

Springleaf Holdings, Inc.  
Form 10-Q  
November 09, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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

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

Delaware  
(State of Incorporation)

27-3379612  
(I.R.S. Employer Identification No.)

601 N.W. Second Street, Evansville, IN  
(Address of principal executive offices)

47708  
(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 ☒ 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 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 ☒ No ☐

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

Edgar Filing: Springleaf Holdings, Inc. - Form 10-Q

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(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

☐ No ☒

At November 2, 2015, there were 134,483,466 shares of the registrant’s common stock, \$0.01 par value, outstanding.

---

Table of Contents

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	
	<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Operations</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Shareholders' Equity</u>	<u>6</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>7</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>52</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>83</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>83</u>

PART II — OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>84</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>84</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>84</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>84</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>84</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>84</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>84</u>

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## SPRINGLEAF HOLDINGS, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets (Unaudited)

(dollars in millions except par value amount)	September 30, 2015	December 31, 2014
<b>Assets</b>		
Cash and cash equivalents	\$3,865	\$879
Investment securities	1,742	2,935
Net finance receivables:		
Personal loans (includes loans of consolidated VIEs of \$2.1 billion in 2015 and \$1.9 billion in 2014)	4,061	3,831
SpringCastle Portfolio (includes loans of consolidated VIEs of \$1.7 billion in 2015 and \$2.0 billion in 2014)	1,667	1,979
Real estate loans	547	625
Retail sales finance	27	48
Net finance receivables	6,302	6,483
Allowance for finance receivable losses (includes allowance of consolidated VIEs of \$131 million in 2015 and \$72 million in 2014)	(193)	(176)
Net finance receivables, less allowance for finance receivable losses	6,109	6,307
Finance receivables held for sale (includes finance receivables held for sale of consolidated VIEs of \$484 million in 2015)	797	205
Restricted cash and cash equivalents (includes restricted cash and cash equivalents of consolidated VIEs of \$256 million in 2015 and \$210 million in 2014)	270	218
Other assets	501	485
<b>Total assets</b>	<b>\$13,284</b>	<b>\$11,029</b>
<b>Liabilities and Shareholders' Equity</b>		
Long-term debt (includes debt of consolidated VIEs of \$4.8 billion in 2015 and \$3.6 billion in 2014)	\$9,555	\$8,356
Insurance claims and policyholder liabilities	467	446
Deferred and accrued taxes	139	152
Other liabilities	294	238
<b>Total liabilities</b>	<b>10,455</b>	<b>9,192</b>
Commitments and contingent liabilities (Note 14)		
<b>Shareholders' equity:</b>		
Common stock, par value \$.01 per share; 2,000,000,000 shares authorized, 134,482,414 and 114,832,895 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	1	1
Additional paid-in capital	1,524	529
Accumulated other comprehensive income (loss)	(11)	3
Retained earnings	1,469	1,492
<b>Springleaf Holdings, Inc. shareholders' equity</b>	<b>2,983</b>	<b>2,025</b>

Edgar Filing: Springleaf Holdings, Inc. - Form 10-Q

Non-controlling interests	(154	) (188	)
Total shareholders' equity	2,829	1,837	
 Total liabilities and shareholders' equity	 \$13,284	 \$11,029	

See Notes to Condensed Consolidated Financial Statements.

3

---

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

(dollars in millions except earnings (loss) per share)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Interest income:				
Finance charges	\$424	\$436	\$1,234	\$1,514
Finance receivables held for sale originated as held for investment	4	48	13	55
Total interest income	428	484	1,247	1,569
Interest expense	171	180	500	577
Net interest income	257	304	747	992
Provision for finance receivable losses	82	103	249	379
Net interest income after provision for finance receivable losses	175	201	498	613
Other revenues:				
Insurance	40	44	116	125
Investment	11	12	44	32
Net loss on repurchases and repayments of debt	—	—	—	(7
Net gain (loss) on fair value adjustments on debt	—	1	—	(15
Net gain on sales of real estate loans and related trust assets	—	641	—	731
Other	—	(12	) (2	) (7
Total other revenues	51	686	158	859
Other expenses:				
Operating expenses:				
Salaries and benefits	100	95	305	279
Other operating expenses	87	75	227	193
Insurance losses and loss adjustment expenses	17	20	53	57
Total other expenses	204	190	585	529
Income before provision for income taxes	22	697	71	943
Provision for income taxes	2	235	1	310
Net income	20	462	70	633
Net income attributable to non-controlling interests	31	35	93	82
Net income (loss) attributable to Springleaf Holdings, Inc.	\$(11	) \$427	\$(23	) \$551

Edgar Filing: Springleaf Holdings, Inc. - Form 10-Q

Share Data:

Weighted average number of shares outstanding:

Basic	134,452,763	114,788,439	125,701,635	114,788,439
Diluted	134,452,763	115,316,314	125,701,635	115,212,398

Earnings (loss) per share:

Basic	\$ (0.08	) \$ 3.72	\$ (0.18	) \$ 4.80
Diluted	\$ (0.08	) \$ 3.70	\$ (0.18	) \$ 4.79

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

## SPRINGLEAF HOLDINGS, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Net income	\$20	\$462	\$70	\$633	
Other comprehensive income (loss):					
Net unrealized gains (losses) on non-credit impaired investment securities	(3	) (4	) (8	) 15	
Income tax effect:					
Net unrealized (gains) losses on non-credit impaired investment securities	1	2	3	(5	)
Other comprehensive income (loss), net of tax, before reclassification adjustments	(2	) (2	) (5	) 10	
Reclassification adjustments included in net income:					
Net realized gains on investment securities	(4	) (3	) (14	) (6	)
Income tax effect:					
Net realized gains on investment securities	2	1	5	2	
Reclassification adjustments included in net income, net of tax	(2	) (2	) (9	) (4	)
Other comprehensive income (loss), net of tax	(4	) (4	) (14	) 6	
Comprehensive income	16	458	56	639	
Comprehensive income attributable to non-controlling interests	31	35	93	82	
Comprehensive income (loss) attributable to Springleaf Holdings, Inc.	\$(15	) \$423	\$(37	) \$557	

See Notes to Condensed Consolidated Financial Statements.



Table of Contents

## SPRINGLEAF HOLDINGS, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Shareholders' Equity (Unaudited)

(dollars in millions)	Springleaf Holdings, Inc. Shareholders' Equity						
	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Springleaf Holdings, Inc. Shareholders' Equity	Non-controlling Interests	Total Shareholders' Equity
Balance, January 1, 2015	\$ 1	\$ 529	\$ 3	\$ 1,492	\$ 2,025	\$ (188 )	\$ 1,837
Sale of common stock, net of offering costs	—	976	—	—	976	—	976
Non-cash incentive compensation from Initial Stockholder	—	15	—	—	15	—	15
Share-based compensation expense, net of forfeitures	—	6	—	—	6	—	6
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	—	—	—	—	—	(59 )	(59 )
Change in net unrealized losses:							
Available-for-sale securities	—	—	(14 )	—	(14 )	—	(14 )
Net income (loss)	—	—	—	(23 )	(23 )	93	70
Balance, September 30, 2015	\$ 1	\$ 1,524	\$ (11 )	\$ 1,469	\$ 2,983	\$ (154 )	\$ 2,829
Balance, January 1, 2014	\$ 1	\$ 524	\$ 28	\$ 987	\$ 1,540	\$ 347	\$ 1,887
Share-based compensation expense, net of forfeitures	—	4	—	—	4	—	4
Change in non-controlling interests:							
Distributions declared to joint venture partners	—	—	—	—	—	(20 )	(20 )
Change in net unrealized gains:							
Available-for-sale securities	—	—	6	—	6	—	6
Net income	—	—	—	551	551	82	633
Balance, September 30, 2014	\$ 1	\$ 528	\$ 34	\$ 1,538	\$ 2,101	\$ 409	\$ 2,510

See Notes to Condensed Consolidated Financial Statements.



Table of Contents

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

(dollars in millions)	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$70	\$633
Reconciling adjustments:		
Provision for finance receivable losses	249	379
Depreciation and amortization	68	(43)
Deferred income tax charge (benefit)	(10)	) 15
Non-cash incentive compensation from Initial Stockholder	15	—
Net loss on fair value adjustments on debt	—	15
Net gain on sales of real estate loans and related trust assets	—	(731)
Net charge-offs on finance receivables held for sale	—	11
Net loss on repurchases and repayments of debt	—	7
Share-based compensation expense, net of forfeitures	6	4
Other	(13)	) 1
Cash flows due to changes in:		
Other assets and other liabilities	37	48
Insurance claims and policyholder liabilities	22	36
Taxes receivable and payable	(49)	) (28)
Accrued interest and finance charges	(1)	) (8)
Restricted cash and cash equivalents not reinvested	—	(4)
Other, net	1	1
Net cash provided by operating activities	395	336
Cash flows from investing activities		
Finance receivables originated or purchased, net of deferred origination costs	(2,437)	) (1,914)
Principal collections on finance receivables	1,844	2,294
Sales and principal collections on finance receivables held for sale originated as held for investment	88	3,437
Available-for-sale investment securities purchased	(382)	) (274)
Trading investment securities purchased	(1,465)	) (1,085)
Available-for-sale investment securities called, sold, and matured	411	227
Trading investment securities called, sold, and matured	2,581	32
Change in restricted cash and cash equivalents	(46)	) 25
Proceeds from sale of real estate owned	12	51
Other, net	(13)	) (4)
Net cash provided by investing activities	593	2,789
Cash flows from financing activities		
Proceeds from issuance of long-term debt, net of commissions	1,929	672
Proceeds from issuance of common stock, net of offering costs	976	—
Repayment of long-term debt	(850)	) (2,237)
Distributions to joint venture partners	(59)	) (20)
Excess tax benefit from share-based compensation	2	—

Edgar Filing: Springleaf Holdings, Inc. - Form 10-Q

Net cash provided by (used for) financing activities	1,998	(1,585	)
--	-------	--------	---

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

(dollars in millions)	Nine Months Ended September 30, 2015                      2014		
Net change in cash and cash equivalents	2,986	1,540	
Cash and cash equivalents at beginning of period	879	431	
Cash and cash equivalents at end of period	\$3,865	\$1,971	
Supplemental non-cash activities			
Transfer of finance receivables to real estate owned	\$8	\$47	
Transfer of finance receivables held for investment to finance receivables held for sale (prior to deducting allowance for finance receivable losses)	\$608	\$6,902	
Net unsettled investment security dispositions (purchases)	\$40	\$(29	)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

SPRINGLEAF HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2015

1. Business and Basis of Presentation

Springleaf Holdings, Inc. (“SHI” or, collectively with its subsidiaries, whether directly or indirectly owned, “Springleaf,” the “Company,” “we,” “us,” or “our”) is a Delaware corporation, primarily owned by Springleaf Financial Holdings, LLC (the “Initial Stockholder”).

At September 30, 2015, the Initial Stockholder owned approximately 58% of SHI’s common stock. The Initial Stockholder is owned primarily by a private equity fund managed by an affiliate of Fortress Investment Group LLC (“Fortress”) and AIG Capital Corporation, a subsidiary of American International Group, Inc. (“AIG”). At September 30, 2015, the economic interests of Fortress and AIG were 55% and 3%, respectively.

SHI is a financial services holding company whose principal subsidiary is Springleaf Finance, Inc. (“SFI”). SFI’s principal subsidiary is Springleaf Finance Corporation (“SFC”), a financial services holding company with subsidiaries engaged in the consumer finance and insurance businesses.

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 SHI, its subsidiaries (all of which are wholly owned, except for certain indirect subsidiaries associated with a joint venture in which we own a 47% equity interest), 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. 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, 2014 (“2014 Annual Report on Form 10-K”). We follow the same significant accounting policies for our interim reporting.

To conform to the 2015 presentation, we reclassified certain prior period items as a result of our early adoption of accounting standards update (“ASU”) 2015-03, Interest - Imputation of Interest (“ASU 2015-03”). See Note 3 for further information on the adoption of this ASU.

Prior Period Revisions

During the fourth quarter of 2014, we discovered that our personal loans and loans included in the SpringCastle Portfolio deemed to be troubled debt restructured (“TDR”) finance receivables were previously incorrectly excluded in the related disclosures of our finance receivables and allowance for finance receivable losses. The applicable prior period amounts have been corrected in Notes 4 and 5 in this report.

During the fourth quarter of 2014, we discovered that our restricted cash and cash equivalents were overstated and other assets were understated by \$15 million in our condensed consolidated balance sheets at September 30, 2014, as we incorrectly included escrow advances on our real estate loans held for sale in cash and cash equivalents. This error also resulted in our cash flows due to a decrease in restricted cash and cash equivalents not reinvested to be overstated and cash flows due to an increase in other assets and other liabilities to be overstated within the operating activities section of our condensed consolidated statements of cash flows for the nine months ended September 30, 2014. The affected amounts for the 2014 period have been corrected in our condensed consolidated statements of cash flows in this report. This classification error was not material to any previously issued financial statements.

During the second quarter of 2015, we discovered that we had not charged-off certain bankrupt accounts in our SpringCastle Portfolio and we identified an error in the calculation of the allowance for our TDR personal loans. As a result of these

Table of Contents

findings, we recorded an out-of-period adjustment in the second quarter of 2015, which increased provision for finance receivable losses by \$8 million, decreased provision for income taxes by \$3 million, and decreased basic and diluted earnings per share each by \$0.03 for the three and six months ended June 30, 2015.

During the second quarter of 2015, we identified incorrect allocations of our total assets disclosure within the segment footnote. We have evaluated the impact of these errors and concluded that they were not material to any previously issued financial statements, however, we have corrected the previously disclosed periods in Note 16 of this report. We will also correct the prior period segment disclosures presented in our applicable quarterly and annual reports as follows:

(dollars in millions)	Consumer and Insurance	Real Estate	Other
Assets *			
March 31, 2015	\$5,117	\$3,613	\$1,690
December 31, 2014	4,411	4,116	441
September 30, 2014	4,633	3,745	615
June 30, 2014	4,397	6,688	963
December 31, 2013	4,139	8,650	520

\* The revised amounts do not reflect the retrospective reclassifications of our debt issuance costs previously recorded in other assets to long-term debt, as a result of our early adoption of ASU 2015-03.

During the third quarter of 2015, we discovered that our cash equivalents in certificates of deposit and commercial paper, which totaled \$165 million at December 31, 2014, were incorrectly presented as a Level 1 investment, instead of a Level 2 investment in our disclosure of the fair value hierarchy of our financial instruments in our 2014 Annual Report on Form 10-K. The affected fair value amount has been corrected in Note 17 of this report. This presentation error was not material to any previously issued financial statements.

## 2. Significant Transactions

### PENDING ACQUISITION OF ONEMAIN FINANCIAL

On March 2, 2015, SHI entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) with CitiFinancial Credit Company (“Citigroup”) to acquire OneMain Financial Holdings, LLC (formerly OneMain Financial Holdings, Inc.) (“OneMain”), which we refer to in this report as the “Proposed Acquisition”. The Stock Purchase Agreement provides that, upon the terms and subject to the conditions set forth therein, SHI will purchase from Citigroup all of the equity of OneMain for an aggregate purchase price of \$4.25 billion in cash, which will be adjusted up or down, as applicable, by the amount by which OneMain’s stockholder’s equity as of the closing exceeds or is less than \$1.94 billion. The Proposed Acquisition would bring together two branch-based consumer finance companies, with complementary strategies and locations, focused on the non-prime market in the United States.

The parties’ respective obligations to consummate the Proposed Acquisition are subject to customary closing conditions, including (i) the expiration or early termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended (the “HSR Act”); (ii) receipt of all consents, authorizations or approvals of all state regulatory authorities governing consumer lending and insurance in various states in which OneMain or any of its subsidiaries operates; (iii) the accuracy of the other party’s representations and warranties as of the closing date; and (iv) compliance by the other party with its covenants and agreements contained in the Stock Purchase Agreement (in the case of clauses (iii) and (iv), subject to customary materiality qualifiers). Under the Stock Purchase Agreement, we are required to take all action necessary to resolve any objection that

antitrust enforcement authorities may assert with respect to the Proposed Acquisition, provided that we will not be required to commit or agree to divest, license or hold separate assets of the Company and/or OneMain that account for more than \$677 million in revenue of the Company and/or OneMain, as the case may be, for the twelve months ended December 31, 2014. If the Stock Purchase Agreement is terminated as a result of the failure to obtain antitrust approvals, we will be required to pay Citigroup a termination fee of \$213 million.

Because the Proposed Acquisition is not likely to be a reportable transaction pursuant to the HSR Act, the parties do not plan to file premerger notification forms with the U.S. Department of Justice (the “DOJ”) and the Federal Trade Commission, and therefore are likely not subject to a mandatory HSR waiting period. On March 22, 2015, we were notified by the DOJ, Antitrust Division, that they would be reviewing the Proposed Acquisition from an antitrust perspective and we and OneMain



## Table of Contents

subsequently met with, and provided information to, the DOJ staff on a voluntary basis. Thereafter, both parties received a voluntary request for information from the DOJ. On April 28, 2015, the DOJ also issued a Civil Investigative Demand (“CID”) to both parties. The voluntary request for information and the CID seek documentary materials and information regarding the Proposed Acquisition and the marketplace in which both parties operate. We have responded to the DOJ's request. On June 5, 2015, we, OneMain and the DOJ entered into a timing agreement whereby we and OneMain agreed not to consummate the Proposed Acquisition prior to September 10, 2015, in order to provide the DOJ with a sufficient opportunity to complete its review of the Proposed Acquisition from an antitrust perspective. In addition, we have been contacted by certain state Attorney General's offices, which may seek to coordinate their antitrust review of the Proposed Acquisition with the DOJ.

The review of the Proposed Acquisition from an antitrust perspective has not yet been completed. The DOJ and certain state Attorneys General have expressed to us potential concerns with respect to the Proposed Acquisition. We have participated in discussions with the DOJ and certain states to obtain clearance to consummate the Proposed Acquisition and, as of September 30, 2015, have transferred \$608 million of personal loans from held for investment to held for sale.

## EQUITY OFFERING

On May 4, 2015, we completed an offering of 27,864,525 shares of common stock, consisting of 19,417,476 shares of common stock offered by us and 8,447,049 shares of common stock offered by the Initial Stockholder. Citigroup Global Markets Inc., Goldman, Sachs & Co., Barclays Capital Inc., and Credit Suisse Securities (USA) LLC acted as joint book-running managers.

The net proceeds from this sale to the Company were approximately \$976 million, after deducting the underwriting discounts and commissions and additional offering-related expenses totaling \$24 million. We intend to use the net proceeds of the offering, together with cash on hand, the proceeds from the sale of investment securities, and other funding options, to fund the Proposed Acquisition and/or for general corporate purposes, which may include debt repurchases and repayments, capital expenditures and other possible acquisitions.

In connection with our initial public offering in October 2013, certain executives of Springleaf received a grant of incentive units in the Initial Stockholder. These incentive units are subject to their continued employment with the Company and provide benefits (in the form of distributions) in the event the Initial Stockholder makes distributions to one or more of its members that exceed certain specified amounts. In connection with the sale of our common stock by the Initial Stockholder, certain of the specified thresholds were satisfied. In accordance with Accounting Standards Codification Topic 710, Compensation-General, we recorded non-cash incentive compensation expense of \$15 million in the second quarter of 2015 related to the incentive units.

## 3. Recent Accounting Pronouncements

### ACCOUNTING PRONOUNCEMENTS RECENTLY ADOPTED

#### Troubled Debt Restructurings

In January of 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure, which clarifies when an in substance repossession or foreclosure occurs — that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The ASU requires a creditor to reclassify a collateralized consumer mortgage loan to real estate property upon obtaining legal title to the real estate collateral, or

the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments in this ASU became effective prospectively for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this ASU did not have a material effect on our condensed consolidated financial statements.

#### Debt Issuance Costs

In April of 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest, which simplifies the presentation of debt issuance costs. Under this standard, debt issuance costs related to a note shall be reported in the balance sheet as a direct reduction from the face amount of that note. The ASU also clarifies that discount, premium or debt issuance costs shall not be classified as a deferred charge or deferred credit. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued and must be applied retrospectively. We elected to early adopt this ASU as of June 30, 2015 and applied this

## Table of Contents

ASU retrospectively. On June 30, 2015, we reclassified \$32 million of debt issuance costs previously recorded in other assets to long-term debt. After retrospectively applying this new ASU, we also reclassified \$29 million of debt issuance costs as of December 31, 2014 from other assets to long-term debt in our condensed consolidated balance sheet. We continue to report fees paid to access our conduit facilities in other assets. The adoption of this ASU did not have a material effect on our condensed consolidated financial statements.

In August of 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest, to clarify that debt issuance costs associated with line-of-credit arrangements are to be deferred and amortized over the term of the arrangement. The amendment also acknowledged absence of authoritative guidance within previously issued ASU 2015-03 for debt issuance costs related to line-of-credit arrangements. The ASU is effective immediately. The adoption of this ASU did not have a material effect on our condensed consolidated financial statements, as we were already in compliance with these amendments.

### Push Down Accounting

In May of 2015, the FASB issued ASU 2015-08, Business Combinations-Pushdown Accounting, to remove Securities and Exchange Commission (the “SEC”) staff guidance on pushdown accounting from the Accounting Standards Codification. The SEC staff had previously rescinded its guidance with the issuance of Staff Accounting Bulletin No. 115 when the FASB issued its own pushdown accounting guidance in November 2014. The ASU is effective immediately. The adoption of this ASU did not have a material effect on our condensed consolidated financial statements.

### Plan Accounting

In July of 2015, the FASB issued ASU 2015-12, Plan Accounting, to simplify certain aspects of employee benefit plan (“EBP”) accounting while satisfying the needs of users of financial statements, including plan participants. The new guidance simplifies the measurement of fully benefit-responsive investment contracts and disclosures about plan investments. It also allows an EBP with a fiscal year end that doesn’t coincide with the end of a calendar month to choose a simpler way of measuring its investments and investment-related accounts. The ASU is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We elected to early adopt this ASU as of September 30, 2015. The adoption of this ASU did not have a material effect on our condensed consolidated financial statements, as we were already in compliance with these amendments.

## 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.

### Consolidation

In February of 2015, the FASB issued 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 is effective for public business entities for annual periods beginning after December 15, 2015. Early adoption is allowed, including in any interim period. We are currently evaluating whether the adoption of this ASU will have a material effect on our consolidated financial statements.

#### Cloud Computing Software

In April of 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other Internal-Use Software, to provide guidance on a customer's accounting for fees paid in a cloud computing arrangement ("CCA"). Under the new standard, customers will apply the same criteria as vendors to determine whether a CCA contains a software license or is solely a service contract. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early

## Table of Contents

adoption is permitted. We evaluated the potential impact of adopting this ASU and concluded that it will not have a material effect on our consolidated financial statements.

