

OneMain Holdings, Inc.
Form 10-Q
August 04, 2017

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from to

Commission file number 001-36129

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

Delaware 27-3379612
(State of Incorporation) (I.R.S. Employer Identification No.)

601 N.W. Second Street, Evansville, IN 47708
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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(Do not check if a 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

At July 31, 2017, there were 135,301,930 shares of the registrant’s common stock, \$0.01 par value, outstanding.

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GLOSSARY

Terms and abbreviations used in this report are defined below.

Term or Abbreviation	Definition
1999 Indenture	Indenture dated as of May 1, 1999 between SFC and Wilmington
2014-A Notes	asset-backed notes issued in March 2014 by the Springleaf Funding Trust 2014-A
2016 Annual Report on Form 10-K	Annual Report on Form 10-K for the fiscal year ended December 31, 2016
2022 SFC Notes	\$500 million of 6.125% Senior Notes due 2022 issued by SFC on May 15, 2017 and guaranteed by OMH
30 - 89 Delinquency ratio	net finance receivables 30 - 89 days past due as a percentage of net finance receivables
5.25% SFC Notes	\$700 million of 5.25% Senior Notes due 2019 issued by SFC on December 3, 2014 and guaranteed by OMH
6.125% SFC Notes	collectively, the 2022 SFC Notes and the Additional SFC Notes
8.25% SFC Notes	\$1.0 billion of 8.25% Senior Notes due 2020 issued by SFC on April 11, 2016 and guaranteed by OMH
ABS	asset-backed securities
Additional SFC Notes	\$500 million of 6.125% Senior Notes due 2022 issued by SFC on May 30, 2017 and guaranteed by OMH
Adjusted pretax income (loss)	a non-GAAP financial measure; income (loss) before income tax expense (benefit) on a Segment Accounting Basis, excluding acquisition-related transaction and integration expenses, net gain on sale of SpringCastle interests, SpringCastle transaction costs, and losses resulting from repurchases and repayments of debt
AHL	American Health and Life Insurance Company
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Average debt	average of debt for each day in the period
Average net receivables	average of monthly average net finance receivables (net finance receivables at the beginning and end of each month divided by two) in the period
Blackstone	collectively, BTO Willow Holdings II, L.P. and Blackstone Family Tactical Opportunities Investment Partnership—NQ—ESC L.P.
CDO	collateralized debt obligations
CFPB	Consumer Financial Protection Bureau
Citigroup	CitiFinancial Credit Company
CMBS	commercial mortgage-backed securities
Dodd-Frank Act	the Dodd-Frank Wall Street Reform and Consumer Protection Act
Exchange Act	Securities Exchange Act of 1934, as amended
FA Loans	purchased credit impaired finance receivables related to the Fortress Acquisition
FASB	Financial Accounting Standards Board
FHLB	Federal Home Loan Bank
FICO score	a credit score created by Fair Isaac Corporation
Financial Funding VII LSA	Loan and Security Agreement, dated April 13, 2017, among OneMain Financial Funding VII, LLC, certain third party lenders and other third parties pursuant to which OneMain Financial

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Financial Funding
IX LSA Funding VII, LLC may borrow up to \$650 million
 Loan and Security Agreement, dated July 14, 2017, among OneMain Financial Funding IX, LLC,
 certain third party lenders and other third parties pursuant to which OneMain Financial Funding
 IX, LLC may borrow up to \$600 million
Fixed charge ratio earnings less income taxes, interest expense, extraordinary items, goodwill impairment, and any
 amounts related to discontinued operations, divided by the sum of interest expense and any
 preferred dividends
Fortress Fortress Investment Group LLC

