

Edgar Filing: Santander Consumer USA Holdings Inc. - Form 10-Q

Santander Consumer USA Holdings Inc.  
Form 10-Q  
October 29, 2015

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2015

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File Number: 001-36270

SANTANDER CONSUMER USA HOLDINGS INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware	32-0414408
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1601 Elm Street, Suite 800, Dallas, Texas	75201
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code (214) 634-1110	
Not Applicable	
(Former name, former address, and formal fiscal year, if changed since last report)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation ST (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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 company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 23, 2015
Common Stock (\$0.01 par value)	357,902,036 shares

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INDEX

<u>Cautionary Note Regarding Forward-Looking Information</u>	<u>3</u>
<u>PART I: FINANCIAL INFORMATION</u>	<u>6</u>
Item 1. <u>Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Unaudited Condensed Consolidated Balance Sheets</u>	<u>6</u>
<u>Unaudited Condensed Consolidated Statements of Income and Comprehensive Income</u>	<u>7</u>
<u>Unaudited Condensed Consolidated Statements of Equity</u>	<u>8</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	<u>9</u>
<u>Note 1. Description of Business, Basis of Presentation, and Significant Accounting Policies and Practices</u>	<u>10</u>
<u>Note 2. Finance Receivables</u>	<u>12</u>
<u>Note 3. Leases</u>	<u>14</u>
<u>Note 4. Credit Loss Allowance and Credit Quality</u>	<u>15</u>
<u>Note 5. Debt</u>	<u>21</u>
<u>Note 6. Variable Interest Entities</u>	<u>24</u>
<u>Note 7. Derivative Financial Instruments</u>	<u>26</u>
<u>Note 8. Other Assets</u>	<u>29</u>
<u>Note 9. Income Taxes</u>	<u>30</u>
<u>Note 10. Commitments and Contingencies</u>	<u>30</u>
<u>Note 11. Related-Party Transactions</u>	<u>32</u>
<u>Note 12. Computation of Basic and Diluted Earnings per Common Share</u>	<u>37</u>
<u>Note 13. Fair Value of Financial Instruments</u>	<u>37</u>
<u>Note 14. Employee Benefit Plans</u>	<u>40</u>
<u>Note 15. Shareholders' Equity</u>	<u>42</u>
<u>Note 16. Subsequent Events</u>	<u>43</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>44</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>73</u>
Item 4. <u>Controls and Procedures</u>	<u>73</u>
<u>PART II: OTHER INFORMATION</u>	<u>74</u>
Item 1. <u>Legal Proceedings</u>	<u>74</u>
Item	
1A. <u>Risk Factors</u>	<u>74</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>74</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>74</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>74</u>
Item 5. <u>Other Information</u>	<u>74</u>
Item 6. <u>Exhibits</u>	<u>76</u>
<u>SIGNATURES</u>	<u>77</u>
<u>EXHIBITS</u>	

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

#### Cautionary Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions, or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “anticipates,” “believes,” “can,” “could,” “may,” “predicts,” “potential,” “should,” “will,” “estimate,” “plans,” “projects,” “continuing,” “ongoing,” “expects,” or similar words or phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements are not guarantees of future performance and involve risks and uncertainties which are subject to change based on various important factors, some of which are beyond our control. For more information regarding these risks and uncertainties as well as certain additional risks that we face, refer to the Risk Factors detailed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2014, as well as factors more fully described in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report, including the exhibits hereto, and subsequent reports and registration statements filed from time to time with the SEC. Among the factors that could cause our financial performance to differ materially from that suggested by the forward-looking statements are:

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

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

Glossary

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

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

ASU	Accounting Standards Update
Bluestem Board	Bluestem Brands, Inc., an online retailer for whose customers SC provides financing SC's Board of Directors
Capmark	Capmark Financial Group Inc., an investment company
CBP	Citizens Bank of Pennsylvania
CCAR	Comprehensive Capital Analysis and Review
CCART	Chrysler Capital Auto Receivables Trust, a securitization platform
Centerbridge	Centerbridge Partners, L.P., a private equity firm
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CFO	Chief Financial Officer
Chrysler	Fiat Chrysler Automobiles US LLC
Chrysler Agreement	Ten-year private-label financing agreement with Chrysler
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
Credit Enhancement	A method such as overcollateralization, insurance, or a third-party guarantee, whereby a borrower reduces default risk
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
ERM	Enterprise Risk Management
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
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 Line of Credit	A revolving line of credit that finances inventory until sold
FRB	Federal Reserve Bank of Boston
FTC	Federal Trade Commission
IPO	SC's Initial Public Offering
ISDA	International Swaps and Derivative Association
LFS	Loss Forecasting Score
MEP	SC's 2011 Management Equity Plan
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
NPWMD	Non-Proliferation of Weapons of Mass Destruction
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

4

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RC	Risk Committee of the Board
Remarketing	The controlled disposal of leased vehicles that have been reached the end of their lease term or of financed vehicles obtained through repossession
Residual Value	The future value of a leased asset at the end of its lease term
RSU	Restricted stock unit
Santander	Banco Santander, S.A.
SBNA	Santander Bank, N.A., a wholly-owned subsidiary of SHUSA. Formerly Sovereign Bank, N.A.
SC	Santander Consumer USA Holdings Inc., a Delaware corporation, and its consolidated subsidiaries
SCRA	Servicemembers Civil Relief Act
SDART	Santander Drive Auto Receivables Trust, a securitization platform
SEC	U.S. Securities and Exchange Commission
Separation Agreement	The Separation Agreement dated July 2, 2015 entered into by Thomas G. Dundon with SC, DDFS LLC, SHUSA, Santander Consumer USA Inc. (the wholly owned subsidiary of SC) and Banco Santander, S.A.
SHUSA	Santander Holdings USA, Inc., a wholly-owned subsidiary of Santander and the majority owner of SC
SUBI	Special unit of beneficial interest (in a titling trust used to finance leases)
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
Turn-down	A program where by a lender has the opportunity to review a credit application for approval only after the primary lender or lenders have declined the application
U.S. GAAP	U.S. Generally Accepted Accounting Principles
VIE	Variable Interest Entity
Warehouse Facility	A revolving line of credit generally used to fund finance receivable originations

## PART I: FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited) (Dollars in thousands, except per share amounts)

	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 104,552	\$ 33,157
Finance receivables held for sale, net	2,709,944	46,585
Finance receivables held for investment, net	23,464,030	23,915,551
Restricted cash - \$37,917 and \$44,805 held for affiliates, respectively	2,217,879	1,920,857
Accrued interest receivable	394,692	364,676
Leased vehicles, net	6,078,865	4,862,783
Furniture and equipment, net of accumulated depreciation of \$56,219 and \$45,768, respectively	50,642	41,218
Federal, state and other income taxes receivable	256,956	502,035
Related party taxes receivable	—	459
Deferred tax asset	14,488	21,244
Goodwill	74,056	74,056
Intangible assets, net of amortization of \$26,857 and \$21,990, respectively	53,710	53,682
Due from affiliates	63,924	102,457
Other assets	507,490	403,416
Total assets	\$ 35,991,228	\$ 32,342,176
Liabilities and Equity		
Liabilities:		
Notes payable — credit facilities	\$ 6,654,184	\$ 6,402,327
Notes payable — secured structured financings	20,027,111	17,718,974
Notes payable — related party	3,525,000	3,690,000
Accrued interest payable	19,855	17,432
Accounts payable and accrued expenses	378,552	