OneMain Holdings, Inc.
Form 10-Q
May 06, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-36129

ONEMAIN HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	27-3379612
(State of Incorporation)	(I.R.S. Employer Identification No.)
601 N.W. Second Street, Evansville, IN	47708
(Address of principal executive offices)	(Zip Code)

(812) 424-8031
(Registrant’s telephone number, including area code)

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 þ No o

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 S-T (§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 þ No o

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.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a 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 o No þ

At May 2, 2016, there were 134,751,118 shares of the registrant's common stock, $0.01 par value, outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

ONEMAIN HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)

(dollars in millions except par value amount)	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 716	$ 939
Investment securities	1,872	1,867
Net finance receivables:		
Personal loans (includes loans of consolidated VIEs of $11.6 billion in 2016 and $11.4 billion in 2015)	13,209	13,267
SpringCastle Portfolio (includes loans of consolidated VIEs of $1.6 billion in 2015)	—	1,576
Real estate loans	503	524
Retail sales finance	19	23
Net finance receivables	13,731	15,390
Unearned insurance premium and claim reserves	(643)	(662)
Allowance for finance receivable losses (includes allowance of consolidated VIEs of $408 million in 2016 and $431 million in 2015)	(600)	(587)
Net finance receivables, less unearned insurance premium and claim reserves and allowance for finance receivable losses	12,488	14,141
Finance receivables held for sale (includes finance receivables held for sale of consolidated VIEs of $435 million in 2015)	776	796
Restricted cash and cash equivalents (includes restricted cash and cash equivalents of consolidated VIEs of $576 million in 2016 and $663 million in 2015)	588	676
Goodwill	1,422	1,440
Other intangible assets	539	559
Other assets	654	638
Total assets	$ 19,055	$ 21,056
Liabilities and Shareholders' Equity		
Long-term debt (includes debt of consolidated VIEs of $9.2 billion in 2016 and $11.7 billion in 2015)	$ 14,870	$ 17,300
Insurance claims and policyholder liabilities	747	747
Deferred and accrued taxes	53	20
Other liabilities	457	384
Total liabilities	16,127	18,451
Commitments and contingent liabilities (Note 14)		
Shareholders' equity:		
Common stock, par value $.01 per share; 2,000,000,000 shares authorized, 134,751,118 and 134,494,172 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	1	1
Additional paid-in capital	1,537	1,533

Accumulated other comprehensive loss	(13)	(33)
Retained earnings	1,403	1,250
OneMain Holdings, Inc. shareholders' equity	2,928	2,751
Non-controlling interests	—	(146)
Total shareholders' equity	2,928	2,605
Total liabilities and shareholders' equity	$ 19,055	$ 21,056

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ONEMAIN HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)

(dollars in millions except earnings per share)	Three Months Ended March 31, 2016	2015
Interest income:		
Finance charges	$779	$ 402
Finance receivables held for sale originated as held for investment	47	4
Total interest income	826	406
Interest expense	226	158
Net interest income	600	248
Provision for finance receivable losses	227	87
Net interest income after provision for finance receivable losses	373	161
Other revenues:		
Insurance	114	36
Investment	20	17
Net gain on sale of SpringCastle interests	229	—
Other	(2)	(2)
Total other revenues	361	51
Other expenses:		
Operating expenses:		
Salaries and benefits	214	93
Acquisition-related transaction and integration expenses	33	3
Other operating expenses	167	62
Insurance policy benefits and claims	45	16
Total other expenses	459	174
Income before provision for income taxes	275	38
Provision for income taxes	96	7
Net income	179	31
Net income attributable to non-controlling interests	26	31
Net income attributable to OneMain Holdings, Inc.	$153	$ —
Share Data:		
Weighted average number of shares outstanding:		
Basic	134,694,759	115,027,470
Diluted	134,907,748	115,027,470

Earnings per share:		
Basic	$1.14	$ —
Diluted	$1.13	$ —

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ONEMAIN HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(dollars in millions)	Three Months Ended March 31, 2016	2015
Net income	$179	$31
Other comprehensive income:		
Net unrealized gains on non-credit impaired available-for-sale securities	27	5
Foreign currency translation adjustments	6	1
Income tax effect:		
Net unrealized gains on non-credit impaired available-for-sale securities	(10)	(2)
Foreign currency translation adjustments	(2)	—
Other comprehensive income, net of tax, before reclassification adjustments	21	4
Reclassification adjustments included in net income:		
Net realized gains on available-for-sale securities	(2)	(6)
Income tax effect:		
Net realized gains on available-for-sale securities	1	2
Reclassification adjustments included in net income, net of tax	(1)	(4)
Other comprehensive income, net of tax	20	—
Comprehensive income	199	31
Comprehensive income attributable to non-controlling interests	26	31
Comprehensive income attributable to OneMain Holdings, Inc.	$173	$—

