Santander Consumer USA Holdings Inc.
Form 10-Q
August 02, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
ýQuarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2017
¨Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-36270
SANTANDER CONSUMER USA HOLDINGS INC.
(Exact Name of Registrant as Specified in Its Charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	¨	Emerging growth company ¨
Non-accelerated filer	¨	Smaller reporting company	¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 31, 2017
Common Stock ($0.01 par value)	359,552,138 shares

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

Cautionary Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements about the Company's expectations, beliefs, plans, predictions, forecasts, objectives, assumptions, or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “anticipates,” “believes,” “can,” “could,” “may,” “predicts,” “potential,” “should,” “will,” “estimate,” “plans,” “projects,” “con “expects,” “intends,” and similar words or phrases. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, these statements are not guarantees of future performance and involve risks and uncertainties which are subject to change based on various important factors, some of which are beyond the Company's control. For more information regarding these risks and uncertainties as well as certain additional risks that the Company faces, refer to the Risk Factors detailed in Item 1A of Part I of the 2016 Annual Report on Form 10-K, as well as factors more fully described in Part I, Item 2, “Management's Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report, including the exhibits hereto, and subsequent reports and registration statements filed from time to time with the SEC. Among the factors that could cause the Company's actual results to differ materially from those suggested by the forward-looking statements are:

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

If one or more of the factors affecting the Company's forward-looking statements proves incorrect, its actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking statements. Therefore, the Company cautions the reader not to place undue reliance on any forward-looking statements. The effect of these factors is difficult to predict. Factors other than these also could adversely affect the Company's results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties as new factors emerge from time to time. Any forward-looking statements only speak as of the date of this document, and the Company undertakes no obligation to update any forward-looking statements, whether written or oral, to reflect any change, except as required by law. All forward-looking statements attributable to the Company are expressly qualified by these cautionary statements.

Glossary

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

2016 Annual Report on Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 28, 2017 and Amendment No. 1 on Form 10-K/A filed with the SEC on March 2, 2017
ABS	Asset-backed securities
Advance Rate	The maximum percentage of collateral that a lender is willing to lend.
Affiliates	A party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity.
ALG	Automotive Lease Guide
APR	Annual Percentage Rate
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Auto Finance Holdings	Sponsor Auto Finance Holdings Series LP, a former investor in SC
Bluestem	Bluestem Brands, Inc., an online retailer for whose customers SC provides financing
Board	SC's Board of Directors
CBP	Citizens Bank of Pennsylvania
CCART	Chrysler Capital Auto Receivables Trust, a securitization platform
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CFO	Chief Financial Officer
Chrysler Agreement	Ten-year private-label financing agreement with FCA
Clean-up Call	The early redemption of a debt instrument by the issuer, generally when the underlying portfolio has amortized to 10% of its original balance
Commission	U.S. Securities and Exchange Commission
Credit Enhancement	A method such as overcollateralization, insurance, or a third-party guarantee, whereby a borrower reduces default risk
DCF	Discounted Cash Flow Analysis
DDFS	Dundon DFS LLC
Dealer Loan	A floorplan line of credit, real estate loan, working capital loan, or other credit extended to an automobile dealer
Dodd-Frank Act	Comprehensive financial regulatory reform legislation enacted by the U.S. Congress on July 21, 2010
DOJ	U.S. Department of Justice
DRIVE	Drive Auto Receivables Trust, a securitization platform
ECOA	Equal Credit Opportunity Act
Employment Agreement	The amended and restated employment agreement, executed as of December 31, 2011, by and among SC, Banco Santander, S.A. and Thomas G. Dundon
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FCA	Fiat Chrysler Automobiles US LLC, formerly Chrysler Group LLC
FICO®	A common credit score created by Fair Isaac Corporation that is used on the credit reports that lenders use to assess an applicant's credit risk. FICO® is computed using mathematical models that take into account five factors: payment history, current level of indebtedness, types of credit used, length of credit history, and new credit
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act of 1989
Floorplan Loan	A revolving line of credit that finances inventory until sold

Federal Reserve	Board of Governors of the Federal Reserve System
FRBB	Federal Reserve Bank of Boston
FTC	Federal Trade Commission
GAP	Guaranteed Auto Protection
IPO	SC's Initial Public Offering
ISDA	International Swaps and Derivative Association

LendingClub	LendingClub Corporation, a peer-to-peer personal lending platform company from which SC acquired loans under terms of flow agreements
Managed Assets	Managed assets included assets (a) owned and serviced by the Company; (b) owned by the Company and serviced by others; and (c) serviced for others
MSA	Master Service Agreement
Nonaccretable Difference	The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows of a portfolio acquired with deteriorated credit quality
OCC	Office of the Comptroller of the Currency
Overcollateralization	A credit enhancement method whereby more collateral is posted than is required to obtain financing
OEM	Original equipment manufacturer
Private-label	Financing branded in the name of the product manufacturer rather than in the name of the finance provider
RC	Risk Committee
Remarketing	The controlled disposal of leased vehicles that have been reached the end of their lease term or of financed vehicles obtained through repossession
Residual Value	The future value of a leased asset at the end of its lease term
RSU	Restricted stock unit
Santander	Banco Santander, S.A.
SBNA	Santander Bank, N.A., a wholly-owned subsidiary of SHUSA. Formerly Sovereign Bank, N.A.
SC	Santander Consumer USA Holdings Inc., a Delaware corporation, and its consolidated subsidiaries
SCI	Santander Consumer International Puerto Rico, LLC
SC Illinois	Santander Consumer USA Inc., an Illinois Corporation and wholly-owned subsidiary of SC
SCRA	Servicemembers Civil Relief Act
SDART	Santander Drive Auto Receivables Trust, a securitization platform
SEC	U.S. Securities and Exchange Commission
Separation Agreement	The Separation Agreement dated July 2, 2015 entered into by Thomas G. Dundon with SC, DDFS LLC, SHUSA, Santander Consumer USA Inc. (the wholly owned subsidiary of SC) and Banco Santander, S.A.
Shareholders Agreement	The Shareholders Agreement dated January 28, 2014, by and among the Company, SHUSA, DDFS, Thomas G. Dundon, Sponsor Auto Finance Holdings Series LP, and, for the certain sections set forth therein, Banco Santander, as amended
SHUSA	Santander Holdings USA, Inc., a wholly-owned subsidiary of Santander and the majority owner of SC
SPAIN	Santander Prime Auto Issuing Note Trust, a securitization platform
Subvention	Reimbursement of the finance provider by a manufacturer for the difference between a market loan or lease rate and the below-market rate given to a customer
TDR	Troubled Debt Restructuring
Trusts	Special purpose financing trusts utilized in SC's financing transactions
U.S. GAAP	U.S. Generally Accepted Accounting Principles
VIE	Variable Interest Entity
Warehouse Line	A revolving line of credit generally used to fund finance receivable originations