### Fair Value Measurement Disclosures

In May of 2015, the FASB issued ASU 2015-07, Fair Value Measurement, to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. We have a few investments for which fair value is measured using the net asset value per share practical expedient. However, application of this ASU will not 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 ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. We are currently evaluating the potential impact of adopting the ASU 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. While most of the amendments are not expected to have a significant effect on practice, some of them could change practice for some entities. The amendments to transition guidance are effective for fiscal years beginning after December 15, 2015; all other changes are effective upon issuance of this ASU. We are currently evaluating the potential impact of this ASU on our consolidated financial statements.

### Business Combination Adjustments

In September of 2015, the FASB issued ASU 2015-16, Business Combinations, to eliminate the requirement to restate prior period financial statements for measurement period adjustments. This update requires the cumulative impact of a measurement period adjustment, including the impact on prior periods, to be recognized in the reporting period in which the adjustment is identified. The ASU is effective for fiscal years beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the potential impact of this ASU on our consolidated financial statements.

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

## 4. Finance Receivables

Our finance receivable types include personal loans, the SpringCastle Portfolio, 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 two to five years. At September 30, 2015, \$2.3 billion of personal loans, or 55%, were secured by collateral consisting of titled personal property (such as automobiles) and \$1.8 billion, or 45%, were secured by consumer household goods or other items of personal property or were unsecured.

SpringCastle Portfolio — are loans acquired through a joint venture in which we own a 47% equity interest (the “SpringCastle Portfolio”). These loans include unsecured loans and loans secured by subordinate residential real estate mortgages (which we service as unsecured loans due to the fact that the liens are subordinated to superior ranking security interests). The SpringCastle Portfolio includes both closed-end accounts and open-end lines of credit. These loans are in a liquidating status and vary in substance and form from our originated loans.

Table of Contents

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 September 30, 2015, \$209 million of real estate loans, or 38%, were secured by first mortgages and \$338 million, or 62%, were secured by second mortgages. 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.

Components of net finance receivables by type were as follows:

(dollars in millions)	Personal Loans	SpringCastle Portfolio	Real Estate Loans	Retail Sales Finance	Total
September 30, 2015					
Gross receivables *	\$4,763	\$1,635	\$543	\$30	\$6,971
Unearned finance charges and points and fees	(802)	) —	—	(3)	) (805)
Accrued finance charges	57	32	4	—	93
Deferred origination costs	43	—	—	—	43
Total	\$4,061	\$1,667	\$547	\$27	\$6,302
December 31, 2014					
Gross receivables *	\$4,493	\$1,941	\$621	\$52	\$7,107
Unearned finance charges and points and fees	(765)	) —	(1)	(5)	) (771)
Accrued finance charges	58	38	5	1	102
Deferred origination costs	45	—	—	—	45
Total	\$3,831	\$1,979	\$625	\$48	\$6,483

\*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 fair value;

finance receivables originated subsequent to the Fortress Acquisition (as defined in the Purchased Credit Impaired Finance Receivables section located in this Note) — 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. At September 30, 2015 and December 31, 2014, the carrying values of these finance receivables totaled \$2.1 billion and \$1.9 billion, respectively, for our personal loans and \$1.7 billion and \$2.0 billion, respectively, for our SpringCastle Portfolio loans.



Table of Contents

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

(dollars in millions)	September 30, 2015	December 31, 2014
Personal loans	\$2	\$1
SpringCastle Portfolio	366	354
Real estate loans	31	31
Total	\$399	\$386

Unused lines of credit on our personal loans can be suspended if one of the following occurs: (1) the value of the collateral declines significantly; (2) we believe the borrower will be unable to fulfill the repayment obligations; or (3) any other default by the borrower of any material obligation under the agreement occurs. Unused lines of credit on our real estate loans and the SpringCastle Portfolio secured by subordinate residential real estate mortgages can be suspended if one of the following occurs: (1) the value of the real estate declines significantly below the property's initial appraised value; (2) we believe the borrower will be unable to fulfill the repayment obligations because of a material change in the borrower's financial circumstances; or (3) any other default by the borrower of any material obligation under the agreement occurs. Unused lines of credit on home equity lines of credit, including the SpringCastle Portfolio secured by subordinate residential real estate mortgages, can be terminated for delinquency. Unused lines of credit on the unsecured loans of the SpringCastle Portfolio can be terminated at our discretion.

**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 September 30, 2015 and at December 31, 2014 were immaterial. Our personal loans, SpringCastle Portfolio, 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 by type and by days delinquent:

(dollars in millions)	Personal Loans	SpringCastle Portfolio	Real Estate Loans	Retail Sales Finance	Total
September 30, 2015					
Net finance receivables:					
60-89 days past due	\$48	\$24	\$16	\$1	\$89
90-119 days past due	36	15	4	—	55
120-149 days past due	29	11	3	—	43
150-179 days past due	24	9	2	—	35
180 days or more past due	2	1	12	—	15
Total delinquent finance receivables	139	60	37	1	237
Current	3,851	1,562	497	25	5,935
30-59 days past due	71	45	13	1	130
Total	\$4,061	\$1,667	\$547	\$27	\$6,302
December 31, 2014					
Net finance receivables:					
60-89 days past due	\$37	\$31	\$12	\$1	\$81
90-119 days past due	30	19	9	—	58
120-149 days past due	24	16	5	1	46
150-179 days past due	21	14	4	—	39
180 days or more past due	2	2	12	—	16
Total delinquent finance receivables	114	82	42	2	240
Current	3,661	1,839	565	45	6,110
30-59 days past due	56	58	18	1	133
Total	\$3,831	\$1,979	\$625	\$48	\$6,483

## Nonperforming Finance Receivables

We also monitor finance receivable performance trends to evaluate the potential risk of future credit losses. At 90 days or more past due, we consider our finance receivables to be nonperforming. Once the finance receivables are considered as nonperforming, we consider them to be at increased risk for credit loss.

Our performing and nonperforming net finance receivables by type were as follows:

(dollars in millions)	Personal Loans	SpringCastle Portfolio	Real Estate Loans	Retail Sales Finance	Total
September 30, 2015					
Performing	\$3,970	\$1,631	\$526	\$27	\$6,154
Nonperforming	91	36	21	—	148
Total	\$4,061	\$1,667	\$547	\$27	\$6,302
December 31, 2014					
Performing	\$3,754	\$1,928	\$595	\$47	\$6,324
Nonperforming	77	51	30	1	159
Total	\$3,831	\$1,979	\$625	\$48	\$6,483



Table of Contents

## PURCHASED CREDIT IMPAIRED FINANCE RECEIVABLES

In connection with a joint venture acquisition of the SpringCastle Portfolio (the “SCP Loans”) on April 1, 2013, SHI owns a 47% equity interest in the SCP Loans, certain of which were determined to be credit impaired on the date of purchase.

As a result of the significance of the ownership interest acquired by FCFI Acquisition LLC, an affiliate of Fortress (the “Fortress Acquisition”), we revalued our assets and liabilities based on their fair value at the date of the Fortress Acquisition, November 30, 2010, in accordance with business combination standards (“push-down accounting”) and adjusted the carrying value of our finance receivables (the “FA Loans”) to their fair value.

We report the carrying amount (which initially was the fair value) of our purchased credit impaired finance receivables in net finance receivables, less allowance for finance receivable losses or in finance receivables held for sale as discussed below.

At September 30, 2015 and December 31, 2014, finance receivables held for sale totaled \$797 million and \$205 million, respectively. See Note 6 for further information on our finance receivables held for sale, which consist of certain of our personal loans and non-core real estate loans. Finance receivables held for sale include purchased credit impaired finance receivables as well as TDR finance receivables. Therefore, we are presenting the financial information for our purchased credit impaired finance receivables and TDR finance receivables combined for finance receivables held for investment and finance receivables held for sale in the tables below.

Information regarding our purchased credit impaired finance receivables held for investment and held for sale were as follows:

(dollars in millions)	SCP Loans	FA Loans *	Total
September 30, 2015			
Carrying amount, net of allowance	\$251	\$86	\$337
Outstanding balance	515	139	654
Allowance for purchased credit impaired finance receivable losses	—	5	5
December 31, 2014			
Carrying amount, net of allowance	\$340	\$93	\$433
Outstanding balance	628	151	779
Allowance for purchased credit impaired finance receivable losses	—	5	5

\*Purchased credit impaired FA Loans held for sale included in the table above were as follows:

(dollars in millions)	FA Loans
September 30, 2015	
Carrying amount, net of allowance	\$62
Outstanding balance	91
December 31, 2014	
Carrying amount, net of allowance	\$68
Outstanding balance	99

The allowance for purchased credit impaired finance receivable losses at September 30, 2015 and December 31, 2014, reflected the net carrying value of the purchased credit impaired FA Loans being higher than the present value of the

expected cash flows.

Table of Contents

Changes in accretable yield for purchased credit impaired finance receivables held for investment and held for sale were as follows:

(dollars in millions)	SCP Loans	FA Loans	Total
<b>Three Months Ended September 30, 2015</b>			
Balance at beginning of period	\$474	\$13	\$487
Accretion (a)	(20)	) (3	) (23)
Disposals of finance receivables (b)	(7)	) —	) (7)
Balance at end of period	\$447	\$10	\$457
<b>Three Months Ended September 30, 2014</b>			
Balance at beginning of period	\$267	\$627	\$894
Accretion (a)	(16)	) (20	) (36)
Transfers due to finance receivables sold	—	(564	) (564)
Disposals of finance receivables (b)	(5)	) (4	) (9)
Balance at end of period	\$246	\$39	\$285
<b>Nine Months Ended September 30, 2015</b>			
Balance at beginning of period	\$541	\$19	\$560
Accretion (a)	(66)	) (8	) (74)
Disposals of finance receivables (b)	(28)	) (1	) (29)
Balance at end of period	\$447	\$10	\$457
<b>Nine Months Ended September 30, 2014</b>			
Balance at beginning of period	\$325	\$772	\$1,097
Accretion (a)	(53)	) (76	) (129)
Reclassifications to nonaccretable difference (c)	(1)	) —	) (1)
Transfers due to finance receivables sold	—	(642	) (642)
Disposals of finance receivables (b)	(25)	) (15	) (40)
Balance at end of period	\$246	\$39	\$285

(a) Accretion on our purchased credit impaired FA Loans held for sale included in the table above were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Accretion	\$2	\$11	\$5	\$11

(b) Disposals of finance receivables represent finance charges forfeited due to purchased credit impaired finance receivables charged off during the period.

(c) Reclassification to nonaccretable difference represents the decreases in accretion resulting from lower estimated undiscounted cash flows.

Table of Contents

## TROUBLED DEBT RESTRUCTURED FINANCE RECEIVABLES

Information regarding TDR finance receivables held for investment and held for sale were as follows:

(dollars in millions)	Personal Loans (a)	SpringCastle Portfolio	Real Estate Loans (a)	Total
September 30, 2015				
TDR gross finance receivables (b)	\$30	\$14	\$199	\$243
TDR net finance receivables	29	12	200	241
Allowance for TDR finance receivable losses	7	4	30	41
December 31, 2014				
TDR gross finance receivables (b)	\$22	\$11	\$196	\$229
TDR net finance receivables	22	10	196	228
Allowance for TDR finance receivable losses	1	3	32	36

(a) TDR finance receivables held for sale included in the table above were as follows:

(dollars in millions)	Personal Loans	Real Estate Loans	Total
September 30, 2015			
TDR gross finance receivables	\$2	\$92	\$94
TDR net finance receivables	2	92	94
December 31, 2014			
TDR gross finance receivables	\$—	\$91	\$91
TDR net finance receivables	—	91	91

(b) As defined earlier in this Note.

We have no commitments to lend additional funds on our TDR finance receivables.

TDR average net receivables held for investment and held for sale and finance charges recognized on TDR finance receivables held for investment and held for sale were as follows:

(dollars in millions)	Personal Loans	SpringCastle Portfolio	Real Estate Loans *	Total
Three Months Ended September 30, 2015				
TDR average net receivables	\$30	\$12	\$199	\$241
TDR finance charges recognized	—	1	2	3
Three Months Ended September 30, 2014				
TDR average net receivables	\$17	\$7	\$799	\$823
TDR finance charges recognized	—	—	10	10
Nine Months Ended September 30, 2015				
TDR average net receivables	\$28	\$12	\$197	\$237
TDR finance charges recognized	2	1	8	11

Edgar Filing: Springleaf Holdings, Inc. - Form 10-Q

Nine Months Ended September 30, 2014

TDR average net receivables	\$15	\$4	\$1,194	\$1,213
TDR finance charges recognized	1	—	45	46

18

---



Table of Contents

\*TDR finance receivables held for sale included in the table above were as follows:

(dollars in millions)	Real Estate Loans
Three Months Ended September 30, 2015	
TDR average net receivables	\$92
TDR finance charges recognized	2
Three Months Ended September 30, 2014	
TDR average net receivables	\$411
TDR finance charges recognized	3
Nine Months Ended September 30, 2015	
TDR average net receivables	\$91
TDR finance charges recognized	4
Nine Months Ended September 30, 2014	
TDR average net receivables	\$411
TDR finance charges recognized	3

Table of Contents

Information regarding the new volume of the TDR finance receivables held for investment and held for sale were as follows:

(dollars in millions)	Personal Loans (a)	SpringCastle Portfolio	Real Estate Loans (a)	Total
Three Months Ended September 30, 2015				
Pre-modification TDR net finance receivables	\$8	\$1	\$6	\$15
Post-modification TDR net finance receivables:				
Rate reduction	\$3	\$1	\$3	\$7
Other (b)	3	—	2	5
Total post-modification TDR net finance receivables	\$6	\$1	\$5	\$12
Number of TDR accounts	1,557	142	95	1,794
Three Months Ended September 30, 2014				
Pre-modification TDR net finance receivables	\$5	\$3	\$29	\$37
Post-modification TDR net finance receivables:				
Rate reduction	\$3	\$3	\$25	\$31
Other (b)	2	—	4	6
Total post-modification TDR net finance receivables	\$5	\$3	\$29	\$37
Number of TDR accounts	1,127	367	405	1,899
Nine Months Ended September 30, 2015				
Pre-modification TDR net finance receivables	\$24	\$5	\$16	\$45
Post-modification TDR net finance receivables:				
Rate reduction	\$11	\$5	\$12	\$28
Other (b)	9	—	4	13
Total post-modification TDR net finance receivables	\$20	\$5	\$16	\$41
Number of TDR accounts	4,900	550	272	5,722
Nine Months Ended September 30, 2014				
Pre-modification TDR net finance receivables	\$11	\$8	\$211	\$230
Post-modification TDR net finance receivables:				
Rate reduction	\$7	\$8	\$155	\$170
Other (b)	4	—	45	49
Total post-modification TDR net finance receivables	\$11	\$8	\$200	\$219
Number of TDR accounts	2,680	933	2,301	5,914

Table of Contents

(a) TDR finance receivables held for sale included in the table above were as follows:

(dollars in millions)	Personal Loans	Real Estate Loans	Total
Three Months Ended September 30, 2015			
Pre-modification TDR net finance receivables *	\$—	\$1	\$1
Post-modification TDR net finance receivables *	\$—	\$2	\$2
Number of TDR accounts	50	33	83
Three Months Ended September 30, 2014			
Pre-modification TDR net finance receivables	\$—	\$6	\$6
Post-modification TDR net finance receivables	\$—	\$7	\$7
Number of TDR accounts	—	89	89
Nine Months Ended September 30, 2015			
Pre-modification TDR net finance receivables *	\$—	\$4	\$4
Post-modification TDR net finance receivables *	\$—	\$5	\$5
Number of TDR accounts	50	77	127
Nine Months Ended September 30, 2014			
Pre-modification TDR net finance receivables	\$—	\$6	\$6
Post-modification TDR net finance receivables	\$—	\$7	\$7
Number of TDR accounts	—	89	89

\* Pre-modification and post-modification TDR personal loans held for sale for the three and nine months ended September 30, 2015 were less than \$1 million and, therefore, are not quantified in the table above.

(b) “Other” modifications include extension of term and forgiveness of principal or interest.

Net finance receivables held for investment and held for sale that were modified as TDR finance receivables within the previous 12 months and for which there was a default during the period to cause the TDR finance receivables to be considered nonperforming (90 days or more past due) were as follows:

(dollars in millions)	Personal Loans (a)	SpringCastle Portfolio	Real Estate Loans (a)	Total
Three Months Ended September 30, 2015				
TDR net finance receivables (b) (c)	\$1	\$—	\$1	\$2
Number of TDR accounts	343	26	9	378
Three Months Ended September 30, 2014				
TDR net finance receivables (b) (c)	\$—	\$—	\$2	\$2
Number of TDR accounts	42	12	54	108
Nine Months Ended September 30, 2015				
TDR net finance receivables (b)	\$3	\$1	\$2	\$6
Number of TDR accounts	857	122	35	1,014
Nine Months Ended September 30, 2014				

Edgar Filing: Springleaf Holdings, Inc. - Form 10-Q

TDR net finance receivables (b) (c)	\$—	\$—	\$31	\$31
Number of TDR accounts	74	12	488	574

21

---

Table of Contents

(a) TDR finance receivables held for sale included in the table above were as follows:

(dollars in millions)	Real Estate Loans
Three Months Ended September 30, 2015	
TDR net finance receivables *	\$—
Number of TDR accounts	1
Three Months Ended September 30, 2014	
TDR net finance receivables	\$2
Number of TDR accounts	30
Nine Months Ended September 30, 2015	
TDR net finance receivables	\$1
Number of TDR accounts	14
Nine Months Ended September 30, 2014	
TDR net finance receivables	\$2
Number of TDR accounts	30

\* TDR real estate loans held for sale for the three months ended September 30, 2015 that defaulted during the previous 12 month period were less than \$1 million and, therefore, are not quantified in the combined table above.

(b) Represents the corresponding balance of TDR net finance receivables at the end of the month in which they defaulted.

TDR personal loans and SpringCastle Portfolio loans for the three and nine months ended September 30, 2014 and (c) TDR SpringCastle Portfolio loans for the three months ended September 30, 2015 that defaulted during the previous 12 month period were less than \$1 million and, therefore, are not quantified in the combined table above.

Table of Contents

## 5. Allowance for Finance Receivable Losses

Changes in the allowance for finance receivable losses by finance receivable type were as follows:

(dollars in millions)	Personal Loans	SpringCastle Portfolio	Real Estate Loans	Retail Sales Finance	Consolidated Total	
Three Months Ended September 30, 2015						
Balance at beginning of period	\$141	\$3	\$35	\$1	\$180	
Provision for finance receivable losses	60	20	2	—	82	
Charge-offs	(57	) (22	) (4	) —	(83	)
Recoveries	10	3	2	—	15	
Reduction in the carrying value of personal loans transferred to finance receivables held for sale (a)	(1	) —	—	—	(1	)
Balance at end of period	\$153	\$4	\$35	\$1	\$193	
Three Months Ended September 30, 2014						
Balance at beginning of period	\$107	\$1	\$259	\$1	\$368	
Provision for finance receivable losses	58	29	15	1	103	
Charge-offs	(47	) (32	) (13	) (1	) (93	)
Recoveries	7	3	1	—	11	
Reduction in the carrying value of real estate loans transferred to finance receivables held for sale (b)	—	—	(225	) —	(225	)
Balance at end of period	\$125	\$1	\$37	\$1	\$164	
Nine Months Ended September 30, 2015						
Balance at beginning of period	\$132	\$3	\$40	\$1	\$176	
Provision for finance receivable losses	172	70	6	1	249	
Charge-offs	(178	) (78	) (15	) (2	) (273	)
Recoveries	28	9	4	1	42	
Reduction in the carrying value of personal loans transferred to finance receivables held for sale (a)	(1	) —	—	—	(1	)
Balance at end of period	\$153	\$4	\$35	\$1	\$193	
Nine Months Ended September 30, 2014						
Balance at beginning of period	\$95	\$1	\$235	\$2	\$333	
Provision for finance receivable losses	151	122	103	3	379	
Charge-offs	(139	) (133	) (67	) (4	) (343	)
Recoveries (c)	18	11	6	—	35	
Reduction in the carrying value of real estate loans transferred to finance receivables held for sale (b)	—	—	(240	) —	(240	)
Balance at end of period	\$125	\$1	\$37	\$1	\$164	

(a)

During the three and nine months ended September 30, 2015, we reduced the carrying value of certain personal loans to \$608 million as a result of the transfer of these finance receivables from finance receivables held for investment to finance receivables held for sale due to management's intent to no longer hold these finance receivables for the foreseeable future.

(b) During the three and nine months ended September 30, 2014, we reduced the carrying value of certain real estate loans to \$5.4 billion and \$6.7 billion, respectively, as a result of the transfer of these loans from finance receivables held for investment to finance receivables held for sale due to management's intent to no longer hold these finance receivables for the foreseeable future.

(c) Recoveries during the nine months ended September 30, 2014 included \$2 million of real estate loan recoveries resulting from a sale of previously charged-off real estate loans in March of 2014.

Table of Contents

Included in the allowance for finance receivable losses are allowances associated with securitizations that totaled \$131 million at September 30, 2015 and \$72 million at December 31, 2014. See Note 10 for further discussion regarding our securitization transactions.

The carrying value charged-off for purchased credit impaired loans was as follows:

(dollars in millions)	Three Months Ended September 30, 2015		2014		Nine Months Ended September 30, 2015		2014	
Charged-off against provision for finance receivable losses:								
SCP Loans	\$4		\$7		\$17		\$39	
FA Loans gross charge-offs *	—		2		1		15	

\* Represents additional impairment recognized, subsequent to the establishment of the pools of purchased credit impaired loans, related to loans that have been foreclosed and transferred to real estate owned status.

The allowance for finance receivable losses and net finance receivables by type and by impairment method were as follows:

(dollars in millions)	Personal Loans	SpringCastle Portfolio	Real Estate Loans	Retail Sales Finance	Total
September 30, 2015					
Allowance for finance receivable losses for finance receivables:					
Collectively evaluated for impairment	\$146	\$—	\$—	\$1	\$147
Acquired with deteriorated credit quality (purchased credit impaired finance receivables)	—	—	5	—	5
Individually evaluated for impairment (TDR finance receivables)	7	4	30	—	41
Total	\$153	\$4	\$35	\$1	\$193
Finance receivables:					
Collectively evaluated for impairment	\$4,034	\$1,404	\$410	\$27	\$5,875
Purchased credit impaired finance receivables	—	251	29	—	280
TDR finance receivables	27	12	108	—	147
Total	\$4,061	\$1,667	\$547	\$27	\$6,302
December 31, 2014					
Allowance for finance receivable losses for finance receivables:					
Collectively evaluated for impairment	\$131	\$—	\$3	\$1	\$135
Purchased credit impaired finance receivables	—	—	5	—	5
TDR finance receivables	1	3	32	—	36
Total	\$132	\$3	\$40	\$1	\$176



Edgar Filing: Springleaf Holdings, Inc. - Form 10-Q

Finance receivables:

Collectively evaluated for impairment	\$3,809	\$1,629	\$490	\$48	\$5,976
Purchased credit impaired finance receivables	—	340	30	—	370
TDR finance receivables	22	10	105	—	137
Total	\$3,831	\$1,979	\$625	\$48	\$6,483

Table of Contents

6. Finance Receivables Held for Sale

We report finance receivables held for sale of \$797 million at September 30, 2015 and \$205 million at December 31, 2014, which are carried at the lower of cost or fair value. At September 30, 2015 and December 31, 2014, the fair value of our finance receivables held for sale exceeded the cost. We used the aggregate basis to determine the lower of cost or fair value of the finance receivables held for sale. We also separately present the interest income on our finance receivables held for sale as interest income on finance receivables held for sale originated as held for investment on our condensed consolidated statements of operations, which totaled \$4 million and \$13 million for the three and nine months ended September 30, 2015, respectively, compared to \$48 million and \$55 million for the three and nine months ended September 30, 2014, respectively.

