unrealized gains and losses, and fair value of available-for-sale and held-to-maturity investment securities are as follows (dollars in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At March 31, 2019				
Available-for-Sale Investment Securities(1)				
U.S. Treasury securities	$ 4,421	$ 62	$ (1)	$4,482
Residential mortgage-backed securities - Agency	524	—	(6)	518
Total available-for-sale investment securities	$ 4,945	$ 62	$ (7)	$5,000
Held-to-Maturity Investment Securities(2)				
Residential mortgage-backed securities - Agency(3)	$ 243	$ 1	$ (2)	$242
Total held-to-maturity investment securities	$ 243	$ 1	$ (2)	$242
At December 31, 2018				
Available-for-Sale Investment Securities(1)				
U.S. Treasury securities	$ 2,559	$ 27	$ —	$2,586
Residential mortgage-backed securities - Agency	559	—	(12)	547
Total available-for-sale investment securities	$ 3,118	$ 27	$ (12)	$3,133
Held-to-Maturity Investment Securities(2)				
Residential mortgage-backed securities - Agency(3)	$ 237	$ —	$ (4)	$233
Total held-to-maturity investment securities	$ 237	$ —	$ (4)	$233

(1) Available-for-sale investment securities are reported at fair value.
(2) Held-to-maturity investment securities are reported at amortized cost.
(3) Amounts represent residential mortgage-backed securities that were classified as held-to-maturity as they were entered into as a part of the Company's community reinvestment initiatives.

The following table provides information about investment securities with aggregate gross unrealized losses and the length of time that individual investment securities have been in a continuous unrealized loss position (dollars in millions):

	Number of Securities in a Loss Position	Less than 12 months		More than 12 months	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At March 31, 2019					
Available-for-Sale Investment Securities					
U.S. Treasury securities	1	$125	$ (1)	$—	$ —
Residential mortgage-backed securities - Agency	29	$—	$ —	$457	$ (6)
Held-to-Maturity Investment Securities					
Residential mortgage-backed securities - Agency	78	$6	$ —	$125	$ (2)
At December 31, 2018					
Available-for-Sale Investment Securities					
Residential mortgage-backed securities - Agency	31	$110	$ (1)	$437	$ (11)
Held-to-Maturity Investment Securities					
Residential mortgage-backed securities - Agency	90	$101	$ (1)	$83	$ (3)

There were no losses related to other-than-temporary impairments and no proceeds from sales or recognized gains and losses on available-for-sale securities during the three months ended March 31, 2019 and 2018. See Note 7:

Accumulated Other Comprehensive Income for unrealized gains and losses on available-for-sale securities during the three months ended March 31, 2019 and 2018.

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Maturities of available-for-sale debt securities and held-to-maturity debt securities are provided in the following table (dollars in millions):

At March 31, 2019	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
Available-for-Sale Investment Securities—Amortized Cost					
U.S. Treasury securities	$ 125	$ 3,809	$ 487	$ —	$4,421
Residential mortgage-backed securities - Agency[(1)]	—	80	444	—	524
Total available-for-sale investment securities	$ 125	$ 3,889	$ 931	$ —	$4,945
Held-to-Maturity Investment Securities—Amortized Cost					
Residential mortgage-backed securities - Agency[(1)]	$ —	$ —	$ —	$ 243	$243
Total held-to-maturity investment securities	$ —	$ —	$ —	$ 243	$243
Available-for-Sale Investment Securities—Fair Values					
U.S. Treasury securities	$ 125	$ 3,860	$ 497	$ —	$4,482
Residential mortgage-backed securities - Agency[(1)]	—	79	439	—	518
Total available-for-sale investment securities	$ 125	$ 3,939	$ 936	$ —	$5,000
Held-to-Maturity Investment Securities—Fair Values					
Residential mortgage-backed securities - Agency[(1)]	$ —	$ —	$ —	$ 242	$242
Total held-to-maturity investment securities	$ —	$ —	$ —	$ 242	$242

(1) Maturities of residential mortgage-backed securities are reflective of the contractual maturities of the investment.

Other Investments

As a part of the Company's community reinvestment initiatives, the Company has made equity investments in certain limited partnerships and limited liability companies that finance the construction and rehabilitation of affordable rental housing, as well as stimulate economic development in low to moderate income communities. These investments are accounted for using the equity method of accounting and are recorded within other assets. The related commitment for future investments is recorded in accrued expenses and other liabilities within the condensed consolidated statements of financial condition. The portion of each investment's operating results allocable to the Company reduces the carrying value of the investments and is recorded in other expense within the condensed consolidated statements of income. The Company further reduces the carrying value of the investments by recognizing any amounts that are in excess of future net tax benefits in other expense. The Company earns a return primarily through the receipt of tax credits allocated to the affordable housing projects and the community revitalization projects. These investments are not consolidated as the Company does not have a controlling financial interest in the entities. As of March 31, 2019 and December 31, 2018, the Company had outstanding investments in these entities of $284 million and $295 million, respectively, and related contingent liabilities of $43 million and $49 million, respectively. Of the above outstanding equity investments, the Company had $262 million and $271 million of investments related to affordable housing projects as of March 31, 2019 and December 31, 2018, respectively, which had $30 million related contingent liabilities.