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

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents - $78,056 and $98,536 held at affiliates, respectively	$341,412	$160,180
Finance receivables held for sale, net	2,123,103	2,123,415
Finance receivables held for investment, net (includes $30,489 and $24,495 of loans recorded at fair value, respectively)	23,634,914	23,481,001
Restricted cash - $3,563 and $11,629 held at affiliates, respectively	2,756,879	2,757,299
Accrued interest receivable	330,710	373,274
Leased vehicles, net	9,285,718	8,564,628
Furniture and equipment, net of accumulated depreciation of $53,690 and $47,365, respectively	71,432	67,509
Federal, state and other income taxes receivable	97,282	87,352
Related party taxes receivable	467	1,087
Goodwill	74,056	74,056
Intangible assets, net of amortization of $36,865 and $33,652, respectively	32,242	32,623
Due from affiliates	23,146	31,270
Other assets	736,121	785,410
Total assets	$39,507,482	$38,539,104
Liabilities and Equity		
Liabilities:		
Notes payable — credit facilities	$5,624,440	$6,739,817
Notes payable — secured structured financings	23,747,907	21,608,889
Notes payable — related party	2,276,179	2,975,000
Accrued interest payable	32,743	33,346
Accounts payable and accrued expenses	335,807	379,021
Deferred tax liabilities, net	1,419,820	1,278,064
Due to affiliates	60,467	50,620
Other liabilities	331,386	235,728
Total liabilities	33,828,749	33,300,485
Commitments and contingencies (Notes 5 and 10)		
Equity:		
Common stock, $0.01 par value — 1,100,000,000 shares authorized; 359,633,804 and 359,002,145 shares issued and 359,539,209 and 358,907,550 shares outstanding, respectively	3,595	3,589
Additional paid-in capital	1,664,903	1,657,611
Accumulated other comprehensive income, net	27,860	28,259
Retained earnings	3,982,375	3,549,160
Total stockholders’ equity	5,678,733	5,238,619
Total liabilities and equity	$39,507,482	$38,539,104

See notes to unaudited condensed consolidated financial statements.

SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (Dollars in thousands)

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

	June 30, 2017	December 31, 2016
Assets		
Restricted cash	$2,241,994	$2,087,177
Finance receivables held for sale, net	1,125,388	1,012,277
Finance receivables held for investment, net	23,002,595	22,919,312
Leased vehicles, net	9,285,718	8,564,628
Various other assets	658,016	686,253
Total assets	$36,313,711	$35,269,647
Liabilities		
Notes payable	$30,374,177	$31,659,203
Various other liabilities	121,803	91,234
Total liabilities	$30,495,980	$31,750,437

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

See notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Interest on finance receivables and loans	$1,232,252	$1,271,741	$2,441,438	$2,557,936
Leased vehicle income	429,264	368,358	847,497	698,150
Other finance and interest income	5,205	3,890	9,030	7,802
Total finance and other interest income	1,666,721	1,643,989	3,297,965	3,263,888
Interest expense — Including $36,791, $28,997, $74,515 and $60,683 to affiliates, respectively	233,371	198,594	460,460	383,329
Leased vehicle expense	298,224	243,140	588,395	464,500
Net finance and other interest income	1,135,126	1,202,255	2,249,110	2,416,059
Provision for credit losses	520,555	511,921	1,155,568	1,172,091
Net finance and other interest income after provision for credit losses	614,571	690,334	1,093,542	1,243,968
Profit sharing	8,443	17,846	16,388	29,240
Net finance and other interest income after provision for credit losses and profit sharing	606,128	672,488	1,077,154	1,214,728
Investment losses, net — Including $3,461, zero, $6,180, and zero from affiliates, respectively	(99,522)	(101,309)	(175,921)	(170,365)
Servicing fee income — Including $2,625, $5,055, $5,888 and $9,131 from affiliates, respectively	31,953	42,988	63,637	87,482
Fees, commissions, and other — Including $380, $225, $605 and $450 from affiliates, respectively	91,964	95,623	192,159	197,743
Total other income	24,395	37,302	79,875	114,860
Compensation expense	127,894	123,344	264,156	243,186
Repossession expense	67,269	68,351	138,568	141,896
Other operating costs — Including $22,721, $24, $44,365, and $4,486 to affiliates, respectively	87,252	80,532	184,769	178,001
Total operating expenses	282,415	272,227	587,493	563,083
Income before income taxes	348,108	437,563	569,536	766,505
Income tax expense	83,433	154,218	161,434	274,861
Net income	$264,675	$283,345	$408,102	$491,644
Net income	$264,675	$283,345	$408,102	$491,644
Other comprehensive income (loss):				
Change in unrealized gains (losses) on cash flow hedges, net of tax of $(4,231), $8,745, $96, and $31,478, respectively	(7,644)	(14,701)	(399)	(52,891)
Comprehensive income	$257,031	$268,644	$407,703	$438,753
Net income per common share (basic)	$0.74	$0.79	$1.14	$1.37
Net income per common share (diluted)	$0.74	$0.79	$1.13	$1.37
Weighted average common shares (basic)	359,461,407	358,218,378	359,284,213	358,096,634
Weighted average common shares (diluted)	359,828,690	359,867,806	359,928,003	359,426,918

