Santander Consumer USA Holdings Inc.
Form 10-Q
October 27, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
ýQuarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016
¨Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-36270
SANTANDER CONSUMER USA HOLDINGS INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	32-0414408
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1601 Elm Street, Suite 800, Dallas, Texas	75201
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (214) 634-1110
Not Applicable
(Former name, former address, and formal fiscal year, if changed since last report)

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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation ST (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ý
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 19, 2016
Common Stock ($0.01 par value)	358,338,399 shares

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Unless otherwise specified or the context otherwise requires, the use herein of the terms " we," "our," "us," "SC," and the "Company" refer to Santander Consumer USA Holdings Inc. and its consolidated subsidiaries.

Cautionary Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions, or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipates," "believes," "can," "could," "may," "predicts," "potential," "should," "will," "estimate," "plans," "projects," "continuing," "ongoing," "expects," " similar words or phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements are not guarantees of future performance and involve risks and uncertainties which are subject to change based on various important factors, some of which are beyond our control. For more information regarding these risks and uncertainties as well as certain additional risks that we face, refer to the Risk Factors detailed in Item 1A of Part I of our Annual Report on Form 10-K/A for the year ended December 31, 2015, as well as factors more fully described in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report, including the exhibits hereto, and subsequent reports and registration statements filed from time to time with the SEC. Among the factors that could cause our financial performance to differ materially from that suggested by the forward-looking statements are:

- we operate in a highly regulated industry and continually changing federal, state, and local laws and regulations could materially adversely affect our business;
- our ability to remediate any material weaknesses in internal controls over financial reporting completely and in a timely manner;
- adverse economic conditions in the United States and worldwide may negatively impact our results;
- our business could suffer if our access to funding is reduced;
- we face significant risks implementing our growth strategy, some of which are outside our control;
- we may incur unexpected costs and delays in connection with exiting our personal lending business;
- our agreement with FCA may not result in currently anticipated levels of growth and is subject to certain performance conditions that could result in termination of the agreement;
- our business could suffer if we are unsuccessful in developing and maintaining relationships with automobile dealerships;
- our financial condition, liquidity, and results of operations depend on the credit performance of our loans;
- loss of our key management or other personnel, or an inability to attract such management and personnel, could negatively impact our business;
- we are directly and indirectly, through our relationship with Santander Holdings USA, Inc., subject to certain bank regulations, including oversight by the OCC, the CFPB, the European Central Bank, and the Federal Reserve, which oversight and regulation may limit certain of our activities, including the timing and amount of dividends and other limitations on our business; and
- future changes in our relationship with Santander could adversely affect our operations.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, its actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements. Therefore, we caution not to place undue reliance on any forward-looking information or statements. The effect of these factors is difficult to predict. Factors other than these also could adversely affect our results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. New factors emerge from time to time, and management cannot assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Any forward-looking statements only speak as of the date of this document, and we undertake no obligation to update any forward-looking information or statements, whether written or oral, to reflect any change, except as required by law. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Glossary

The following is a list of abbreviations, acronyms, and commonly used terms used in this Quarterly Report on Form 10-Q.

ABS	Asset-backed securities
Advance Rate	The maximum percentage of unpaid principal balance that a lender is willing to lend.
ALG	Automotive Lease Guide

APR	Annual Percentage Rate
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bluestem	Bluestem Brands, Inc., an online retailer for whose customers SC provides financing
Board	SC’s Board of Directors
Capmark	Capmark Financial Group Inc., an investment company
CBP	Citizens Bank of Pennsylvania
CCAR	Comprehensive Capital Analysis and Review
CCART	Chrysler Capital Auto Receivables Trust, a securitization platform
Centerbridge	Centerbridge Partners, L.P., a private equity firm
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
Chrysler Agreement	Ten-year private-label financing agreement with FCA
Clean-up Call	The early redemption of a debt instrument by the issuer, generally when the underlying portfolio has amortized to 10% of its original balance
Commission	U.S. Securities and Exchange Commission
Credit Enhancement	A method such as overcollateralization, insurance, or a third-party guarantee, whereby a borrower reduces default risk
DCA	Discounted Cash Flow Analysis
Dealer Loan	A floorplan line of credit, real estate loan, working capital loan, or other credit extended to an automobile dealer
Dodd-Frank Act	Comprehensive financial regulatory reform legislation enacted by the U.S. Congress on July 21, 2010
DOJ	U.S. Department of Justice
DRIVE	Drive Auto Receivables Trust, a securitization platform
ECOA	Equal Credit Opportunity Act
Employment Agreement	The amended and restated employment agreement, executed as of December 31, 2011, by and among SC, Banco Santander, S.A. and Thomas G. Dundon
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FCA	Fiat Chrysler Automobiles US LLC, formerly Chrysler Group LLC
FICO®	A common credit score created by Fair Isaac Corporation that is used on the credit reports that lenders use to assess an applicant’s credit risk. FICO® is computed using mathematical models that take into account five factors: payment history, current level of indebtedness, types of credit used, length of credit history, and new credit
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act of 1989
Floorplan Loan	A revolving line of credit that finances inventory until sold
FRB	Federal Reserve Bank of Boston
FTC	Federal Trade Commission
GAP	Guaranteed Auto Protection
IPO	SC's Initial Public Offering
ISDA	International Swaps and Derivative Association
LendingClub	LendingClub Corporation, a peer-to-peer personal lending platform company from which SC acquired loans under terms of flow agreements
MSA	Master Service Agreement
Nonaccretable Difference	The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows of a portfolio acquired with deteriorated credit quality
OCC	Office of the Comptroller of the Currency
Overcollateralization	