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3. Loan Receivables

The Company has three loan portfolio segments: credit card loans, other loans and PCI loans. The Company's classes of receivables within the three portfolio segments are depicted in the following table (dollars in millions):

	March 31, 2019	December 31, 2018
Credit card loans[1]	$ 70,789	$ 72,876
Other loans		
Personal loans	7,428	7,454
Private student loans	8,071	7,728
Other	924	817
Total other loans	16,423	15,999
PCI loans[2]	1,531	1,637
Total loan receivables	88,743	90,512
Allowance for loan losses	(3,134)	(3,041)
Net loan receivables	$ 85,609	$ 87,471

(1) Amounts include carrying values of $20.3 billion and $22.0 billion in underlying investors' interest in trust debt at March 31, 2019 and December 31, 2018, respectively, and $10.9 billion and $11.1 billion in seller's interest at March 31, 2019 and December 31, 2018, respectively. See Note 4: Credit Card and Student Loan Securitization Activities for additional information.

(2) Amounts include carrying values of $344 million and $363 million in loans pledged as collateral against the note issued from The Student Loan Corporation ("SLC") securitization trust at March 31, 2019 and December 31, 2018, respectively. See Note 4: Credit Card and Student Loan Securitization Activities for additional information.

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Credit Quality Indicators

The Company regularly reviews its collection experience (including delinquencies and net charge-offs) in determining its allowance for loan losses.

Information related to the delinquent and non-accruing loans in the Company's loan portfolio is shown below by each class of loan receivables except for PCI student loans, which is shown under the heading "— Purchased Credit-Impaired Loans" (dollars in millions):

	30-89 Days Delinquent	90 or More Days Delinquent	Total Past Due	90 or More Days Delinquent and Accruing	Total Non-accruing[1]
At March 31, 2019					
Credit card loans[2]	$ 840	$ 891	$1,731	$ 801	$ 252
Other loans					
Personal loans[3]	80	32	112	30	11
Private student loans (excluding PCI)[4]	107	35	142	35	8
Other	2	1	3	—	19
Total other loans (excluding PCI)	189	68	257	65	38
Total loan receivables (excluding PCI)	$ 1,029	$ 959	$1,988	$ 866	$ 290
At December 31, 2018					
Credit card loans[2]	$ 885	$ 887	$1,772	$ 781	$ 266
Other loans					
Personal loans[3]	84	35	119	33	11
Private student loans (excluding PCI)[4]	117	38	155	37	8
Other	2	1	3	—	17
Total other loans (excluding PCI)	203	74	277	70	36
Total loan receivables (excluding PCI)	$ 1,088	$ 961	$2,049	$ 851	$ 302

(1) The Company estimates that the gross interest income that would have been recorded in accordance with the original terms of non-accruing credit card loans was $12 million and $9 million for the three months ended March 31, 2019 and 2018, respectively. The Company does not separately track the amount of gross interest income that would have been recorded in accordance with the original terms of loans. This amount was estimated based on customers' current balances and most recent interest rates.

(2) Credit card loans that are 90 or more days delinquent and accruing interest include $134 million and $116 million of loans accounted for as TDRs at March 31, 2019 and December 31, 2018, respectively.

(3) Personal loans that are 90 or more days delinquent and accruing interest include $6 million and $5 million of loans accounted for as TDRs at March 31, 2019 and December 31, 2018, respectively.

(4) Private student loans that are 90 or more days delinquent and accruing interest include $8 million and $7 million of loans accounted for as TDRs at March 31, 2019 and December 31, 2018, respectively.

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Information related to the net charge-offs in the Company's loan portfolio is shown below by each class of loan receivables except for PCI student loans, which is shown under the heading "— Purchased Credit-Impaired Loans" (dollars in millions):

	For the Three Months Ended March 31,					
	2019			2018		
	Net Charge-offs	Net Charge-off Rate[(1)]		Net Charge-offs	Net Charge-off Rate[(1)]	
Credit card loans	$616	3.50	%	$540	3.32	%
Other loans						
Personal loans	84	4.53	%	73	4.03	%
Private student loans (excluding PCI)	15	0.79	%	22	1.17	%
Total other loans	99	2.45	%	95	2.52	%
Net charge-offs (excluding PCI)	$715	3.31	%	$635	3.17	%
Net charge-offs (including PCI)	$715	3.25	%	$635	3.09	%

(1) Net charge-off rate represents net charge-off dollars (annualized) divided by average loans for the reporting period.