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance — January 1, 2016	357,946	$ 3,579	$ 1,644,151	$ 2,125	$ 2,782,694	$ 4,432,549
Stock issued in connection with employee incentive compensation plans	377	4	1,945	—	—	1,949
Stock-based compensation expense	—	—	3,853	—	—	3,853
Tax sharing with affiliate	—	—	(392)	—	—	(392)
Net income	—	—	—	—	491,644	491,644
Other comprehensive income (loss), net of taxes	—	—	—	(52,891)	—	(52,891)
Balance — June 30, 2016	358,323	$ 3,583	$ 1,649,557	$ (50,766)	$ 3,274,338	$ 4,876,712
Balance — January 1, 2017	358,908	$ 3,589	$ 1,657,611	$ 28,259	$ 3,549,160	$ 5,238,619
Cumulative-effect adjustment upon adoption of ASU 2016-09 (Note 1)	—	—	1,439	—	25,113	26,552
Stock issued in connection with employee incentive compensation plans	631	6	1,771	—	—	1,777
Stock-based compensation expense	—	—	4,084	—	—	4,084
Tax sharing with affiliate	—	—	(2)	—	—	(2)
Net income	—	—	—	—	408,102	408,102
Other comprehensive income (loss), net of taxes	—	—	—	(399)	—	(399)
Balance — June 30, 2017	359,539	$ 3,595	$ 1,664,903	$ 27,860	$ 3,982,375	$ 5,678,733

See notes to unaudited condensed consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$408,102	$491,644
Adjustments to reconcile net income to net cash provided by operating activities		
Derivative mark to market	(615)	8,576
Provision for credit losses	1,155,568	1,172,091
Depreciation and amortization	643,365	511,636
Accretion of discount	(134,103)	(190,187)
Originations and purchases of receivables held for sale	(1,709,053)	(2,441,846)
Proceeds from sales of and collections on receivables held for sale	1,624,515	1,604,050
Change in revolving personal loans	(78,697)	(310,103)
Investment losses, net	175,921	170,365
Stock-based compensation	4,084	3,853
Deferred tax expense	168,407	262,732
Changes in assets and liabilities:		
Accrued interest receivable	23,723	41
Accounts receivable	(8,904)	5,206
Federal income tax and other taxes	(9,312)	193,417
Other assets	(15,809)	(77,301)
Accrued interest payable	(2,954)	7,243
Other liabilities	(48,221)	(83,007)
Due to/from affiliates	19,787	(12,384)
Net cash provided by operating activities	2,215,804	1,316,026
Cash flows from investing activities:		
Originations of and disbursements on finance receivables held for investment	(6,189,385)	(6,460,531)
Purchases of portfolios of finance receivables held for investment	(152,208)	(290,020)
Collections on finance receivables held for investment	5,167,719	5,276,264
Proceeds from sale of loans held for investment	412	823,877
Leased vehicles purchased	(3,042,480)	(3,323,553)
Manufacturer incentives received	556,860	785,512
Proceeds from sale of leased vehicles	1,282,533	705,300
Change in revolving personal loans	39,322	259,977
Purchases of furniture and equipment	(11,623)	(18,063)
Sales of furniture and equipment	230	1,871
Change in restricted cash	(14,183)	(474,351)
Other investing activities	(4,160)	(4,496)
Net cash used in investing activities	(2,366,963)	(2,718,213)
Cash flows from financing activities:		
Proceeds from notes payable related to secured structured financings — net of debt issuance costs	9,335,625	7,949,111
Payments on notes payable related to secured structured financings	(7,206,766)	(6,090,497)
Proceeds from unsecured notes payable	5,515,000	3,789,420
Payments on unsecured notes payable	(4,885,577)	(3,528,442)

Proceeds from notes payable	11,380,056	12,738,469
Payments on notes payable	(13,810,397)	(13,399,272)
Proceeds from stock option exercises, gross	4,450	2,554
Net cash provided by financing activities	332,391	1,461,343
Net increase in cash and cash equivalents	181,232	59,156
Cash — Beginning of period	160,180	18,893
Cash — End of period	$341,412	$78,049
Noncash investing and financing transactions:		
Transfer of secured notes payable to (from) unsecured notes payable	$(495,991)	$(260,979)
Unsettled Clean-up Calls	(74,405)	—

See notes to unaudited condensed consolidated financial statements.

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

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

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

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

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

As of June 30, 2017, the Company was owned approximately 58.7% by Santander Holdings USA, Inc. (SHUSA), a subsidiary of Banco Santander, S.A. (Santander), approximately 31.6% by public shareholders, approximately 9.7% by DDFS LLC, an entity affiliated with Thomas G. Dundon, the Company's former Chairman and CEO, and an insignificant amount held by other holders, primarily members of senior management.

Basis of Presentation

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

The accompanying condensed consolidated financial statements as of June 30, 2017 and December 31, 2016, and for the three and six months ended June 30, 2017 and 2016, have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of the financial position, results of operations and cash flows for the periods indicated. Results of operations for the periods presented herein are not necessarily indicative of results of operations for the entire year. These financial statements should be read in conjunction with the 2016 Annual Report on Form 10-K.