	A credit enhancement method whereby more collateral is posted than is required to obtain financing
OEM	Original equipment manufacturer

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Private-label	Financing branded in the name of the product manufacturer rather than in the name of the finance provider
Remarketing	The controlled disposal of leased vehicles that have been reached the end of their lease term or of financed vehicles obtained through repossession
Residual Value	The future value of a leased asset at the end of its lease term
RSU	Restricted stock unit
Santander	Banco Santander, S.A.
SBNA	Santander Bank, N.A., a wholly-owned subsidiary of SHUSA. Formerly Sovereign Bank, N.A.
SC	Santander Consumer USA Holdings Inc., a Delaware corporation, and its consolidated subsidiaries
SCRA	Servicemembers Civil Relief Act
SDART	Santander Drive Auto Receivables Trust, a securitization platform
SEC	U.S. Securities and Exchange Commission
Separation Agreement	The Separation Agreement dated July 2, 2015 entered into by Thomas G. Dundon with SC, DDFS LLC, SHUSA, Santander Consumer USA Inc. (the wholly owned subsidiary of SC) and Banco Santander, S.A.
Shareholders Agreement	The Shareholders agreement dated January 28, 2014, by and among the Company, SHUSA, DDFS, Thomas G. Dundon, Sponsor Auto Finance Holdings Series LP, and, for the certain sections set forth therein, Banco Santander
SHUSA	Santander Holdings USA, Inc., a wholly-owned subsidiary of Santander and the majority owner of SC
Subvention	Reimbursement of the finance provider by a manufacturer for the difference between a market loan or lease rate and the below-market rate given to a customer
TDR	Troubled Debt Restructuring
Trusts	Special purpose financing trusts utilized in SC’s financing transactions
U.S. GAAP	U.S. Generally Accepted Accounting Principles
VIE	Variable Interest Entity
Warehouse Facility	A revolving line of credit generally used to fund finance receivable originations

PART I: FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements (Unaudited)
SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (Dollars in thousands, except per share amounts)

	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents - $2,754 and zero held at affiliates, respectively	$78,049	$ 18,893
Finance receivables held for sale, net	2,859,996	2,859,575
Finance receivables held for investment, net	23,477,426	23,367,788
Restricted cash - $16,303 and $39,436 held at affiliates, respectively	2,712,841	2,236,329
Accrued interest receivable	382,138	395,387
Leased vehicles, net	8,065,227	6,497,310
Furniture and equipment, net of accumulated depreciation of $41,333 and $50,409, respectively	61,666	58,007
Federal, state and other income taxes receivable	73,506	267,636
Related party taxes receivable	85	71
Goodwill	74,056	74,056
Intangible assets, net of amortization of $32,253 and $28,422, respectively	33,681	33,016
Due from affiliates	53,000	58,599
Other assets	618,940	582,291
Total assets	$38,490,611	$ 36,448,958
Liabilities and Equity		
Liabilities:		
Notes payable — credit facilities	$7,005,116	$ 6,902,779
Notes payable — secured structured financings	22,493,245	20,872,900
Notes payable — related party	2,350,000	2,600,000
Accrued interest payable	31,045	22,544
Accounts payable and accrued expenses	327,157	413,269
Federal, state and other income taxes payable	2,532	2,462
Deferred tax liabilities, net	1,107,714	881,225
Due to affiliates	69,575	58,148
Other liabilities	227,515	263,082
Total liabilities	33,613,899	32,016,409
Commitments and contingencies (Notes 5 and 10)		
Equity:		
Common stock, $0.01 par value — 1,100,000,000 shares authorized; 358,391,712 and 358,014,870 shares issued and 358,322,707 and 357,945,865 shares outstanding, respectively	3,583	3,579
Additional paid-in capital	1,649,557	1,644,151
Accumulated other comprehensive income (loss), net	(50,766)	2,125
Retained earnings	3,274,338	2,782,694
Total stockholders' equity	4,876,712	4,432,549
Total liabilities and equity	$38,490,611	$ 36,448,958

See notes to unaudited condensed consolidated financial statements.