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Term or Abbreviation	Definition
Fortress Acquisition	transaction by which FCFI Acquisition LLC, an affiliate of Fortress, acquired an 80% economic interest of the sole stockholder of SFC for a cash purchase price of \$119 million, effective November 30, 2010
GAAP	generally accepted accounting principles in the United States of America
Gross charge-off ratio	annualized gross charge-offs as a percentage of average net receivables
Indenture	the SFC Base Indenture, together with the SFC Third Supplemental Indenture
Independence	Independence Holdings, LLC
Indiana DOI	Indiana Department of Insurance
Initial Stockholder	Springleaf Financial Holdings, LLC
Junior Subordinated Debenture	\$350 million aggregate principal amount of 60-year junior subordinated debt issued by SFC under an indenture dated January 22, 2007, by and between SFC and Deutsche Bank Trust Company, as trustee, and guaranteed by OMH
Lendmark Sale	the sale of 127 Springleaf branches to Lendmark Financial Service, LLC, effective April 30, 2016
LIBOR	London Interbank Offered Rate
Logan Circle	Logan Circle Partners, L.P.
Merit	Merit Life Insurance Co.
MetLife	MetLife, Inc.
Moody's	Moody's Investors Service, Inc.
Nationstar	Nationstar Mortgage LLC
Net charge-off ratio	annualized net charge-offs as a percentage of average net receivables
Net interest income	interest income less interest expense
NRZ	New Residential Investment Corp.
ODART	OneMain Direct Auto Receivables Trust
OM Loans	purchased credit impaired personal loans acquired in the OneMain Acquisition
OMFH	OneMain Financial Holdings, LLC
OMFH Indenture	Indenture entered into on December 11, 2014, as amended or supplemented from time to time, by OMFH and certain of its subsidiaries in connection with the issuance of the OMFH Notes collectively, \$700 million aggregate principal amount of 6.75% Senior Notes due 2019 and \$800 million in aggregate principal amount of 7.25% Senior Notes due 2021
OMFH Notes	
OMFH Supplemental Indenture	supplemental indenture dated as of November 8, 2016, to the OMFH Indenture
OMFIT	OneMain Financial Issuance Trust
OMH	OneMain Holdings, Inc.
OneMain	OMFH, collectively with its subsidiaries
OneMain Acquisition	Acquisition of OneMain from CitiFinancial Credit Company, effective November 1, 2015
Other SFC Notes	collectively, approximately \$5.2 billion aggregate principal amount of senior notes, on a senior unsecured basis, and the Junior Subordinated Debenture, on a junior subordinated basis, issued by SFC and guaranteed by OMH
Recovery ratio	annualized recoveries on net charge-offs as a percentage of average net receivables
retail sales finance	collectively, retail sales contracts and revolving retail accounts
RMBS	residential mortgage-backed securities

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RSAs	restricted stock awards
RSUs	restricted stock units
SCP Loans	purchased credit impaired loans acquired through the SpringCastle Joint Venture
SEC	U.S. Securities and Exchange Commission
Segment	a basis used to report the operating results of our segments, which reflects our allocation
Accounting Basis	methodologies for certain costs and excludes the impact of applying purchase accounting
Settlement Agreement	a Settlement Agreement with the U.S. Department of Justice entered into by OMH and certain of its subsidiaries on November 13, 2015, in connection with the OneMain Acquisition

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Term or Abbreviation	Definition
SFC	Springleaf Finance Corporation
SFC Base Indenture	Indenture dated as of December 3, 2014
SFC First Supplemental Indenture	supplemental indenture dated as of December 3, 2014, to the SFC Base Indenture
SFC Guaranty Agreements	agreements entered into on December 30, 2013 by OMH whereby it agreed to fully and unconditionally guarantee the payments of principal, premium (if any) and interest on the Other SFC Notes
SFC Second Supplemental Indenture	supplemental indenture dated as of April 11, 2016, to the SFC Base Indenture
SFC Third Supplemental Indenture	supplemental indenture dated as of May 15, 2017, to the SFC Base Indenture
SFC Trust Guaranty Agreement	agreement entered into on December 30, 2013 by OMH whereby it agreed to fully and unconditionally guarantee the related payment obligations under the trust preferred securities in connection with the Junior Subordinated Debenture
SFI	Springleaf Finance, Inc.
SLFT	Springleaf Funding Trust
SpringCastle Interests Sale	the March 31, 2016 sale by SpringCastle Holdings, LLC and Springleaf Acquisition Corporation of the equity interest in the SpringCastle Joint Venture
SpringCastle Joint Venture	joint venture among SpringCastle America, LLC, SpringCastle Credit, LLC, SpringCastle Finance, LLC, and SpringCastle Acquisition LLC in which SpringCastle Holdings, LLC previously owned a 47% equity interest in each of SpringCastle America, LLC, SpringCastle Credit, LLC and SpringCastle Finance, LLC and Springleaf Acquisition Corporation previously owned a 47% equity interest in SpringCastle Acquisition LLC
SpringCastle Portfolio	loans acquired through the SpringCastle Joint Venture
Springleaf Tangible equity	OMH and its subsidiaries (other than OneMain)
Tangible managed assets	total equity less accumulated other comprehensive income or loss
TDR finance receivables	total assets less goodwill and other intangible assets
Texas DOI	troubled debt restructured finance receivables
Thur River Funding LSA	Texas Department of Insurance
Triton	Loan and Security Agreement, dated June 29, 2017, among Thur River Funding, LLC, certain third party lenders and other third parties pursuant to which Thur River Funding, LLC may borrow up to \$350 million
Trust preferred securities	Triton Insurance Company
UK	capital securities classified as debt for accounting purposes but due to their terms are afforded, at least in part, equity capital treatment in the calculation of effective leverage by rating agencies
UPB	United Kingdom
VFN	unpaid principal balance
	variable funding notes