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

Business Segment Information

The Company has one reportable segment: Consumer Finance, which includes the Company's vehicle financial products and services, including retail installment contracts, vehicle leases, and dealer loans, as

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well as financial products and services related to motorcycles, recreational vehicles, and marine vehicles. It also includes the Company's personal loan and point-of-sale financing operations.

Accounting Policies

There have been no material changes in the Company's accounting policies from those disclosed in Part II, Item 8 - Financial Statements and Supplementary Data in the 2016 Annual Report on Form 10-K.

Recently Adopted Accounting Standards

Since January 1, 2017, the Company adopted the following Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASUs):

- ASU 2016-09, Compensation - Stock Compensation (Topic 718). This new guidance simplifies certain aspects related to income taxes, the Statement of Cash Flows (SCF), and forfeitures when accounting for share-based payment transactions. ASU 2016-09 eliminates the requirement to recognize excess tax benefits in APIC pools, and instead requires companies to record all excess tax benefits and deficiencies at settlement, vesting or expiration in the income statement as provision for income taxes. At adoption of ASU 2016-09 on January 1, 2017, the cumulative-effect for previously unrecognized excess tax benefits totaled $26,552 net of tax, and was recognized, as an increased, through an adjustment in beginning retained earnings. The Company recorded excess tax benefits, net of tax of $194 and $241 in the provision for income taxes rather than as an increase to additional paid-in capital for the three and six months ended June 30, 2017, respectively, on a prospective basis. Therefore, the prior period presented has not been adjusted. All excess tax benefits along with other income tax cash flows will now be classified as an operating activity rather than financing activities in the SCF on a prospective basis.

In addition, the Company changed its accounting policy on forfeitures from previously recognizing forfeitures based on estimating the number of awards expected to be forfeited to electing to recognize forfeiture of awards as they occur to simplify the accounting for forfeitures. This resulted in a cumulative adjustment, as a decrease to, beginning retained earnings of $1,439.

- ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The new guidance clarifies that a change in the counterparties to a derivative contract, i.e., a novation, in and of itself, does not require the de-designation of a hedging relationship. An entity will, however, still need to evaluate whether it is probable that the counterparty will perform under the contract as part of its ongoing effectiveness assessment for hedge accounting. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations or cash flows.
- ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. This new guidance clarifies that an exercise contingency does not need to be evaluated to determine whether it relates to interest rates and credit risk in an embedded derivative analysis of hybrid financial instruments. In other words, a contingent put or call option embedded in a debt instrument would be evaluated for possible separate accounting as a derivative instrument without regard to the nature of the exercise contingency. However, as required under existing guidance, companies will still need to evaluate other relevant embedded derivative guidance, such as whether the payoff from the contingent put or call option is adjusted based on changes in an index other than interest rates or credit risk, and whether the debt involves a substantial premium or discount. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations or cash flows.
- ASU 2016-07, Investments-Equity Method and Joint Ventures (Topic 323). The new guidance eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. Instead, the equity method of accounting should be applied prospectively from the date significant influence is obtained. Investors should add the cost of acquiring the additional interest in the investee (if any) to the current basis of their previously held interest. The new standard also provides specific guidance for available-for-sale securities that become eligible for the equity method of accounting. In those cases, any unrealized gain or loss recorded within accumulated other comprehensive income should be recognized in earnings at the date the investment initially qualifies for the use of the equity method of accounting. The adoption

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

- ASU 2016-17, Consolidation (Topic 810), Interest Held Through Related Parties That Are Under Common Control, which amends the guidance in U.S. GAAP on related parties that are under common control. Specifically, the new ASU requires that a single decision maker consider indirect interests held by related parties under common control on a proportionate basis in a manner consistent with its evaluation of indirect interests held through other related parties. The adoption of this ASU did not have a material impact on the Company’s financial position, results of operations or cash flows.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), superseding the revenue recognition requirements in ASC 605. This ASU requires an entity to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment includes a five-step process to assist an entity in achieving the main principle(s) of revenue recognition under ASC 605. In August 2015, the FASB issued ASU 2015-14, which formalized the deferral of the effective date of the amendment for a period of one year from the original effective date. Following the issuance of ASU 2015-14, the amendment will be effective for the Company for the first annual period beginning after December 15, 2017. In March 2016, the FASB also issued ASU 2016-08, an amendment to the guidance in ASU 2014-09, which revises the structure of the indicators to provide indicators of when the entity is the principal or agent in a revenue transaction, and eliminated two of the indicators (“the entity’s consideration is in the form of a commission” and “the entity is not exposed to credit risk”) in making that determination. This amendment also clarifies that each indicator may be more or less relevant to the assessment depending on the terms and conditions of the contract. In April 2016, the FASB issued ASU 2016-10, which clarifies the implementation guidance on identifying promised goods or services and on determining whether an entity’s promise to grant a license with either a right to use the entity’s intellectual property (which is satisfied at a point in time) or a right to access the entity’s intellectual property (which is satisfied over time). In May 2016, the FASB issued ASU 2016-12, an amendment to ASU 2014-09, which provided practical expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on transition, collectability, non-cash consideration and the presentation of sales and other similar taxes. In December 2016, the FASB issued ASU 2016-20, a separate update for technical corrections and improvements to Topic 606 and other Topics amended by Update 2014-09 to increase stakeholders’ awareness of the proposals and to expedite improvements to Update 2014-09. The amendments, collectively, should be applied retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption.

