

Springleaf Holdings, Inc.
Form 10-K
March 16, 2015

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

FORM 10-K

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

For the fiscal year ended December 31, 2014

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)

601 N.W. Second Street, Evansville, IN

(Address of principal executive offices)

27-3379612

(I.R.S. Employer Identification No.)

47708

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value \$0.01 per share

Name of each exchange on which registered

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer 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

The aggregate market value of the voting and non-voting common equity of Springleaf Holdings, Inc. held by non-affiliates as of the close of business on June 30, 2014 was \$636,841,779.

At March 10, 2015, there were 115,058,245 shares of the registrant's common stock, \$.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 10, 11, 12, 13, and 14) will be incorporated by reference from the registrant's Definitive Proxy Statement for its 2015 Annual Meeting to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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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 of OneMain Financial Holdings, Inc. (“OneMain”) from CitiFinancial Credit Company (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;
- unanticipated difficulties financing the purchase price;
- 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;
- 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 for 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;

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- 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;
- the material weakness that we have identified in our internal control over financial reporting; and
- other risks described in “Risk Factors” in Item 1A in Part I of this report.

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.

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PART I

Item 1. Business.

BUSINESS OVERVIEW

Springleaf Holdings, Inc. (“SHI” or, collectively with its subsidiaries, whether directly or indirectly owned, “Springleaf,” “the Company,” “we,” “us,” or “our”) is a leading consumer finance company providing responsible loan products to customers through our branch network and through our centralized operations. We have a nearly 100-year track record of high quality origination, underwriting and servicing of personal loans, primarily to non-prime consumers. Our deep understanding of local markets and customers, together with our proprietary underwriting process and data analytics, allow us to price, manage and monitor risk effectively through changing economic conditions. 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 growth.

We staff each of our branch offices with local, well-trained personnel who have significant experience in the industry and with Springleaf. Our business model revolves around an effective origination, underwriting, and servicing process that leverages each branch office’s local presence in these communities along with the personal relationships developed with our customers. Credit quality is also driven by our long-standing underwriting philosophy, which takes into account each prospective customer’s household budget, and his or her willingness and capacity to repay the loan. Our extensive network of branches and expert personnel is complemented by our centralized operations, which allows us to reach customers located outside our branch footprint and to more effectively process applications from customers within our branch footprint who prefer the convenience of online transactions.

In connection with our personal loan business, our two insurance subsidiaries offer our customers credit and non-credit insurance policies covering our customers and the property pledged as collateral for our personal loans.

We pursue strategic acquisitions of loan portfolios through our Springleaf Acquisitions division, which we service through our centralized operations. We also pursue fee-based opportunities in servicing loans for others through our centralized operations. See “Centralized Operations” for further information on our centralized servicing centers.

In addition, we, from time to time, pursue acquisitions of companies in the business of originating and servicing consumer loans or related products. As part of this strategy, on March 2, 2015, we entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) with CitiFinancial Credit Company to acquire OneMain, which we refer to in this report as the “Proposed Acquisition” and is more fully described in Note 24 of the Notes to Consolidated Financial Statements in Item 8. The Proposed Acquisition is expected to close in the third quarter of 2015, although there can be no assurance that the Proposed Acquisition will close, or, if it does, when the actual closing will occur. At closing, the combined company is expected to have nearly \$14 billion of net finance receivables and close to 2,000 branch offices across 43 states.

At December 31, 2014, we had \$6.5 billion of net finance receivables due from over 1.2 million customer accounts.

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 credit insurance businesses. At December 31, 2014, Springleaf Financial Holdings, LLC (the “Initial Stockholder”) owned approximately 75% 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”).

INDUSTRY AND MARKET OVERVIEW

We operate in the consumer finance industry serving the large and growing population of consumers who have limited access to credit from banks, credit card companies and other lenders. According to the Federal Reserve Bank of New York, as of December 31, 2014, the U.S. consumer finance industry had grown to approximately \$3.2 trillion of outstanding borrowings in the form of personal loans, vehicle loans and leases, credit cards, home equity lines of credit, and student loans. Furthermore, difficult economic conditions in recent years have resulted in an increase in the number of non-prime consumers in the United States.

This industry's traditional lenders have recently undergone fundamental changes, forcing many to retrench and in some cases to exit the market altogether. Tightened credit requirements imposed by banks, credit card companies, and other traditional lenders

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that began during the recession of 2008-2009 have further reduced the supply of consumer credit for non-prime borrowers. In addition, we believe that recent regulatory developments create a dis-incentive for these lenders to resume or support these lending activities. As a result, while the number of non-prime consumers in the United States has grown in recent years, the supply of consumer credit to this demographic has contracted. We believe this large and growing number of potential customers in our target market, combined with the decline in available consumer credit, provides an attractive market opportunity for our business model.