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ONEMAIN HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders’ Equity (Unaudited)

(dollars in millions)	OneMain Holdings, Inc. Shareholders’ Equity Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	OneMain Holdings, Inc. Shareholders’ Equity	Non-controlling Interests	Total Shareholders’ Equity
Balance, January 1, 2016	$ 1	$ 1,533	$ (33)	$ 1,250	$ 2,751	$ (146)	$ 2,605
Share-based compensation expense, net of forfeitures	—	7	—	—	7	—	7
Excess tax benefit from share-based compensation	—	2	—	—	2	—	2
Withholding tax on vested RSUs	—	(5)	—	—	(5)	—	(5)
Change in non-controlling interests:							
Distributions declared to joint venture partners	—	—	—	—	—	(18)	(18)
Sale of equity interests in SpringCastle joint venture	—	—	—	—	—	138	138
Other comprehensive income	—	—	20	—	20	—	20
Net income	—	—	—	153	153	26	179
Balance, March 31, 2016	$ 1	$ 1,537	$ (13)	$ 1,403	$ 2,928	$ —	$ 2,928
Balance, January 1, 2015	$ 1	$ 529	$ 3	$ 1,492	$ 2,025	$ (188)	$ 1,837
Share-based compensation expense, net of forfeitures	—	3	—	—	3	—	3
Excess tax benefit from share-based compensation	—	2	—	—	2	—	2
Withholding tax on vested RSUs	—	(4)	—	—	(4)	—	(4)
Change in non-controlling interests:							
Distributions declared to joint venture partners	—	—	—	—	—	(18)	(18)
Net income	—	—	—	—	—	31	31
Balance, March 31, 2015	$ 1	$ 530	$ 3	$ 1,492	$ 2,026	$ (175)	$ 1,851

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ONEMAIN HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)

(dollars in millions)	Three Months Ended March 31, 2016	2015
Cash flows from operating activities		
Net income	$ 179	$ 31
Reconciling adjustments:		
Provision for finance receivable losses	227	87
Depreciation and amortization	156	18
Deferred income tax benefit	(3)	(10)
Share-based compensation expense, net of forfeitures	7	3
Net gain on sale of SpringCastle interests	(229)	—
Other	5	(7)
Cash flows due to changes in:		
Other assets and other liabilities	46	52
Insurance claims and policyholder liabilities	(24)	(2)
Taxes receivable and payable	35	10
Accrued interest and finance charges	12	7
Restricted cash and cash equivalents not reinvested	1	—
Other, net	1	—
Net cash provided by operating activities	413	189
Cash flows from investing activities		
Net principal collections (originations) of finance receivables held for investment and held for sale	(126)	(5)
Proceeds on sales of finance receivables held for sale originated as held for investment	—	52
Proceeds from sale of SpringCastle interests	101	—
Cash received from CitiFinancial Credit Company	23	—
Available-for-sale securities purchased	(154)	(95)
Trading and other securities purchased	(1)	(954)
Available-for-sale securities called, sold, and matured	175	60
Trading and other securities called, sold, and matured	13	1,211
Change in restricted cash and cash equivalents	12	(120)
Proceeds from sale of real estate owned	2	5
Other, net	(4)	7
Net cash provided by investing activities	41	161
Cash flows from financing activities		
Proceeds from issuance of long-term debt, net of commissions	1,673	1,523
Repayments of long-term debt	(2,335)	(315)
Distributions to joint venture partners	(18)	(18)
Excess tax benefit from share-based compensation	2	2
Net cash provided by (used for) financing activities	(678)	1,192

Condensed Consolidated Statements of Cash Flows (Unaudited) (Continued)

(dollars in millions)	Three Months Ended March 31, 2016	2015
Effect of exchange rate changes on cash and cash equivalents	1	—
Net change in cash and cash equivalents	(223)	1,542
Cash and cash equivalents at beginning of period	939	879
Cash and cash equivalents at end of period	$716	$2,421
Supplemental non-cash activities		
Transfer of finance receivables held for investment to finance receivables held for sale (prior to deducting allowance for finance receivable losses)	$1,478	$—
Transfer of finance receivables to real estate owned	$2	$2
Net unsettled investment security dispositions	$—	$20