On September 30, 2015, we transferred \$608 million of personal loans (after deducting allowance for finance receivable losses) from held for investment to held for sale due to management's intent to no longer hold these finance receivables for the foreseeable future. See Note 2 for further information on this transfer.

During the three and nine months ended September 30, 2014, we transferred real estate loans totaling \$5.4 billion and \$6.7 billion, respectively, (after deducting allowance for finance receivable losses) from held for investment to held for sale due to management's intent to no longer hold these finance receivables for the foreseeable future. During the three and nine months ended September 30, 2014, we sold the finance receivables held for sale totaling \$4.8 billion and \$6.1 billion, respectively, and recorded net gains of \$641 million and \$731 million, respectively. At September 30, 2015, these real estate loans held for sale totaled \$189 million.

Table of Contents

## 7. Investment Securities

## AVAILABLE-FOR-SALE SECURITIES

Cost/amortized cost, unrealized gains and losses, and fair value of available-for-sale securities by type were as follows:

(dollars in millions)	Cost/ Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2015				
Fixed maturity available-for-sale securities:				
Bonds:				
U.S. government and government sponsored entities	\$69	\$—	\$(1	) \$68
Obligations of states, municipalities, and political subdivisions	83	1	—	84
Corporate debt	248	3	(6	) 245
Mortgage-backed, asset-backed, and collateralized:				
Residential mortgage-backed securities (“RMBS”)	79	—	—	79
Commercial mortgage-backed securities (“CMBS”)	39	—	—	39
Collateralized debt obligations (“CDO”)/Asset-backed securities (“ABS”)	32	—	—	32
Total bonds	550	4	(7	) 547
Preferred stock	16	—	—	16
Other long-term investments	1	—	—	1
Total (a)	\$567	\$4	\$(7	) \$564

## December 31, 2014

Fixed maturity available-for-sale securities:

Bonds:

U.S. government and government sponsored entities	\$61	\$3	\$—	\$64
Obligations of states, municipalities, and political subdivisions	99	3	—	102
Certificates of deposit and commercial paper (b)	3	—	—	3
Corporate debt	256	12	(1	) 267
Mortgage-backed, asset-backed, and collateralized:				
RMBS	71	2	—	73
CMBS	25	—	(1	) 24
CDO/ABS	63	—	—	63
Total bonds	578	20	(2	) 596
Preferred stock	7	—	—	7
Other long-term investments	1	—	—	1
Total (a)	\$586	\$20	\$(2	) \$604

Excludes an immaterial interest in a limited partnership that we account for using the equity method and Federal (a)Home Loan Bank common stock of \$1 million at September 30, 2015 and December 31, 2014, which is classified as a restricted investment and carried at cost.

(b) Includes certificates of deposit pledged as collateral, totaling \$2 million at December 31, 2014, primarily to support bank lines of credit.

As of September 30, 2015 and December 31, 2014, we had no available-for-sale securities with other-than-temporary impairments recognized in accumulated other comprehensive income or loss.

Table of Contents

Fair value and unrealized losses on available-for-sale securities by type and length of time in a continuous unrealized loss position were as follows:

(dollars in millions)	Less Than 12 Months Fair Value	Unrealized Losses *	12 Months or Longer Fair Value	Unrealized Losses *	Total Fair Value	Unrealized Losses
September 30, 2015						
Bonds:						
U.S. government and government sponsored entities	\$51	\$(1 )	\$—	\$—	\$51	\$(1 )
Obligations of states, municipalities, and political subdivisions	15	—	11	—	26	—
Corporate debt	107	(6 )	14	—	121	(6 )
RMBS	8	—	—	—	8	—
CMBS	19	—	7	—	26	—
CDO/ABS	16	—	—	—	16	—
Total bonds	216	(7 )	32	—	248	(7 )
Preferred stock	6	—	—	—	6	—
Other long-term investments	1	—	—	—	1	—
Total	\$223	\$(7 )	\$32	\$—	\$255	\$(7 )
December 31, 2014						
Bonds:						
U.S. government and government sponsored entities	\$—	\$—	\$1	\$—	\$1	\$—
Obligations of states, municipalities, and political subdivisions	27	—	1	—	28	—
Corporate debt	36	(1 )	6	—	42	(1 )
RMBS	9	—	—	—	9	—
CMBS	16	(1 )	2	—	18	(1 )
CDO/ABS	46	—	—	—	46	—
Total bonds	134	(2 )	10	—	144	(2 )
Preferred stock	6	—	—	—	6	—
Total	\$140	\$(2 )	\$10	\$—	\$150	\$(2 )

\* Unrealized losses on certain available-for-sale securities were less than \$1 million and, therefore, are not quantified in the table above.

We continue to monitor unrealized loss positions for potential impairments. During the three and nine months ended September 30, 2015 and 2014, we did not recognize any other-than-temporary impairment credit loss write-downs to investment revenues.

During the three and nine months ended September 30, 2015 and 2014, there were no additions or reductions in the cumulative amount of credit losses (recognized in earnings) on other-than-temporarily impaired available-for-sale securities.

Table of Contents

The fair values of available-for-sale securities sold or redeemed and the resulting realized gains, realized losses, and net realized gains were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Fair value	\$ 168	\$ 108	\$ 374	\$ 215
Realized gains	\$ 4	\$ 5	\$ 15	\$ 7
Realized losses	—	—	(1	) —
Net realized gains	\$ 4	\$ 5	\$ 14	\$ 7

Contractual maturities of fixed-maturity available-for-sale securities at September 30, 2015 were as follows:

(dollars in millions)	Fair Value	Amortized Cost
Fixed maturities, excluding mortgage-backed, asset-backed, and collateralized securities:		
Due in 1 year or less	\$ 72	\$ 72
Due after 1 year through 5 years	150	150
Due after 5 years through 10 years	57	57
Due after 10 years	118	121
Mortgage-backed, asset-backed, and collateralized securities	150	150
Total	\$ 547	\$ 550

Actual maturities may differ from contractual maturities since borrowers may have the right to call or prepay obligations. We may sell investment securities before maturity to achieve corporate requirements and investment strategies.

The fair value of bonds on deposit with insurance regulatory authorities totaled \$11 million and \$12 million at September 30, 2015 and December 31, 2014, respectively.

**TRADING SECURITIES**

The fair value of trading securities by type was as follows:

(dollars in millions)	September 30, 2015	December 31, 2014
Fixed maturity trading securities:		
Bonds:		
U.S. government and government sponsored entities	\$ 783	\$ 303
Obligations of states, municipalities, and political subdivisions	—	14
Certificates of deposit and commercial paper	—	238
Non-U.S. government and government sponsored entities	—	20
Corporate debt	196	1,056
Mortgage-backed, asset-backed, and collateralized:		
RMBS	2	36
CMBS	45	151
CDO/ABS	151	512

Total	\$1,177	\$2,330
-------	---------	---------

28

---

Table of Contents

The net unrealized and realized gains (losses) on our trading securities, which we report in investment revenues, were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Net unrealized gains (losses) on trading securities held at period end	\$(1	) \$(2	) \$3	\$(1	)
Net realized losses on trading securities sold or redeemed	(1	) —	(2	) —	
Total	\$(2	) \$(2	) \$1	\$(1	)

## 8. Transactions with Affiliates of Fortress or AIG

## SUBSERVICING AGREEMENT

Nationstar Mortgage LLC (“Nationstar”) subservices the real estate loans of certain indirect subsidiaries (collectively, the “Owners”). Investment funds managed by affiliates of Fortress indirectly own a majority interest in Nationstar. The Owners paid Nationstar subservicing fees of less than \$1 million for the three months ended September 30, 2015, and \$1 million for the nine months ended September 30, 2015, compared to \$1 million and \$5 million for the three and nine months ended September 30, 2014, respectively.

As a result of the sales of our real estate loans during 2014 (some of which were serviced by Nationstar) and the sale of certain mortgage servicing rights in 2014, our exposure to these affiliated services is reduced.

## INVESTMENT MANAGEMENT AGREEMENT

Logan Circle Partners, L.P. (“Logan Circle”) provides investment management services for our investments. Logan Circle is a wholly owned subsidiary of Fortress. Costs and fees incurred for these investment management services were under \$1 million for the three months ended September 30, 2015 and 2014, and \$1 million for the nine months ended September 30, 2015 and 2014.

## REINSURANCE AGREEMENTS

Merit Life Insurance Co. (“Merit”), our indirect wholly owned subsidiary, enters into reinsurance agreements with subsidiaries of AIG, for reinsurance of various group annuity, credit life, and credit accident and health insurance where Merit reinsures the risk of loss. The reserves for this business fluctuate over time and, in some instances, are subject to recapture by the insurer. Reserves recorded by Merit for reinsurance agreements with subsidiaries of AIG totaled \$43 million and \$44 million at September 30, 2015 and December 31, 2014, respectively.

## INSURANCE COVERAGE

We hold various insurance policies with AIG subsidiaries covering liabilities of directors and officers, errors and omissions, lawyers, employment practices, fiduciary, and fidelity bond. Premium expenses on these policies were under \$1 million for the three months ended September 30, 2015 and 2014 and \$1 million for the nine months ended September 30, 2015 and 2014.

## JOINT VENTURE



Certain subsidiaries of New Residential Investment Corp. (“NRZ”), own a 30% equity interest in the joint venture that acquired the SpringCastle Portfolio, in which we own a 47% equity interest. NRZ is managed by an affiliate of Fortress.

#### THIRD STREET DISPOSITION

On March 6, 2014, we entered into an agreement to sell, subject to certain closing conditions, all of our interest in the mortgage-backed retained certificates related to a securitization transaction completed in 2009 to Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPFS”). Concurrently, NRZ and MLPFS entered into an agreement pursuant to which NRZ agreed to purchase approximately 75% of these retained certificates. NRZ is managed by an affiliate of Fortress.

Table of Contents

## MSR SALE

SFC and MorEquity, Inc. (“MorEquity”), a wholly owned subsidiary of SFC, entered into an agreement, dated and effective August 1, 2014, to sell the servicing rights of the mortgage loans primarily underlying the mortgage securitizations completed during 2011 through 2013 to Nationstar for a purchase price of \$39 million (the “MSR Sale”). From the closing of the MSR Sale on August 29, 2014, until the servicing transfer on September 30, 2014, we continued to service certain loans on behalf of Nationstar under an interim servicing agreement. At December 31, 2014, the receivable from Nationstar for our interim servicing fees totaled \$1 million. In May of 2015, Nationstar paid off the remaining balance of \$1 million of this receivable. Investment funds managed by affiliates of Fortress indirectly own a majority interest in Nationstar.

## 9. Long-term Debt

Principal maturities of long-term debt (excluding projected securitization repayments by period) by type of debt at September 30, 2015 were as follows:

(dollars in millions)	Medium Term Notes	Securitizations	Junior Subordinated Debt	Total
Interest rates (a)	5.25%-8.25%	1.87%-6.82%	6.00	%
Fourth quarter 2015	\$750	\$—	\$—	\$750
First quarter 2016	—	—	—	—
Second quarter 2016	—	—	—	—
Third quarter 2016	375	—	—	375
Remainder of 2016	—	—	—	—
2017	1,902	—	—	1,902
2018	—	—	—	—
2019	700	—	—	700
2020-2067	1,250	—	350	1,600
Securitizations (b)	—	4,784	—	4,784
Total principal maturities	\$4,977	\$4,784	\$350	\$10,111
Total carrying amount (c)	\$4,613	\$4,771	\$171	\$9,555
Debt issuance costs (d)	\$(13	) \$(17	) \$—	\$(30 )

(a) The interest rates shown are the range of contractual rates in effect at September 30, 2015.

(b) Securitizations are not included in above maturities by period due to their variable monthly repayments. See Note 10 for further information on our long-term debt associated with securitizations.

The net carrying amount of our long-term debt associated with certain securitizations that were either (1) issued at a premium or discount or (2) revalued at a premium or discount based on its fair value at the time of the Fortress Acquisition or (3) recorded at fair value on a recurring basis in circumstances when the embedded derivative within the securitization structure cannot be separately accounted for at fair value.

(d) As a result of our early adoption of ASU 2015-03 in June of 2015, we report debt issuance costs as a direct deduction from long-term debt.

## GUARANTY AGREEMENTS

On December 3, 2014, SHI entered into an Indenture and First Supplemental Indenture pursuant to which it agreed to fully and unconditionally guarantee the payments of principal, premium (if any) and interest on \$700 million of 5.25% of Senior Notes due 2019 issued by SFC. As of September 30, 2015, approximately \$700 million aggregate principal amount of senior notes were outstanding.

## Table of Contents

On December 30, 2013, SHI entered into Guaranty Agreements whereby it agreed to fully and unconditionally guarantee the payments of principal, premium (if any), and interest on approximately \$5.2 billion aggregate principal amount of senior notes on a senior basis and \$350 million aggregate principal amount of a junior subordinated debenture (collectively, the “notes”) on a junior subordinated basis issued by SFC. The notes consist of the following: 8.25% Senior Notes due 2023; 7.75% Senior Notes due 2021; 6.00% Senior Notes due 2020; a 60-year junior subordinated debenture; and all senior notes outstanding on December 30, 2013, issued pursuant to the Indenture dated as of May 1, 1999 (the “1999 Indenture”), between SFC and Wilmington Trust, National Association (the successor trustee to Citibank N.A.). The 60-year junior subordinated debenture underlies the trust preferred securities sold by a trust sponsored by SFC. On December 30, 2013, SHI entered into a Trust Guaranty Agreement whereby it agreed to fully and unconditionally guarantee the related payment obligations under the trust preferred securities. As of September 30, 2015, approximately \$5.0 billion aggregate principal amount of senior notes, including \$3.0 billion aggregate principal amount of senior notes under the 1999 Indenture, and \$350 million aggregate principal amount of a junior subordinated debenture were outstanding.

### 10. Variable Interest Entities

As part of our overall funding strategy and as part of our efforts to support our liquidity from sources other than our traditional capital market sources, we have transferred certain finance receivables to VIEs for securitization transactions. Since these transactions involve securitization trusts required to be consolidated, the securitized assets and related liabilities are included in our condensed consolidated financial statements and are accounted for as secured borrowings. As a result of the 2014 sales of the Company’s beneficial interests in the mortgage-backed retained certificates related to its previous mortgage securitization transactions, we deconsolidated the underlying real estate loans and previously issued securitized interests which were reported in long-term debt.

### CONSOLIDATED VIES

We evaluated the securitization trusts and determined that these entities are VIEs of which we are the primary beneficiary, and, therefore, we consolidated such entities. We are deemed to be the primary beneficiaries of these VIEs because we have the ability to direct the activities of each VIE that most significantly impact the entity’s economic performance and the obligation to absorb losses and the right to receive benefits that are potentially significant to the VIE. Such ability stems from SHI’s and/or its affiliates’ contractual right to service the securitized finance receivables. Our retained subordinated notes and residual interest trust certificates expose us to potentially significant losses and potentially significant returns.

The asset-backed securities issued by the securitization trusts are supported by the expected cash flows from the underlying securitized finance receivables. Cash inflows from these finance receivables are distributed to investors and service providers in accordance with each transaction’s contractual priority of payments (“waterfall”) and, as such, most of these inflows must be directed first to service and repay each trust’s senior notes or certificates held principally by third-party investors. The holders of the asset-backed securities have no recourse to the Company if the cash flows from the underlying qualified securitized assets are not sufficient to pay all principal and interest on the asset-backed securities. After these senior obligations are extinguished, substantially all cash inflows will be directed to the subordinated notes until fully repaid and, thereafter, to the residual interest that we own in each securitization trust. We retain interests in these securitization transactions, including residual interests in each securitization trust and, in some cases, subordinated securities issued by the VIEs. We retain credit risk in the securitizations through our ownership of the residual interest in each securitization trust, and, in some cases, ownership of the most subordinated class of asset-backed securities, which are the first to absorb credit losses on the securitized assets. We expect that any credit losses in the pools of securitized assets will likely be limited to our subordinated and residual retained interests. We have no obligation to repurchase or replace qualified securitized assets that subsequently become delinquent or are otherwise in default.



Table of Contents

The carrying amounts of consolidated VIE assets and liabilities associated with our securitization trusts were as follows:

(dollars in millions)	September 30, 2015	December 31, 2014
Assets		
Finance receivables:		
Personal loans	\$2,096	\$1,853
SpringCastle Portfolio	1,667	1,979
Allowance for finance receivable losses	131	72
Finance receivables held for sale	484	—
Restricted cash and cash equivalents	256	210
Liabilities		
Long-term debt *	\$4,771	\$3,630

As a result of our early adoption of ASU 2015-03 in June of 2015, we reclassified \$14 million of debt issuance costs \*related to our long-term debt associated with our securitizations as of December 31, 2014, from other assets to long-term debt.

#### Amendment to Sumner Brook 2013-VFN1 Securitization

On January 16, 2015, we amended the note purchase agreement with Sumner Brook Funding Trust 2013-VFN1 to extend the two-year revolving period ending December of 2015 to a three-year revolving period ending January of 2018. Following the revolving period, the principal amount of the notes, if any, will be reduced as cash payments are received on the underlying personal loans and will be due and payable in full in August of 2024. The maximum principal balance of variable funding notes that can be issued remained at \$350 million. At September 30, 2015, no amounts were drawn under the notes.

#### 2015-A Securitization

On February 26, 2015, we completed a private term securitization transaction in which a wholly owned special purpose vehicle of SFC sold \$1.2 billion of notes issued by Springleaf Funding Trust 2015-A at a 3.58% weighted average yield. The notes are backed by personal loans acquired from subsidiaries of SFC. We sold the asset-backed notes for \$1.2 billion, after the price discount but before expenses and a \$12 million interest reserve requirement.

#### Sale of SpringCastle 2014-A Notes

On March 9, 2015, Springleaf Acquisition Corporation (“SAC”) agreed to sell \$232 million and \$131 million principal amount of the previously retained Class C and Class D SpringCastle 2014-A Notes, respectively, to an unaffiliated third party at a premium to the principal balance. The sale was completed on March 16, 2015.

#### Amendments to Whitford Brook 2014-VFN1 Securitization

On March 24, 2015, we amended the sale and servicing agreement relating to the Whitford Brook Funding Trust 2014-VFN1 (the “Whitford Brook 2014-VFN1 Trust”) to remove the requirement for a \$100 million minimum balance drawn under the variable funding notes, which are to be backed by personal loans acquired from subsidiaries of SFC from time to time. On March 25, 2015, we paid down the note balance of \$100 million.

On June 3, 2015, we amended the note purchase agreement relating to the Whitford Brook 2014-VFN1 Trust to reduce the \$300 million maximum principal balance to \$250 million. On July 15, 2015, we drew \$100 million under the notes, which remained drawn as of September 30, 2015.

#### 2015-B Securitization

On April 7, 2015, we completed a private term securitization transaction in which a wholly owned special purpose vehicle of SFC sold \$314 million of notes issued by Springleaf Funding Trust 2015-B at a 3.84% weighted average yield. The notes are backed by personal loans acquired from subsidiaries of SFC. We sold the asset-backed notes for \$314 million, after the price discount but before expenses and a \$3 million interest reserve requirement.

## Table of Contents

### Amendment to Springleaf 2013-VFN1 Securitization

On May 20, 2015, we amended the note purchase agreement with Springleaf Funding Trust 2013-VFN1 to, among other things, extend the original two-year revolving period ending October of 2015 to a two-year revolving period ending April of 2017, which may be extended for up to one additional year, subject to satisfaction of customary conditions precedent. During the revolving period, the notes can be paid down in whole or in part and then redrawn. Following the revolving period, the principal amount of the notes, if any, will be reduced as cash payments are received on the underlying personal loans and will be due and payable in full in May of 2020. The maximum amount that can be drawn under the notes remained at \$350 million. At September 30, 2015, no amounts were drawn under the notes.

### Mill River 2015-VFN1 Securitization

On May 27, 2015, we established a private securitization facility in which Mill River Funding Trust 2015-VFN1, a wholly owned special purpose vehicle of SFC, issued variable funding notes with a maximum principal balance of \$400 million to be backed by personal loans acquired from subsidiaries of SFC from time to time. No amounts were funded at closing, but may be funded from time to time over a three-year revolving period, subject to the satisfaction of customary conditions precedent. During the revolving period, the notes can be paid down in whole or in part and then redrawn. Following the revolving period, the principal amount of the notes, if any, will be reduced as cash payments are received on the underlying personal loans and will be due and payable in full in June of 2021. At September 30, 2015, no amounts were drawn under the notes.

### Second Avenue Funding LLC Securitization

On June 3, 2015, we established a private securitization facility in which Second Avenue Funding LLC, a wholly owned special purpose vehicle of SFC, issued variable funding notes with a maximum principal balance of \$250 million to be backed by auto loans acquired from subsidiaries of SFC. No amounts were funded at closing, but may be funded from time to time over a three-year revolving period, subject to the satisfaction of customary conditions precedent. During the revolving period, the notes can be paid down in whole or in part and then redrawn. Following the three-year revolving period, the principal amount of the notes, if any, will be reduced as cash payments are received on the underlying auto loans and will be due and payable in full in June of 2019. At September 30, 2015, no amounts were drawn under the notes.

### First Avenue Funding LLC Securitization

On June 10, 2015, we established a private securitization facility in which First Avenue Funding LLC ("First Avenue"), a wholly owned special purpose vehicle of SFC, issued variable funding notes with a maximum principal balance of \$250 million to be backed by auto loans acquired from subsidiaries of SFC. No amounts were funded at closing, but may be funded from time to time over a two-year revolving period, subject to the satisfaction of customary conditions precedent. On September 9, 2015, First Avenue amended the facility to extend the revolving period until September 10, 2017. During the revolving period, the notes can be paid down in whole or in part and then redrawn. Following the two-year revolving period, the principal amount of the notes, if any, will be reduced as cash payments are received on the underlying auto loans and will be due and payable in full twelve months following the maturity of the last auto loan held by First Avenue. At September 30, 2015, no amounts were drawn under the notes.

### VIE Interest Expense

Other than our retained subordinate and residual interests in the remaining consolidated securitization trusts, we are under no obligation, either contractually or implicitly, to provide financial support to these entities. Consolidated



interest expense related to our VIEs for the three and nine months ended September 30, 2015 totaled \$49 million and \$136 million, respectively, compared to \$51 million and \$180 million for the three and nine months ended September 30, 2014, respectively.