Because ASU 2014-09 does not apply to revenue associated with leases and financial instruments (including loans and securities), the Company does not expect the new guidance to have a material impact on the elements of its Consolidated Statements of Operations most closely associated with leases and financial instruments (such as interest income, interest expense and investment gain). The Company expects to adopt this ASU in the first quarter of 2018 with a cumulative-effect adjustment to opening retained earnings. The Company’s ongoing implementation efforts include the identification of other revenue streams that are within the scope of the new guidance and reviewing related contracts with customers. Upon adoption of this standard, the Company does not expect the impact to be material to its financial position, results of operation or cash flow and expects the impact to be disclosure only.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This amendment requires that equity investments, except those accounted for under the equity method of accounting or which result in consolidation of the investee, to be measured at fair value, with changes in the fair value being recorded in net income. However, equity investments that do not have readily determinable fair values will be measured at cost less impairment, if any, plus the effect of changes resulting from observable price transactions in orderly transactions or for the identical or similar investment of the same issuer. The amendment also simplifies the impairment assessment of equity instruments that do not have readily determinable fair values, eliminates the requirement to disclose methods and assumptions used to estimate fair value of instruments measured at their amortized cost on the balance sheet, requires that the disclosed fair values of financial instruments represent "exit price," requires entities to separately present in other comprehensive income the portion of the total change in fair value of a liability resulting from instrument-specific credit risk when the fair value option has been elected for that liability, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes, and clarifies that an entity should evaluate the need for a valuation allowance on its deferred tax asset related to its available-for-sale securities in combination with its other deferred tax assets. This amendment will be effective for the Company for the first reporting period beginning after December 15, 2017, with earlier adoption permitted by public entities on a limited basis. Adoption of the amendment must be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, except for amendments related to equity instruments that do not have readily determinable fair values, for which it should be applied prospectively. While the Company is still in the process of evaluating the impacts of the adoption of this ASU, the Company does not expect the impact to be material to its financial position, results of operations, cash flows or disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases, which will, among other impacts, change the criteria under which leases are identified and accounted for as on- or off-balance sheet. The guidance will be effective for the fiscal year beginning after December 15, 2018, including interim periods within that year. Once effective, the new guidance must be applied for all periods presented. The Company does not expect the new guidance to have a material impact on the Consolidated Statements of Income or the Consolidated Statements of Shareholders' Equity, since the Company recognizes assets and liabilities for all of its vehicle lease transactions. The Company will continue to evaluate the impact of the new guidance on its operating leases primarily for office space and computer equipment. Upon adoption, the Company will gross up its balance sheet by the present value of future minimum lease payments for these operating leases.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses, which changes the criteria under which credit losses are measured. The amendment introduces a new credit reserving model known as the Current Expected Credit Loss (CECL) model, which replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to establish credit loss estimates. The guidance will be effective for the fiscal year beginning after December 15, 2019, including interim periods within that year. The Company does not intend to adopt the new standard early and is currently evaluating the impact the new guidance will have on its financial position, results of operations and cash flows; however, it is expected that the new CECL model will alter the assumptions used in calculating the Company's credit losses, given the change to estimated losses for the estimated life of the financial asset, and will likely result in material changes to the Company’s credit and capital reserves.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. This update amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the SCF. The ASU’s amendments add or clarify guidance on eight cash flow issues including debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The guidance will be effective for the fiscal year beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted, including adoption in an interim period, however any adjustments should be reflected as of the beginning of the fiscal year that includes the period of adoption. All of the amended guidance must be adopted in the same period. Upon adoption of this standard, the Company does not expect the impact to be material to its financial position, results of operation or cash flow.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory, which will require an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This eliminates the current exception for all intra-entity transfers of an asset other than inventory that requires deferral of the tax effects until the asset is sold to a third party or otherwise recovered through use. The guidance will be effective for the Company for annual reporting periods beginning after December 15, 2017, including interim reporting periods. Early adoption is permitted at the beginning of an annual reporting period for which annual or interim financial statements have not been issued or made available for issuance. The Company is in the process of evaluating the impacts of the adoption of this ASU.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (A consensus of the FASB Emerging Issues Task Force), which requires that the statement of cash flows include restricted cash in the beginning and end-of-period total amounts shown on the statement of cash flows and that the statement of cash flows explain changes in restricted cash during the period. The guidance will be effective for the Company for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, however, adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company does not expect the adoption of this ASU to have an impact on its financial position, results of operations or cash flows and expects the impact to be disclosure only.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The new guidance revises the definition of a business, potentially affecting areas of accounting such as acquisitions, disposals, goodwill impairment, and consolidation. Under the new guidance, when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the assets acquired (or disposed of) would not represent a business. If this initial screen is met, no further analysis would be required. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create an output. In addition, the amendments narrow the definition of the term "output" so that it is consistent with how outputs are defined in ASC Topic 606, Revenue from Contracts with Customers. This new guidance will be effective for the Company for the first reporting period beginning after December 15, 2017, with earlier adoption permitted. Adoption of the amendments must be applied on a prospective basis. The Company is in the process of evaluating the impacts of the adoption of this ASU.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill & Other (Topic 350): Simplifying the Accounting for Goodwill Impairment. It removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. The new rules state that a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. The revised guidance will be applied prospectively, and is effective January 1, 2020, with early adoption permitted for any impairment tests performed after January 1, 2017. The Company is in the process of evaluating the impacts of the adoption of this ASU.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Entities will apply the modification accounting guidance of the value, vesting conditions or classification of award changes. The new guidance also clarifies that a modification to an award could be significant and therefore require disclosure, even if modification accounting is not required. The guidance will be applied prospectively to awards modified on or after the adoption date and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including in an interim period. The Company does not expect the adoption of this ASU to have an impact on its financial position, results of operations or cash flows.