We are one of the few remaining national participants in the consumer installment lending industry still servicing this large and growing population of non-prime customers. Our centralized operations, combined with the capabilities resident in our national branch system, provide an effective nationwide platform to efficiently and responsibly address this growing market of consumers. We believe we are, therefore, well-positioned to capitalize on the significant growth and expansion opportunity created by the large supply-demand imbalance within our industry.

SEGMENTS

Our segments coincide with how our businesses are managed. At December 31, 2014, our three segments include:

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

Management considers Consumer and Insurance and Acquisitions and Servicing as our “Core Consumer Operations” and Real Estate as our “Non-Core Portfolio.” See Notes 1 and 22 of the Notes to Consolidated Financial Statements in Item 8 for more information about our segments.

CORE CONSUMER OPERATIONS

Consumer and Insurance

We originate and service secured and unsecured personal loans and offer voluntary credit insurance and related products through our branch network and our centralized operations. Personal loan origination and servicing, along with our insurance products, forms the core of our operations. Our branch operations include 831 branch offices in 26 states. In addition, our centralized support operations provide servicing support to branch operations.

Our insurance business is conducted through our subsidiaries, Merit Life Insurance Co. (“Merit”) and Yosemite Insurance Company (“Yosemite”), which are both wholly owned subsidiaries of SFC. Merit is a life and health insurance company that writes credit life, credit accident and health, and non-credit insurance and is licensed in 46 states, the District of Columbia, and the U.S. Virgin Islands. Yosemite is a property and casualty insurance company that writes credit-related property and casualty and credit involuntary unemployment insurance and is licensed in 46 states.

Products and Services. Our personal loan portfolio comprises high yielding assets that have performed well through difficult market conditions. Our personal loans are typically fully amortizing, fixed rate, non-revolving loans frequently secured by titled personal property (such as automobiles), consumer goods, or other personal property.

In mid-June 2014, we launched our Direct Auto Loan Program to further expand our core product offerings and to better serve our customers’ needs. The new auto loan product offers a customized solution for our current and prospective customers to finance the purchase of a vehicle, pay off an existing auto loan with another lender, or use the equity in their auto to consolidate debt, make home improvements or receive cash. We offer the new auto loan

product through our branch network and our centralized operations. In 2014, we utilized a new facility in Mendota Heights, Minnesota, to provide additional services on behalf of our branch operations, including the servicing of the new auto loan product.

The typical size of the auto secured loan is \$6,000 - \$20,000, with a maximum term of five years. The new auto loan product is secured by the customer's automobile in all cases, compared to our personal loans, of which 49% were secured by titled personal property (primarily automobiles) at December 31, 2014. We report the new auto loan product in our core personal loans, which are included in our Core Consumer Operations. At December 31, 2014, we had over 19,000 auto loans totaling \$237.8 million.

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We write the following types of credit insurance policies covering our customers and the property pledged as collateral through products that we offer to our customers:

- Credit life insurance — Insures the life of the borrower in an amount typically equal to the unpaid balance of the finance receivable and provides for payment to the lender of the finance receivable in the event of the borrower's death.
- Credit accident and health insurance — Provides scheduled monthly loan payments to lender during borrower's disability due to illness or injury.
- Credit involuntary unemployment insurance — Provides scheduled monthly loan payments to the lender during borrower's involuntary unemployment.
- Credit-related property and casualty insurance — Written to protect the value of property pledged as collateral for the finance receivable.

A borrower's purchase of credit life, credit accident and health, credit-related property and casualty, or credit involuntary unemployment insurance is voluntary, with the exception of lender placed property damage coverage for property pledged as collateral.

We also offer non-credit insurance policies, which are primarily traditional level term life policies with very limited underwriting. The purchase of this coverage is also voluntary.

In addition, we offer auto security membership plans of an unaffiliated company. We have no risk of loss on these membership plans, and these plans are not considered insurance products. We recognize income from this ancillary product in other revenues — other. The unaffiliated company providing these membership plans is responsible for any required reimbursement to the customer on the ancillary product.

Customer Development. Our extensive branch network helps solicit new prospects by facilitating our "high-touch" servicing approach for personal loans due to the geographical proximity that typically exists between our branch offices and our customers. Our customers often develop a relationship with their local office representatives, which we believe not only improves the credit performance of our personal loans but also leads to additional lending opportunities.

Our centralized operations allow us to reach customers located outside our branch footprint and to more effectively process applications for customers within our branch footprint who prefer the convenience of online transactions. We believe this provides us a significant opportunity to grow our customer base, loan portfolio and finance charges. If a customer applies online and is located near an existing branch, we request, though do not require, that the customer visit the branch to meet with one of our employees, who will close and fund the loans. Loans closed in a branch office are serviced by that branch. This approach provides the branches with an additional source of customers who are located close to a branch, but who prefer the convenience of applying online or during hours when the branches are not open. We also believe that this approach will enable us to leverage our branch network to offer additional products and services, including insurance products, and to help maintain the credit quality of the loans we source online.

