NEW YORK--(BUSINESS WIRE)--Fitch Ratings expects to assign long-term Issuer Default Ratings (IDR) of 'BBB-' and short-term IDRs of 'F3' to Synchrony Financial (Synchrony) and Synchrony Bank, with a Stable Outlook. A full list of expected ratings is provided at the end of this release.

The expected ratings are subject to the split-off of Synchrony and Synchrony Bank from General Electric Capital Corporation (GE Capital) via an initial public offering (IPO) which Fitch expects will be completed sometime during the third quarter of 2014. The expected ratings are also subject to implementation of the capital structure and financial profile as outlined in the company's public disclosures.

Per the terms of the transaction, GE Capital is expected to sell up to 20% of Synchrony to public investors. Fitch expects GE Capital to exchange its remaining ownership stake with participating General Electric shareholders at a later date. At that time, Synchrony would be a standalone public company owned 100% by public investors.

KEY RATING DRIVERS - IDRs, Support Ratings, Support Rating Floors, VRs, Deposits

The expected ratings reflect Synchrony's market leading position in the U.S. private-label credit card industry, seasoned management team, stable operating performance through previous market cycles, appropriate expected capitalization and liquidity levels as a stand-alone entity and improving funding diversity as a result of the growing bank deposit platform.

Rating constraints include the monoline nature of the business model, concentrated partner profile with a high exposure to retailers, higher-than-average mix of subprime borrowers, heightened regulatory, legal and litigation risk, sensitivity of the deposit base to rising interest rates, and the lack of a track record operating as a stand-alone entity.

Fitch believes Synchrony stands to benefit from favorable secular trends in private-label credit card lending, as consumer payment preferences continue to shift to card-based payments and away from cash and check transactions. Synchrony's unique, lower-cost business model positions it well within the mature, highly competitive credit card industry.

Fitch believes the company's operating performance, which remained resilient through the last market cycle, reflects the strength of the company's business model, risk management policies and corporate governance. Furthermore, Synchrony has stable, long-term contracts with its retail partners, which include incentives (i.e. gain-sharing) for retailers to maximize portfolio performance. Fitch views these agreements favorably as they reduce Synchrony's earnings volatility and act as a buffer during down cycles.

Synchrony is expected to be well-capitalized with adequate liquidity. The company has broad access to multiple sources of funding, including stable, lower cost deposits through Synchrony Bank, although the online nature of the deposits may create more sensitivity in a rising interest rate environment.

Synchrony is a monoline lender focused on private-label credit cards and its portfolio is highly concentrated among a few select retailers. For example, Synchrony's top five partners accounted for 48% of total platform revenues in 2013. In addition, one of Synchrony's largest retail partners, J.C. Penney Company, Inc. (rated 'CCC', Outlook Positive by Fitch), has experienced significant credit pressure over the last two years. As a result, Synchrony's financial performance is highly dependent on its ability to retain existing partners and increase customer penetration, as well as attract new partners. Furthermore, Fitch believes the high concentration could expose the company to weak performance in a particular retail segment.

Synchrony's loan portfolio includes a higher-than-average mix of subprime receivables, a population historically associated with higher-than-average delinquencies and credit losses. Subprime lending is also an area that has received increased scrutiny from regulators, including the Consumer Financial Protection Bureau (CFPB). In particular, on June 19 the CFPB announced actions against Synchrony Bank, ordering the company to provide $225 million in relief to consumers harmed by illegal and discriminatory credit card practices. This amount included $158 million in credits and waivers to closed and written-off accounts, which had minimal financial impact on Synchrony. This action was in addition to an earlier Consent Order which required the company to pay up to $34.1 million to qualifying customers in relation to certain practices within the company's CareCredit business. While these costs were manageable, Fitch expects regulatory, legal and litigation risk for Synchrony will remain elevated for the foreseeable future.

The expected ratings for Synchrony and Synchrony Bank are equalized, which reflects Fitch's view that Synchrony Bank is core and integral to Synchrony's business strategy and operations. Fitch believes Synchrony would fully support Synchrony Bank in the event of need.

The expected Support Rating of '5' and Support Ratings Floor of 'NF' reflect Fitch's view that Synchrony is not considered systemically important and therefore, the probability of support is unlikely.

The expected deposit ratings of 'BBB/F3' are one notch higher than Synchrony Bank's IDRs and reflect depositor preference at U.S. banks.

RATING SENSITIVITIES - IDRs, Support Ratings, Support Rating Floors, VRs, Deposits

Fitch believes positive ratings momentum is limited in the near term. Longer term, however, positive ratings momentum could be driven by a reduced reliance on a limited number of retail partners, a material shift in the underlying risk profile of the portfolio toward higher credit quality borrowers, demonstrated access to the unsecured debt markets at a reasonable cost, and additional actions to further enhance funding and liquidity sources while maintaining strong capital levels at both the parent and operating company levels.

Furthermore, Fitch believes the durability of Synchrony Bank's internet-based deposit platform in a rising rate environment will be a key determinant in evaluating the strength of the company's funding profile. Positive rating momentum could also develop from the company's ability to successfully execute on its strategy as a standalone company and prudently grow the business over time while balancing the expectations of shareholders.

Negative ratings momentum could develop from the loss or default of a key retail relationship, substantial credit quality deterioration, an increase in leverage, a reduction in liquidity, an inability to access the capital markets on reasonable terms for funding, significant shareholder distributions above expectations, and/or potential new and more onerous rules and regulations.

The rating actions are as follows:

Synchrony Financial:

--Assign 'BBB-(EXP)' Long-term IDR;

--Assign 'F3(EXP)' Short-term IDR;

--Assign '5(EXP)' Support Rating;

--Assign 'NF(EXP)' Support Rating Floor;

--Assign 'bbb-(EXP)' Viability Rating;

--Assign 'BBB-(EXP)' Senior Unsecured Debt.

Synchrony Bank:

--Assign 'BBB-(EXP)' Long-term IDR;

--Assign 'F3(EXP)' Short-term IDR;

--Assign '5(EXP)' Support Rating;

--Assign 'NF(EXP)' Support Rating Floor;

--Assign 'bbb-(EXP)' Viability Rating;

--Assign 'BBB(EXP)' Long-term Deposits;

--Assign 'F2(EXP)' Short-term Deposits.

The expected Rating Outlook is Stable.

Additional information is available on www.fitchratings.com

Applicable Criteria and Related Research:

Fitch Fundamentals Index (April 2014)

U.S. Bank HoldCos & OpCos: Evolving Risk Profiles (March 2014)

Global Financial Institutions Rating Criteria (January 2014)

FinCo Deposit Sensitivity to Rising Rates (January 2014)

Nonbank Financial Institution Interest Rate Sensitivity (January 2014)

2014 Outlook: U.S. Finance and Leasing Companies (November 2013)

Finance and Leasing Companies Criteria (December 2012)

Applicable Criteria and Related Research:

Finance and Leasing Companies Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696720

2014 Outlook: U.S. Finance and Leasing Companies (Strong Fundamentals, But Sector Headwinds Persist)

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=722839

Nonbank Financial Institution Interest Rate Sensitivity

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723766

FinCo Deposit Sensitivity to Rising Rates http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=726196

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397

U.S. Bank HoldCos & OpCos: Evolving Risk Profiles

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=742096

Fitch Fundamentals Index

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=729196

Additional Disclosure

Solicitation Status

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