#### DECONSOLIDATED VIES

As a result of the sales of the mortgage-backed retained certificates during 2014, we deconsolidated the securitization trusts holding the underlying real estate loans and previously issued securitized interests which were reported in long-term debt. The total carrying value of these real estate loans as of the sale dates was \$5.2 billion. During 2014, we established a reserve for sales recourse obligations of \$7 million related to these sales. At September 30, 2015, this reserve totaled \$7 million. We had no repurchase activity associated with these sales as of September 30, 2015. See Note 14 for further information on the total reserve for sales recourse obligations relating to the real estate loan sales, including the sales of the mortgage-backed retained certificates.

Table of Contents

## 11. Earnings (Loss) Per Share

The computation of earnings (loss) per share was as follows:

(dollars in millions except earnings (loss) per share)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Numerator (basic and diluted):				
Net income (loss) attributable to Springleaf Holdings, Inc.	\$ (11	) \$ 427	\$ (23	) \$ 551
Denominator:				
Weighted average number of shares outstanding (basic)	134,452,763	114,788,439	125,701,635	114,788,439
Effect of dilutive securities *	—	527,875	—	423,959
Weighted average number of shares outstanding (diluted)	134,452,763	115,316,314	125,701,635	115,212,398
Earnings (loss) per share:				
Basic	\$ (0.08	) \$ 3.72	\$ (0.18	) \$ 4.80
Diluted	\$ (0.08	) \$ 3.70	\$ (0.18	) \$ 4.79

We have excluded the following shares in the diluted loss per share calculation for the three and nine months ended \*September 30, 2015 because these shares would be anti-dilutive, which could impact the earnings per share calculation in the future:

•593,331 performance shares and 521,127 service shares for the three months ended September 30, 2015; and  
 •593,068 performance shares and 472,259 service shares for the nine months ended September 30, 2015.

Basic earnings (loss) per share is computed by dividing net income or loss by the weighted-average number of shares outstanding during each period. Diluted earnings (loss) per share is computed based on the weighted-average number of common shares plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares represent outstanding unvested restricted stock units (“RSUs”) and awards.

Table of Contents

## 12. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) were as follows:

(dollars in millions)	Unrealized Gains Investment Securities	Retirement Plan Liabilities Adjustments	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income (Loss)
Three Months Ended September 30, 2015				
Balance at beginning of period	\$2	\$(13	) \$4	\$(7 )
Other comprehensive loss before reclassifications	(2	) —	—	(2 )
Reclassification adjustments from accumulated other comprehensive income (loss)	(2	) —	—	(2 )
Balance at end of period	\$(2	) \$(13	) \$4	\$(11 )
Three Months Ended September 30, 2014				
Balance at beginning of period	\$14	\$20	\$4	\$38
Other comprehensive loss before reclassifications	(2	) —	—	(2 )
Reclassification adjustments from accumulated other comprehensive income	(2	) —	—	(2 )
Balance at end of period	\$10	\$20	\$4	\$34
Nine Months Ended September 30, 2015				
Balance at beginning of period	\$12	\$(13	) \$4	\$3
Other comprehensive loss before reclassifications	(5	) —	—	(5 )
Reclassification adjustments from accumulated other comprehensive income (loss)	(9	) —	—	(9 )
Balance at end of period	\$(2	) \$(13	) \$4	\$(11 )
Nine Months Ended September 30, 2014				
Balance at beginning of period	\$4	\$20	\$4	\$28
Other comprehensive income before reclassifications	10	—	—	10
Reclassification adjustments from accumulated other comprehensive income	(4	) —	—	(4 )
Balance at end of period	\$10	\$20	\$4	\$34

Reclassification adjustments from accumulated other comprehensive income (loss) to the applicable line item on our condensed consolidated statements of operations were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Unrealized gains on investment securities:				
Reclassification from accumulated other comprehensive income (loss) to investment revenues, before taxes	\$4	\$3	\$14	\$6
Income tax effect	(2	) (1	) (5	) (2
Reclassification from accumulated other comprehensive income (loss) to investment revenues, net of taxes	\$2	\$2	\$9	\$4



## Table of Contents

### 13. Income Taxes

At September 30, 2015, we had a net deferred tax liability of \$131 million, compared to \$148 million at December 31, 2014. The decrease in the net deferred tax liability was primarily due to purchase accounting for debt writedown. This decrease was partially offset by a change in our tax accounting method for the valuation of certain assets of one of our subsidiaries, which was approved by the Internal Revenue Service (the “IRS”) in August of 2015. The impact to our uncertain tax positions was immaterial.

The effective tax rate for the nine months ended September 30, 2015 was 1.2% compared to 32.8% for the same period in 2014. The effective tax rates for the nine months ended September 30, 2015 and 2014 differed from the federal statutory rates primarily due to the effect of the non-controlling interest in our joint venture.

We are currently under examination of our U.S. Federal tax return for the year 2013 by the IRS. Management believes it has adequately provided for taxes for such year.

### 14. Contingencies

#### LEGAL CONTINGENCIES

In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation arising in connection with its activities. Some of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. While we will continue to identify certain legal actions where we believe a material loss to be reasonably possible and reasonably estimable, there can be no assurance that material losses will not be incurred from claims that we have not yet been notified of or are not yet determined to be probable or reasonably possible and reasonably estimable.

We contest liability and/or the amount of damages, as appropriate, in each pending matter. Where available information indicates that it is probable that a liability had been incurred at the date of the condensed consolidated financial statements and we can reasonably estimate the amount of that loss, we accrue the estimated loss by a charge to income. In many actions, however, it is inherently difficult to determine whether any loss is probable or even reasonably possible or to estimate the amount of any loss. In addition, even where loss is reasonably possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal actions, we cannot reasonably estimate such losses, particularly for actions that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the actions in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any given action.

For certain other legal actions, we can estimate reasonably possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued, but do not believe, based on current knowledge and after consultation with counsel, that such losses will have a material adverse effect on our condensed consolidated financial statements as a whole.

#### SALES RECOURSE OBLIGATIONS

During 2014, we established a reserve for sales recourse obligations of \$23 million related to the real estate loan sales. At September 30, 2015, our reserve for sales recourse obligations totaled \$18 million, of which \$18 million related to the real estate loan sales in 2014. We had no repurchase activity during the three months ended September 30, 2015. We repurchased 13 loans totaling \$1 million for the nine months ended September 30, 2015 associated with the real estate loan sales in 2014. There was no repurchase activity associated with the real estate loan sales in 2014 during the three and nine months ended September 30, 2014. We repurchased 4 loans totaling \$1 million during the three months ended September 30, 2014 and 9 loans totaling \$2 million during the nine months ended September 30, 2014 associated with other prior sales of finance receivables because these loans were reaching the defined delinquency limits or had breached the contractual representations and warranties under the loan sale agreements. At September 30, 2015, there were no material recourse requests that management believes will not be covered by the reserve.

Table of Contents

The activity in our reserve for sales recourse obligations associated with the real estate loan sales during 2014 and other prior sales of finance receivables was as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Balance at beginning of period	\$18	\$5	\$24	\$5
Recourse losses	—	—	(5	) —
Provision for recourse obligations, net of recoveries *	—	8	(1	) 8
Balance at end of period	\$18	\$13	\$18	\$13

\*Reflects the elimination of the reserve associated with other prior sales of finance receivables.

It is inherently difficult to determine whether any recourse losses are probable or even reasonably possible or to estimate the amounts of any losses. In addition, even where recourse losses are reasonably possible or exposure to such losses exists in excess of the liability already accrued, it is not always possible to reasonably estimate the size of the possible recourse losses or range of losses.

#### PAYMENT PROTECTION INSURANCE

Our United Kingdom subsidiary provides payments of compensation to its customers who have made claims concerning Payment Protection Insurance (“PPI”) policies sold in the normal course of business by insurance intermediaries. On April 20, 2011, the High Court in the United Kingdom handed down judgment supporting the Financial Services Authority (now known as the Financial Conduct Authority) (“FCA”) guidelines on the treatment of PPI complaints. In addition, the FCA issued a guidance consultation paper in March of 2012 on the PPI customer contact letters. As a result, we have concluded that there are certain circumstances where customer contact and/or redress is appropriate; therefore, this activity is ongoing. The total reserves related to the estimated PPI claims were \$8 million at September 30, 2015 and \$14 million at December 31, 2014. We do not believe that any additional losses related to PPI claims in excess of the amounts accrued will have a material adverse effect on our condensed consolidated financial statements as a whole.

#### STOCK PURCHASE AGREEMENT

As discussed in Note 2, on March 2, 2015, SHI entered into a Stock Purchase Agreement with Citigroup to acquire OneMain for an aggregate purchase price of \$4.25 billion. Under the Stock Purchase Agreement, we are required to take all action necessary to resolve any objection that antitrust enforcement authorities may assert with respect to the Proposed Acquisition. If the Stock Purchase Agreement is terminated as a result of the failure to obtain antitrust approvals, we will be required to pay Citigroup a termination fee of \$213 million. There can be no assurance that the Proposed Acquisition will close or, if it does, when the actual closing will occur.

#### 15. Benefit Plans

The following table presents the components of net periodic benefit cost with respect to our defined benefit pension plans:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014

Pension

Components of net periodic benefit cost:

Interest cost	\$4	\$3	\$12	\$11
Expected return on assets	(5	) (4	) (14	) (12
Net periodic benefit cost	\$(1	) \$(1	) \$(2	) \$(1

The components of net periodic benefit cost with respect to our post retirement plan were less than \$1 million for the three and nine months ended September 30, 2015 and 2014 and, therefore, were not included in the table above.



## Table of Contents

### 16. Segment Information

Our segments coincide with how our businesses are managed. At September 30, 2015, our three segments include:

Consumer and Insurance;  
Acquisitions and Servicing; and  
Real Estate.

When we initially defined our operating segments in early 2013, we presented Consumer and Insurance as two distinct reporting segments. However, over the course of 2013 and into 2014, management has shifted its strategy for the Insurance segment toward organic growth primarily as an ancillary product complementing our consumer lending activities and has been increasingly viewing and managing the Insurance segment together with Consumer. As a result of the changes in strategy and the way that management views the insurance business of the Company, we began presenting them as one segment, effective December 31, 2014. To conform to the new segment alignment, we have revised our prior period segment disclosures.

Management considers Consumer and Insurance, and Acquisitions and Servicing as our “Core Consumer Operations” and Real Estate as our “Non-Core Portfolio.”

Our segments are managed as follows:

#### Core Consumer Operations

**Consumer and Insurance** — We originate and service personal loans (secured and unsecured) through two business divisions: branch operations and centralized operations and offer credit insurance (life insurance, accident and health insurance, and involuntary unemployment insurance), non-credit insurance, and ancillary products, such as warranty protection. Branch operations primarily conduct business in 27 states, which are our core operating states. Our centralized operations underwrite and process certain loan applications that we receive from our branch operations or through an internet portal. If the applicant is located near an existing branch (“in footprint”), our centralized operations make the credit decision regarding the application and then request, but do not require, the customer to visit a nearby branch for closing, funding and servicing. If the applicant is not located near a branch (“out of footprint”), our centralized operations originate the loan.

**Acquisitions and Servicing** — We service the SpringCastle Portfolio that we acquired through a joint venture in which we own a 47% equity interest. The SpringCastle Portfolio consists of unsecured loans and loans secured by subordinate residential real estate mortgages (which we service as unsecured loans due to the fact that the liens are subordinated to superior ranking security interests) and includes both closed-end accounts and open-end lines of credit. These loans vary in form and substance from our typical branch serviced loans and are in a liquidating status.

#### Non-Core Portfolio

**Real Estate** — We service and hold real estate loans secured by first or second mortgages on residential real estate. Real estate loans previously originated through our branch offices or previously acquired or originated through centralized distribution channels are serviced by: (i) MorEquity and subserviced by Nationstar; (ii) Select Portfolio Servicing, Inc.; or (iii) our centralized operations. Investment funds managed by affiliates of Fortress indirectly own a majority interest in Nationstar.

The remaining components (which we refer to as “Other”) consist of our other non-core, non-originating legacy operations, which are isolated by geographic market and/or distribution channel from our Core Consumer Operations

and our Non-Core Portfolio. These operations include: (i) our legacy operations in 14 states where we have also ceased branch-based personal lending; (ii) our liquidating retail sales finance portfolio (including our retail sales finance accounts from our dedicated auto finance operation); (iii) our lending operations in Puerto Rico and the U.S. Virgin Islands; and (iv) the operations of our United Kingdom subsidiary.

Table of Contents

Due to the nature of the Fortress Acquisition, we applied push-down accounting. However, we report the operating results of our Core Consumer Operations, Non-Core Portfolio, and Other using the same accounting basis that we employed prior to the Fortress Acquisition, which we refer to as “historical accounting basis,” to provide a consistent basis for both management and other interested third parties to better understand the operating results of these segments. The historical accounting basis (which is a basis of accounting other than U.S. GAAP) also provides better comparability of the operating results of these segments to our competitors and other companies in the financial services industry. The historical accounting basis is not applicable to the Acquisitions and Servicing segment since this segment resulted from the purchase of the SpringCastle Portfolio subsequent to the Fortress Acquisition.

The “Push-down Accounting Adjustments” column in the following tables primarily consists of:

- the accretion or amortization of the valuation adjustments on the applicable revalued assets and liabilities;
- the difference in finance charges on our purchased credit impaired finance receivables compared to the finance charges on these finance receivables on a historical accounting basis;
- the elimination of accretion or amortization of historical based discounts, premiums, and other deferred costs on our finance receivables and long-term debt;
- the difference in provision for finance receivable losses required based upon the differences in historical accounting basis and push-down accounting basis of the finance receivables;
- the acceleration of the accretion of the net discount or amortization of the net premium applied to long-term debt that we repurchase or repay;
- the reversal of the remaining unaccreted push-down accounting basis for net finance receivables, less allowance for finance receivable losses established at the date of the Fortress Acquisition on finance receivables held for sale that we sold; and
- the difference in the fair value of long-term debt based upon the differences between historical accounting basis where certain long-term debt components are marked-to-market on a recurring basis, and push-down accounting basis where long-term debt is no longer marked-to-market on a recurring basis.

The following tables present information about the Company’s segments as well as reconciliations to the condensed consolidated financial statement amounts.

(dollars in millions)	Consumer and Insurance	Acquisitions and Servicing	Real Estate	Other	Eliminations	Push-down Accounting Adjustments	Consolidated Total
Three Months Ended September 30, 2015							
Interest income	\$293	\$114	\$17	\$1	\$—	\$3	\$428
Interest expense	43	22	58	16	—	32	171
Provision for finance receivable losses	62	19	(4)	—	—	5	82
Net interest income (loss) after provision for finance receivable losses	188	73	(37)	(15)	—	(34)	175
Other revenues	55	13	(2)	—	(13)	(2)	51
Other expenses	166	27	8	15	(13)	1	204
Income (loss) before provision for (benefit from) income taxes	77	59	(47)	(30)	—	(37)	22
Income before provision for income taxes attributable to	—	31	—	—	—	—	31

non-controlling interests

Income (loss) before provision

for (benefit from) income

taxes attributable to Springleaf Holdings, Inc.	\$77	\$28	\$(47)	)	\$(30)	)	\$—	\$(37)	)	\$(9)	)
---	------	------	--------	---	--------	---	-----	--------	---	-------	---

Table of Contents

(dollars in millions)	Consumer and Insurance	Acquisitions and Servicing	Real Estate	Other	Eliminations	Push-down Accounting Adjustments	Consolidated Total
Three Months Ended September 30, 2014							
Interest income	\$236	\$131	\$95	\$5	\$—	\$17	\$484
Interest expense	40	18	84	2	—	36	180
Provision for finance receivable losses	56	27	37	2	—	(19)	103
Net interest income (loss) after provision for finance receivable losses	140	86	(26)	1	—	—	201
Other revenues	61	17	277	—	(16)	347	686
Other expenses	138	29	36	3	(16)	—	190
Income (loss) before provision for (benefit from) income taxes	63	74	215	(2)	—	347	697
Income before provision for income taxes attributable to non-controlling interests	—	35	—	—	—	—	35
Income (loss) before provision for (benefit from) income taxes attributable to Springleaf Holdings, Inc.	\$63	\$39	\$215	\$(2)	\$—	\$347	\$662
(dollars in millions)	Consumer and Insurance	Acquisitions and Servicing	Real Estate	Other	Eliminations	Push-down Accounting Adjustments	Consolidated Total
At or for the Nine Months Ended September 30, 2015							
Interest income	\$818	\$361	\$52	\$6	\$—	\$10	\$1,247
Interest expense	119	67	177	48	(5)	94	500
Provision for finance receivable losses	172	69	(7)	1	—	14	249
Net interest income (loss) after provision for finance receivable losses	527	225	(118)	(43)	5	(98)	498
Other revenues	162	45	4	—	(45)	(8)	158
Other expenses	471	82	24	45	(40)	3	585
Income (loss) before provision for (benefit from) income taxes	218	188	(138)	(88)	—	(109)	71
Income before provision for income taxes attributable to non-controlling interests	—	93	—	—	—	—	93
	\$218	\$95	\$(138)	\$(88)	\$—	\$(109)	\$(22)

Income (loss) before  
provision for (benefit from)  
income taxes attributable to  
Springleaf Holdings, Inc.

Assets	\$5,743	\$ 1,759	\$3,551	\$2,255	\$—	\$(24	)	\$ 13,284
--------	---------	----------	---------	---------	-----	-------	---	-----------

40

---

Table of Contents

(dollars in millions)	Consumer and Insurance	Acquisitions and Servicing	Real Estate	Other	Eliminations	Push-down Accounting Adjustments	Consolidated Total
At or for the Nine Months Ended							
September 30, 2014							
Interest income	\$666	\$414	\$387	\$14	\$—	\$88	\$1,569
Interest expense	122	58	291	6	—	100	577
Provision for finance receivable losses	149	121	119	7	—	(17)	379
Net interest income (loss) after provision for finance receivable losses	395	235	(23)	1	—	5	613
Other revenues	168	37	188	1	(51)	516	859
Other expenses	392	94	78	14	(51)	2	529
Income (loss) before provision for (benefit from) income taxes	171	178	87	(12)	—	519	943
Income before provision for income taxes attributable to non-controlling interests	—	82	—	—	—	—	82
Income (loss) before provision for (benefit from) income taxes attributable to Springleaf Holdings, Inc.	\$171	\$96	\$87	\$(12)	\$—	\$519	\$861
Assets (a) (b)	\$4,608	\$2,251	\$3,745	\$615	\$—	\$15	\$11,234

(a) As a result of our early adoption of ASU 2015-03, we reclassified \$29 million of debt issuance costs from other assets to long-term debt as of September 30, 2014.

(b) See Note 1 for further information on the correction of this prior period disclosure.

## 17. Fair Value Measurements

The fair value of a financial instrument is the amount that would be expected to be received if an asset were to be sold or the amount that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An other-than-active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is listed on an exchange or traded over-the-counter or is new to the market and not yet established, the characteristics specific to the transaction, and general market conditions.





Table of Contents

The following table summarizes the fair values and carrying values of our financial instruments and indicates the fair value hierarchy based on the level of inputs we utilized to determine such fair values:

	Fair Value Measurements Using			Total	Total
(dollars in millions)	Level 1	Level 2	Level 3	Fair Value	Carrying Value
September 30, 2015					
Assets					
Cash and cash equivalents	\$3,570	\$295	\$—	\$3,865	\$3,865
Investment securities	—	1,730	12	1,742	1,742
Net finance receivables, less allowance for finance receivable losses	—	—	6,736	6,736	6,109
Finance receivables held for sale	—	—	802	802	797
Restricted cash and cash equivalents	270	—	—	270	270
Other assets:					
Commercial mortgage loans	—	—	71	71	71
Escrow advance receivable	—	—	10	10	10
Receivables related to sales of real estate loans and related trust assets	—	3	—	3	9
Liabilities					
Long-term debt	\$—	\$10,212	\$—	\$10,212	\$9,555
December 31, 2014					
Assets					
Cash and cash equivalents	\$714	\$165	\$—	\$879	\$879
Investment securities	—	2,926	9	2,935	2,935
Net finance receivables, less allowance for finance receivable losses	—	—	6,979	6,979	6,307
Finance receivables held for sale	—	—	209	209	205
Restricted cash and cash equivalents	218	—	—	218	218
Other assets:					
Commercial mortgage loans	—	—	78	78	85
Escrow advance receivable	—	—	8	8	8
Receivables related to sales of real estate loans and related trust assets	—	67	—	67	79
Liabilities					
Long-term debt	\$—	\$9,182	\$—	\$9,182	\$8,356

Table of Contents

## FAIR VALUE MEASUREMENTS — RECURRING BASIS

The following tables present information about our assets measured at fair value on a recurring basis and indicates the fair value hierarchy based on the levels of inputs we utilized to determine such fair value:

(dollars in millions)	Fair Value Measurements Using			Total Carried
	Level 1	Level 2	Level 3	At Fair Value
September 30, 2015				
Assets				
Cash equivalents in mutual funds	\$1,231	\$—	\$—	\$1,231
Cash equivalents in certificates of deposit and commercial paper	—	295	—	295
Investment securities:				
Available-for-sale securities:				
Bonds:				
U.S. government and government sponsored entities	—	68	—	68
Obligations of states, municipalities, and political subdivisions	—	84	—	84
Corporate debt	—	245	—	245
RMBS	—	79	—	79
CMBS	—	39	—	39
CDO/ABS	—	32	—	32
Total bonds	—	547	—	547
Preferred stock	—	6	10	16
Other long-term investments (a)	—	—	1	1
Total available-for-sale securities (b)	—	553	11	564
Trading securities:				
Bonds:				
U.S. government and government sponsored entities	—	783	—	783
Corporate debt	—	196	—	196
RMBS	—	2	—	2
CMBS	—	45	—	45
CDO/ABS	—	151	—	151
Total trading securities	—	1,177	—	1,177
Total investment securities	—	1,730	11	1,741
Restricted cash in mutual funds	252	—	—	252
Total	\$1,483	\$2,025	\$11	\$3,519

Table of Contents

(dollars in millions)	Fair Value Measurements Using			Total Carried
	Level 1	Level 2	Level 3	At Fair Value
December 31, 2014				
Assets				
Cash equivalents in mutual funds	\$236	\$—	\$—	\$236
Cash equivalents in certificates of deposit and commercial paper	—	165	—	165
Investment securities:				
Available-for-sale securities:				
Bonds:				
U.S. government and government sponsored entities	—	64	—	64
Obligations of states, municipalities, and political subdivisions	—	102	—	102
Certificates of deposit and commercial paper	—	3	—	3
Corporate debt	—	263	4	267
RMBS	—	73	—	73
CMBS	—	21	3	24
CDO/ABS	—	63	—	63
Total bonds	—	589	7	596
Preferred stock	—	7	—	7
Other long-term investments (a)	—	—	1	1
Total available-for-sale securities (b)	—	596	8	604
Trading securities:				
Bonds:				
U.S. government and government sponsored entities	—	303	—	303
Obligations of states, municipalities, and political subdivisions	—	14	—	14
Certificates of deposit and commercial paper	—	238	—	238
Non-U.S. government and government sponsored entities	—	20	—	20
Corporate debt	—	1,056	—	1,056
RMBS	—	36	—	36
CMBS	—	151	—	151
CDO/ABS	—	512	—	512
Total trading securities	—	2,330	—	2,330
Total investment securities	—	2,926	8	2,934
Restricted cash in mutual funds	207	—	—	207
Total	\$443	\$3,091	\$8	\$3,542

(a) Other long-term investments excludes an immaterial interest in a limited partnership that we account for using the equity method.