As part of credit risk management activities, on an ongoing basis, the Company reviews information related to the performance of a customer's account with the Company as well as information from credit bureaus, such as FICO or other credit scores, relating to the customer's broader credit performance. FICO scores are generally obtained at origination of the account and are refreshed monthly or quarterly thereafter to assist in predicting customer behavior. Historically, the Company has noted that a significant portion of delinquent accounts have FICO scores below 660.

The following table provides the most recent FICO scores available for the Company's customers as a percentage of each class of loan receivables:

	Credit Risk Profile by FICO Score			
	660 and Above		Less than 660 or No Score	
At March 31, 2019				
Credit card loans	80	%	20	%
Personal loans	94	%	6	%
Private student loans (excluding PCI)[(1)]	94	%	6	%
At December 31, 2018				
Credit card loans	81	%	19	%
Personal loans	94	%	6	%
Private student loans (excluding PCI)[(1)]	94	%	6	%

(1) PCI loans are discussed under the heading "— Purchased Credit-Impaired Loans."

For private student loans, additional credit risk management activities include monitoring the amount of loans in forbearance. Forbearance allows borrowers experiencing temporary financial difficulties and willing to make payments, the ability to temporarily suspend payments. Eligible borrowers have a lifetime cap on forbearance of 12 months. At March 31, 2019 and December 31, 2018, there were $49 million and $37 million, respectively, of private student loans, including those classified as PCI, in forbearance, representing 0.9% and 0.7%, respectively, of total student loans in repayment and forbearance.

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Allowance for Loan Losses

The following tables provide changes in the Company's allowance for loan losses (dollars in millions):

	For the Three Months Ended March 31, 2019				
	Credit Card	Personal Loans	Student Loans(1)	Other	Total
Balance at beginning of period	$2,528	$ 338	$ 169	$ 6	$3,041
Additions					
Provision for loan losses	710	84	15	—	809
Deductions					
Charge-offs	(774)	(94)	(19)	—	(887)
Recoveries	158	10	4	—	172
Net charge-offs	(616)	(84)	(15)	—	(715)
Other(2)	—	—	(1)	—	(1)
Balance at end of period	$2,622	$ 338	$ 168	$ 6	$3,134

	For the Three Months Ended March 31, 2018				
	Credit Card	Personal Loans	Student Loans(1)	Other	Total
Balance at beginning of period	$2,147	$ 301	$ 162	$ 11	$2,621
Additions					
Provision for loan losses	645	73	31	2	751
Deductions					
Charge-offs	(663)	(81)	(25)	—	(769)
Recoveries	123	8	3	—	134
Net charge-offs	(540)	(73)	(22)	—	(635)
Other(2)	—	—	(1)	—	(1)
Balance at end of period	$2,252	$ 301	$ 170	$ 13	$2,736

(1) Includes both PCI and non-PCI private student loans.

(2) Net change in reserves on PCI pools having no remaining non-accretable difference.

Net charge-offs of principal are recorded against the allowance for loan losses, as shown in the preceding table. Information regarding net charge-offs of interest and fee revenues on credit card and other loans is as follows (dollars in millions):

	For the Three Months Ended March 31,	
	2019	2018
Interest and fees accrued subsequently charged off, net of recoveries (recorded as a reduction of interest income)	$127	$109
Fees accrued subsequently charged off, net of recoveries (recorded as a reduction to other income)	$31	$27

The following tables provide additional detail of the Company's allowance for loan losses and recorded investment in its loan portfolio by impairment methodology (dollars in millions):

	Credit Card	Personal Loans	Student Loans(1)	Other Loans	Total
At March 31, 2019					
Allowance for loans evaluated for impairment as					
Collectively evaluated for impairment in accordance with ASC 450-20	$2,251	$ 286	$ 119	$ 4	$2,660
Evaluated for impairment in accordance with ASC 310-10-35(2)(3)	371	52	25	2	450
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	24	—	24
Total allowance for loan losses	$2,622	$ 338	$ 168	$ 6	$3,134
Recorded investment in loans evaluated for impairment as					
Collectively evaluated for impairment in accordance with ASC 450-20	$68,234	$ 7,262	$ 7,867	$ 866	$84,229
Evaluated for impairment in accordance with ASC 310-10-35(2)(3)	2,555	166	204	58	2,983
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	1,531	—	1,531
Total recorded investment	$70,789	$ 7,428	$ 9,602	$ 924	$88,743
At December 31, 2018					
Allowance for loans evaluated for impairment as					
Collectively evaluated for impairment in accordance with ASC 450-20	$2,229	$ 292	$ 121	$ 4	$2,646
Evaluated for impairment in accordance with ASC 310-10-35(2)(3)	299	46	23	2	370
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	25	—	25
Total allowance for loan losses	$2,528	$ 338	$ 169	$ 6	$3,041
Recorded investment in loans evaluated for impairment as					
Collectively evaluated for impairment in accordance with ASC 450-20	$70,628	$ 7,302	$ 7,546	$ 761	$86,237
Evaluated for impairment in accordance with ASC 310-10-35(2)(3)	2,248	152	182	56	2,638
Acquired with deteriorated credit quality, evaluated in accordance with ASC 310-30	—	—	1,637	—	1,637
Total recorded investment	$72,876	$ 7,454	$ 9,365	$ 817	$90,512