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SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (Dollars in thousands, except per share amounts)

The assets of consolidated VIEs, presented based upon the legal transfer of the underlying assets in order to reflect legal ownership, that can be used only to settle obligations of the consolidated VIE and the liabilities of these entities for which creditors (or beneficial interest holders) do not have recourse to our general credit were as follows:

	June 30, 2016	December 31, 2015
Assets		
Restricted cash	$2,026,940	$ 1,842,877
Finance receivables held for sale, net	1,607,236	1,539,686
Finance receivables held for investment, net	22,386,326	22,658,626
Leased vehicles, net	8,065,227	6,497,310
Various other assets	580,634	630,017
Total assets	$34,666,363	$ 33,168,516
Liabilities		
Notes payable	$30,967,253	$ 30,611,019
Various other liabilities	90,097	85,844
Total liabilities	$31,057,350	$ 30,696,863

Certain amounts shown above are greater than the amounts shown in the corresponding line items in the accompanying condensed consolidated balance sheets due to intercompany eliminations between the VIEs and other entities consolidated by the Company. For example, for most of its securitizations, the Company retains one or more of the lowest tranches of bonds. Rather than showing investment in bonds as an asset and the associated debt as a liability, these amounts are eliminated in consolidation as required by U.S. GAAP.

See notes to unaudited condensed consolidated financial statements.

SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited) (Dollars in thousands, except per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Interest on finance receivables and loans	$1,271,741	$1,283,651	$2,557,936	$2,476,672
Leased vehicle income	368,358	243,857	698,150	475,473
Other finance and interest income	3,890	6,738	7,802	14,079
Total finance and other interest income	1,643,989	1,534,246	3,263,888	2,966,224
Interest expense — Including $28,997, $42,450, $60,683 and $86,466 to affiliates, respectively	198,594	150,622	383,329	299,478
Leased vehicle expense	243,140	168,767	464,500	343,620
Net finance and other interest income	1,202,255	1,214,857	2,416,059	2,323,126
Provision for credit losses	511,921	579,379	1,172,091	1,211,226
Net finance and other interest income after provision for credit losses	690,334	635,478	1,243,968	1,111,900
Profit sharing	17,846	21,501	29,240	35,017
Net finance and other interest income after provision for credit losses and profit sharing	672,488	613,977	1,214,728	1,076,883
Investment gains (losses), net	(101,309)	89,721	(170,365)	111,314
Servicing fee income — Including $5,055, $3,991, $9,131 and $9,015 from affiliates, respectively	42,988	28,043	87,482	52,846
Fees, commissions, and other — Including $225, $3,032, $450 and $8,881 from affiliates, respectively	95,623	96,936	197,743	200,734
Total other income	37,302	214,700	114,860	364,894
Compensation expense	123,344	110,973	243,186	211,513
Repossession expense	68,351	55,470	141,896	114,296
Other operating costs — Including $24, $5,307, $4,486 and $5,678 to affiliates, respectively	80,532	89,065	178,001	177,531
Total operating expenses	272,227	255,508	563,083	503,340
Income before income taxes	437,563	573,169	766,505	938,437
Income tax expense	154,218	208,454	274,861	331,277
Net income	$283,345	$364,715	$491,644	$607,160
Net income	$283,345	$364,715	$491,644	$607,160
Other comprehensive income (loss):				
Change in unrealized gains (losses) on cash flow hedges, net of tax of $8,745, ($2,063), $31,478 and $5,559, respectively	(14,701)	3,564	(52,891)	(9,279)
Comprehensive income	$268,644	$368,279	$438,753	$597,881
Net income per common share (basic)	$0.79	$1.03	$1.37	$1.72
Net income per common share (diluted)	$0.79	$1.02	$1.37	$1.71
Weighted average common shares (basic)	358,218,378	355,091,818	358,096,634	352,272,552
Weighted average common shares (diluted)	359,867,806	359,193,738	359,426,918	355,932,481

See notes to unaudited condensed consolidated financial statements.

SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited) (In thousands)

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Total Stockholders'
	Shares	Amount	Capital	Income (Loss)	Earnings	Equity
Balance — January 1, 2015	348,978	$3,490	$1,560,519	$ 3,553	$1,958,654	$3,526,216
Stock issued in connection with employee incentive compensation plans	8,806	88	113,238	—	—	113,326
Stock-based compensation expense	—	—	7,473	—	—	7,473
Tax sharing with affiliate	—	—	867	—	—	867
Net income	—	—	—	—	607,160	607,160
Other comprehensive income (loss), net of taxes	—	—	—	(9,279)	—	(9,279)
Balance — June 30, 2015	357,784	$3,578	$1,682,097	$ (5,726)	$2,565,814	$4,245,763
Balance — January 1, 2016	357,946	$3,579	$1,644,151	$ 2,125	$2,782,694	$4,432,549
Stock issued in connection with employee incentive compensation plans	377	4	1,945	—	—	1,949
Stock-based compensation expense	—	—	3,853	—	—	3,853
Tax sharing with affiliate	—	—	(392)	—	—	(392)
Net income	—	—	—	—	491,644	491,644
Other comprehensive income (loss), net of taxes	—	—	—	(52,891)	—	(52,891)
Balance — June 30, 2016	358,323	$3,583	$1,649,557	$ (50,766)	$3,274,338	$4,876,712

See notes to unaudited condensed consolidated financial statements.

SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (Dollars in thousands)

	For the Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$491,644	$607,160
Adjustments to reconcile net income to net cash provided by operating activities		
Derivative mark to market	8,576	9,609
Provision for credit losses	1,172,091	1,211,226
Depreciation and amortization	511,636	389,346
Accretion of discount	(190,187)	(153,056)
Originations and purchases of receivables held for sale	(2,441,846)	(2,238,753)
Proceeds from sales of and collections on receivables held for sale	1,604,050	1,694,575
Change in revolving personal loans	(310,103)	—
Investment losses (gains), net	170,365	(111,314)
Stock-based compensation	3,853	7,473
Deferred tax expense	262,732	98,566
Changes in assets and liabilities:		
Accrued interest receivable	41	(36,004)
Accounts receivable	5,206	(7,738)
Federal income tax and other taxes	193,417	310,898
Other assets	(77,301)	(1,587)
Accrued interest payable	7,243	4,373
Other liabilities	(83,007)	45,396
Due to/from affiliates	(12,384)	9,151
Net cash provided by operating activities	1,316,026	1,839,321
Cash flows from investing activities:		
Originations of and disbursements on finance receivables held for investment	(6,460,531)	(9,320,752)
Purchases of portfolios of finance receivables held for investment	(290,020)	—
Collections on finance receivables held for investment	5,276,264	5,227,885
Proceeds from sale of loans held for investment	823,877	1,290,304
Leased vehicles purchased	(3,323,553)	(2,563,185)
Manufacturer incentives received	785,512	490,481
Proceeds from sale of leased vehicles	705,300	1,463,580
Change in revolving personal loans	259,977	(128,837)
Purchases of furniture and equipment	(18,063)	(11,583)
Sales of furniture and equipment	1,871	310
Change in restricted cash	(474,351)	(1,165,372)
Other investing activities	(4,496)	(3,182)
Net cash used in investing activities	(2,718,213)	(4,720,351)
Cash flows from financing activities:		
Proceeds from notes payable related to secured structured financings — net of debt issuance costs	7,949,111	7,975,856
Payments on notes payable related to secured structured financings	(6,090,497)	(5,364,799)
Proceeds from unsecured notes payable	3,789,420	3,630,000
Payments on unsecured notes payable	(3,528,442)	(3,060,000)

Proceeds from notes payable	12,738,469	13,580,175
Payments on notes payable	(13,399,272)	(13,970,166)
Proceeds from stock option exercises, gross	2,554	86,123
Repurchase of stock - employee tax withholding	—	(430)
Net cash provided by financing activities	1,461,343	2,876,759
Net increase (decrease) in cash and cash equivalents	59,156	(4,271)
Cash — Beginning of period	18,893	33,157
Cash — End of period	$78,049	$28,886

See notes to unaudited condensed consolidated financial statements.

SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

1. Description of Business, Basis of Presentation, and Significant Accounting Policies and Practices

Santander Consumer USA Holdings Inc., a Delaware Corporation (together with its subsidiaries, SC or the Company), is the holding company for Santander Consumer USA Inc., an Illinois corporation, and subsidiaries, a specialized consumer finance company focused on vehicle finance and third-party servicing. The Company's primary business is the indirect origination and securitization of retail installment contracts principally through manufacturer-franchised dealers in connection with their sale of new and used vehicles to retail consumers.

In conjunction with a ten-year private label financing agreement (the Chrysler Agreement) with Fiat Chrysler Automobiles US LLC (FCA) that became effective May 1, 2013, the Company offers a full spectrum of auto financing products and services to FCA customers and dealers under the Chrysler Capital brand. These products and services include consumer retail installment contracts and leases, as well as dealer loans for inventory, construction, real estate, working capital and revolving lines of credit.

The Company also originates vehicle loans through a Web-based direct lending program, purchases vehicle retail installment contracts from other lenders, and services automobile and recreational and marine vehicle portfolios for other lenders. Additionally, the Company has several relationships through which it provides personal loans, private-label credit cards and other consumer finance products.