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

ONEMAIN HOLDINGS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2016

1. Business and Basis of Presentation

OneMain Holdings, Inc. is referred to in this report as “OMH” or, collectively with its subsidiaries, whether directly or indirectly owned, the “Company,” “we,” “us,” or “our”. OMH is a Delaware corporation. At March 31, 2016, Springleaf Financial Holdings, LLC (the “Initial Stockholder”) owned approximately 58% of OMH’s common stock. The Initial Stockholder is owned primarily by a private equity fund managed by an affiliate of Fortress Investment Group LLC (“Fortress”).

On November 15, 2015, OMH completed its acquisition of OneMain Financial Holdings, LLC (“OMFH”) from CitiFinancial Credit Company (“Citigroup”) for $4.5 billion in cash (the “OneMain Acquisition”). As a result of the OneMain Acquisition, OMFH became a wholly owned, indirect subsidiary of OMH. See Note 2 for further information on the OneMain Acquisition.

OMH is a financial services holding company whose principal subsidiaries are Springleaf Finance, Inc. (“SFI”) and Independence Holdings, LLC (“Independence”). SFI’s principal subsidiary is Springleaf Finance Corporation (“SFC”), and Independence’s principal subsidiary is OMFH. SFC and OMFH are financial services holding companies with subsidiaries engaged in the consumer finance and insurance businesses. OMFH, collectively with its subsidiaries, is referred to in this report as “OneMain.” OMH and its subsidiaries (other than OneMain) is referred to in this report as “Springleaf.”

BASIS OF PRESENTATION

We prepared our condensed consolidated financial statements using generally accepted accounting principles in the United States of America (“U.S. GAAP”). These statements are unaudited. The year-end condensed balance sheet data was derived from our audited financial statements, but does not include all disclosures required by U.S. GAAP. The statements include the accounts of OMH, its subsidiaries (all of which are wholly owned, except for certain indirect subsidiaries associated with a joint venture in which we owned a 47% equity interest prior to March 31, 2016), and variable interest entities (“VIEs”) in which we hold a controlling financial interest and for which we are considered to be the primary beneficiary as of the financial statement date.

We eliminated all material intercompany accounts and transactions. We made judgments, estimates, and assumptions that affect amounts reported in our condensed consolidated financial statements and disclosures of contingent assets and liabilities. In management’s opinion, the condensed consolidated financial statements include the normal, recurring adjustments necessary for a fair statement of results. Ultimate results could differ from our estimates. We evaluated the effects of and the need to disclose events that occurred subsequent to the balance sheet date. To conform to the 2016 presentation, we have reclassified certain items in prior periods, including certain items in prior periods of our condensed consolidated statements of operations and cash flows. These statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (“2015 Annual Report on Form 10-K”). We follow the same significant accounting policies for our interim reporting.

2. Significant Transactions

SPRINGCASTLE INTERESTS SALE

On March 31, 2016, SFI, SpringCastle Holdings, LLC (“SpringCastle Holdings”) and Springleaf Acquisition Corporation (“Springleaf Acquisition” and, together with SpringCastle Holdings, the “SpringCastle Sellers”), wholly owned subsidiaries of OMH, entered into a purchase agreement with certain subsidiaries of New Residential Investment Corp. (“NRZ” and such subsidiaries, the “NRZ Buyers”) and BTO Willow Holdings II, L.P. and Blackstone Family Tactical Opportunities Investment Partnership—NQ—ESC L.P. (collectively, the “Blackstone Buyers” and together with the NRZ Buyers, the “SpringCastle Buyers”). Pursuant to the purchase agreement, SpringCastle Holdings sold its 47% limited liability company interest in each of SpringCastle America, LLC, SpringCastle Credit, LLC and SpringCastle Finance, LLC, and Springleaf Acquisition sold its 47% limited liability company interest in SpringCastle Acquisition LLC, to the SpringCastle Buyers for an aggregate purchase price of approximately $112 million (the “SpringCastle Interests Sale”). SpringCastle America, LLC, SpringCastle Credit, LLC, SpringCastle Finance, LLC and SpringCastle Acquisition LLC are collectively referred to herein as the “SpringCastle Joint Venture.”

