Business

Goldman, Wells Fargo Look to Credit Cards for Bigger Returns

By Jennifer Surane, Laura J Keller, and Hannah Levitt
May 8, 2018, 5:00 AM EDT

- Lenders drawn to steady stream of fees, interest income
- Competition is intense, rivals 'not going to roll over'

Photographer: Patrick T. Fallon/Bloomberg

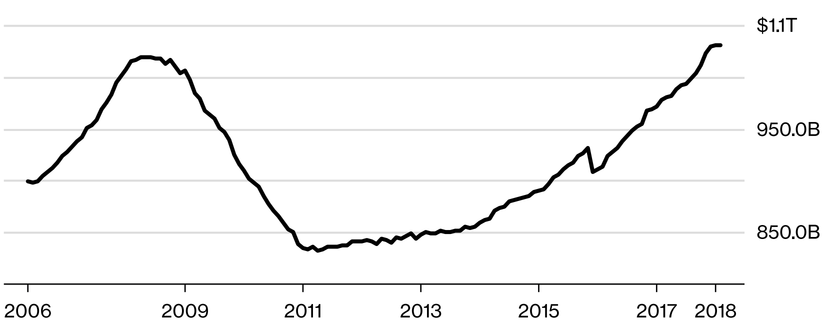
Two of the biggest U.S. banks, Goldman Sachs Group Inc. and Wells Fargo & Co., are on the brink of piling into credit-card lending, seeking a share of the $183 billion in fees and interest tied to the product.

Goldman Sachs is weighing the move as part of a push into consumer finance with its Marcus online lender, Chief Financial Officer Marty Chavez said during a conference call with analysts last month. Wells Fargo plans to resume targeting U.S. non-customers with mailed credit-card offers later this year and began accepting new applicants from outside affiliates in 2016.

The firms have pressing reasons to jump into card lending. Goldman is looking for a business that promises attractive returns even if the bank doesn't win a large share, Chavez said. And for Wells Fargo, entering a market rich with fees is even more important after a Federal Reserve order crimped its business plans amid customer abuses in retail banking.

Card Craze

Outstanding card debt has soared to a record, exceeding pre-crisis levels



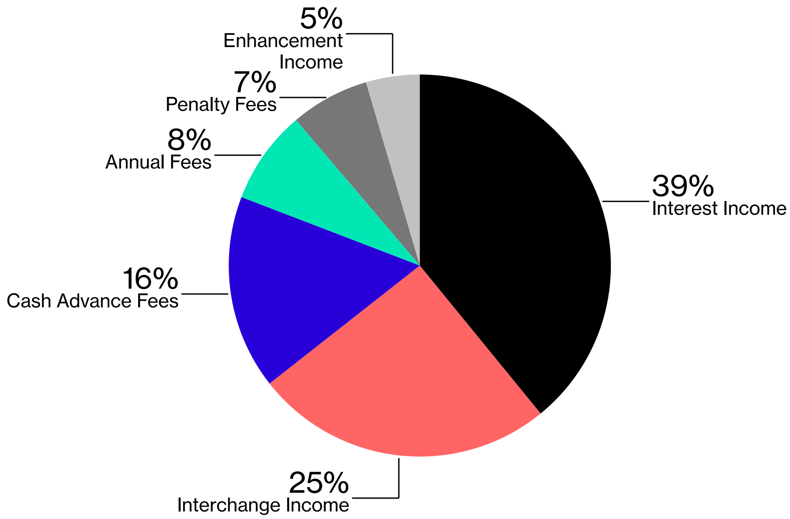
Source: Data compiled by Bloomberg

"I don't see either of them crushing it because it's an extremely competitive business with very good players," Gerard Cassidy, an analyst at RBC Capital Markets, said in a telephone interview. "You've got well-established players that are not going to roll over. It would be very challenging for these new entrants to dethrone them any time soon."

The lure is clear. The fees and interest U.S. banks collected from their card businesses jumped 12 percent in 2017 from a year earlier, according to estimates from payments consultancy R.K. Hammer. The average household that maintains a balance in credit-card debt pays $904 in interest a year, a study by Nerdwallet <https://www.nerdwallet.com/blog/average-credit-card-debt-household/> shows.