As of June 30, 2016, the Company was owned approximately 58.9% by Santander Holdings USA, Inc. (SHUSA), a subsidiary of Banco Santander, S.A. (Santander), approximately 31.2% by public shareholders, approximately 9.8% by DDFS LLC, an entity affiliated with Thomas G. Dundon, the Company's former Chairman and CEO and approximately 0.1% by other holders, primarily members of senior management. Pursuant to a Separation Agreement with Mr. Dundon, SHUSA was deemed to have delivered, as of July 3, 2015, an irrevocable notice to exercise the call option with respect to all the shares of Company common stock owned by DDFS LLC and consummate the transactions contemplated by the call option notice, subject to required bank regulatory approvals and any other approvals required by law being obtained (the "Call Transaction"). Pursuant to the Separation Agreement, because the Call Transaction was not consummated prior to October 15, 2015 (the "Call End Date"), DDFS LLC is free to transfer any or all of its shares of Company common stock, subject to the terms and conditions of the Amended and Restated Loan Agreement, dated as of July 16, 2014, between DDFS LLC and Santander (Note 11).

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company and its subsidiaries, including certain Trusts, which are considered VIEs. The Company also consolidates other VIEs for which it was deemed to be the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying condensed consolidated financial statements as of June 30, 2016 and December 31, 2015, and for the three and six months ended June 30, 2016 and 2015, have been prepared in accordance with U.S. 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 generally accepted accounting principles for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of the financial position, results of operations and cash flows for the periods indicated. Results of operations for the periods presented herein are not necessarily indicative of results of operations for the entire year. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K/A for the year ended December 31, 2015.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosures of contingent assets and liabilities, as of the date of the financial statements and the amount of revenue and expenses during the reporting periods. Actual results could differ from those estimates and those differences may be material. These estimates include the determination of credit loss allowance, discount accretion, impairment, fair value, expected end-of-term lease residual values, values of repossessed assets, and income taxes. These estimates, although based on actual historical trends and modeling, may potentially show significant variances over time.

Business Segment Information

The Company has one reportable segment: Consumer Finance, which includes the Company’s vehicle financial products and services, including retail installment contracts, vehicle leases, and dealer loans, as well as financial products and services related to motorcycles, recreational vehicles, and marine vehicles. It also includes the Company’s personal loan and point-of-sale financing operations.

Accounting Policies

There have been no material changes in the Company's accounting policies from those disclosed in Part II, Item 8 - Financial Statements and Supplementary Data in the Annual Report on Form 10-K/A for the year ended December 31, 2015, except as follows:

Retail Installment Contracts

Interest is accrued when earned in accordance with the terms of the retail installment contract. The accrual of interest is discontinued and reversed once a retail installment contract becomes more than 60 days past due, and is resumed 18 and reinstated if a delinquent account subsequently becomes 60 days or less past due. A Chrysler Capital retail installment contract is considered current if the borrower has made all prior payments in full and at least 90% of the payment currently due, and a non-Chrysler Capital retail installment contract is considered current if the borrower has made all prior payments in full and at least 50% of the payment currently due. Payments generally are applied to fees first, then interest, then principal, regardless of a contract's accrual status.

The amortization of discounts, subvention payments from manufacturers, and other origination costs on retail installment contracts held for investment acquired individually, or through a direct lending program, are recognized as adjustments to the yield of the related contract using the effective interest method. The Company estimates future principal prepayments in the calculation of the constant effective yield.

Change in Accounting Principle

The Company tests goodwill for impairment annually in accordance with the provisions of ASC 350, Intangibles-Goodwill and Other. During the second quarter of fiscal year 2016, the Company changed the date of its annual impairment test from December 31 to October 1. This new testing date is preferable under the circumstances in order to align the Company’s policy with that of SHUSA. The Company has prospectively applied the change and confirmed the change in the annual impairment testing date did not delay, accelerate, or avoid an impairment charge.

Recently Adopted Accounting Standards

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period. This standard affects entities that issue share-based payments when the terms of an award stipulate that a performance target could be achieved after an employee completes the requisite service period. This guidance became effective for the Company January 1, 2016 and implementation of this guidance did not have a significant impact on the Company’s financial position, results of operations, or cash flows.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items. This standard simplifies income statement classification by removing the concept of extraordinary items from U.S. GAAP, and as a result, items that are both unusual and infrequent no longer will be separately reported net of tax after continuing operations. This guidance became effective for the Company January 1, 2016 and implementation of this guidance did not have a significant impact on the Company’s financial position, results of operations, or cash flows.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis. This ASU changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. This guidance became effective for the Company January 1, 2016 and implementation of this guidance did not have a significant impact on the Company’s financial position, results of operations, or cash flows.