Table of Contents

The SpringCastle Joint Venture primarily holds subordinate ownership interests in a securitized loan portfolio (the "SpringCastle Portfolio"), which consists of unsecured loans and loans secured by subordinate residential real estate mortgages and includes both closed-end accounts and open-end lines of credit. These loans are in a liquidating status and vary in form and substance from the Company's originated loans. At December 31, 2015, the SpringCastle Portfolio included over 232,000 of acquired loans, representing $1.6 billion in net finance receivables. For the three months ended March 31, 2016 and 2015, income before provision for income taxes of our Acquisitions and Servicing segment (which consists of the SpringCastle Sellers) totaled $278 million ($252 million attributable to OMH) and $67 million ($36 million attributable to OMH), respectively.

In connection with the SpringCastle Interests Sale, the SpringCastle Buyers paid $101 million of the aggregate purchase price to the SpringCastle Sellers on March 31, 2016, with the remaining $11 million to be paid into an escrow account within 120 days following March 31, 2016. Such escrowed funds are expected to be held in escrow for a period of up to five years following March 31, 2016, and, subject to the terms of the purchase agreement and assuming certain portfolio performance requirements are satisfied, paid to the SpringCastle Sellers at the end of such five year period. In connection with the SpringCastle Interests Sale, we recorded a net gain in other revenues at the time of sale of $229 million.

As a result of this sale, SpringCastle Acquisition and SpringCastle Holdings no longer hold any ownership interests of the SpringCastle Joint Venture. However, unless terminated, SFI will remain as servicer of the SpringCastle Portfolio, under the existing servicing agreement for the SpringCastle Funding Trust. In addition, we deconsolidated the underlying loans of the SpringCastle Portfolio and previously issued securitized interests, which were reported in long-term debt, as we no longer were considered the primary beneficiary.

Prior to the SpringCastle Interests Sale, affiliates of the NRZ Buyers owned a 30% limited liability company interest in the SpringCastle Joint Venture, and affiliates of the Blackstone Buyers owned a 23% limited liability company interest in the SpringCastle Joint Venture (together, the "Other Members"). The Other Members are parties to the purchase agreement for certain limited indemnification obligations and post-closing expense reimbursement obligations of the SpringCastle Joint Venture to the SpringCastle Sellers.

The NRZ Buyers are subsidiaries of NRZ, which is externally managed by an affiliate of Fortress. The Initial Stockholder, which owned approximately 58% of OMH's common stock as of March 31, 2016, is owned primarily by a private equity fund managed by an affiliate of Fortress. Mr. Edens, Chairman of the board of directors of OMH, also serves as Chairman of the board of directors of NRZ. Mr. Edens is also a principal of Fortress and serves as Co-Chairman of the board of directors of Fortress. Mr. Jacobs, a member of the board of directors of OMH, also serves as a member of NRZ's board of directors and Fortress' board of directors.

The purchase agreement included customary representations, warranties, covenants and indemnities. We did not record a sales recourse obligation related to this sale.

ONEMAIN ACQUISITION

On November 15, 2015, OMH completed its acquisition of OneMain from Citigroup for approximately $4.5 billion in cash after accounting for certain estimated adjustments at closing. OneMain is a leading consumer finance company in the United States, providing personal loans to primarily middle income households through a national, community based network.

We allocated the purchase price to the net tangible and intangible assets acquired and liabilities assumed, based on their respective estimated fair values as of October 31, 2015. Given the timing of this transaction and complexity of the purchase accounting, our estimate of the fair value adjustment specific to the acquired loans and intangible assets was preliminary, and our determination of the final tax positions with Citigroup was also preliminary. We intend to finalize the accounting for these matters as soon as reasonably possible and within the measurement period, which may be up to one year from the acquisition date.

Table of Contents

The excess of the purchase price over the fair values, which we recorded as goodwill, was determined as follows:

(dollars in millions)	As Reported	Adjustments *	As Adjusted
Cash consideration	$ 4,478	$ (23) (a)	$ 4,455
Fair value of assets acquired:			
Cash and cash equivalents	958	—	958
Investment securities	1,294	—	1,294
Personal loans	8,801	(6) (b)	8,795
Intangibles	555	—	555
Other assets	247	—	247
Fair value of liabilities assumed:			
Long-term debt	(7,725)	—	(7,725)
Unearned premium, insurance policy and claims reserves	(936)	—	(936)
Other liabilities	(156)	1 (c)	(155)
Goodwill	$ 1,440		$ 1,422

* During the first quarter of 2016, we recorded the following adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill as new information, which existed as of the acquisition date, was brought to our attention:

(a) Represents a subsequent cash payment from Citigroup as a result of reaching final agreement on certain purchase accounting adjustments.