(1) Includes both PCI and non-PCI private student loans.

(2) Loan receivables evaluated for impairment in accordance with Accounting Standards Codification ("ASC") 310-10-35 include credit card loans, personal loans and student loans collectively evaluated for impairment in accordance with ASC Subtopic 310-40, Receivables, which consists of modified loans accounted for as TDRs. Other loans are individually evaluated for impairment and generally do not represent TDRs.

(3) The unpaid principal balance of credit card loans was $2.3 billion and $2.0 billion at March 31, 2019 and December 31, 2018, respectively. All loans accounted for as TDRs have a related allowance for loan losses.

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Troubled Debt Restructurings

The Company has internal loan modification programs that provide relief to credit card, personal loan and student loan borrowers who may be experiencing financial hardship. The Company continually evaluates new programs to determine which of them meet the definition of a TDR. The internal loan modification programs include both temporary and permanent programs, which vary by product. External loan modification programs are also available for credit card and personal loans. Temporary and permanent modifications on credit card and personal loans, as well as temporary modifications on student loans and certain grants of student loan forbearance, result in the loans being considered individually impaired. In addition, loans that defaulted or graduated from modification programs or forbearance are considered to be individually impaired.

For credit card customers, the Company offers temporary hardship programs consisting of an interest rate reduction and in some cases a reduced minimum payment, both lasting for a period no longer than 12 months. The permanent modification program involves changing the structure of the loan to a fixed payment loan with a maturity no longer than 60 months and reducing the interest rate on the loan. The permanent modification program does not normally provide for the forgiveness of unpaid principal, but may allow for the reversal of certain unpaid interest or fee assessments. The Company also makes permanent loan modifications for customers who request financial assistance through external sources, such as a consumer credit counseling agency program. These loans typically receive a reduced interest rate but continue to be subject to the original minimum payment terms and do not normally include waiver of unpaid principal, interest or fees. Modified credit card loans that are deemed to meet the definition of TDRs include loans in both temporary and permanent programs.

For personal loan customers, in certain situations the Company offers various payment programs, including temporary and permanent programs. The temporary programs normally consist of a reduction of the minimum payment for a period of no longer than 12 months with the option of a final balloon payment required at the end of the loan term or an extension of the maturity date with the total term not exceeding nine years. Further, in certain circumstances the interest rate on the loan is reduced. The permanent programs involve changing the terms of the loan in order to pay off the outstanding balance over a longer term and also in certain circumstances reducing the interest rate on the loan. Similar to the temporary programs, the total term may not exceed nine years. The Company also allows permanent loan modifications for customers who request financial assistance through external sources, similar to the credit card customers discussed above. Payments are modified based on the new terms agreed upon with the credit counseling agency. Personal loans included in temporary and permanent programs are accounted for as TDRs.

At March 31, 2019, there was $5.4 billion of private student loans in repayment, which includes both PCI and non-PCI loans. To assist student loan borrowers who are experiencing temporary financial difficulties but are willing to resume making payments, the Company may offer hardship forbearance or programs that include payment deferral, temporary payment reduction, temporary interest rate reduction or extended terms. A non-PCI modified loan typically meets the definition of a TDR based on the cumulative length of the concession period and an evaluation of the credit quality of the borrower based on FICO scores.

Borrower performance after using payment programs or forbearance is monitored and the Company believes the programs help to prevent defaults and are useful in assisting customers experiencing financial difficulties. The Company plans to continue to use payment programs and forbearance and, as a result, expects to have additional loans classified as TDRs in the future.

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Additional information about modified loans classified as TDRs is shown below (dollars in millions):

	Average recorded investment in loans	Interest income recognized during period loans were impaired(1)	Gross interest income that would have been recorded with original terms(2)
For the Three Months Ended March 31, 2019			
Credit card loans(3)	$ 2,406	$ 70	$ 45
Personal loans	$ 159	$ 4	$ 2
Private student loans	$ 192	$ 4	$ —
For the Three Months Ended March 31, 2018			
Credit card loans(3)	$ 1,413	$ 34	