In April 2015, the FASB issued ASU 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU clarifies when fees paid in a cloud computing arrangement pertain to the acquisition of a software license, services, or both. This guidance became effective for the Company January 1, 2016 and

implementation of this guidance did not have a significant impact on the Company’s financial position, results of operations, or cash flows.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides guidance on a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The effective date for this ASU, which was deferred by ASU 2015-14 issued in August 2015, is for fiscal years beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, an amendment to the guidance in ASU 2014-09 that revises the structure of the indicators to provide indicators of when the entity is the principal or agent in a revenue transaction, and eliminated two of the indicators ("the entity’s consideration is in the form of a commission" and "the entity is not exposed to credit risk") in making that determination. This amendment also clarifies that each indicator may be more or less relevant to the assessment depending on the terms and conditions of the contract. In April 2016, the FASB issued ASU 2016-10, which clarifies the implementation guidance on identifying promised goods or services and on determining whether an entity's promise to grant a license with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). Also, in May 2016, the FASB issued ASU 2016-12, which provides clarifying guidance in a few narrow areas and add some practical expedient to the guidance. The amendments are expected to reduce the degree of judgment necessary to comply with the revenue recognition topic.The amendments, collectively, should be applied retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. Early adoption of the guidance is not permitted. The Company is currently evaluating the impact of adopting ASU 2014-09 and the related updates on its financial position, results of operations and disclosures.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The guidance will be effective for the fiscal year beginning after December 15, 2017, including interim periods within that year. The Company is in the process of evaluating the impacts of the adoption of this ASU.

In February 2016, the FASB issued ASU 2016-02, Leases, which will, among other impacts, change the criteria under which leases are identified and accounted for as on- or off-balance sheet. The guidance will be effective for the fiscal year beginning after December 15, 2018, including interim periods within that year. Once effective, the new guidance must be applied for all periods presented. The Company is in the process of evaluating the impacts of the adoption of this ASU.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance will be effective for the fiscal year beginning after December 15, 2016, including interim periods within that year. The Company is in the process of evaluating the impacts of the adoption of this ASU.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses, which changes the criteria under which credit losses are measured. The amendment replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to perform credit loss estimates. The guidance will be effective for the fiscal year beginning after December 15, 2019, including interim periods within that year. The Company is in the process of evaluating the impacts of the adoption of this ASU.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows-Classification of Certain Cash Receipts and Cash Payments, which provides guidance on several specific cash flow issues. The guidance will be effective for the fiscal year beginning after December 15, 2017, including interim periods within that year. The Company is in the process of evaluating the impacts of the adoption of this ASU.

2. Finance Receivables

Held For Investment

Finance receivables held for investment, net is comprised of the following at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Retail installment contracts acquired individually	$23,185,951	$23,004,065
Purchased receivables	191,071	239,551
Receivables from dealers	69,193	76,025
Personal loans	909	941
Capital lease receivables (Note 3)	30,302	47,206
	$23,477,426	$23,367,788

The Company's held for investment portfolio of retail installment contracts acquired individually, receivables from dealers, and personal loans was comprised of the following at June 30, 2016 and December 31, 2015:

	June 30, 2016		
	Retail Installment Contracts Acquired Individually	Receivables from Dealers	Personal Loans
Unpaid principal balance	$27,224,925	$ 70,030	$ 909
Credit loss allowance (Note 4)	(3,422,736)	(837)	—
Discount	(678,114)	—	—
Capitalized origination costs and fees	61,876	—	—
Net carrying balance	$23,185,951	$ 69,193	$ 909

	December 31, 2015		
	Retail Installment Contracts Acquired Individually	Receivables from Dealers	Personal Loans
Unpaid principal balance	$26,863,946	$ 76,941	$ 941
Credit loss allowance (Note 4)	(3,197,414)	(916)	—
Discount	(722,701)	—	—
Capitalized origination costs and fees	60,234	—	—
Net carrying balance	$23,004,065	$ 76,025	$ 941

Retail installment contracts are collateralized by vehicle titles, and the Company has the right to repossess the vehicle in the event the consumer defaults on the payment terms of the contract. Most of the Company's retail installment contracts held for investment are pledged against warehouse facilities or securitization bonds (Note 5). Most of the creditors on the Company's retail installment contracts held for investment are retail consumers; however, $723,847 and $1,087,024 of the unpaid principal balance represented fleet contracts with commercial borrowers as of June 30, 2016 and December 31, 2015, respectively.

As of June 30, 2016, borrowers on the Company's retail installment contracts held for investment are located in Texas (17%), Florida (13%), California (10%), Georgia (5%) and other states each individually representing less than 5% of the Company's total.