(b) Common stocks not carried at fair value totaled \$1 million at September 30, 2015 and December 31, 2014 and, therefore, have been excluded from the table above.

We had no transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2015.

Table of Contents

The following table presents changes in Level 3 assets measured at fair value on a recurring basis for the three months ended September 30, 2015:

(dollars in millions)	Balance at beginning of period	Net gains (losses) included in:			Purchases, sales, issues, settlements *	Transfers into Level 3	Transfers out of Level 3	Balance at end of period
		Other revenues	Other comprehensive income (loss)					
Three Months Ended September 30, 2015								
Investment securities:								
Available-for-sale securities:								
Preferred stock	\$ —	\$ —	\$ —	\$ 10	\$ —	\$ —	\$ 10	
Other long-term investments	1	—	—	—	—	—	1	
Total	\$ 1	\$ —	\$ —	\$ 10	\$ —	\$ —	\$ 11	

\*“Purchases, sales, issues, and settlements” column consisted only of purchases.

The following table presents changes in Level 3 assets measured at fair value on a recurring basis for the three months ended September 30, 2014:

(dollars in millions)	Balance at beginning of period	Net gains (losses) included in:			Transfers into Level 3	Transfers out of Level 3	Balance at end of period
		Other revenues	Other comprehensive income (loss)	Purchases, sales, issues, settlements			
Three Months Ended September 30, 2014							
Investment securities:							
Available-for-sale securities:							
Bonds:							
Corporate debt	\$5	\$ —	\$ —	\$ —	\$ —	\$ —	\$5
Other long-term investments	1	—	—	—	—	—	1
Total available-for-sale securities	6	—	—	—	—	—	6
Trading securities:							
Bonds:							
CDO/ABS	6	—	—	—	—	—	6
Total	\$12	\$ —	\$ —	\$ —	\$ —	\$ —	\$12

## Table of Contents

The following table presents changes in Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2015:

(dollars in millions)	Balance at beginning of period	Net gains (losses) included in:			Purchases, sales, issues, settlements (a)	Transfers into Level 3	Transfers out of Level 3 (b)	Balance at end of period
		Other revenues	Other comprehensive income (loss)					
Nine Months Ended September 30, 2015								
Investment securities:								
Available-for-sale securities:								
Bonds:								
Corporate debt	\$4	\$ —	\$ —	\$(4	)	\$ —	\$ —	\$ —
CMBS	3	—	—	—	—	—	(3	) —
Total bonds	7	—	—	(4	)	—	(3	) —
Preferred stock	—	—	—	10	—	—	—	10
Other long-term investments	1	—	—	—	—	—	—	1
Total	\$8	\$ —	\$ —	\$6	\$ —	\$ (3	)	\$11

(a) The detail of purchases and settlements is presented in the table below:

(dollars in millions)	Purchases	Settlements	Total
Nine Months Ended September 30, 2015			
Investment securities:			
Available-for-sale securities:			
Bonds:			
Corporate debt	\$—	\$(4)	\$(4)
Preferred stock	10	—	10
Total	\$10	\$(4)	\$6

(b) During the nine months ended September 30, 2015, we transferred CMBS securities totaling \$3 million out of Level 3 primarily related to the greater observability of pricing inputs.

Table of Contents

The following table presents changes in Level 3 assets measured at fair value on a recurring basis for the nine months ended September 30, 2014:

(dollars in millions)	Balance at beginning of period	Net gains (losses) included in:					Balance at end of period
		Other revenues	Other comprehensive income (loss)	Purchases, sales, issues, settlements (a)	Transfers into Level 3 (b)	Transfers out of Level 3 (c)	
Nine Months Ended September 30, 2014							
Investment securities:							
Available-for-sale securities:							
Bonds:							
Corporate debt	\$ 13	\$ —	\$ —	\$ (8 )	\$ —	\$ —	\$ 5
CDO/ABS	1	—	—	—	—	(1 )	—
Total bonds	14	—	—	(8 )	—	(1 )	5
Other long-term investments	1	—	—	—	—	—	1
Total available-for-sale securities	15	—	—	(8 )	—	(1 )	6
Trading securities:							
Bonds:							
RMBS	—	—	—	—	1	(1 )	—
CDO/ABS	7	—	—	—	—	(1 )	6
Total trading securities	7	—	—	—	1	(2 )	6
Total	\$ 22	\$ —	\$ —	\$ (8 )	\$ 1	\$ (3 )	\$ 12

(a) “Purchases, sales, issues, and settlements” column consisted only of settlements, as the purchases were less than \$1 million.

(b) During the nine months ended September 30, 2014, we transferred \$1 million of RMBS securities into Level 3 primarily related to the re-evaluated observability of pricing inputs.

(c) During the nine months ended September 30, 2014, we transferred RMBS and CDO/ABS securities totaling \$3 million out of Level 3 primarily related to the re-evaluated observability of pricing inputs.

We used observable and/or unobservable inputs to determine the fair value of positions that we have classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category presented in the Level 3 tables above may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

The unobservable inputs and quantitative data used in our Level 3 valuations for our investment securities were developed and used in models created by our third-party valuation service providers, which values were used by us for fair value disclosure purposes without adjustment. We applied the third-party exception which allows us to omit certain quantitative disclosures about unobservable inputs for other long-term investments. As a result, the weighted average ranges of the inputs for these investment securities are not applicable in the following table.



## Table of Contents

Quantitative information about Level 3 inputs for our assets measured at fair value on a recurring basis for which information about the unobservable inputs is reasonably available to us at September 30, 2015 and December 31, 2014 is as follows:

	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
			September 30, 2015	December 31, 2014
Corporate debt	Discounted cash flows	Yield	—	1.05% (a)
RMBS	Discounted cash flows	Spread	743 bps (a)	736 bps (a) (b)
CMBS	Discounted cash flows	Spread	—	139 bps (a) (b)
Other long-term investments	Discounted cash flows and indicative valuations	Historical costs		
		Nature of investment		
		Local market conditions	N/A (c)	N/A (c)
		Comparables		
		Operating performance		
Preferred stock	Market approach	Recent financing activity		
		Historical cost	N/A (c)	N/A (c)
		Operating performance		

(a) At September 30, 2015 and December 31, 2014, RMBS consisted of one bond, which was less than \$1 million. At December 31, 2014, corporate debt and CMBS also consisted of one bond.

During the first quarter of 2015, we identified that we incorrectly disclosed the weighted average ranges of our (b) RMBS bond and CMBS bond as of December 31, 2014. The weighted average ranges of these bonds at December 31, 2014 have been corrected in the table above.

(c) Not applicable.

The fair values of the assets using significant unobservable inputs are sensitive and can be impacted by significant increases or decreases in any of those inputs. Level 3 broker-priced instruments, including RMBS (except for the one bond previously noted), CMBS (except for the one bond previously noted), and CDO/ABS, are excluded from the table above because the unobservable inputs are not reasonably available to us.

Our RMBS, CMBS, and CDO/ABS securities have unobservable inputs that are reliant on and sensitive to the quality of their underlying collateral. The inputs, although not identical, have similar characteristics and interrelationships. Generally a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment speeds. An improvement in the workout criteria related to the restructured debt and/or debt covenants of the underlying collateral may lead to an improvement in the cash flows and have an inverse impact on other inputs, specifically a reduction in the amount of discount applied for marketability and liquidity, making the structured bonds more attractive to market participants.

## FAIR VALUE MEASUREMENTS — NON-RECURRING BASIS

We measure the fair value of certain assets on a non-recurring basis when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.



Table of Contents

Assets measured at fair value on a non-recurring basis on which we recorded impairment charges were as follows:

(dollars in millions)	Fair Value Measurements Using *			Total
	Level 1	Level 2	Level 3	
September 30, 2015				
Assets				
Real estate owned	\$—	\$—	\$12	\$12
Commercial mortgage loans	—	—	8	8
Total	\$—	\$—	\$20	\$20
December 31, 2014				
Assets				
Real estate owned	\$—	\$—	\$19	\$19
Commercial mortgage loans	—	—	11	11
Total	\$—	\$—	\$30	\$30

\*The fair value information presented in the table above is as of the date the fair value adjustment was recorded.

Net impairment charges recorded on assets measured at fair value on a non-recurring basis were as follows:

(dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Assets				
Real estate owned	\$1	\$3	\$3	\$13
Commercial mortgage loans	—	(1	) (2	) (2
Total	\$1	\$2	\$1	\$11

In accordance with the authoritative guidance for the accounting for the impairment of long-lived assets, we wrote down certain real estate owned reported in our Real Estate segment to their fair value less cost to sell for the three and nine months ended September 30, 2015 and 2014 and recorded the writedowns in other revenues — other. The fair values of real estate owned disclosed in the table above are unadjusted for transaction costs as required by the authoritative guidance for fair value measurements. The amounts of real estate owned recorded in other assets are net of transaction costs as required by the authoritative guidance for accounting for the impairment of long-lived assets.

In accordance with the authoritative guidance for the accounting for the impairment of commercial mortgage loans, we recorded allowance adjustments on certain impaired commercial mortgage loans reported in our Consumer and Insurance segment to record their fair value for the three and nine months ended September 30, 2015 and 2014 and recorded the net impairments in investment revenues.

The inputs and quantitative data used in our Level 3 valuations for our real estate owned and commercial mortgage loans are unobservable primarily due to the unique nature of specific real estate assets. Therefore, we used independent third-party providers, familiar with local markets, to determine the values used for fair value disclosures without adjustment. We applied the third-party exception which allows us to omit certain quantitative disclosures about unobservable inputs. As a result, the weighted average ranges of the inputs are not applicable in the following table.



Table of Contents

Quantitative information about Level 3 inputs for our assets measured at fair value on a non-recurring basis at September 30, 2015 and December 31, 2014 is as follows:

	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
			September 30, 2015	December 31, 2014
Real estate owned	Market approach	Third-party valuation	N/A*	N/A*
		Local market conditions		
Commercial mortgage loans	Market approach	Nature of investment	N/A*	N/A*
	Income approach	Comparable property sales		
	Cost approach	Operating performance		

\*Not applicable.

## FAIR VALUE MEASUREMENTS — VALUATION METHODOLOGIES AND ASSUMPTIONS

We use the following methods and assumptions to estimate fair value.

### Cash and Cash Equivalents

The carrying amount of cash and cash equivalents, including cash and cash equivalents in certificates of deposit and commercial paper, approximates fair value.

### Mutual Funds

The fair value of mutual funds is based on quoted market prices of the underlying shares held in the mutual funds.

### Investment Securities

We utilize third-party valuation service providers to measure the fair value of our investment securities, which are classified as available-for-sale or as trading and consist primarily of bonds. Whenever available, we obtain quoted prices in active markets for identical assets at the balance sheet date to measure investment securities at fair value. We generally obtain market price data from exchange or dealer markets.

We estimate the fair value of fixed maturity investment securities not traded in active markets by referring to traded securities with similar attributes, using dealer quotations and a matrix pricing methodology, or discounted cash flow analyses. This methodology considers such factors as the issuer's industry, the security's rating and tenor, its coupon rate, its position in the capital structure of the issuer, yield curves, credit curves, composite ratings, bid-ask spreads, prepayment rates and other relevant factors. For fixed maturity investment securities that are not traded in active markets or that are subject to transfer restrictions, we adjust the valuations to reflect illiquidity and/or non-transferability. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

We classify investment securities that are deemed to incorporate an embedded derivative and for which it is impracticable for us to isolate and/or value as trading securities at fair value.

The fair value of certificates of deposit and commercial paper having maturity dates greater than three months is based on the amortized cost, which is assumed to approximate fair value.

### Finance Receivables

The fair value of net finance receivables, less allowance for finance receivable losses, both non-impaired and purchased credit impaired, are determined using discounted cash flow methodologies. The application of these methodologies requires us to make certain judgments and estimates based on our perception of market participant views related to the economic and competitive environment, the characteristics of our finance receivables, and other similar factors. The most significant judgments and estimates made relate to prepayment speeds, default rates, loss severity, and discount rates. The degree of judgment and estimation applied is significant in light of the current capital markets and, more broadly, economic environments. Therefore, the fair value of our finance receivables could not be determined with precision and may not be realized in an actual sale. Additionally, there may be inherent weaknesses in the valuation methodologies we employed, and changes in the underlying assumptions used could significantly affect the results of current or future values.

## Table of Contents

### Finance Receivables Held for Sale

We determined the fair value of finance receivables held for sale that were originated as held for investment based on negotiations with prospective purchasers (if any) or by using projected cash flows discounted at the weighted-average interest rates offered by us in the market for similar finance receivables. We based cash flows on contractual payment terms adjusted for estimates of prepayments and credit related losses.

### Restricted Cash and Cash Equivalents

The carrying amount of restricted cash and cash equivalents approximates fair value.

### Commercial Mortgage Loans

Given the short remaining average life of the portfolio, the carrying amount of commercial mortgage loans approximates fair value. The carrying amount includes an estimate for credit related losses which is based on independent third-party valuations.

### Real Estate Owned

We initially based our estimate of the fair value on independent third-party valuations at the time we took title to real estate owned. Subsequent changes in fair value are based upon independent third-party valuations obtained periodically to estimate a price that would be received in a then current transaction to sell the asset.

### Escrow Advance Receivable

The carrying amount of escrow advance receivable approximates fair value.

### Receivables Related to Sales of Real Estate Loans and Related Trust Assets

The carrying amount of receivables related to sales of real estate loans and related trust assets less estimated forfeitures, which are reflected in other liabilities, approximates fair value.

### Long-term Debt

We either receive fair value measurements of our long-term debt from market participants and pricing services or we estimate the fair values of long-term debt using projected cash flows discounted at each balance sheet date's market-observable implicit-credit spread rates for our long-term debt.

We record at fair value long-term debt issuances that are deemed to incorporate an embedded derivative and for which it is impracticable for us to isolate and/or value the derivative. At September 30, 2015, we had no debt carried at fair value under the fair value option.

## Table of Contents

### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

An index to our management’s discussion and analysis follows:

Topic	Page
<u>Forward-Looking Statements</u>	<u>52</u>
<u>Overview</u>	<u>53</u>
<u>Recent Developments and Outlook</u>	<u>55</u>
<u>Results of Operations</u>	<u>57</u>
<u>Segments Results</u>	<u>64</u>
<u>Credit Quality</u>	<u>76</u>
<u>Liquidity and Capital Resources</u>	<u>78</u>
<u>Off Balance Sheet Arrangements</u>	<u>81</u>
<u>Critical Accounting Policies and Estimates</u>	<u>81</u>
<u>Recent Accounting Pronouncements</u>	<u>81</u>
<u>Seasonality</u>	<u>82</u>
<u>Glossary of Terms</u>	<u>82</u>

#### Forward-Looking Statements

This report may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “could,” “seeks,” “approximately,” “predicts,” “intends,” “estimates,” “anticipates,” “target,” “projects,” “contemplates” or the negative version of those words or other comparable words. Any forward-looking statements contained in this report are based upon our historical performance and on our current plans, estimates and expectations in light of information currently available to us. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business, prospects, growth strategy and liquidity. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to:

- various risks relating to the Proposed Acquisition, including in respect of the satisfaction of closing conditions to the Proposed Acquisition that are materially adverse to the business, financial condition or results of operations of the combined company;
- resolution of any potential concerns expressed to us by the DOJ and certain state Attorneys General with respect to the Proposed Acquisition;
- unanticipated difficulties financing the purchase price of the Proposed Acquisition;
- unanticipated expenditures relating to the Proposed Acquisition;
- uncertainties as to the timing of the closing of the Proposed Acquisition;
- litigation relating to the Proposed Acquisition;
- the impact of the Proposed Acquisition on each company’s relationships with employees and third parties;
- the inability to obtain, or delays in obtaining, cost savings and synergies from the Proposed Acquisition and risks associated with the integration of the companies;
- changes in general economic conditions, including the interest rate environment in which we conduct business and the financial markets through which we can access capital and also invest cash flows from our Consumer and Insurance segment;
- levels of unemployment and personal bankruptcies;

- natural or accidental events such as earthquakes, hurricanes, tornadoes, fires, or floods affecting our customers, collateral, or branches or other operating facilities;
- war, acts of terrorism, riots, civil disruption, pandemics, or other events disrupting business or commerce;
- changes in the rate at which we can collect or potentially sell our finance receivables portfolio;
- the effectiveness of our credit risk scoring models in assessing the risk of customer unwillingness or lack of capacity to repay;

## Table of Contents

- changes in our ability to attract and retain employees or key executives to support our businesses;
- changes in the competitive environment in which we operate, including the demand for our products, customer responsiveness to our distribution channels, and the strength and ability of our competitors to operate independently or to enter into business combinations that result in a more attractive range of customer products or provide greater financial resources;
- shifts in collateral values, delinquencies, or credit losses;
- changes in federal, state and local laws, regulations, or regulatory policies and practices, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (which, among other things, established the Consumer Financial Protection Bureau, which has broad authority to regulate and examine financial institutions), that affect our ability to conduct business or the manner in which we conduct business, such as licensing requirements, pricing limitations or restrictions on the method of offering products, as well as changes that may result from increased regulatory scrutiny of the sub-prime lending industry;
- potential liability relating to real estate and personal loans which we have sold or may sell in the future, or relating to securitized loans, if it is determined that there was a non-curable breach of a warranty made in connection with such transactions;
- the effect of future sales of our remaining portfolio of real estate loans and the transfer of servicing of these loans;
- the costs and effects of any litigation or governmental inquiries or investigations involving us, particularly those that are determined adversely to us;
- our continued ability to access the capital markets or the sufficiency of our current sources of funds to satisfy our cash flow requirements;
- our ability to comply with our debt covenants;
- our ability to generate sufficient cash to service all of our indebtedness;
- our substantial indebtedness, which could prevent us from meeting our obligations under our debt instruments and limit our ability to react to changes in the economy or our industry, or our ability to incur additional borrowings;
- the potential for downgrade of our debt by rating agencies, which would have a negative impact on our cost of, and access to, capital;
- the impacts of our securitizations and borrowings;
- our ability to maintain sufficient capital levels in our regulated and unregulated subsidiaries;
- changes in accounting standards or tax policies and practices and the application of such new policies and practices to the manner in which we conduct business; and
- the material weakness that we have identified in our internal control over financial reporting.

We also direct readers to other risks and uncertainties discussed in other documents we file with the SEC. The forward-looking statements made in this report relate only to events as of the date on which the statements are made. We do not undertake any obligation to publicly update or review any forward-looking statement except as required by law, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from what we may have expressed or implied by these forward-looking statements. We caution that you should not place undue reliance on any of our forward-looking statements. You should specifically consider the factors identified in this report that could cause actual results to differ before making an investment decision to purchase our common stock. Furthermore, new risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us.

## Overview

Springleaf is a leading consumer finance company providing responsible loan products primarily to non-prime customers. We originate consumer loans through our network of 823 branch offices in 27 states and on a centralized basis as part of our centralized operations. We also pursue strategic acquisitions of loan portfolios. Through two



insurance subsidiaries, we write credit and non-credit insurance policies covering our customers.

## OUR PRODUCTS

Our core product offerings include:

Personal Loans — We offer personal loans through our branch network and over the internet through our centralized operations to customers who generally need timely access to cash. Our personal loans are typically non-revolving with a fixed-rate and a fixed, original term of two to five years. At September 30, 2015, we had over 874,000 personal loans, representing \$4.1 billion of net finance receivables, of which \$2.3 billion, or 55%,

## Table of Contents

were secured by collateral consisting of titled personal property (such as automobiles) and \$1.8 billion, or 45%, were secured by consumer household goods or other items of personal property or were unsecured. Personal loans held for sale totaled \$608 million at September 30, 2015.

**Insurance Products** — We offer our customers credit insurance (life insurance, accident and health insurance, and involuntary unemployment insurance) and non-credit insurance through both our branch network and our centralized operations. Credit insurance and non-credit insurance products are provided by our subsidiaries, Merit and Yosemite Insurance Company (“Yosemite”). We also offer auto security membership plans of an unaffiliated company as an ancillary product.

**SpringCastle Portfolio** — We service the SpringCastle Portfolio that we acquired through a joint venture in which we own a 47% equity interest. These loans include unsecured loans and loans secured by subordinate residential real estate mortgages (which we service as unsecured loans due to the fact that the liens are subordinated to superior ranking security interests). The SpringCastle Portfolio includes both closed-end accounts and open-end lines of credit. These loans are in a liquidating status and vary in substance and form from our originated loans. At September 30, 2015, the SpringCastle Portfolio included over 242,000 of acquired loans, representing \$1.7 billion in net finance receivables.

Our non-core and non-originating legacy products include:

**Real Estate Loans** — We ceased real estate lending in January of 2012, and during 2014, we sold \$6.4 billion real estate loans held for sale. The remaining real estate loans may be closed-end accounts or open-end home equity lines of credit, generally have a fixed rate and maximum original terms of 360 months, and are secured by first or second mortgages on residential real estate. We continue to service the liquidating real estate loans and support any advances on open-end accounts. At September 30, 2015, we had \$547 million of real estate loans held for investment, of which \$209 million, or 38%, were secured by first mortgages and \$338 million, or 62%, were secured by second mortgages. Real estate loans held for sale totaled \$189 million at September 30, 2015, all of which were secured by first mortgages.

**Retail Sales Finance** — We ceased purchasing retail sales contracts and revolving retail accounts in January of 2013. We continue to service the liquidating retail sales contracts and will provide revolving retail sales financing services on our revolving retail accounts. We refer to retail sales contracts and revolving retail accounts collectively as “retail sales finance.”

## OUR SEGMENTS

At September 30, 2015, we had three business segments: Consumer and Insurance, Acquisitions and Servicing, and Real Estate.

When we initially defined our operating segments in early 2013, we presented Consumer and Insurance as two distinct reporting segments. However, over the course of 2013 and into 2014, management has shifted its strategy for the Insurance segment toward organic growth primarily as an ancillary product complementing our consumer lending activities and has been increasingly viewing and managing the Insurance segment together with Consumer. As a result of the changes in strategy and the way that management views the insurance business of the Company, we began presenting them as one segment, effective December 31, 2014. To conform to the new segment alignment, we have revised our prior period segment disclosures in “Segment Results”.

See Note 16 of the Notes to Condensed Consolidated Financial Statements for a description of our segments.