(b) Represents the net impact of an increase to the discount of purchased credit impaired finance receivables of $64 million and an increase to the premium on finance receivables purchased as performing receivables of $58 million as a result of revisions to the receivables valuation during the measurement period. This adjustment also resulted in $15 million of additional loan premium amortization and $3 million of additional loan discount accretion during the first quarter of 2016, of which $7 million and $1 million, respectively, would have been recorded during the two months ended December 31, 2015, had the adjustment been retroactively reflected since the acquisition date.

(c) Represents the settlement of a payable to Citigroup during the measurement period.

Of the adjusted $8.8 billion of acquired personal loans included in the table above, $8.1 billion relates to finance receivables determined not to be credit impaired at acquisition. Contractually required principal and interest of these non-credit impaired personal loans was $11.6 billion at the date of acquisition, of which $2.2 billion is not expected to be collected.

Changes in the carrying amount of goodwill, all of which are reported in our Consumer and Insurance segment, were as follows:

(dollars in millions)	Consumer and Insurance
Three Months Ended March 31, 2016	
Balance at beginning of period	$ 1,440
Adjustments to purchase price allocation *	(18)
Balance at end of period	$ 1,422

* Goodwill adjustments were recorded at OMFH subsidiary level.

We did not record any impairments to goodwill during the three months ended March 31, 2016.

The following unaudited pro forma information presents the combined results of operations of Springleaf and OneMain as if the OneMain Acquisition had occurred on January 1, 2015. The unaudited pro forma information also reflects adjustments for (i) the financing arrangements and (ii) the anticipated sale of certain personal loans classified as finance receivables held for sale in connection with the Lendmark Sale (as defined below), as if the transactions had been consummated on January 1, 2015.

Table of Contents

In addition, the pro forma interest income assumes the adjustment of historical finance charges for estimated impacts of accounting for credit impaired loans. The unaudited pro forma information is not necessarily indicative of the operating results that would have been achieved had the OneMain Acquisition occurred on January 1, 2015. In addition, the unaudited pro forma financial information does not purport to project the future operating results of the combined company following the OneMain Acquisition.

As of March 31, 2016, we have incurred approximately $95 million of acquisition-related transaction and integration expenses ($33 million incurred during the first quarter of 2016) in connection with the OneMain Acquisition and the Lendmark Sale (as defined below), which we report as a component of operating expenses. These expenses include transaction costs, technology termination and certain compensation and benefit related costs. We anticipate incurring approximately $275 million of acquisition-related expenses in connection with the OneMain Acquisition and the Lendmark Sale, which we expect to incur primarily during 2016 and the first half of 2017.

The following table presents the unaudited pro forma financial information:

(dollars in millions)	
Three Months Ended March 31,	2015
Interest income	$791
Net income attributable to OneMain Holdings, Inc.	17

In connection with the closing of the OneMain Acquisition, on November 13, 2015, OMH and certain of its subsidiaries entered into an Asset Preservation Stipulation and Order and agreed to a Proposed Final Judgment (collectively, the "Settlement Agreement") with the U.S. Department of Justice (the "DOJ"), as well as the state attorneys general for Colorado, Idaho, Pennsylvania, Texas, Virginia, Washington and West Virginia. The Settlement Agreement resolved the inquiries of the DOJ and such attorneys general with respect to the OneMain Acquisition and allowed OMH to proceed with the closing. Pursuant to the Settlement Agreement, OMH agreed to divest 127 branches of SFC subsidiaries across 11 states as a condition for approval of the OneMain Acquisition. The Settlement Agreement requires the Branch Sellers to operate these 127 branches as an ongoing, economically viable and competitive business until sold to the divestiture purchaser. The court overseeing the settlement appointed a third-party monitor to oversee management of the divestiture branches and ensure the Company's compliance with the terms of the Settlement Agreement.

