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## Discover Financial Services Financial Community Briefing Transcript

### Question-and-Answer Session

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#### Unidentified Analyst

Hi. You guys talked about your selectivity in customers and accounts are coming down and the long-term relationship you have with customers, but in this environment I'd be curious if we are to learn or be reminded of your experience working out customer loans, when you have a default you sell those loans off immediately. What's the structure in that? And then on the flip side, if you have a strong history in working out those loans, there is a price for everything. So would you be more active in acquiring portfolio?

#### David Nelms

On the first -- is this on? It mike on, okay. Thanks. On the first question, our practice is to manage our selections all the way through to charge-off. So we typically don't sell or place accounts other than working in some cases with legal proceedings during the pre-charge-off period. After the charge-off, we will tend to also place accounts, but we have -- as we look at how to maximize net present values, we generally still be paying the account that we may go through a series of placement. And so one of the things that's helping us now is that over the last few years we haven't been selling to our preferred teams. We haven't been selling our recoveries. And so we got a strong recovery position now. And while sometimes I think it's tempting for people to -- obviously we could have a gain if we sold a chunk of accounts today, we tend to look at the net present value and we tend to retain them and work them through a series of partners to recapture as much as we can from those accounts over time.

#### Unidentified Analyst

Is there a lag on that?

#### David Nelms

There is a lag. We see recoveries today from accounts that we wrote off five years ago. So it can have a long tail. Obviously you get your largest recoveries in the first year after charge-off. But particularly things like Chapter 13s tend to pay out over a five-year period. So we've got an annuity. And we don't -- in terms of buying, are you talking about buying other people's recoveries? We have not --

#### Unidentified Analyst

(inaudible)

**David Nelms**

Other portfolios -- you know, I think there are clearly some tremendous values today, but I'd say we're pretty cautious it would have to be something very special for us to buy something more on the -- in terms of lending, not impossible, but our biggest focus has been in growing the deposit business and then the acquisitions we've made in the network business. But I wouldn't rule it out if the right opportunities came along.

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