### Third Quarter Segment Highlights

Net finance receivables — Consumer and Insurance reached \$4.7 billion at September 30, 2015, including \$608 million personal loans held for sale, compared to \$3.6 billion at September 30, 2014.

Origination volume — Consumer and Insurance totaled \$1.2 billion for the third quarter of 2015 compared to \$925 million for the third quarter of 2014 (including \$278 million of direct auto loan originations during the third quarter of 2015 compared to \$84 million during the third quarter of 2014).

## Table of Contents

Pretax core earnings (a non-GAAP measure) was \$105 million for the third quarter of 2015 compared to \$101 million for the third quarter of 2014.

Our segments are reported on a historical accounting basis, which is a basis of accounting other than U.S. GAAP. See “Results of Operations” for a reconciliation of our pretax earnings on a push-down accounting basis to a historical accounting basis and “Segment Results” for a reconciliation of our pretax earnings on a historical accounting basis to pretax core earnings.

## Recent Developments and Outlook

### PROPOSED ACQUISITION

On March 2, 2015, SHI entered into the Stock Purchase Agreement to acquire OneMain for an aggregate purchase price of \$4.25 billion. There can be no assurance that the Proposed Acquisition will close, or, if it does, when the actual closing will occur. We anticipate financing the purchase price of the Proposed Acquisition through cash on hand, which resulted from a combination of the sale of investment securities, the recent equity offering, issuance of debt securities, and securitizations. See Note 2 of the Notes to Condensed Consolidated Financial Statements for further information on the Proposed Acquisition.

### EQUITY OFFERING

On May 4, 2015, we completed an offering of 27,864,525 shares of common stock, consisting of 19,417,476 shares of common stock offered by us and 8,447,049 shares of common stock offered by the Initial Stockholder. Upon completion of this offering, the Initial Stockholder owned approximately 58% of SHI common stock, and the economic interests of Fortress and AIG were reduced to approximately 55% and 3%, respectively.

The net proceeds to the Company from this sale were approximately \$976 million, after deducting the underwriting discounts and commissions and additional offering-related expenses totaling \$24 million. We intend to use the net proceeds of the offering, together with cash on hand, the proceeds from the sale of investment securities, and other funding options discussed above, to fund the Proposed Acquisition and/or for general corporate purposes, which may include debt repurchases and repayments, capital expenditures and other possible acquisitions.

See Note 2 of the Notes to Condensed Consolidated Financial Statements for further information on the equity offering.

### SECURITIZATIONS

During the first nine months of 2015, we completed five securitizations, including two consumer loan securitizations, two auto loan conduit securitizations, and one personal loan conduit securitization. We also sold certain SpringCastle 2014-A Notes that were previously retained, extended the revolving periods on three existing conduits, amended an existing conduit to remove the minimum balance requirement and reduce the maximum principal balance, and drew \$100 million under the notes of an existing conduit. See Note 10 of the Notes to Condensed Consolidated Financial Statements for further information on these securitizations.

### CUSTOMER REWARDS PROGRAM

During the second quarter of 2015, Springleaf launched Springleaf Rewards, a unique digital loyalty program that is designed to encourage credit education, positive customer behavior and brand engagement. The program rewards customers for a range of activities, such as consistently paying their bills on-time, interacting with Springleaf on social

media and more. Unlike traditional rewards programs, Springleaf Rewards allows members to accrue points for doing things that help them establish and build their credit, such as viewing personal financial education videos and budgeting tutorials on line, monitoring their credit score, and paying on time. Customers also earn points for enrolling in conveniences like paperless statements and automatic payments. Since its launch in mid-June, more than 47,000 customers have signed up to start earning rewards. Springleaf Rewards members can choose how and when to redeem their points. Points can be exchanged for a variety of gift cards for nationwide retailers, restaurants and other merchants.

Table of Contents

OUTLOOK

Assuming the U.S. economy continues to experience slow to moderate growth, we expect to continue our long history of strong credit performance. We believe the strong credit quality of our personal loan portfolio is the result of our disciplined underwriting practices and ongoing collection efforts. We also continue to see growth in the volume of personal loan originations driven by the following factors:

• Slow but sustained economic growth.

• Migration of customer activity from traditional channels such as direct mail to online channels (served by our centralized operations) where we believe we are well suited to capture volume due to our scale, technology, and deployment of advanced analytics.

In addition, with an experienced management team, a strong balance sheet, proven access to the capital markets, and strong demand for consumer credit, we believe we are well positioned for future personal loan growth.

We regularly consider strategic acquisitions and have been involved in transactions of various magnitudes involving a variety of forms of consideration and financing. On March 2, 2015, SHI entered into the Stock Purchase Agreement to acquire OneMain, which, when consummated, will be the most significant acquisition transaction ever undertaken by the Company. This transaction will create a combined company that we believe is financially strong and optimized for finance receivable growth. See Note 2 of the Notes to Condensed Consolidated Financial Statements for further information on the Proposed Acquisition.

Table of Contents

## Results of Operations

## CONSOLIDATED RESULTS

See table below for our consolidated operating results. A further discussion of our operating results for each of our business segments is provided under “Segment Results.”

(dollars in millions except earnings (loss) per share)	Three Months Ended		Nine Months Ended	
	September 30,	2014	September 30,	2014
2015			2015	
Interest income:				
Finance charges	\$424	\$436	\$1,234	\$1,514
Finance receivables held for sale originated as held for investment	4	48	13	55
Total interest income	428	484	1,247	1,569
Interest expense	171	180	500	577
Net interest income	257	304	747	992
Provision for finance receivable losses	82	103	249	379
Net interest income after provision for finance receivable losses	175	201	498	613
Other revenues:				
Insurance	40	44	116	125
Investment	11	12	44	32
Net loss on repurchases and repayments of debt	—	—	—	(7)
Net gain (loss) on fair value adjustments on debt	—	1	—	(15)
Net gain on sales of real estate loans and related trust assets	—	641	—	731
Other	—	(12)	(2)	(7)
Total other revenues	51	686	158	859
Other expenses:				
Operating expenses:				
Salaries and benefits	100	95	305	279
Other operating expenses	87	75	227	193
Insurance losses and loss adjustment expenses	17	20	53	57
Total other expenses	204	190	585	529
Income before provision for income taxes	22	697	71	943
Provision for income taxes	2	235	1	310
Net income	20	462	70	633
Net income attributable to non-controlling interests	31	35	93	82

Edgar Filing: Springleaf Holdings, Inc. - Form 10-Q

Net income (loss) attributable to Springleaf Holdings, Inc. \$(11 ) \$427 \$(23 ) \$551

Share Data:

Weighted average number of shares outstanding:

Basic	134,452,763	114,788,439	125,701,635	114,788,439
-------	-------------	-------------	-------------	-------------

Diluted	134,452,763	115,316,314	125,701,635	115,212,398
---------	-------------	-------------	-------------	-------------

Earnings (loss) per share:

Basic	\$(0.08 )	\$3.72	\$(0.18 )	\$4.80
-------	-----------	--------	-----------	--------

Diluted	\$(0.08 )	\$3.70	\$(0.18 )	\$4.79
---------	-----------	--------	-----------	--------



Table of Contents

## Comparison of Consolidated Results for Three Months Ended September 30, 2015 and 2014

Finance charges decreased for the three months ended September 30, 2015 when compared to the same period in 2014 due to the net of the following:

(dollars in millions)

2015 compared to 2014 - Three Months Ended September 30,

Decrease in average net receivables	\$(109	)
Increase in yield	97	
Total	\$(12	)

Average net receivables decreased for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to our liquidating real estate loan portfolio, including the transfers of real estate loans with a total carrying value of \$6.7 billion to finance receivables held for sale and the subsequent sales of nearly all of these real estate loans during 2014. This decrease also reflected lower SpringCastle average net receivables resulting from liquidations. This decrease was partially offset by higher personal loan average net receivables resulting from our continued focus on personal loan originations through our branch network and centralized operations and growth in our auto loan product.

Yield increased for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to a higher proportion of personal loans, which have higher yields, as a result of the real estate loan sales during 2014. The increase in yield was partially offset by the launch of our auto loan product in June of 2014, which generally has lower yields.

Interest income on finance receivables held for sale decreased \$44 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower average finance receivables held for sale during the 2015 period.

Interest expense decreased for the three months ended September 30, 2015 when compared to the same period in 2014 due to the net of the following:

(dollars in millions)

2015 compared to 2014 - Three Months Ended September 30,

Increase in average debt	\$24	
Decrease in weighted average interest rate	(33	)
Total	\$(9	)

Average debt increased for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to debt issuances pursuant to our consumer securitization transactions completed during the past twelve months. These increases were partially offset by debt repurchases and repayments of \$3.3 billion during the past twelve months and the elimination of \$3.5 billion of debt associated with our mortgage securitizations as a result of the sales of the Company's beneficial interests in the mortgage-backed certificates during 2014 and the resulting deconsolidation of the securitization trusts and their outstanding certificates reflected as long-term debt.

The weighted average interest rate on our debt decreased for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to the debt repurchases and repayments discussed above, which resulted in lower accretion of net discount, established at the date of the Fortress Acquisition, applied to long-term debt. This decrease was partially offset by the elimination of debt associated with our mortgage securitizations discussed above, which generally have lower interest rates.

Provision for finance receivable losses decreased \$21 million for the three months ended September 30, 2015 when compared to the same period in 2014. This decrease was primarily due to reductions in net charge-offs and the allowance requirements on our real estate loans as a result of the transfers of real estate loans with a total carrying value of \$6.7 billion to finance receivables held for sale and the subsequent sales of nearly all of these real estate loans during 2014. This decrease also reflected lower net charge-offs on the SpringCastle Portfolio primarily due to the improved central servicing performance as the acquired portfolio matures under our ownership. This decrease was partially offset by higher net charge-offs on our personal

Table of Contents

loans primarily due to growth in our personal loans during the past twelve months and a higher personal loan delinquency ratio at September 30, 2015.

Insurance revenues decreased \$4 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to decreases in credit and non-credit earned premiums. The decrease in credit earned premiums reflected the cancellations of dwelling policies as a result of the real estate loan sales during 2014. The decrease in non-credit earned premiums reflected fewer non-credit policies written.

Net gain on sales of real estate loans and related trust assets of \$641 million for the three months ended September 30, 2014 reflected the reversal of the remaining push-down accounting adjustment for the real estate loans, less allowance for finance receivable losses that we established at the date of the Fortress Acquisition.

Other revenues — other increased \$12 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower net charge-offs on our finance receivables held for sale and provision adjustments for liquidated held for sale accounts during the 2015 period. This increase was partially offset by servicing fee revenues during the 2014 period for the servicing of the real estate loans included in the MSR Sale. We continued to service these loans on behalf of Nationstar until the servicing transfer on September 30, 2014, under an interim servicing agreement.

Salaries and benefits increased \$5 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to increased staffing in our centralized operations.

Other operating expenses increased \$12 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to higher professional fees reflecting one-time costs of \$14 million related to the Proposed Acquisition. This increase also reflected higher advertising expenses primarily due to an increase in direct mailings to pre-approved customers, our increased focus on e-commerce and social media marketing, and our marketing efforts on our auto loan product during 2015. This increase was partially offset by one-time costs of \$7 million recorded in the 2014 period related to the real estate loan sales.

Insurance losses and loss adjustment expenses decreased \$3 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to favorable variances in benefit reserves.

Provision for income taxes totaled \$2 million for the three months ended September 30, 2015 compared to \$235 million for the same period in 2014. The effective tax rate for the three months ended September 30, 2015 was 10.2% compared to 33.7% for the same period in 2014. The effective tax rates for the three months ended September 30, 2015 and 2014 differed from the federal statutory rates primarily due to the effect of the non-controlling interest in our joint venture.

Comparison of Consolidated Results for Nine Months Ended September 30, 2015 and 2014

Finance charges decreased for the nine months ended September 30, 2015 when compared to the same period in 2014 due to the net of the following:

(dollars in millions)

2015 compared to 2014 - Nine Months Ended September 30,

Decrease in average net receivables	\$(585)	)
Increase in yield	305	
Total	\$(280)	)

Average net receivables decreased for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to our liquidating real estate loan portfolio, including the transfers of real estate loans with a total carrying value of \$6.7 billion to finance receivables held for sale and the subsequent sales of nearly all of these real estate loans during 2014. This decrease also reflected lower SpringCastle average net receivables resulting from liquidations. This decrease was partially offset by higher personal loan average net receivables resulting from our continued focus on personal loan originations through our branch network and centralized operations and the launch of our auto loan product in June of 2014.

Yield increased for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to a higher proportion of personal loans, which have higher yields, as a result of the real estate loan sales during 2014. The increase in yield was partially offset by the launch of our auto loan product in June of 2014, which generally has lower yields.

Table of Contents

Interest income on finance receivables held for sale decreased \$42 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower average finance receivables held for sale during the 2015 period.

Interest expense decreased for the nine months ended September 30, 2015 when compared to the same period in 2014 due to the net of the following:  
(dollars in millions)

2015 compared to 2014 - Nine Months Ended September 30,

Decrease in average debt	\$(65	)
Decrease in weighted average interest rate	(12	)
Total	\$(77	)

Average debt decreased for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to debt repurchases and repayments of \$3.3 billion during the past twelve months and the elimination of \$3.5 billion of debt associated with our mortgage securitizations as a result of the sales of the Company's beneficial interests in the mortgage-backed certificates during 2014 and the resulting deconsolidation of the securitization trusts and their outstanding certificates reflected as long-term debt. These decreases were partially offset by net debt issuances pursuant to our consumer securitization transactions completed during the past twelve months.

The weighted average interest rate on our debt decreased for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to the debt repurchases and repayments discussed above, which resulted in lower accretion of net discount, established at the date of the Fortress Acquisition, applied to long-term debt. This decrease was partially offset by the elimination of debt associated with our mortgage securitizations discussed above, which generally have lower interest rates.

Provision for finance receivable losses decreased \$130 million for the nine months ended September 30, 2015 when compared to the same period in 2014. This decrease was primarily due to reductions in the allowance requirements and net charge-offs on our real estate loans as a result of the transfers of real estate loans with a total carrying value of \$6.7 billion to finance receivables held for sale and the subsequent sales of nearly all of these real estate loans during 2014. This decrease also reflected lower net charge-offs on the SpringCastle Portfolio primarily due to the improved central servicing performance as the acquired portfolio matures under our ownership. This decrease was partially offset by higher net charge-offs on our personal loans primarily due to growth in our personal loans during the past twelve months and a higher personal loan delinquency ratio at September 30, 2015.

Insurance revenues decreased \$9 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to decreases in credit and non-credit earned premiums. The decrease in credit earned premiums reflected the cancellations of dwelling policies as a result of the real estate loan sales during 2014. The decrease in non-credit earned premiums reflected fewer non-credit policies written.

Investment revenues increased \$12 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to investment income generated from investing the proceeds of the real estate loan sales in 2014.

Net loss on repurchases and repayments of debt of \$7 million for the nine months ended September 30, 2014 reflected repurchases of debt at net amounts greater than carrying value.

Net loss on fair value adjustments on debt of \$15 million for the nine months ended September 30, 2014 reflected net unrealized loss on fair value adjustments of the long-term debt associated with the 2013 securitization of the

SpringCastle Portfolio that was accounted for at fair value through earnings.

Net gain on sales of real estate loans and related trust assets of \$731 million for the nine months ended September 30, 2014 reflected the reversal of the remaining push-down accounting adjustment for the real estate loans, less allowance for finance receivable losses that we established at the date of the Fortress Acquisition.

Other revenues — other increased \$5 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower net charge-offs recognized on our finance receivables held for sale and provision adjustments for liquidated held for sale accounts during the 2015 period. This increase was partially offset by servicing fee

Table of Contents

revenues during the 2014 period for the servicing of the real estate loans included in the MSR Sale. We continued to service these loans on behalf of Nationstar until the servicing transfer on September 30, 2014, under an interim servicing agreement.

Salaries and benefits increased \$26 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to non-cash incentive compensation expense of \$15 million recorded in the second quarter of 2015 related to the rights of certain executives to a portion of the cash proceeds from the sale of our common stock by the Initial Stockholder. See Note 2 of the Notes to Condensed Consolidated Financial Statements for further information on the equity offering. The increase in salaries and benefits also reflected increased staffing in our centralized operations.

Other operating expenses increased \$34 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to higher professional fees reflecting one-time costs of \$29 million related to the Proposed Acquisition. This increase also reflected higher advertising and information technology expenses. The increase in advertising expenses reflected an increase in direct mailings to pre-approved customers, our increased focus on e-commerce and social media marketing, and our marketing efforts on our auto loan product during 2015. The increase in other operating expenses was partially offset by (i) one-time costs of \$7 million recorded in the 2014 period related to the real estate loan sales; (ii) a \$5 million reduction in reserves related to estimated PPI claims during the second quarter of 2015; and (iii) lower subservicing fees on our real estate loans as a result of the real estate loan sales during 2014. See Note 14 of the Notes to Condensed Consolidated Financial Statements for further information on the loss contingencies related to PPI claims.

Insurance losses and loss adjustment expenses decreased \$4 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to favorable variances in claim reserves and benefit reserves.

Provision for income taxes totaled \$1 million for the nine months ended September 30, 2015 compared to \$310 million for the same period in 2014. The effective tax rate for the nine months ended September 30, 2015 was 1.2% compared to 32.8% for the same period in 2014. The effective tax rates for the nine months ended September 30, 2015 and 2014 differed from the federal statutory rates primarily due to the effect of the non-controlling interest in our joint venture.

Table of Contents

## Reconciliation of Income before Provision for Income Taxes on Push-Down Accounting Basis to Historical Accounting Basis

Due to the nature of the Fortress Acquisition, we revalued our assets and liabilities based on their fair values at November 30, 2010, the date of the Fortress Acquisition, in accordance with business combination accounting standards, or push-down accounting. Push-down accounting affected and continues to affect, among other things, the carrying amount of our finance receivables and long-term debt, our finance charges on our finance receivables and related yields, our interest expense, our allowance for finance receivable losses, and our net charge-offs and charge-off ratio. In general, on a quarterly basis, we accrete or amortize the valuation adjustments recorded in connection with the Fortress Acquisition, or record adjustments based on current expected cash flows as compared to expected cash flows at the time of the Fortress Acquisition, in each case, as described in more detail in the footnotes to the table below. In addition, push-down accounting resulted in the elimination of accretion or amortization of discounts, premiums, and other deferred costs on our finance receivables and long-term debt prior to the Fortress Acquisition. The reconciliations of income before provision for income taxes on a push-down accounting basis to income before provision for income taxes on a historical accounting basis (which is a basis of accounting other than U.S. GAAP that we believe provides a consistent basis for both management and other interested third parties to better understand our operating results) were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income before provision for income taxes - push-down accounting basis	\$22	\$697	\$71	\$943
Interest income adjustments (a)	(3	) (17	) (10	) (88
Interest expense adjustments (b)	32	36	94	100
Provision for finance receivable losses adjustments (c)	5	(19	) 14	(17
Repurchases and repayments of long-term debt adjustments (d)	—	—	—	(4
Fair value adjustments on debt (e)	—	—	—	8
Sales of finance receivables held for sale originated as held for investment adjustments (f)	—	(361	) —	(536
Amortization of other intangible assets (g)	2	1	4	3
Other (h)	1	13	7	15
Income before provision for income taxes - historical accounting basis	\$59	\$350	\$180	\$424

Interest income adjustments consist of: (1) the accretion of the net discount applied to non-credit impaired net finance receivables to revalue the non-credit impaired net finance receivables to their fair value at the date of the Fortress Acquisition using the interest method over the remaining life of the related net finance receivables; (2) the difference in finance charges earned on our pools of purchased credit impaired net finance receivables under a level rate of return over the expected lives of the underlying pools of purchased credit impaired finance receivables, net of the finance charges earned on these finance receivables under historical accounting basis; and (3) the elimination of the accretion or amortization of historical unearned points and fees, deferred origination costs, premiums, and discounts.

Components of interest income adjustments consisted of:

(dollars in millions)	Three Months Ended September 30,	Nine Months Ended September 30,
-----------------------	-------------------------------------	------------------------------------



Edgar Filing: Springleaf Holdings, Inc. - Form 10-Q

	2015		2014		2015		2014	
Accretion of net discount applied to non-credit impaired net finance receivables	\$(3	)	\$(13	)	\$(9	)	\$(65	)
Purchased credit impaired finance receivables finance charges	(1	)	(4	)	(2	)	(29	)
Elimination of accretion or amortization of historical unearned points and fees, deferred origination costs, premiums, and discounts	1		—		1		6	
Total	\$(3	)	\$(17	)	\$(10	)	\$(88	)

Table of Contents

- (b) Interest expense adjustments consist of: (1) the accretion of the net discount applied to long-term debt to revalue the debt securities to their fair value at the date of the Fortress Acquisition using the interest method over the remaining life of the related debt securities; and (2) the elimination of the accretion or amortization of historical discounts, premiums, commissions, and fees.

Components of interest expense adjustments were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Accretion of net discount applied to long-term debt	\$33	\$37	\$97	\$111
Elimination of accretion or amortization of historical discounts, premiums, commissions, and fees	(1	) (1	) (3	) (11
Total	\$32	\$36	\$94	\$100

- (c) Provision for finance receivable losses consists of the allowance for finance receivable losses adjustments and net charge-offs quantified in the table below. Allowance for finance receivable losses adjustments reflect the net difference between our allowance adjustment requirements calculated under our historical accounting basis net of adjustments required under push-down accounting basis. Net charge-offs reflect the net charge-off of loans at a higher carrying value under historical accounting basis versus the discounted basis to their fair value at date of the Fortress Acquisition under push-down accounting basis.

Components of provision for finance receivable losses adjustments were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Allowance for finance receivable losses adjustments	\$7	\$(13	) \$18	\$10
Net charge-offs	(2	) (6	) (4	) (27
Total	\$5	\$(19	) \$14	\$(17

- (d) Repurchases and repayments of long-term debt adjustments reflect the impact on acceleration of the accretion of the net discount or amortization of the net premium applied to long-term debt.

- (e) Fair value adjustments on debt reflect differences between historical accounting basis and push-down accounting basis. On a historical accounting basis, certain long-term debt components are marked-to-market on a recurring basis and are no longer marked-to-market on a recurring basis after the application of push-down accounting at the time of the Fortress Acquisition.

- (f) Sales of finance receivables held for sale originated as held for investment reflect the reversal of the remaining unaccreted push-down accounting basis for net finance receivables, less allowance for finance receivable losses established at the date of the Fortress Acquisition that were sold in the 2014 period.

- (g) Amortization of other intangible assets reflects the amortization over the remaining estimated life of intangible assets established at the date of the Fortress Acquisition as a result of the application of push-down accounting.

- (h) "Other" items reflect differences between historical accounting basis and push-down accounting basis relating to various items such as the elimination of deferred charges, adjustments to the basis of other real estate assets, fair

value adjustments to fixed assets, adjustments to insurance claims and policyholder liabilities, and various other differences all as of the date of the Fortress Acquisition.