Purchased receivables portfolios, which were acquired with deteriorated credit quality, were comprised of the following at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Outstanding balance	$282,958	$ 362,212
Outstanding recorded investment, net of impairment	$191,071	$ 239,551

Changes in accretable yield on the Company’s purchased receivables portfolios for the periods indicated were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Balance — beginning of period	$156,336	$247,944	$178,582	$268,927
Accretion of accretable yield	(19,615)	(21,474)	(40,944)	(49,680)
Reclassifications from (to) nonaccretable difference	1,026	57,990	109	65,213
Balance — end of period	$137,747	$284,460	$137,747	$284,460

During the three and six months ended June 30, 2016 and 2015, the Company did not acquire any vehicle loan portfolios for which it was probable at acquisition that not all contractually required payments would be collected. However, during the three and six months ended June 30, 2016, the Company recognized certain retail installment contracts with an unpaid principal balance of $191,671, held by non-consolidated securitization Trusts, under optional clean-up calls. Following the initial recognition of these loans at fair value, the performing loans in the portfolio are carried at amortized cost, net of allowance for credit losses. The Company elected the fair value option for all non-performing loans acquired (more than 60 days delinquent as of re-recognition date), for which it was probable that not all contractually required payments would be collected (Note 13).

Receivables from dealers held for investment includes a term loan with a third-party vehicle dealer and lender that operates in multiple states. The loan allowed committed borrowings of $50,000 at June 30, 2016 and December 31, 2015, and the unpaid principal balance of the facility was $50,000 at each of those dates. The term loan will mature on December 31, 2018. The Company had accrued interest on this term loan of $151 and $156 at June 30, 2016 and December 31, 2015, respectively.

The remaining receivables from dealers held for investment are all Chrysler Agreement-related. As of June 30, 2016, borrowers on these dealer receivables are located in Virginia (52%), New York (24%), Mississippi (12%), Missouri (9%), and other states each individually representing less than 5% of the Company’s total.

As of September 30, 2015, the Company determined that it no longer had the intent to hold its personal loans for investment and that classification of all of its personal loans as held for sale was appropriate as of that date. In connection with the reclassification to held for sale, the Company transferred the personal loan portfolio at the lower of cost or market, with the lower of cost or market adjustment being charged off against the credit loss allowance. Loan originations and purchases under the Company’s personal lending platform subsequent to September 30, 2015, also are classified as held for sale. Following the reclassification of personal loans to held for sale, further adjustments to the recorded investment in personal loans held for sale, whether due to customer default or changes in market value, are recorded in investment gains (losses), net, in the condensed consolidated statements of income and comprehensive income (Note 16). On February 1, 2016, the Company sold personal loans with an unpaid principal balance of $869,349 to a third party for an immaterial gain to unpaid principal balance.

At December 31, 2015, the Company determined that its intent to sell certain non-performing personal installment loans had changed and now expects to hold these loans through their maturity. The Company recorded a lower of cost or market adjustment through investment gains (losses), net, immediately prior to transferring the loans to finance receivables held for investment at their new recorded investment. The carrying value of these loans was $909 and $941 at June 30, 2016 and December 31, 2015, respectively.

Held For Sale

The carrying value of the Company's finance receivables held for sale was comprised of the following at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Retail installment contracts acquired individually	$1,889,284	$ 905,161
Personal loans	970,712	1,954,414
	$2,859,996	$ 2,859,575

Sales of retail installment contracts to third parties and proceeds from sales of charged-off assets for the three and six months ended June 30, 2016 and 2015 were as follows:

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Sales of retail installment contracts to third parties	$659,224	$2,016,675	$1,519,179	$2,935,753
Proceeds from sales of charged-off assets	28,844	65,587	35,073	103,963

The Company retains servicing of retail installment contracts and leases sold to third parties. Total contracts sold to unrelated third parties and serviced as of June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016	December 31, 2015
Serviced balance of retail installment contracts and leases sold to third parties	$10,719,819	$12,155,844

3. Leases

The Company has both operating and capital leases, which are separately accounted for and recorded on the Company's condensed consolidated balance sheets. Operating leases are reported as leased vehicles, net, while capital leases are included in finance receivables held for investment, net.

Operating Leases

Leased vehicles, net, which is comprised of leases originated under the Chrysler Agreement, consisted of the following as of June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Leased vehicles	$11,077,474	$8,836,710
Less: accumulated depreciation	(1,950,295)	(1,510,414)
Depreciated net capitalized cost	9,127,179	7,326,296
Manufacturer subvention payments, net of accretion	(1,083,890)	(845,142)
Origination fees and other costs	21,938	16,156
Net book value	$8,065,227	$6,497,310

During the three and six months ended June 30, 2015, the Company executed bulk sales of Chrysler Capital leases with an aggregate depreciated net capitalized cost of $755,624 and $1,316,958, respectively, and a net book value of $666,252 and $1,155,171, respectively, to a third party. The bulk sale agreements included certain provisions whereby the Company agreed to share in residual losses for lease terminations with losses over a specific percentage threshold (Note 10). The Company retained servicing on the sold leases. Due to the accelerated depreciation permitted for tax purposes, the sales generated large taxable gains that the Company deferred through a qualified like-kind exchange program. An immaterial amount of taxable gain that did not qualify for deferral was recognized upon expiration of the reinvestment period. No such bulk sales occurred during the three and six months ended June 30, 2016.

