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Discover Financial Services Q2 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Brian Foran – Goldman Sachs & Company, Inc.

Brian Foran – Goldman Sachs & Company, Inc.

When we think about your loss guidance which implies deceleration in the reserves as well, can you comment on some of the drives for that? And specifically, if you look at your own vintage cards, is seasoning playing a part here where you've worked for the worse of the '06 book and now we're kind of hitting the heart of the '07 book and it's rolling over and maybe the '08 book doesn't look so bad?

David W. Nelms

Brian I would say that would have very little impact on our performance because so many of our loans are quite seasoned. I mean nearly 80% of our loans are from five years, plus we just don't have enough of '06 and '07 to have a huge impact from seasoning. So, I think the bigger impact is we're seeing a slowing in new jobless claims, some of the people that were most at risk have already gone delinquent or have been charged off and while it's still an increase we're hopeful with both the improvement in delinquency and the slowing in expected charge off growth that we're starting to see some of the acceleration that eventually would lead to a peak and come out the other side.

Brian Foran – Goldman Sachs & Company, Inc.

If I could follow up on the delinquency comment, in the seasonal versus cyclical debate on the April and May delinquencies both for your book and across the industry, do you have a strong view on whether we are seeing a real cyclical moderation here or whether most of it is due to seasonality?

David W. Nelms

Well, I clearly think it's mixed but if you look at our change in delinquency in last year's second quarter when unemployment rates were relatively flat and you look at this year's change it's actually more this year than it was last year even though unemployment rates have gone up this year. I'd say coming in to this quarter we would have expected to see maybe the unemployment rate swamp frankly the seasonal base improvement and we didn't see that. So, we need to see some more data points before I can conclusively say that we're through some of the worse but I would say certainly it was not all seasonality.

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