At September 30, 2015 and December 31, 2014, the remaining unaccreted push-down accounting basis totaled \$14 million and \$5 million, respectively, for net finance receivables, less allowance for finance receivable losses, and \$461 million and \$561 million, respectively, for long-term debt.

Table of Contents

## Segment Results

See Note 16 of the Notes to Condensed Consolidated Financial Statements for a description of our segments. Management considers Consumer and Insurance and Acquisitions and Servicing as our Core Consumer Operations and Real Estate as our Non-Core Portfolio. Due to the nature of the Fortress Acquisition, we applied push-down accounting. However, we report the operating results of our Core Consumer Operations, Non-Core Portfolio, and Other using the same accounting basis that we employed prior to the Fortress Acquisition, which we refer to as “historical accounting basis,” to provide a consistent basis for both management and other interested third parties to better understand the operating results of these segments. The historical accounting basis (which is a basis of accounting other than U.S. GAAP) also provides better comparability of the operating results of these segments to our competitors and other companies in the financial services industry. The historical accounting basis is not applicable to the Acquisitions and Servicing segment since this segment was added subsequent to the Fortress Acquisition. See Note 16 of the Notes to Condensed Consolidated Financial Statements for reconciliations of segment totals to condensed consolidated financial statement amounts.

We allocate revenues and expenses (on a historical accounting basis) to each segment using the following methodologies:

Interest income	Directly correlated with a specific segment. Disaggregated into three categories based on the underlying debt that the expense pertains to: 1 securitizations — allocated to the segments whose finance receivables serve as the collateral securing each of the respective debt instruments;
Interest expense	1 unsecured debt — allocated to the segments based on expected leverage for that segment or the balance of unencumbered assets and cash proceeds from sale of receivables in that segment; and 1 secured term loan — allocated to the segments whose finance receivables served as the collateral securing each of the respective debt instruments.
Provision for finance receivable losses	Directly correlated with a specific segment except for allocations to “other,” which are based on the remaining delinquent accounts as a percentage of total delinquent accounts.
Insurance revenues	Directly correlated with a specific segment.
Investment revenues	Directly correlated with a specific segment.
Net gain (loss) on repurchases and repayments of debt	Allocated to the segments based on the interest expense allocation of debt.
Net gain (loss) on fair value adjustments on debt	Directly correlated with a specific segment.
Other revenues — other	Directly correlated with a specific segment except for gains and losses on foreign currency exchange and derivatives. These items are allocated to the segments based on the interest expense allocation of debt.
Salaries and benefits	Directly correlated with a specific segment. Other salaries and benefits not directly correlated with a specific segment are allocated to each of the segments based on services provided.
Other operating expenses	Directly correlated with a specific segment. Other operating expenses not directly correlated with a specific segment are allocated to each of the segments based on services provided.
Insurance losses and loss adjustment expenses	Directly correlated with a specific segment.

We evaluate the performance of each of our segments based on its pretax operating earnings.

Table of Contents

## CORE CONSUMER OPERATIONS

Pretax operating results for Consumer and Insurance (which are reported on a historical accounting basis), and Acquisitions and Servicing are presented in the table below on an aggregate basis:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income	\$407	\$367	\$1,179	\$1,080
Interest expense	65	58	186	180
Net interest income	342	309	993	900
Provision for finance receivable losses	81	83	241	270
Net interest income after provision for finance receivable losses	261	226	752	630
Other revenues:				
Insurance	40	44	116	125
Investment	12	14	44	36
Net loss on repurchases and repayments of debt	—	—	—	(1)
Net gain (loss) on fair value adjustments on debt	—	1	—	(15)
Other	16	19	47	60
Total other revenues	68	78	207	205
Other expenses:				
Operating expenses:				
Salaries and benefits	96	75	277	235
Other operating expenses	80	71	223	193
Insurance losses and loss adjustment expenses	17	21	53	58
Total other expenses	193	167	553	486
Pretax operating income	136	137	406	349
Pretax operating income attributable to non-controlling interests	31	35	93	82
Pretax operating income attributable to Springleaf Holdings, Inc.	\$105	\$102	\$313	\$267

Table of Contents

Selected financial statistics for Consumer and Insurance (which are reported on a historical accounting basis) and Acquisitions and Servicing were as follows:

(dollars in millions)	Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Consumer and Insurance</b>				
Finance receivables held for investment:				
Net finance receivables			\$4,044	\$3,578
Number of accounts			870,877	894,182
TDR finance receivables			\$27	\$18
Allowance for finance receivable losses - TDR			\$7	\$1
Provision for finance receivable losses - TDR	\$4	\$1	\$14	\$1
Average net receivables	\$4,476	\$3,481	\$4,130	\$3,295
Yield	25.97	% 27.02	% 26.43	% 27.00
Gross charge-off ratio	5.19	% 5.46	% 5.79	% 5.60
Recovery ratio	(0.89)	)% (0.78	)% (0.89	)% (0.67
Charge-off ratio	4.30	% 4.68	% 4.90	% 4.93
Delinquency ratio			3.31	% 2.55
Origination volume	\$1,167	\$925	\$3,227	\$2,595
Number of accounts originated	219,613	193,288	600,323	566,032
Finance receivables held for sale:				
Net finance receivables			\$608	\$—
Number of accounts			144,392	—
TDR finance receivables			\$2	\$—
<b>Acquisitions and Servicing</b>				
Net finance receivables			\$1,667	\$2,083
Number of accounts			242,660	291,153
TDR finance receivables			\$12	\$8
Allowance for finance receivable losses - TDR			\$4	\$2
Provision for finance receivable losses - TDR	\$1	\$2	\$2	\$2
Average net receivables	\$1,714	\$2,142	\$1,818	\$2,279
Yield	26.50	% 24.26	% 26.58	% 24.28
Net charge-off ratio	4.39	% 5.31	% 4.98	% 7.09
Delinquency ratio			4.06	% 5.11





Table of Contents

## Comparison of Pretax Operating Results for Three Months Ended September 30, 2015 and 2014

(dollars in millions)	Three Months Ended September 30,	
	2015	2014
Interest income:		
Finance charges - Consumer and Insurance	\$293	\$236
Finance charges - Acquisitions and Servicing	114	131
Total	\$407	\$367

Finance charges — Consumer and Insurance increased \$57 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to increases in average net receivables, partially offset by a decrease in yield. Average net receivables increased for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to increased originations on personal loans resulting from our continued focus on personal loans, and growth in our auto loan product. At September 30, 2015, we had over 69,000 auto loans totaling \$825 million compared to 6,800 auto loans totaling \$89 million at September 30, 2014. Yield decreased for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to the higher proportion of our auto loan product, which generally has lower yields.

Finance charges — Acquisitions and Servicing decreased \$17 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower average net receivables due to the liquidating status of the acquired portfolio.

(dollars in millions)	Three Months Ended September 30,	
	2015	2014
Interest expense - Consumer and Insurance	\$43	\$40
Interest expense - Acquisitions and Servicing	22	18
Total	\$65	\$58

Interest expense — Consumer and Insurance increased \$3 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to additional funding required to support increased originations of personal loans. This increase was partially offset by a reduction in the utilization of financing from unsecured notes that was replaced by consumer loan securitizations, which generally have lower interest rates.

Interest expense — Acquisitions and Servicing increased \$4 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to the refinance of the SpringCastle 2013-A Notes in October 2014, which resulted in an increase in average debt.

(dollars in millions)	Three Months Ended September 30,	
	2015	2014
Provision for finance receivable losses - Consumer and Insurance	\$62	\$56
Provision for finance receivable losses - Acquisitions and Servicing	19	27
Total	\$81	\$83

Provision for finance receivable losses — Consumer and Insurance increased \$6 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to higher net charge-offs on our personal loans during the 2015 period primarily due to growth in our personal loans during the past twelve months and

a higher personal loan delinquency ratio at September 30, 2015.

Provision for finance receivable losses — Acquisitions and Servicing decreased \$8 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower net charge-offs on the SpringCastle Portfolio reflecting improvements in servicing of the acquired portfolio and its liquidating status.

Table of Contents

Insurance revenues decreased \$4 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to decreases in credit and non-credit earned premiums. The decrease in credit earned premiums reflected the cancellations of dwelling policies as a result of the real estate loan sales during 2014. The decrease in non-credit earned premiums reflected fewer non-credit policies written.

Other revenues — other decreased \$3 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to decreased servicing fee revenues for the fees charged by Acquisitions and Servicing for servicing the SpringCastle Portfolio reflecting the liquidating status of the acquired portfolio. These fees are eliminated in consolidated operating results with the servicing fee expenses, which are included in other operating expenses.

(dollars in millions)	Three Months Ended September 30,	
	2015	2014
Salaries and benefits - Consumer and Insurance	\$89	\$68
Salaries and benefits - Acquisitions and Servicing	7	7
Total	\$96	\$75

Salaries and benefits — Consumer and Insurance increased \$21 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to higher variable compensation reflecting increased originations of personal loans and increased staffing in our centralized operations. This increase also reflected the redistribution of the allocation of salaries and benefit expenses from our Real Estate segment as a result of the real estate loan sales in 2014.

(dollars in millions)	Three Months Ended September 30,	
	2015	2014
Other operating expenses - Consumer and Insurance	\$60	\$49
Other operating expenses - Acquisitions and Servicing	20	22
Total	\$80	\$71

Other operating expenses — Consumer and Insurance increased \$11 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to: (i) higher advertising expenses reflecting our increased focus on e-commerce and social media marketing and our marketing efforts on our auto loan product during 2015; (ii) higher occupancy costs resulting from increased general maintenance costs of our branches; and (iii) higher information technology expenses reflecting increased depreciation and software maintenance as a result of software purchases and the capitalization of internally developed software. This increase also reflected the redistribution of the allocation of other operating expenses as a result of the real estate loan sales in 2014.

Other operating expenses — Acquisitions and Servicing decreased \$2 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to decreased credit, collection and losses reflecting the improved credit quality and the liquidation status of the acquired portfolio.

Insurance losses and loss adjustment expenses decreased \$4 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to favorable variances in benefit reserves.

Table of Contents

## Comparison of Pretax Operating Results for Nine Months Ended September 30, 2015 and 2014

(dollars in millions)	Nine Months Ended September 30,	
	2015	2014
Interest income:		
Finance charges - Consumer and Insurance	\$818	\$666
Finance charges - Acquisitions and Servicing	361	414
Total	\$1,179	\$1,080

Finance charges — Consumer and Insurance increased \$152 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to increases in average net receivables, partially offset by a decrease in yield. Average net receivables increased for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to increased originations on personal loans resulting from our continued focus on personal loans, including the launch of our auto loan product in June of 2014. At September 30, 2015, we had over 69,000 auto loans totaling \$825 million compared to 6,800 auto loans totaling \$89 million at September 30, 2014. Yield decreased for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to the higher proportion of our auto loan product, which generally has lower yields.

Finance charges — Acquisitions and Servicing decreased \$53 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower average net receivables reflecting the liquidating status of the acquired portfolio.

(dollars in millions)	Nine Months Ended September 30,	
	2015	2014
Interest expense - Consumer and Insurance	\$119	\$122
Interest expense - Acquisitions and Servicing	67	58
Total	\$186	\$180

Interest expense — Consumer and Insurance decreased \$3 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to a reduction in the utilization of financing from unsecured notes that was replaced by consumer loan securitizations, which generally have lower interest rates. This decrease was partially offset by additional funding required to support increased originations of personal loans.

Interest expense — Acquisitions and Servicing increased \$9 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to the refinance of the SpringCastle 2013-A Notes in October 2014, which resulted in an increase in average debt.

(dollars in millions)	Nine Months Ended September 30,	
	2015	2014
Provision for finance receivable losses - Consumer and Insurance	\$172	\$149
Provision for finance receivable losses - Acquisitions and Servicing	69	121
Total	\$241	\$270

Provision for finance receivable losses — Consumer and Insurance increased \$23 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to higher net charge-offs on our personal loans during the 2015 period primarily due to growth in our personal loans during the past twelve months and

a higher personal loan delinquency ratio at September 30, 2015.

Provision for finance receivable losses — Acquisitions and Servicing decreased \$52 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower net charge-offs on the SpringCastle Portfolio reflecting improvements in servicing of the acquired portfolio and its liquidating status.

Table of Contents

Insurance revenues decreased \$9 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to decreases in credit and non-credit earned premiums. The decrease in credit earned premiums reflected the cancellations of dwelling policies as a result of the real estate loan sales during 2014. The decrease in non-credit earned premiums reflected fewer non-credit policies written.

Investment revenues increased \$8 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to investment income generated from an investment in SpringCastle debt, which is eliminated in our consolidating operating results.

Net loss on fair value adjustments on debt — Acquisitions and Servicing of \$15 million for the nine months ended September 30, 2014 reflected net unrealized loss on fair value adjustments of the long-term debt associated with the securitization of the SpringCastle Portfolio that was accounted for at fair value through earnings.

Other revenues — other decreased \$13 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to decreased servicing fee revenues for the fees charged by Acquisitions and Servicing for servicing the SpringCastle Portfolio reflecting the liquidating status of the acquired portfolio. These fees are eliminated in consolidated operating results with the servicing fee expenses, which are included in other operating expenses.

(dollars in millions)	Nine Months Ended	
	September 30, 2015	2014
Salaries and benefits - Consumer and Insurance	\$255	\$210
Salaries and benefits - Acquisitions and Servicing	22	25
Total	\$277	\$235

Salaries and benefits — Consumer and Insurance increased \$45 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to higher variable compensation reflecting increased originations of personal loans and increased staffing in our centralized operations. This increase also reflected the redistribution of the allocation of salaries and benefit expenses from our Real Estate segment as a result of the real estate loan sales in 2014.

(dollars in millions)	Nine Months Ended	
	September 30, 2015	2014
Other operating expenses - Consumer and Insurance	\$163	\$124
Other operating expenses - Acquisitions and Servicing	60	69
Total	\$223	\$193

Other operating expenses — Consumer and Insurance increased \$39 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to: (i) higher advertising expenses reflecting our increased focus on e-commerce and social media marketing and our marketing efforts on our auto loan product during 2015; (ii) higher professional fees relating to legal and audit services; (iii) higher credit, collection and losses reflecting growth in personal loans, including our auto loan product; (iv) higher occupancy costs resulting from increased general maintenance costs of our branches and higher leasehold improvement amortization expense from the servicing facilities added in 2014; and (v) higher information technology expenses reflecting increased depreciation and software maintenance as a result of software purchases and the capitalization of internally developed software. This increase also reflected the redistribution of the allocation of other operating expenses as a result of the real estate loan sales in 2014.

Other operating expenses — Acquisitions and Servicing decreased \$9 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to decreased credit, collection and losses reflecting the improved credit quality and the liquidation status of the acquired portfolio.

Insurance losses and loss adjustment expenses decreased \$5 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to favorable variances in claim reserves and benefit reserves.

Table of Contents

## Reconciliation of Income before Provision for Income Taxes on Historical Accounting Basis to Pretax Core Earnings

Pretax core earnings is a key performance measure used by management in evaluating the performance of our Core Consumer Operations. Pretax core earnings represents our income before provision for income taxes on a historical accounting basis and excludes results of operations from our non-core portfolio (Real Estate) and other non-originating legacy operations, gains (losses) resulting from accelerated long-term debt repayment and repurchases of long-term debt related to Core Consumer Operations (attributable to SHI), gains (losses) on fair value adjustments on debt related to Core Consumer Operations (attributable to SHI), and results of operations attributable to non-controlling interests. Pretax core earnings provides us with a key measure of our Core Consumer Operations' performance as it assists us in comparing its performance on a consistent basis. Management believes pretax core earnings is useful in assessing the profitability of our core business and uses pretax core earnings in evaluating our operating performance. Pretax core earnings is a non-GAAP measure and should be considered in addition to, but not as a substitute for or superior to, operating income, net income, operating cash flow, and other measures of financial performance prepared in accordance with U.S. GAAP.

The following is a reconciliation of income before provision for income taxes on a historical accounting basis to pretax core earnings:

(dollars in millions)	Three Months Ended September 30, 2015		2014		Nine Months Ended September 30, 2015		2014	
Income before provision for income taxes - historical accounting basis *	\$59		\$350		\$180		\$424	
Adjustments:								
Pretax operating (income) loss - Non-Core Portfolio Operations	47		(215	)	138		(87	)
Pretax operating loss - Other/non-originating legacy operations	30		2		88		12	
Net loss from accelerated repayment/repurchase of debt - Core Consumer Operations (attributable to SHI)	—		—		—		1	
Net (gain) loss on fair value adjustments on debt - Core Consumer Operations (attributable to SHI)	—		(1	)	—		7	
Pretax operating income attributable to non-controlling interests	(31	)	(35	)	(93	)	(82	)
Pretax core earnings	\$105		\$101		\$313		\$275	

\* See reconciliation of income before provision for income taxes on a push-down accounting basis to a historical accounting basis, which is presented prior to "Segment Results".



Table of Contents

## NON-CORE PORTFOLIO

Pretax operating results for Real Estate (which are reported on a historical accounting basis) were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Finance charges	\$ 14	\$ 53	\$ 43	\$ 338
Finance receivables held for sale originated as held for investment	3	42	9	49
Total interest income	17	95	52	387
Interest expense	58	84	177	291
Net interest income (loss)	(41	) 11	(125	) 96
Provision for finance receivable losses	(4	) 37	(7	) 119
Net interest loss after provision for finance receivable losses	(37	) (26	) (118	) (23
Other revenues:				
Investment	—	(1	) 8	(1
Net loss on repurchases and repayments of debt	—	—	—	(10
Net gain on fair value adjustments on debt	—	—	—	8
Net gain on sales of real estate loans and related trust assets *	—	280	—	195
Other	(2	) (2	) (4	) (4
Total other revenues	(2	) 277	4	188
Other expenses:				
Operating expenses:				
Salaries and benefits	3	18	9	35
Other operating expenses	5	18	15	43
Total other expenses	8	36	24	78
Pretax operating income (loss)	\$(47	) \$215	\$(138	) \$87

For purposes of our segment reporting presentation, we have combined the lower of cost or fair value adjustments recorded on the date the real estate loans were transferred to finance receivables held for sale with the final gain (loss) on the sales of these loans.

Table of Contents

Selected financial statistics for Real Estate (which are reported on a historical accounting basis) were as follows:

(dollars in millions)	Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
	2015	2014	2015	2014
Real Estate				
Finance receivables held for investment:				
Net finance receivables			\$591	\$702
Number of accounts			19,001	25,362
TDR finance receivables				
Allowance for finance receivable losses - TDR			\$53	\$56
Provision for finance receivable losses - TDR	\$1	\$9	\$3	\$75
Average net receivables	\$605	\$2,909	\$633	\$6,613
Yield	9.15	% 7.31	% 9.11	% 6.84
Loss ratio *	3.29	% 2.99	% 3.95	% 1.94
Delinquency ratio			7.25	% 7.31
Finance receivables held for sale:				
Net finance receivables			\$186	\$494
Number of accounts			3,283	7,427
TDR finance receivables			\$189	\$486

The loss ratio for the nine months ended September 30, 2014 reflects \$2 million of recoveries on charged-off real estate loans resulting from a sale of previously charged-off real estate loans in March of 2014. Excluding these recoveries, our Real Estate loss ratio would have been 1.99% for the nine months ended September 30, 2014.

#### Comparison of Pretax Operating Results for Three Months Ended September 30, 2015 and 2014

Finance charges decreased \$39 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to decreases in average net receivables, partially offset by an increase in yield. Average net receivables decreased for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to the continued liquidation of the real estate portfolio, including the transfers of real estate loans with a total carrying value of \$7.2 billion to finance receivables held for sale and the subsequent sales of nearly all of these real estate loans during 2014. The increase in yield for the three months ended September 30, 2015 reflected a higher proportion of our remaining real estate loans that are secured by second mortgages, which generally have higher yields.

Interest income on real estate loans held for sale decreased \$39 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower average real estate loans held for sale during the 2015 period.

Interest expense decreased \$26 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to the sales of the Company's beneficial interests in the mortgage-backed retained certificates during 2014 and the resulting deconsolidation of the securitization trusts and their outstanding certificates

reflected as long-term debt.

Provision for finance receivable losses decreased \$41 million for the three months ended September 30, 2015 when compared to the same period in 2014. The decrease in provision for finance receivable losses reflected reductions in net charge-offs and the allowance requirements on our real estate loans recorded for the three months ended September 30, 2015, as a result of the transfers of real estate loans with a total carrying value of \$7.2 billion to finance receivables held for sale and the subsequent sales of nearly all of these real estate loans during 2014. This decrease also reflected a lower real estate loan delinquency ratio at September 30, 2015.

## Table of Contents

Net gain on sales of real estate loans and related trust assets of \$280 million for the three months ended September 30, 2014 primarily reflected consideration of amounts greater than the historical carrying value of the real estate loans at the date of sale. The net gain also included proceeds of \$39 million from the related MSR sale. The net gain was partially offset by the lower of cost or fair value adjustments recorded on the dates the real estate loans were transferred to finance receivables held for sale. Consistent with our segment reporting presentation, we have combined the lower of cost or fair value adjustments with the final gain (loss) on the sales of these loans.

Salaries and benefits decreased \$15 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to the redistribution of the allocation of salaries and benefit expenses from our Real Estate segment as a result of the real estate loan sales in 2014.

Other operating expenses decreased \$13 million for the three months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower professional services expenses and credit, collection and losses resulting from the sales of real estate loans during 2014. This decrease also reflected the redistribution of the allocation of other operating expenses as a result of the real estate loan sales in 2014.

### Comparison of Pretax Operating Results for Nine Months Ended September 30, 2015 and 2014

Finance charges decreased \$295 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to decreases in average net receivables, partially offset by an increase in yield. Average net receivables decreased for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to the continued liquidation of the real estate portfolio, including the transfers of real estate loans with a total carrying value of \$7.2 billion to finance receivables held for sale and the subsequent sales of nearly all of these real estate loans during 2014. The increase in yield for the nine months ended September 30, 2015 reflected a higher proportion of our remaining real estate loans that are secured by second mortgages, which generally have higher yields.

Interest income on real estate loans held for sale decreased \$40 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower average real estate loans held for sale during the 2015 period.

Interest expense decreased \$114 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to the sales of the Company's beneficial interests in the mortgage-backed retained certificates during 2014 and the resulting deconsolidation of the securitization trusts and their outstanding certificates reflected as long-term debt.

Provision for finance receivable losses decreased \$126 million for the nine months ended September 30, 2015 when compared to the same period in 2014. The decrease in provision for finance receivable losses reflected reductions in net charge-offs and the allowance requirements on our real estate loans recorded for the nine months ended September 30, 2015, as a result of the transfers of real estate loans with a total carrying value of \$7.2 billion to finance receivables held for sale and the subsequent sales of nearly all of these real estate loans during 2014. This decrease also reflected a lower real estate loan delinquency ratio at September 30, 2015.

Investment revenues of \$8 million for the nine months ended September 30, 2015 reflected investment income generated from investing the proceeds of the real estate loan sales during 2014.