VIEs	variable interest entities
Weighted average interest rate	annualized interest expense as a percentage of average debt
Wilmington	Wilmington Trust, National Association
Yield	annualized finance charges as a percentage of average net receivables
Yosemite	Yosemite Insurance Company

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

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

(dollars in millions, except par value amount)	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$862	\$ 579
Investment securities	1,750	1,764
Net finance receivables:		
Personal loans (includes loans of consolidated VIEs of \$9.3 billion in 2017 and \$9.5 billion in 2016)	13,908	13,577
Real estate loans	134	144
Retail sales finance	8	11
Net finance receivables	14,050	13,732
Unearned insurance premium and claim reserves	(572)	(586)
Allowance for finance receivable losses (includes allowance of consolidated VIEs of \$474 million in 2017 and \$501 million in 2016)	(676)	(689)
Net finance receivables, less unearned insurance premium and claim reserves and allowance for finance receivable losses	12,802	12,457
Finance receivables held for sale	141	153
Restricted cash and restricted cash equivalents (includes restricted cash and restricted cash equivalents of consolidated VIEs of \$532 million in 2017 and \$552 million in 2016)	545	568
Goodwill	1,422	1,422
Other intangible assets	464	492
Other assets	712	688
Total assets	\$18,698	\$ 18,123
Liabilities and Shareholders' Equity		
Long-term debt (includes debt of consolidated VIEs of \$8.1 billion in 2017 and \$8.2 billion in 2016)	\$14,409	\$ 13,959
Insurance claims and policyholder liabilities	745	757
Deferred and accrued taxes	5	9
Other liabilities (includes other liabilities of consolidated VIEs of \$11 million in 2017 and \$12 million in 2016)	385	332
Total liabilities	15,544	15,057
Commitments and contingent liabilities (Note 14)		
Shareholders' equity:		
Common stock, par value \$.01 per share; 2,000,000,000 shares authorized, 135,301,930 and 134,867,868 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	1	1
Additional paid-in capital	1,552	1,548

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Accumulated other comprehensive income (loss)	3	(6)
Retained earnings	1,598	1,523	
Total shareholders' equity	3,154	3,066	
Total liabilities and shareholders' equity	\$18,698	\$ 18,123	

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Operations (Unaudited)

(dollars in millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income:				
Finance charges	\$768	\$723	\$1,524	\$1,508
Finance receivables held for sale originated as held for investment	4	18	7	64
Total interest income	772	741	1,531	1,572
Interest expense	203	214	405	440
Net interest income	569	527	1,126	1,132
Provision for finance receivable losses	236	214	481	411
Net interest income after provision for finance receivable losses	333	313	645	721
Other revenues:				
Insurance	104	114	207	228
Investment	20	24	39	44
Net loss on repurchases and repayments of debt	(27)	(13)	(28)	(16)
Net gain on sale of SpringCastle interests	—	—	—	167
Net gain on sale of personal loans	—	22	—	22
Other	24	18	44	23
Total other revenues	121	165	262	468
Other expenses:				
Operating expenses:				