LENDMARK SALE

On November 12, 2015, OMH and certain of its subsidiaries (the "Branch Sellers") entered into an agreement with Lendmark Financial Services, LLC ("Lendmark") to sell the branches to Lendmark (the "Lendmark Sale") for a purchase price equal to the sum of (i) the aggregate unpaid balance as of closing of the purchased loans multiplied by 103%, plus (ii) for each interest-bearing purchased loan, an amount equal to all unpaid interest that has accrued on the unpaid balance at the applicable note rate from the most recent interest payment date through the closing, plus (iii) the sum of all prepaid charges and fees and security deposits of the Branch Sellers to the extent arising under the purchased contracts as reflected on the books and records of the Branch Sellers as of closing, subject to certain limitations if the purchase price would exceed $695 million and Lendmark is unable to obtain financing on certain specified terms. In anticipation of the sale of these branches, SFC transferred $608 million of personal loans from held for investment to held for sale on September 30, 2015. At March 31, 2016, the personal loans held for sale totaled approximately $606 million, primarily due to originations, net of charge-offs of personal loans in these branches during the past six months. The branches to be sold represent 6% of the branches and 4% of the personal loans held for investment and held for sale of the combined company as of March 31, 2016.

Pursuant to the Settlement Agreement, we were required to dispose of the branches to be sold in connection with the Lendmark Sale within 120 days following November 13, 2015, subject to such extensions as the DOJ may approve. As we did not believe we would be able to consummate the Lendmark Sale prior to April 1, 2016, we requested two extensions of the closing deadline set forth in the Settlement Agreement. The DOJ granted our requests through May 13, 2016.

On May 2, 2016, we completed the Lendmark Sale. See Note 18 for further information on the subsequent closing.

Table of Contents

3. Recent Accounting Pronouncements

ACCOUNTING PRONOUNCEMENTS RECENTLY ADOPTED

Consolidation

In February of 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2015-02, Consolidation - Amendments to the Consolidation Analysis, which amends the current consolidation guidance and ends the deferral granted to reporting entities with variable interests in investment companies from applying certain prior amendments to the VIE guidance. This ASU is applicable to entities across all industries, particularly those that use limited partnerships as well as entities in any industry that outsource decision making or have historically applied related party tiebreaker in their consolidation analysis and disclosures. The standard became effective for public business entities for annual periods beginning after December 15, 2015. We evaluated the potential impact of the adoption of this ASU and concluded that it will not have a material effect on our consolidated financial statements.

Technical Corrections and Improvements

In June of 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements, to correct differences between original guidance and the Codification, clarify the guidance, correct references and make minor improvements affecting a variety of topics. The amendments to this transition guidance became effective for fiscal years beginning after December 15, 2015. We evaluated the potential impact of the adoption of this ASU and concluded that it will not have a material effect on our consolidated financial statements.

ACCOUNTING PRONOUNCEMENTS TO BE ADOPTED

Revenue Recognition

In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides a consistent revenue accounting model across industries. In August of 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date, to defer the effective date of the new revenue recognition standard by one year, which would result in the ASU becoming effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Many of our revenue sources are not within the scope of this new standard, and we are evaluating whether the adoption of this ASU for those revenue sources that are in scope will have a material effect on our consolidated financial statements.

Short-Duration Insurance Contracts Disclosures

In May of 2015, the FASB issued ASU 2015-09, Disclosures about Short-Duration Contracts, to address enhanced disclosure requirements for insurers relating to short-duration insurance contract claims and unpaid claims liability rollforward for long and short-duration contracts. The disclosures are intended to provide users of financial statements with more transparent information about an insurance entity’s initial claim estimates and subsequent adjustments to those estimates, the methodologies and judgments used to estimate claims, and the timing, frequency, and severity of claims. The amendments in this ASU become effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. We are currently evaluating the potential impact of the adoption of the ASU on our consolidated financial statements.

Financial Instruments

In January of 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which simplifies the impairment assessment of equity investments. The update requires equity investments to be measured at fair value with changes recognized in net income. This ASU eliminates the requirement to disclose the methods and assumptions to estimate fair value for financial instruments, requires the use of the exit price for disclosure purposes, requires the change in liability due to a change in credit risk to be presented in other comprehensive income, requires separate presentation of financial assets and liabilities by measurement category and form of asset (securities and loans), and clarifies the need for evaluation allowance on a deferred tax asset related to available-for-sale securities. The amendments in this ASU become effective prospectively for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We will evaluate whether the adoption of this ASU will have a material effect on our consolidated financial statements.