2. Finance Receivables

Held For Investment

Finance receivables held for investment, net is comprised of the following at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Retail installment contracts acquired individually (a)	$23,410,227	$23,219,724
Purchased receivables	135,186	158,264
Receivables from dealers	65,660	68,707
Personal loans	6,470	12,272
Capital lease receivables (Note 3)	17,371	22,034
Finance receivables held for investment, net	$23,634,914	$23,481,001

(a) The Company has elected the fair value option for certain retail installment contracts reported in finance receivables held for investment, net. As at June 30, 2017 and December 31, 2016, $30,489 and $24,495 of loans were recorded at fair value (Note 13).

The Company's held for investment portfolio of retail installment contracts acquired individually, receivables from dealers, and personal loans is comprised of the following at June 30, 2017 and December 31, 2016:

	June 30, 2017			
	Retail Installment Contracts Acquired Individually		Receivables from Dealers	Personal Loans
	Non-TDR	TDR		
Unpaid principal balance	$21,360,225	$5,880,317	$ 66,373	$11,926
Credit loss allowance - specific	—	(1,686,159)	—	—
Credit loss allowance - collective	(1,760,809)	—	(713)	(4,362)
Discount	(366,051)	(83,946)	—	(1,360)
Capitalized origination costs and fees	61,262	5,388	—	266
Net carrying balance	$19,294,627	$4,115,600	$ 65,660	$6,470

	December 31, 2016			
	Retail Installment Contracts Acquired Individually		Receivables from Dealers	Personal Loans
	Non-TDR	TDR		
Unpaid principal balance	$21,528,406	$5,599,567	$ 69,431	$19,361
Credit loss allowance - specific	—	(1,611,295)	—	—
Credit loss allowance - collective	(1,799,760)	—	(724)	—
Discount	(467,757)	(91,359)	—	(7,721)
Capitalized origination costs and fees	56,704	5,218	—	632
Net carrying balance	$19,317,593	$3,902,131	$ 68,707	$12,272

Retail installment contracts

Retail installment contracts are collateralized by vehicle titles, and the Company has the right to repossess the vehicle in the event the consumer defaults on the payment terms of the contract. Most of the Company’s retail installment contracts held for investment are pledged against warehouse lines or securitization bonds (Note 5). Most of the borrowers on the Company’s retail installment contracts held for investment are retail consumers; however, $700,599 and $848,918 of the unpaid principal balance represented fleet contracts with commercial borrowers as of June 30, 2017 and December 31, 2016, respectively.

During the six months ended June 30, 2017 and 2016, the Company originated $3,389,700 and $4,618,448, respectively, in Chrysler Capital loans which represented 43% and 52%, respectively, of the total retail installment contract originations. Additionally, during the six months ended June 30, 2017 and 2016, the Company originated $3,027,616 and $3,311,909, respectively, in Chrysler Capital leases. As of June 30, 2017 and December 31, 2016, the Company's auto retail installment contract portfolio consisted of $7,231,606 and $7,365,444, respectively, of Chrysler loans which represents 31% and 32%, respectively, of the Company's auto retail installment contract portfolio. Retail installment contracts and vehicle leases entered into with FCA customers, as part of the Chrysler Agreement, represent a significant concentration of those portfolios and there is a risk that the Chrysler Agreement could be terminated prior to its expiration date. Termination of the Chrysler Agreement could result in a decrease in the amount of new retail installment contracts and vehicle leases entered into with FCA customers.

As of June 30, 2017, borrowers on the Company's retail installment contracts held for investment are located in Texas (16%), Florida (12%), California (9%), Georgia (6%) and other states each individually representing less than 5% of the Company's total portfolio.

Purchased receivables

Purchased receivables portfolios, which were acquired with deteriorated credit quality, is comprised of the following at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Outstanding balance	$194,360	$ 231,360
Outstanding recorded investment, net of impairment	136,025	159,451

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Balance — beginning of period	$97,946	$156,336	$107,041	$178,582
Accretion of accretable yield	(10,303)	(19,615)	(21,447)	(40,944)
Reclassifications from (to) nonaccretable difference	351	1,026	2,400	109
Balance — end of period	$87,994	$137,747	$87,994	$137,747

During the three and six months ended June 30, 2017 and 2016, the Company did not acquire any vehicle loan portfolios for which it was probable at acquisition that not all contractually required payments would be collected. However, during the three months ended June 30, 2017 and 2016, the Company recognized certain retail installment contracts with an unpaid principal balance of $74,405 and $191,671, respectively, and for the six months ended June 30, 2017 and 2016, the Company recognized certain retail installment contracts with an unpaid principal balance of $226,613 and $191,671, respectively, held by non-consolidated securitization Trusts, under optional clean-up calls. Following the initial recognition of these loans at fair value, the performing loans in the portfolio are carried at amortized cost, net of allowance for credit losses. The Company elected the fair value option for all non-performing loans acquired (more than 60 days delinquent as of re-recognition date), for which it was probable that not all contractually required payments would be collected (Note 13).

Receivable from Dealers

Receivables from dealers held for investment includes a term loan with a third-party vehicle dealer and lender that operates in multiple states. The loan allowed committed borrowings of $50,000 at June 30, 2017 and December 31, 2016, and the unpaid principal balance of the facility was $50,000 at each of those dates. The term loan will mature on December 31, 2018. The Company had accrued interest on this term loan of $167 and $165 at June 30, 2017 and December 31, 2016, respectively.

The remaining receivables from dealers held for investment are all Chrysler Agreement-related. As of June 30, 2017, borrowers on these dealer receivables are located in Virginia (61%), New York (28%), Missouri (10%) and Wisconsin (1%).

Personal Loans

At September 30, 2016, the Company determined that its intent to sell certain personal revolving loans had changed and now expects to hold these loans through their maturity. The Company recorded a lower of cost or market adjustment through investment gains (losses), net, immediately prior to transferring the loans to finance receivables held for investment at their new recorded investment. The carrying value of these loans was $6,470 and $11,733 at June 30, 2017 and December 31, 2016, respectively.