Net loss on repurchases and repayments of debt of \$10 million for the nine months ended September 30, 2014, reflected acceleration of amortization of deferred costs and repurchases of debt at net amounts greater than carrying value.

Net gain on fair value adjustments on debt of \$8 million for the nine months ended September 30, 2014, reflected differences between historical accounting basis and push-down accounting basis. On a historical accounting basis, certain long-term debt components were marked-to-market on a recurring basis and were no longer marked-to-market on a recurring basis after the application of push-down accounting at the time of the Fortress Acquisition.

Net gain on sales of real estate loans and related trust assets of \$195 million for the nine months ended September 30, 2014, primarily reflected consideration of amounts greater than the historical carrying value of the real estate loans at the date of sale. The net gain also included proceeds of \$39 million from the related MSR sale. The net gain was partially offset by the lower of cost or fair value adjustments recorded on the dates the real estate loans were transferred to finance receivables held for sale. Consistent with our segment reporting presentation, we have combined the lower of cost or fair value adjustments with the final gain (loss) on the sales of these loans.

Table of Contents

Salaries and benefits decreased \$26 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to the redistribution of the allocation of salaries and benefit expenses from our Real Estate segment as a result of the real estate loan sales in 2014.

Other operating expenses decreased \$28 million for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to lower professional services expenses and credit, collection and losses resulting from the sales of real estate loans during 2014. This decrease also reflected the redistribution of the allocation of other operating expenses as a result of the real estate loan sales in 2014.

## OTHER

“Other” consists of our other non-originating legacy operations, which are isolated by geographic market and/or distribution channel from our prospective Core Consumer Operations and our Non-Core Portfolio. These operations include our legacy operations in 14 states where we have also ceased branch-based personal lending as a result of our restructuring activities during the first half of 2012, our liquidating retail sales finance portfolio (including our retail sales finance accounts from our dedicated auto finance operation), our lending operations in Puerto Rico and the U.S. Virgin Islands, and the operations of our United Kingdom subsidiary.

Pretax operating results of the Other components (which are reported on a historical accounting basis) were as follows:

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income	\$1	\$5	\$6	\$14
Interest expense	16	2	48	6
Net interest income (loss)	(15	) 3	(42	) 8
Provision for finance receivable losses	—	2	1	7
Net interest income (loss) after provision for finance receivable losses	(15	) 1	(43	) 1
Other revenues:				
Other	—	—	—	1
Total other revenues	—	—	—	1
Other expenses:				
Operating expenses:				
Salaries and benefits	1	2	19	9
Other operating expenses	14	1	26	5
Total other expenses	15	3	45	14
Pretax operating loss	\$(30	) \$(2	) \$(88	) \$(12



Table of Contents

Net finance receivables of the Other components (which are reported on a historical accounting basis) were as follows:

(dollars in millions)	September 30, 2015		2014
Net finance receivables:			
Personal loans	\$19		\$34
Real estate loans	—		7
Retail sales finance	29		59
Total	\$48		\$100

#### Comparison of Pretax Operating Results for Three and/or Nine Months Ended September 30, 2015 and 2014

Interest expense for the three and nine months ended September 30, 2015 when compared to the same periods in 2014 reflected higher interest expense on unsecured debt, which was allocated based on a higher cash balance resulting from the proceeds from the real estate sales in 2014.

Salaries and benefits for the nine months ended September 30, 2015 included non-cash incentive compensation expense of \$15 million recorded in the second quarter of 2015 related to the rights of certain executives to a portion of the cash proceeds from the sale of our common stock by the Initial Stockholder. See Note 2 of the Notes to Condensed Consolidated Financial Statements for further information on the equity offering.

Other operating expenses for the three and nine months ended September 30, 2015 included one-time costs of \$14 million and \$29 million, respectively, related to the Proposed Acquisition. See Note 2 of the Notes to Condensed Consolidated Financial Statements for further information on the pending acquisition. The one-time costs for the nine months ended September 30, 2015 were partially offset by a \$5 million reduction in reserves related to estimated PPI claims during the second quarter of 2015. See Note 14 of the Notes to Condensed Consolidated Financial Statements for further information on the loss contingencies related to PPI claims.

#### Credit Quality

Our customers encompass a wide range of borrowers. In the consumer finance industry, they are described as prime or near-prime at one extreme and non-prime or sub-prime (less creditworthy) at the other. Our customers' incomes are generally near the national median but our customers may vary from national norms as to their debt-to-income ratios, employment and residency stability, and/or credit repayment histories. In general, our customers have lower credit quality and require significant levels of servicing.

Carrying value of finance receivables includes accrued finance charges, unamortized deferred origination costs and unamortized net premiums and discounts on purchased finance receivables. We record an allowance for loan losses to cover expected losses on our 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 by type and by days delinquent:

(dollars in millions)	Personal Loans	SpringCastle Portfolio	Real Estate Loans	Retail Sales Finance	Total
September 30, 2015					
Net finance receivables:					
60-89 days past due	\$48	\$24	\$16	\$1	\$89
90-119 days past due	36	15	4	—	55
120-149 days past due	29	11	3	—	43
150-179 days past due	24	9	2	—	35
180 days or more past due	2	1	12	—	15
Total delinquent finance receivables	139	60	37	1	237
Current	3,851	1,562	497	25	5,935
30-59 days past due	71	45	13	1	130
Total	\$4,061	\$1,667	\$547	\$27	\$6,302

December 31, 2014

Net finance receivables:					
60-89 days past due	\$37	\$31	\$12	\$1	\$81
90-119 days past due	30	19	9	—	58
120-149 days past due	24	16	5	1	46
150-179 days past due	21	14	4	—	39
180 days or more past due	2	2	12	—	16
Total delinquent finance receivables	114	82	42	2	240
Current	3,661	1,839	565	45	6,110
30-59 days past due	56	58	18	1	133
Total	\$3,831	\$1,979	\$625	\$48	\$6,483

**TROUBLED DEBT RESTRUCTURING**

We make modifications to our finance receivables to assist borrowers during times of financial difficulties. When we modify a loan's contractual terms for economic or other reasons related to the borrower's financial difficulties and grant a concession that we would not otherwise consider, we classify that loan as a TDR finance receivable.

Information regarding TDR finance receivables held for investment and held for sale were as follows:

(dollars in millions)	Personal Loans *	SpringCastle Portfolio	Real Estate Loans *	Total
September 30, 2015				
TDR net finance receivables	\$29	\$12	\$200	\$241
Allowance for TDR finance receivable losses	\$7	\$4	\$30	\$41
Number of TDR accounts	10,139	1,557	3,478	15,174
December 31, 2014				
TDR net finance receivables	\$22	\$10	\$196	\$228
Allowance for TDR finance receivable losses	\$1	\$3	\$32	\$36
Number of TDR accounts	8,075	1,159	3,463	12,697



Table of Contents

\*TDR finance receivables held for sale included in the table above were as follows:

(dollars in millions)	Personal Loans	Real Estate Loans	Total
September 30, 2015			
TDR net finance receivables	\$2	\$92	\$94
Number of TDR accounts	746	1,313	2,059
December 31, 2014			
TDR net finance receivables	\$—	\$91	\$91
Number of TDR accounts	—	1,284	1,284

### Liquidity and Capital Resources

We finance the majority of our operating liquidity and capital needs through a combination of cash flows from operations, securitization debt, unsecured debt, and equity. In the future, we plan to finance our operating liquidity and capital needs through a combination of cash flows from operations, securitization debt, unsecured debt, equity, and other corporate debt facilities.

As a holding company, all of the funds generated from our operations are earned by our operating subsidiaries. Our operating subsidiaries' primary cash needs relate to funding our lending activities, our debt service obligations, our operating expenses and, to a lesser extent, expenditures relating to upgrading and monitoring our technology platform, risk systems, and branch locations.

Our insurance subsidiaries maintain reserves as liabilities on the balance sheet to cover future claims for certain insurance products. Claims reserves totaled \$71 million as of September 30, 2015.

At September 30, 2015, we had \$3.9 billion of cash and cash equivalents, and during the nine months ended September 30, 2015, SHI generated a net loss of \$23 million. Our net cash inflow from operating and investing activities totaled \$988 million for the nine months ended September 30, 2015. At September 30, 2015, our scheduled principal and interest payments on our existing debt (excluding securitizations) totaled \$892 million for the remainder of 2015 and \$678 million for 2016. As of September 30, 2015, we had \$1.6 billion UPB of unencumbered personal loans (including \$115 million held for sale) and \$838 million UPB of unencumbered real estate loans (including \$247 million held for sale).

Based on our estimates and taking into account the risks and uncertainties of our plans, we believe that we will have adequate liquidity to finance and operate our businesses and repay our obligations as they become due for at least the next twelve months. In addition, we anticipate financing the purchase price of the Proposed Acquisition through cash on hand, which resulted from a combination of the sale of investment securities, the recent equity offering, issuance of debt securities, and securitizations.

### LIQUIDITY

#### Operating Activities

Net cash provided by operations of \$395 million for the nine months ended September 30, 2015 reflected net income of \$70 million, the impact of non-cash items, and a favorable change in working capital of \$10 million. Net cash provided by operations of \$336 million for the nine months ended September 30, 2014 reflected net income of \$633

million, the impact of non-cash items, and a favorable change in working capital of \$45 million.

#### Investing Activities

Net cash provided by investing activities decreased \$2.2 billion for the nine months ended September 30, 2015 when compared to the same period in 2014 primarily due to the sales of real estate loans held for sale originated as held for investment during 2014. This decrease was partially offset by the sale of investment securities during 2015.

## Table of Contents

### Financing Activities

Net cash provided by financing activities of \$2.0 billion for the nine months ended September 30, 2015 reflected the debt issuances associated with the 2015-A and 2015-B securitizations and the equity offering. Net cash used by financing activities of \$1.6 billion for the nine months ended September 30, 2014 was primarily due to the repayments of the secured term loan and the 2013-BAC trust notes in late March of 2014.

### Liquidity Risks and Strategies

SFC's credit ratings are non-investment grade, which have a significant impact on our cost of, and access to, capital. This, in turn, can negatively affect our ability to manage our liquidity and our ability or cost to refinance our indebtedness.

There are numerous risks to our financial results, liquidity, capital raising, and debt refinancing plans, some of which may not be quantified in our current liquidity forecasts. These risks include, but are not limited, to the following:

- our inability to grow or maintain our personal loan portfolio with adequate profitability;
- the effect of federal, state and local laws, regulations, or regulatory policies and practices;
- our ability to finance the Proposed Acquisition;
- potential liability relating to real estate and personal loans which we have sold or may sell in the future, or relating to securitized loans; and
- the potential for disruptions in the debt and equity markets.

The principal factors that could decrease our liquidity are customer delinquencies and defaults, a decline in customer prepayments, a prolonged inability to adequately access capital market funding, and the funding requirements for the Proposed Acquisition. We intend to support our liquidity position by utilizing the following strategies:

- maintaining disciplined underwriting standards and pricing for loans we originate or purchase and managing purchases of finance receivables;
- pursuing additional debt financings (including new securitizations and new unsecured debt issuances, debt refinancing transactions and standby funding facilities), or a combination of the foregoing;
- purchasing portions of our outstanding indebtedness through open market or privately negotiated transactions with third parties or pursuant to one or more tender or exchange offers or otherwise, upon such terms and at such prices, as well as with such consideration, as we may determine; and
- obtaining secured revolving credit facilities to allow us to use excess cash to pay down higher cost debt.

However, it is possible that the actual outcome of one or more of our plans could be materially different than expected or that one or more of our significant judgments or estimates could prove to be materially incorrect.

### OUR INSURANCE SUBSIDIARIES

State law restricts the amounts our insurance subsidiaries, Merit and Yosemite, may annually pay as dividends without prior notice to the Indiana Department of Insurance (the "DOI"). The maximum amount of dividends (referred to as "ordinary dividends") that can be paid without prior DOI approval in any 12 month period (measured retrospectively from the date of last payment) is the greater of: (1) 10% of policyholders' surplus as of the prior year-end; or (2) the net gain from operations as of the prior year-end. Any greater amount must be approved by the DOI prior to its payment. These approved dividends are called "extraordinary dividends". Merit and Yosemite each paid \$50 million of extraordinary dividends to SFC during the second quarter of 2015.

## OUR DEBT AGREEMENTS

The debt agreements to which SFC and its subsidiaries are a party include customary terms and conditions, including covenants and representations and warranties. Some or all of these agreements also contain certain restrictions, including restrictions on the ability to create senior liens on property and assets in connection with any new debt financings and SFC's ability to sell or convey all or substantially all of its assets, unless the transferee assumes SFC's obligations under the applicable debt agreement.

With the exception of SFC's junior subordinated debenture, none of our debt agreements require SFC or any of its subsidiaries to meet or maintain any specific financial targets or ratios.

Table of Contents

Under our debt agreements, certain events, including non-payment of principal or interest, bankruptcy or insolvency, or a breach of a covenant or a representation or warranty may constitute an event of default and trigger an acceleration of payments. In some cases, an event of default or acceleration of payments under one debt agreement may constitute a cross-default under other debt agreements resulting in an acceleration of payments under the other agreements.

As of September 30, 2015, we were in compliance with all of the covenants under our debt agreements. Additionally, SHI guarantees the payments of principal, premium (if any) and interest on certain senior notes and the junior subordinated debt of SFC. See Note 9 of the Notes to Condensed Financial Statements for further information on these guaranty agreements.

**Junior Subordinated Debenture**

In January of 2007, SFC issued \$350 million aggregate principal amount of 60-year junior subordinated debenture (the “debenture”) under an indenture dated January 22, 2007 (the “Junior Subordinated Indenture”), by and between SFC and Deutsche Bank Trust Company, as trustee. The debenture underlies the trust preferred securities sold by a trust sponsored by SFC. SFC can redeem the debenture at par beginning in January of 2017.

Pursuant to the terms of the debenture, SFC, upon the occurrence of a mandatory trigger event, is required to defer interest payments to the holders of the debenture (and not make dividend payments to SFI) unless SFC obtains non-debt capital funding in an amount equal to all accrued and unpaid interest on the debenture otherwise payable on the next interest payment date and pays such amount to the holders of the debenture. A mandatory trigger event occurs if SFC’s (1) tangible equity to tangible managed assets is less than 5.5% or (2) average fixed charge ratio is not more than 1.10x for the trailing four quarters (where the fixed charge ratio equals earnings excluding income taxes, interest expense, extraordinary items, goodwill impairment, and any amounts related to discontinued operations, divided by the sum of interest expense and any preferred dividends).

Based upon SFC’s financial results for the twelve months ended September 30, 2015, a mandatory trigger event occurred with respect to the payment due in January of 2016 as the average fixed charge ratio was 0.94x. As of September 30, 2015, SFC had not received from SFI the non-debt capital funding necessary to satisfy the January 2016 interest payments required by SFC’s debenture. SFC intends to issue one share of SFC common stock to SFI for \$10.5 million in January of 2016 to satisfy the non-debt capital funding requirement.

**Structured Financings**

We execute private securitizations under Rule 144A of the Securities Act of 1933. As of September 30, 2015, our structured financings consisted of the following:

(dollars in millions)	Initial Note Amounts Issued (a)	Initial Collateral Balance (b)	Current Note Amounts Outstanding	Current Collateral Balance (b)	Current Weighted Average Interest Rate	Collateral Type	Revolving Period
<b>Consumer Securitizations</b>							
SLFMT 2013-A	\$568	\$663	\$249	\$342	2.98	% Personal loans	2 years
SLFMT 2013-B	370	442	370	442	3.99	% Personal loans	3 years
SLFMT 2014-A	559	644	559	644	2.55	% Personal loans	2 years
SLFMT 2015-A	1,163	1,250	1,162	1,250	3.47	% Personal loans	3 years
SLFMT 2015-B	314	335	314	336	3.78	% Personal loans	5 years

Edgar Filing: Springleaf Holdings, Inc. - Form 10-Q

Total consumer securitizations	2,974	3,334	2,654	3,014			
SpringCastle Securitization							
SCFT 2014-A	2,559	2,737	2,030	2,207	3.98	% Personal and junior mortgage loans	N/A (c)
Total secured structured financings	\$5,533	\$6,071	\$4,684	\$5,221			

(a) Represents securities sold at time of issuance or at a later date and does not include retained notes.

80

---



## Table of Contents

(b) Represents UPB of the collateral supporting the issued and retained notes.

(c) Not applicable.

In addition to the structured financings included in the table above, we have access to seven conduit facilities with a total borrowing capacity of \$2.2 billion, as discussed in Note 10 of the Notes to Condensed Consolidated Financial Statements. At September 30, 2015, \$100 million was drawn under these facilities.

Our securitizations have served to partially replace secured and unsecured debt in our capital structure with more favorable non-recourse funding. Our overall funding costs are positively impacted by our increased usage of securitizations as we typically execute these transactions at interest rates significantly below those of our maturing secured and unsecured debt.

The weighted average interest rates on our debt on a historical accounting basis were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	
Weighted average interest rate	5.47	% 5.42	% 5.45	% 5.31	%

## Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements as defined by SEC rules. We had no off-balance sheet exposure to losses associated with unconsolidated VIEs at September 30, 2015 or December 31, 2014, other than certain representations and warranties associated with the sales of the mortgage-backed retained certificates during 2014. As of September 30, 2015, we had no repurchase activity related to these sales.

## Critical Accounting Policies and Estimates

We describe our significant accounting policies used in the preparation of our consolidated financial statements in Note 2 of the Notes to Consolidated Financial Statements in Part II, Item 8 of our 2014 Annual Report on Form 10-K. We consider the following policies to be our most critical accounting policies because they involve critical accounting estimates and a significant degree of management judgment:

- allowance for finance receivable losses;
- purchased credit impaired finance receivables;
- TDR finance receivables; and
- fair value measurements.

We believe the amount of the allowance for finance receivable losses is the most significant estimate we make. See “—Critical Accounting Policies and Estimates — Allowance for Finance Receivable Losses” in Part II, Item 7 of our 2014 Annual Report on Form 10-K for further discussion of the models and assumptions used to assess the adequacy of the allowance for finance receivable losses and Note 5 of the Notes to Condensed Consolidated Financial Statements for period-to-period changes in the components of our allowance for finance receivable losses.

There have been no significant changes to our critical accounting policies or to our methodologies for deriving critical accounting estimates during the nine months ended September 30, 2015.

## Recent Accounting Pronouncements

See Note 3 of the Notes to Condensed Consolidated Financial Statements for discussion of recently issued accounting pronouncements.

Table of Contents

## Seasonality

Our personal loan volume is generally highest during the second and fourth quarters of the year, primarily due to marketing efforts, seasonality of demand, and increased traffic in branches after the winter months. Demand for our personal loans is usually lower in January and February after the holiday season and as a result of tax refunds. Delinquencies on our personal loans are generally lowest in the first quarter and tend to rise throughout the remainder of the year. The seasonal trends in personal loan volume and delinquencies contribute to fluctuations in our operating results and cash needs throughout the year.

## Glossary of Terms

Average debt	average of debt for each day in the period
Average net receivables	average of net finance receivables at the beginning and end of each month in the period
Charge-off ratio	annualized net charge-offs as a percentage of the average of net finance receivables at the beginning of each month in the period
Delinquency ratio	UPB 60 days or more past due (greater than three payments unpaid) as a percentage of UPB
Gross charge-off ratio	annualized gross charge-offs as a percentage of the average of net finance receivables at the beginning of each month in the period
Trust Preferred Securities	capital securities classified as debt for accounting purposes but due to their terms are afforded, at least in part, equity capital treatment in the calculation of effective leverage by rating agencies
Loss ratio	annualized net charge-offs, net writedowns on real estate owned, net gain (loss) on sales of real estate owned, and operating expenses related to real estate owned as a percentage of the average of real estate loans at the beginning of each month in the period
Net interest income	interest income less interest expense
Recovery ratio	annualized recoveries on net charge-offs as a percentage of the average of net finance receivables at the beginning of each month in the period
Tangible equity	total equity less accumulated other comprehensive income or loss
Weighted average interest rate	annualized interest expense as a percentage of average debt
Yield	annualized finance charges as a percentage of average net receivables

## Table of Contents

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes to our market risk previously disclosed in Part II, Item 7A of our 2014 Annual Report on Form 10-K.

### Item 4. Controls and Procedures.

#### Evaluation of Disclosure Controls and Procedures

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our periodic reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. Based on this evaluation, and in light of the previously identified material weakness in our internal control over financial reporting as of December 31, 2014, described in our 2014 Annual Report on Form 10-K, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2015.

We have taken and continue to take steps to remediate the underlying cause of the material weakness. These steps include strengthening our procedures and controls around validating the functionality of certain spreadsheets and reports used in the preparation and analysis of accounting and financial information, including developing specific guidelines for appropriate review procedures, such as validating inputs, assumptions and formulas, and providing additional training to our current accounting and finance personnel.

These actions are subject to ongoing review by our senior management, as well as oversight by the audit committee of our board of directors. We are placing a high priority on the remediation process and are committed to allocating the necessary resources to the remediation effort. To reduce the potential severity of the deficiency as soon as possible, we have focused our initial efforts on those spreadsheets and reports that present a higher risk of a misstatement. When fully implemented and operating effectively, our efforts are expected to remediate the material weakness. However, we cannot provide any assurance that these efforts will be successful or that they will cause our disclosure controls and procedures or internal control over financial reporting to be effective.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 14 of the Notes to Condensed Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors.

There have been no material changes to our risk factors previously disclosed in Part I, Item 1A of our 2014 Annual Report on Form 10-K and Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits are listed in the Exhibit Index beginning on page 86 herein.

Table of Contents

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPRINGLEAF HOLDINGS, INC.  
(Registrant)

Date: November 9, 2015

By /s/ Minchung (Macrina) Kgil  
Minchung (Macrina) Kgil  
Executive Vice President and Chief Financial Officer  
(Duly Authorized Officer and Principal Financial  
Officer)

Table of Contents

Exhibit Index

Exhibit

2.1	Stock Purchase Agreement, dated as of March 2, 2015, by and between Springleaf Holdings, Inc. and CitiFinancial Credit Company (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on March 3, 2015).
3 a.	Restated Certificate of Incorporation of Springleaf Holdings, Inc. Incorporated by reference to Exhibit (3.1) to our Quarterly Report on Form 10-Q for the period ended September 30, 2013.
b.	Amended and Restated Bylaws of Springleaf Holdings, Inc. Incorporated by reference to Exhibit (3.2) to our Quarterly Report on Form 10-Q for the period ended September 30, 2013.
31.1	Rule 13a-14(a)/15d-14(a) Certifications of the President and Chief Executive Officer of Springleaf Holdings, Inc.
31.2	Rule 13a-14(a)/15d-14(a) Certifications of the Executive Vice President and Chief Financial Officer of Springleaf Holdings, Inc.
32.1	Section 1350 Certifications
101 *	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.

\* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Section 11 and 12 of the Securities and Exchange Act of 1933 and Section 18 of the Securities and Exchange Act of 1934.