Breaking it Down

U.S. banks made $182.7 billion in interest and fees from credit cards in 2017



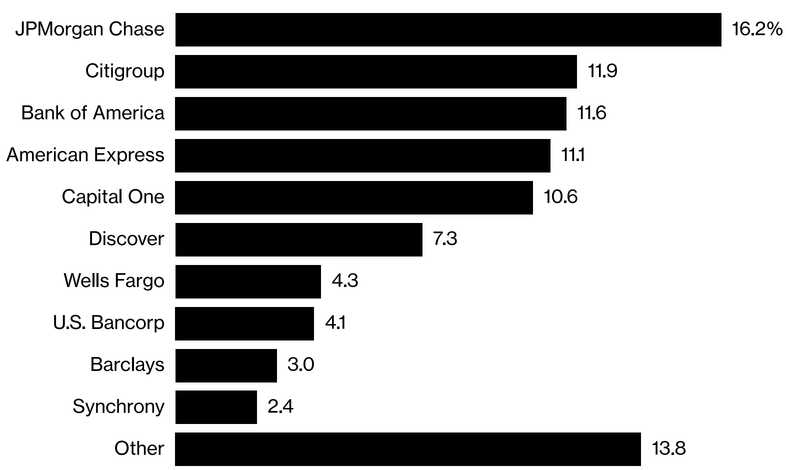
Source: R.K. Hammer

Costs to attract newer customers are also typically low, with many consumers applying online and getting approved in minutes. Issuers collect from merchants every time a customer swipes a card or clicks "buy now" on a website. Among consumer loans, credit cards typically come with the highest interest rates.

JPMorgan Chase & Co. kicked off an arms race in credit-card rewards in 2016 when it introduced the Sapphire Reserve card, which came with a $450 annual fee and an initial sign-up bonus of 100,000 reward points. Since then, American Express Co., Citigroup Inc. and U.S. Bancorp have retooled their offerings to keep up.

Credit-Card Wars

A look at banks' U.S. market share based on outstanding credit-card balances



Source: Nilson Report

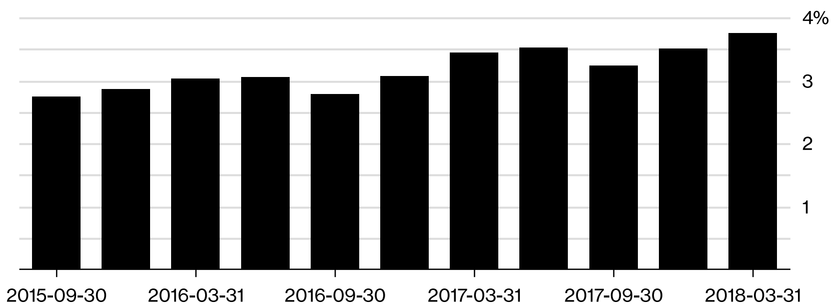
Wells Fargo, the biggest bank by interest-bearing U.S. deposits, has a comparatively underwhelming presence in credit cards. It is the 7th-largest issuer in the U.S., with a market share of roughly 4.3 percent, according to the industry publication Nilson Report. In debit cards, the San Francisco-based firm is the top issuer, at 12 percent.

“They probably missed out on the sweet spot in terms of credit cards, where we were in the economic recovery and where loss rates were continuing to go down,” Kyle Sanders, an analyst at Edward Jones, said of Wells Fargo’s efforts. “‘It’s not ideal, it’s not the best time.”

Goldman Sachs has been staffing Marcus with credit-card know-how, naming Harit Talwar, former head of Discover Financial Services’ card business, to lead efforts in digital finance. It hired Scott Young and Anand Sivadasan, who had previously negotiated co-brand credit-card partnerships for Citigroup, and Shailesh Mendonca, a digital marketing executive from Capital One Financial Corp. The New York-based bank also brought on a team from the now-defunct credit-card startup Final.

Lingering Losses

The average charge-off rate at the largest U.S. card issuers climbed to a six-year high



Source: Bloomberg Intelligence

There are warning signs for card companies. Charge-offs at the largest U.S. credit-card issuers have steadily climbed over the last few years. That’s left shareholders skittish, as lenders set aside more funds to cover souring loans despite assurances from executives that portfolios are performing in line with expectations.

“Eight years ago would have been a lot better timing” for firms to enter the business, said Robert Hammer, chief executive officer of R.K. Hammer. “If they get into it now, they better have -- in addition to their strategic plans to grow -- they better have a well-built, well-constructed economic downturn contingency plan.”

Executives insist the rise in charge-offs is all part of a normal “seasoning” that happens with card portfolios. Many of them expanded their credit-card offerings two years ago and those new cardholders are just starting to show normal default behavior. For added reassurance, they point to the fact that unemployment is near a record low and consumer confidence near an all-time high.

“We still feel really good about the consumer, I mean really good,” Marianne Lake, chief financial officer at JPMorgan, said on a conference call with analysts last month. “We aren’t seeing any signs of fragility or deterioration across the portfolio.”

– With assistance by Shahien Nasiripour