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Held For Sale

The carrying value of the Company's finance receivables held for sale, net is comprised of the following at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Retail installment contracts acquired individually	$1,151,194	$ 1,045,815
Personal loans	971,909	1,077,600
Finance receivables held for sale, net	$2,123,103	$ 2,123,415

Sales of retail installment contracts to third parties and proceeds from sales of charged-off assets for the three and six months ended June 30, 2017 and 2016 were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Sales of retail installment contracts to third parties	$30,000	$659,224	$260,568	$1,519,179
Proceeds from sales of charged-off assets	27,449	28,844	48,792	35,073

The Company retains servicing of retail installment contracts and leases sold to third parties. Total contracts sold to unrelated third parties and serviced as of June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Serviced balance of retail installment contracts and leases sold to third parties	$7,698,945	$10,116,788

3. Leases

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

Operating Leases

Leased vehicles, net, which is comprised of leases originated under the Chrysler Agreement, consisted of the following as of June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Leased vehicles	$12,935,504	$11,939,295
Less: accumulated depreciation	(2,555,013)	(2,326,342)
Depreciated net capitalized cost	10,380,491	9,612,953
Manufacturer subvention payments, net of accretion	(1,118,459)	(1,066,531)
Origination fees and other costs	23,686	18,206
Net book value	$9,285,718	$8,564,628

Periodically, the Company executes bulk sales of Chrysler Capital leases to a third party. The bulk sale agreements include certain provisions whereby the Company agrees to share in residual losses for lease terminations with losses over a specific percentage threshold (Note 10). The Company has retained servicing on the sold leases. During the three and six months ended June 30, 2017 and 2016, the Company did not execute any bulk sales of leases originated under the Chrysler Capital program.

The following summarizes the future minimum rental payments due to the Company as lessor under operating leases as of June 30, 2017:

Remainder of 2017	$863,043
2018	1,277,777
2019	629,867
2020	87,247
2021	1,243
Thereafter	—
Total	$2,859,177

Capital Leases

Certain leases originated by the Company are accounted for as capital leases, as the contractual residual values are nominal amounts. Capital lease receivables, net consisted of the following as of June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Gross investment in capital leases	$28,314	$ 39,417
Origination fees and other	68	150
Less: unearned income	(4,644)	(7,545)
Net investment in capital leases before allowance	23,738	32,022
Less: allowance for lease losses	(6,367)	(9,988)
Net investment in capital leases	$17,371	$ 22,034

The following summarizes the future minimum lease payments due to the Company as lessor under capital leases as of June 30, 2017:

Remainder of 2017	$6,221
2018	11,911
2019	5,931
2020	2,662
2021	1,431
Thereafter	158
Total	$28,314

4. Credit Loss Allowance and Credit Quality

Credit Loss Allowance

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

For loans classified as TDRs, impairment is generally measured based on the present value of expected future cash flows discounted at the original effective interest rate. For loans that are considered collateral-dependent, such as certain bankruptcy modifications, impairment is measured based on the fair value of the collateral, less its estimated cost to sell. The amount of the allowance is equal to the difference between the loan’s impaired value and the recorded investment.

The Company maintains a general credit loss allowance for receivables from dealers based on risk ratings and individually evaluates loans for specific impairment as necessary. As of June 30, 2017 and 2016, the credit loss allowance for receivables from dealers is comprised of a general allowance of $713 and $837, respectively, as none of these receivables have been determined to be individually impaired.

The activity in the credit loss allowance for individually acquired and dealer loans for the three and six months ended June 30, 2017 and 2016 was as follows:

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016	
	Retail Installment Contracts Acquired Individually	Receivables from Dealers	Personal Loans	Retail Installment Contracts Acquired Individually	Receivables from Dealers
Balance — beginning of period	$3,441,219	$ 734	$4,517	$3,320,227	$ 1,403
Provision for credit losses	518,370	(21)	1,166	514,755	(431)
Charge-offs (a)	(1,111,715)	—	(1,586)	(1,032,517)	(135)
Recoveries	599,094	—	265	620,271	—
Balance — end of period	$3,446,968	$ 713	$4,362	$3,422,736	$ 837

(a) For the three months ended June 30, 2017, charge-offs for retail installment contracts acquired individually includes approximately $25 million for the partial write-down of loans to the collateral value less estimated costs to sell, for which a bankruptcy notice was received. No such charge-offs were recorded for the three months ended June 30, 2016.

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016	
	Retail Installment Contracts Acquired Individually	Receivables from Dealers	Personal Loans	Retail Installment Contracts Acquired Individually	Receivables from Dealers
Balance — beginning of period	$3,411,055	$ 724	$—	$3,197,414	$ 916
Provision for credit losses	1,147,467	(11)	9,141	1,177,881	56
Charge-offs (a)	(2,336,412)	—	(5,218)	(2,183,145)	(135)
Recoveries	1,224,858	—	439	1,230,586	—
Balance — end of period	$3,446,968	$ 713	$4,362	$3,422,736	$ 837

(a) For the six months ended June 30, 2017, charge-offs for retail installment contracts acquired individually includes approximately $48 million for the partial write-down of loans to the collateral value less estimated costs to sell, for which a bankruptcy notice was received. No such charge-offs were recorded for the six months ended June 30, 2016.