Table of Contents

Leases

In February of 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The ASU will require lessees to recognize assets and liabilities on leases with terms greater than 12 months and to disclose information related to the amount, timing and uncertainty of cash flows arising from leases, including various qualitative and quantitative requirements. The amendments of this ASU become effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. We will evaluate whether the adoption of this ASU will have a material effect on our consolidated financial statements.

Debt Instruments

In March of 2016, the FASB issued ASU 2016-06, Contingent Puts and Call Options in Debt Instruments, which clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt host. The ASU requires assessing the embedded call (put) options solely in accordance with the four-step decision sequence. The amendment of this ASU becomes effective on a modified retrospective basis for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. We will evaluate whether the adoption of this ASU will have a material effect on our consolidated financial statements.

Investments

In March of 2016, the FASB issued ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The ASU requires that an entity that has available-for-sale securities recognize, through earnings, the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendment in this ASU becomes effective prospectively for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. We will evaluate whether the adoption of this ASU will have a material effect on our consolidated financial statements.

Technical Corrections and Improvements

In March of 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations, which clarifies the implementation of the guidance on principal versus agent considerations from ASU 2014-09, Revenue from Contracts with Customers. ASU 2016-08 does not change the core principle of the guidance in ASU 2014-09, but rather clarifies the distinction between principal versus agent considerations when implementing ASU 2014-09. As these are technical corrections and improvements only, the company does not believe that this ASU will have a material effect on our consolidated financial statements.

Stock Compensation

In March of 2016, the FASB issued ASU 2016-09, Improvements to Employee Share - Based Payment Accounting, which simplifies the accounting for share-based payment transactions, income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendment in this ASU becomes effective on a modified retrospective transition for accounting in tax benefits recognized, retrospectively for accounting related to the presentation of employee taxes paid, prospective for accounting related to recognition of excess tax benefits, and either a prospective or retrospective method for accounting related to presentation of excess employee tax benefits for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. We will evaluate whether the adoption of this ASU will have a material effect on our consolidated financial statements.

We do not believe that any other accounting pronouncements issued during the first quarter of 2016, but not yet effective, would have a material impact on our consolidated financial statements or disclosures, if adopted.

Table of Contents

4. Finance Receivables

Our finance receivable types include personal loans, real estate loans, and retail sales finance as defined below:

- Personal loans — are secured by consumer goods, automobiles, or other personal property or are unsecured, typically non-revolving with a fixed-rate and a fixed, original term of three to six years. At March 31, 2016, $3.0 billion of personal loans, or 22%, were secured by collateral consisting of titled personal property (such as automobiles) and $10.2 billion, or 78%, were secured by consumer household goods or other items of personal property or were unsecured, compared to $2.8 billion of personal loans, or 21%, secured by collateral consisting of titled personal property and $10.5 billion, or 79%, secured by consumer household goods or other items of personal property or unsecured at December 31, 2015.

- Real estate loans — are secured by first or second mortgages on residential real estate, generally have maximum original terms of 360 months, and are considered non-conforming. At March 31, 2016, $197 million of real estate loans, or 39%, were secured by first mortgages and $306 million, or 61%, were secured by second mortgages, compared to $202 million of real estate loans, or 39%, secured by first mortgages and $322 million, or 61%, secured by second mortgages at December 31, 2015. Real estate loans may be closed-end accounts or open-end home equity lines of credit and are primarily fixed-rate products. Since we ceased real estate lending in January of 2012, our real estate loans are in a liquidating status.

- Retail sales finance — include retail sales contracts and revolving retail accounts. Retail sales contracts are closed-end accounts that represent a single purchase transaction. Revolving retail accounts are open-end accounts that can be used for financing repeated purchases from the same merchant. Retail sales contracts are secured by the personal property designated in the contract and generally have maximum original terms of 60 months. Revolving retail accounts are secured by the goods purchased and generally require minimum monthly payments based on the amount financed calculated after the most recent purchase or outstanding balances. Our retail sales finance portfolio is also in a liquidating status.

Our finance receivable types also included the SpringCastle Portfolio at December 31, 2015, as defined below:

- SpringCastle Portfolio — included unsecured loans and loans secured by subordinate residential real estate mortgages that were sold on March 31, 2016, in connection with the SpringCastle Interests Sale. The SpringCastle Portfolio included both closed-end accounts and open-end lines of credit. These loans were in a liquidating status and varied in substance and form from our originated loans. Unless terminated, we will continue to provide the servicing for these loans, which we service as unsecured loans because the liens are subordinated to superior ranking security interests.