We use search engine optimization, banner advertisements and email campaigns to attract new customers through the internet. We also have entered into agreements with other internet loan originators to purchase leads for potential customers seeking loans. Our e-signature capabilities facilitate our online lending products. Customers who are approved for loans through our centralized operations also have the added convenience of receiving the loan funds through an automated clearinghouse ("ACH") direct deposit into their bank accounts. These loans are serviced by our centralized operations.

We also solicit new prospects, as well as current and former customers, through a variety of direct mail offers. Our data warehouse is a central, proprietary source of information regarding current and former customers. We use this

information to tailor offers to specific customers. In addition to internal data, we purchase lists of new potential personal loan borrowers from major list vendors based on predetermined selection criteria. Mail solicitations include invitations to apply for personal loans and pre-qualified offers of guaranteed personal loan credit.

Through our merchant referral program, merchants refer their customers to us and we originate a loan directly to the merchant's customers to facilitate a retail purchase. We believe this approach allows us to apply our proprietary underwriting standards to these loans rather than relying on the merchant's underwriting standards. In addition, it gives us direct access to the customer, which gives our branches the opportunity to build a relationship with the customer that could lead to opportunities to offer additional products and services, including insurance products. Our branch employees are actively soliciting new relationships with merchants in their communities, and we believe that this referral program provides us with a significant opportunity to grow our customer base and increase our finance receivables revenue.

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We market our insurance products to eligible finance receivable customers through both our branch network and our centralized operations. This allows us to benefit from the customer base underlying our consumer loan business, which significantly reduces the marketing expenses that are typically borne by insurance companies. In addition, the overhead costs of our consumer and insurance businesses are shared.

Credit Risk. We use credit risk scoring models at the time of the credit application to assess the applicant's expected willingness and capacity to repay. We develop these models using numerous factors, including past customer credit repayment experience and application data, and periodically revalidate these models based on recent portfolio performance. Our underwriting process in the branches and for loan applications received through our website that are not automatically approved also includes the development of a budget (net of taxes and monthly expenses) for the applicant. We may obtain a security interest in either titled personal property or consumer household goods.

Our customers are primarily considered non-prime and require significantly higher levels of servicing than prime or near-prime customers. As a result, we charge these customers higher interest rates to compensate us for the related credit risks and servicing.

Account Servicing. The account servicing and collection processing for our personal loans are generally handled at the branch office where the personal loans were originated, or in our centralized service centers. All servicing and collection activity is conducted and documented on the Customer Lending and Solicitation System ("CLASS"), a proprietary system which logs and maintains, within our centralized information systems, a permanent record of all transactions and notations made with respect to the servicing and/or collection of a personal loan and is also used to assess a personal loan application. CLASS permits all levels of branch office management to review on a daily basis the individual and collective performance of all branch offices for which they are responsible.

Acquisitions and Servicing

We pursue strategic acquisitions of loan portfolios through our Springleaf Acquisitions division, which we service through our centralized operations. As part of this strategy, on April 1, 2013, we acquired the SpringCastle Portfolio through a joint venture in which we own a 47% equity interest and which we consolidate in our financial statements. 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). These loans are in a liquidating status and vary in form and substance from our originated loans. We assumed the direct servicing obligations for these loans in September 2013. At December 31, 2014, the SpringCastle Portfolio included over 277,000 of acquired loans, representing \$2.0 billion in net finance receivables.

NON-CORE PORTFOLIO

Since we ceased real estate lending in January 2012, our real estate loans are in a liquidating status. In 2014, we entered into a series of transactions relating to the sales of our beneficial interests in our non-core real estate loans, the related servicing of these loans, and the sales of certain performing and non-performing real estate loans, which substantially completed our plan to liquidate our non-core real estate loans. At December 31, 2014, our real estate loans held for investment totaled \$625.3 million and comprised less than 10% of our net finance receivables. Real estate loans held for sale totaled \$205.0 million at December 31, 2014.

CENTRALIZED OPERATIONS

We continually seek to identify functions that could be more effective if centralized to achieve reduced costs or free our lending specialists to service our customers and market our products. Our centralized operational functions support the following:

- mail and telephone solicitations;
- payment processing;
- originating “out of footprint” loans;
- servicing of delinquent real estate loans and certain personal loans;
- bankruptcy process for Chapter 7, 11, 12 and 13 loans;
- litigation requests for wage garnishments and other actions against borrowers;
- collateral protection insurance tracking;
- repossessing and re-marketing of titled collateral; and