The impairment activity related to purchased receivables portfolios for the three and six months ended June 30, 2017 and 2016 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance — beginning of period	$169,323	$170,412	$169,323	$172,308
Incremental reversal of provisions for purchased receivable portfolios	—	(1,894)	—	(3,790)
Balance — end of period	$169,323	$168,518	$169,323	$168,518

The Company estimates lease losses on the capital lease receivable portfolio based on delinquency status and loss experience to date, as well as various economic factors. The activity in the lease loss allowance for capital leases for the three and six months ended June 30, 2017 and 2016 was as follows:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance — beginning of period	$6,605	$15,860	$9,988	$19,878
Provision for lease losses	1,040	(509)	(1,029)	(2,056)
Charge-offs	(3,081)	(10,196)	(6,760)	(22,555)
Recoveries	1,803	7,597	4,168	17,485
Balance — end of period	$6,367	$12,752	$6,367	$12,752

Delinquencies

Retail installment contracts are generally classified as non-performing when they are greater than 60 days past due as to contractual principal or interest payments. See discussion of TDR loans below. Dealer receivables are classified as non-performing when they are greater than 90 days past due. At the time a loan is placed in non-performing status, previously accrued and uncollected interest is reversed against interest income. If an account is returned to a performing status, the Company returns to accruing interest on the contract.

The Company considers an account delinquent when an obligor fails to pay the required minimum portion of the scheduled payment by the due date. With respect to receivables originated by the Company prior to January 1, 2017 and through its “Chrysler Capital” channel, the required minimum payment is 90% of the scheduled payment. With respect to all other receivables originated by the Company or acquired by the Company from an unaffiliated third-party originator prior to January 1, 2017, the required minimum payment is 50% of the scheduled payment. With respect to receivables originated by the Company or acquired by the Company from an unaffiliated third-party originator on or after January 1, 2017, the required minimum payment is 90% of the scheduled payment, regardless of which channel the receivable was originated through. In each case, the period of delinquency is based on the number of days payments are contractually past due.

As of June 30, 2017 and December 31, 2016, a summary of delinquencies on retail installment contracts held for investment portfolio is as follows:

	June 30, 2017		
	Retail Installment Contracts Held for Investment		
	Loans Acquired Individually	Purchased Receivables Portfolios	Total
Principal, 30-59 days past due	$2,701,257	$ 8,349	$2,709,606
Delinquent principal over 59 days (a)	1,412,377	5,084	1,417,461
Total delinquent principal	$4,113,634	$ 13,433	$4,127,067

	December 31, 2016		
	Retail Installment Contracts Held for Investment		
	Loans Acquired Individually	Purchased Receivables Portfolios	Total
Principal, 30-59 days past due	$2,911,800	$ 13,703	$2,925,503
Delinquent principal over 59 days (a)	1,520,105	6,638	1,526,743
Total delinquent principal	$4,431,905	$ 20,341	$4,452,246

(a) Interest is accrued until 60 days past due in accordance with the Company's accounting policy for retail installment contracts.

The balances in the above tables reflect total unpaid principal balance rather than net recorded investment before allowance.

As of June 30, 2017 and December 31, 2016, there were no receivables from dealers that were 30 days or more delinquent. As of June 30, 2017 and December 31, 2016, there were $32,169 and $33,886, respectively, of retail installment contracts held for sale that were 30 days or more delinquent.

Credit Quality Indicators

FICO® Distribution — A summary of the credit risk profile of the Company’s retail installment contracts held for investment by FICO® distribution, determined at origination, as of June 30, 2017 and December 31, 2016 was as follows:

FICO® Band	June 30, 2017	December 31, 2016
Commercial (a)	2.5%	3.1%
No-FICOs	11.9%	12.2%
<540	22.4%	22.1%
540-599	31.9%	31.4%
600-639	17.3%	17.4%
>640	14.0%	13.8%

(a)FICO scores are not obtained on loans to commercial borrowers.
(b)FICO scores are updated quarterly.

Commercial Lending — The Company's risk department performs a commercial analysis and classifies certain loans over an internal threshold based on the commercial lending classifications described in Note 4 of the 2016 Annual Report on Form 10-K. Fleet loan credit quality indicators for retail installment contracts held for investment with commercial borrowers as of June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Pass	$39,944	$ 17,585
Special Mention	9,745	2,790
Substandard	615	1,488
Doubtful	—	—
Loss	114	—
Total	$50,418	$ 21,863

Commercial loan credit quality indicators for receivables from dealers held for investment as of June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Pass	$64,714	$ 67,681
Special Mention	—	—
Substandard	1,659	1,750
Doubtful	—	—
Loss	—	—
Unpaid principal balance	$66,373	$ 69,431

Troubled Debt Restructurings

In certain circumstances, the Company modifies the terms of its finance receivables to troubled borrowers. A modification of finance receivable terms is considered a TDR if the Company grants a concession to a borrower for economic or legal reasons related to the debtor’s financial difficulties that would not otherwise have been considered. Management considers TDRs to include all individually acquired retail installment contracts that have been modified at least once, deferred for a period of 90 days or more, or deferred at least twice. Additionally, restructurings through bankruptcy proceedings are deemed to be TDRs. The purchased receivables portfolio, operating and capital leases, and loans held for sale, including personal loans, are excluded from the scope of the applicable guidance. The Company's TDR balance as of June 30, 2017 and December 31, 2016 primarily consisted of loans that had been deferred or modified to receive a temporary reduction in monthly payment. As of June 30, 2017 and December 31, 2016, there were no receivables from dealers classified as a TDR.

For loans not classified as TDRs, the Company generally estimates an appropriate allowance for credit losses based on delinquency status, the Company's historical loss experience, estimated values of underlying collateral, and various economic factors. Once a loan has been classified as a TDR, it is generally assessed for impairment based on the present value of expected future cash flows discounted at the loan's original effective interest rate considering all available evidence. For loans that are considered collateral-dependent, such as certain bankruptcy modifications, impairment is measured based on the fair value of the collateral, less its estimated cost to sell.

The table below presents the Company’s TDRs as of June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
	Retail Installment Contracts	
Outstanding recorded investment (a)	$5,911,238	$5,637,792
Impairment	(1,686,159)	(1,611,295)
Outstanding recorded investment, net of impairment		