The following summarizes the future minimum rental payments due to the Company as lessor under operating leases as of June 30, 2016:

Remainder of 2016	$735,653
2017	1,179,155
2018	609,990
2019	79,347
2020	1,000
Thereafter	—
Total	$2,605,145

Capital Leases

Certain leases originated by the Company are accounted for as capital leases, as the contractual residual values are nominal amounts. Capital lease receivables, net consisted of the following as of June 30, 2016 and December 31, 2015:

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	June 30, 2016	December 31, 2015
Gross investment in capital leases	$55,403	$ 91,393
Origination fees and other	157	155
Less: unearned income	(12,506)	(24,464)
Net investment in capital leases before allowance	43,054	67,084
Less: allowance for lease losses	(12,752)	(19,878)
Net investment in capital leases	$30,302	$ 47,206

The following summarizes the future minimum lease payments due to the Company as lessor under capital leases as of June 30, 2016:

Remainder of 2016	$9,516
2017	18,963
2018	18,033
2019	7,240
2020	1,417
Thereafter	234
Total	$55,403

4. Credit Loss Allowance and Credit Quality

Credit Loss Allowance

The Company estimates the allowance for credit losses on individually acquired retail installment contracts and personal loans held for investment not classified as TDRs based on delinquency status, historical loss experience, estimated values of underlying collateral, when applicable, and various economic factors. In developing the allowance, the Company utilizes a loss emergence period assumption, a loss given default assumption applied to recorded investment, and a probability of default assumption based on a loss forecasting model. The loss emergence period assumption represents the average length of time between when a loss event is first estimated to have occurred and when the account is charged off. The recorded investment represents unpaid principal balance adjusted for unaccreted net discounts, subvention from manufacturers, and origination costs. Under this approach, the resulting allowance represents the expected net losses of recorded investment inherent in the portfolio. For loans classified as TDRs, impairment is measured based on the present value of expected future cash flows discounted at the original effective interest rate.

The Company maintains a general credit loss allowance for receivables from dealers based on risk ratings, and individually evaluates loans for specific impairment as necessary. As of June 30, 2016, the credit loss allowance for receivables from dealers is comprised of a general allowance of $837.

The activity in the credit loss allowance for individually acquired, dealer, and personal loans for the three and six months ended June 30, 2016 and 2015 was as follows:

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		
	Retail Installment Contracts Acquired Individually	Receivables from Dealers	Retail Installment Contracts Acquired Individually	Receivables from Dealers	Personal Loans
Balance — beginning of period	$3,320,227	$ 1,403	$2,748,526	$ 1,130	$352,878
Provision for credit losses	514,755	(431)	454,467	(162)	121,118
Charge-offs	(1,032,517)	(135)	(803,763)	—	(97,218)
Recoveries	620,271	—	528,394	—	7,957
Balance — end of period	$3,422,736	$ 837	$2,927,624	$ 968	$384,735

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015		
	Retail Installment Contracts Acquired Individually	Receivables from Dealers	Retail Installment Contracts Acquired Individually	Receivables from Dealers	Personal Loans
Balance — beginning of period	$3,197,414	$ 916	$2,586,685	$ 674	$348,660
Provision for credit losses	1,177,881	56	987,481	294	218,821
Charge-offs	(2,183,145)	(135)	(1,691,155)	—	(196,908)
Recoveries	1,230,586	—	1,071,730	—	14,162
Transfers to held-for-sale	—	—	(27,117)	—	—
Balance — end of period	$3,422,736	$ 837	$2,927,624	$ 968	$384,735

The impairment activity related to purchased receivables portfolios for the three and six months ended June 30, 2016 and 2015 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance — beginning of period	$170,412	$181,024	$172,308	$186,126
Incremental provisions for purchased receivable portfolios	—	—	—	300
Incremental reversal of provisions for purchased receivable portfolios	(1,894)	(4,270)	(3,790)	(9,672)
Balance — end of period	$168,518	$176,754	$168,518	$176,754

The Company estimates lease losses on the capital lease receivable portfolio based on delinquency status and loss experience to date, as well as various economic factors. The activity in the lease loss allowance for capital leases for the three and six months ended June 30, 2016 and 2015 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Balance — beginning of period	$15,860	$15,182	$19,878	$9,589
Provision for lease losses	(509)	8,226	(2,056)	14,002