Components of net finance receivables held for investment by type were as follows:

(dollars in millions)	Personal Loans	SpringCastle Portfolio	Real Estate Loans	Retail Sales Finance	Total
March 31, 2016					
Gross receivables *	$15,202	$ —	$ 499	$ 21	$15,722
Unearned finance charges and points and fees	(2,196)	—	—	(2)	(2,198)
Accrued finance charges	139	—	4	—	143
Deferred origination costs	64	—	—	—	64
Total	$13,209	$ —	$ 503	$ 19	$13,731
December 31, 2015					

Gross receivables *	$15,325	$ 1,545	$ 520	$ 25	$17,415
Unearned finance charges and points and fees	(2,261)	—	—	(2)	(2,263)
Accrued finance charges	147	31	4	—	182
Deferred origination costs	56	—	—	—	56
Total	$13,267	$ 1,576	$ 524	$ 23	$15,390

Table of Contents

*Gross receivables are defined as follows:

- Finance receivables purchased as a performing receivable — gross finance receivables equal the unpaid principal balance (“UPB”) for interest bearing accounts and the gross remaining contractual payments for precompute accounts; additionally, the remaining unearned discount, net of premium established at the time of purchase, is included in both interest bearing and precompute accounts to reflect the finance receivable balance at its initial fair value;

- Finance receivables originated subsequent to the respective OneMain and Fortress acquisitions — gross finance receivables equal the UPB for interest bearing accounts and the gross remaining contractual payments for precompute accounts; and

- Purchased credit impaired finance receivables — gross finance receivables equal the remaining estimated cash flows less the current balance of accretable yield on the purchased credit impaired accounts.

Included in the table above are finance receivables associated with securitizations that remain on our balance sheet. The carrying value of our personal loans totaled $11.6 billion and $11.4 billion at March 31, 2016 and December 31, 2015, respectively, and the carrying value of the SpringCastle Portfolio totaled $1.6 billion at December 31, 2015.

Unused lines of credit extended to customers by the Company were as follows:

(dollars in millions)	March 31, 2016	December 31, 2015
Personal loans	$ 1	$ 2
SpringCastle Portfolio	—	365
Real estate loans	20	30
Total	$ 21	$ 397

Unused lines of credit on our personal loans can be suspended if one of the following occurs: (i) the value of the collateral declines significantly; (ii) we believe the borrower will be unable to fulfill the repayment obligations; or (iii) any other default by the borrower of any material obligation under the agreement occurs. Unused lines of credit on our real estate loans can be suspended if one of the following occurs: (i) the value of the real estate declines significantly below the property’s initial appraised value; (ii) we believe the borrower will be unable to fulfill the repayment obligations because of a material change in the borrower’s financial circumstances; or (iii) any other default by the borrower of any material obligation under the agreement occurs. Unused lines of credit on home equity lines of credit can be terminated for delinquency. Accordingly, no reserve has been recorded for the unused lines of credit.

CREDIT QUALITY INDICATORS

We consider the delinquency status and nonperforming status of the finance receivable as our credit quality indicators.

We accrue finance charges on revolving retail finance receivables up to the date of charge-off at 180 days past due. Our revolving retail finance receivables that were more than 90 days past due and still accruing finance charges at March 31, 2016 and at December 31, 2015 were immaterial. Our personal loans and real estate loans do not have finance receivables that were more than 90 days past due and still accruing finance charges.

Delinquent Finance Receivables

We consider the delinquency status of the finance receivable as our primary credit quality indicator. We monitor delinquency trends to manage our exposure to credit risk. We consider finance receivables 60 days or more past due as delinquent and consider the likelihood of collection to decrease at such time.

Table of Contents

The following is a summary of net finance receivables held for investment by type and by days delinquent:

(dollars in millions)	Personal Loans	SpringCastle Portfolio	Real Estate Loans	Retail Sales Finance	Total
March 31, 2016					
Net finance receivables:					
60-89 days past due	$ 103	$ —	$ 6	$ —	$ 109
90-119 days past due	90	—	5	—	95
120-149 days past due	91	—	3	—	94
150-179 days past due	85	—	3	—	88
180 days or more past due	5	—	22	—	27
Total delinquent finance receivables	374	—	39	—	413
Current	12,701	—	447	19	13,167
30-59 days past due	134	—	17	—	151
Total	$ 13,209	$ —	$ 503	$ 19	