Santander Consumer USA Holdings Inc.
Form 10-Q
August 07, 2014

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 June 30, 2014
¨ 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 ¨	Accelerated filer ¨
Non-accelerated filer ý	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 August 4, 2014
Common Stock ($0.01 par value)	348,939,599 shares

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Unless otherwise specified or the context otherwise requires, the use herein of the terms " we," "our," "us," "SCUSA," 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," " 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, 2013, as supplemented by the risks discussed below in this report in Part II, Item 1A, "Risk Factors," 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 U.S. Securities and Exchange Commission. 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;
- our agreement with Chrysler Group LLC ("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; and
- future changes in our relationship with Banco Santander, S.A. ("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.

PART I: FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

(Unaudited at June 30, 2014)

	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$45,913	$10,531
Receivables held for sale	123,791	82,503
Retail installment contracts held for investment, net	21,444,601	20,219,609
Unsecured consumer loans, net	1,233,637	954,189
Restricted cash	2,007,946	1,563,613
Receivables from dealers, held for investment, net	85,194	94,745
Accrued interest receivable	344,658	319,157
Leased vehicles, net	3,567,546	2,023,433
Furniture and equipment, net of accumulated depreciation of $58,587 and $58,117, respectively	30,405	25,712
Federal, state and other income taxes receivable	7,487	372,338
Deferred tax asset	220,338	197,041
Goodwill	74,056	74,056
Intangible assets	53,637	54,664
Other assets	493,187	410,305
Total assets	$29,732,396	$26,401,896
Liabilities and Equity		
Liabilities:		
Notes payable — credit facilities, $3,300,000 and $3,650,000 to affiliates, respectively	$7,762,950	$8,099,773
Notes payable — secured structured financings	18,391,660	15,195,887
Accrued interest payable — $6,485 and $11,563 to affiliates, respectively	24,452	26,512
Accounts payable and accrued expenses — $43,930 and $39,772 to affiliates, respectively	281,250	283,106
Federal, state and other income taxes payable	81,145	7,623
Other liabilities	88,681	102,163
Total liabilities	26,630,138	23,715,064
Commitments and contingencies (Notes 5 and 10)		
Equity:		
Common stock, $0.01 par value — 1,100,000,000 shares authorized; 348,931,490 and 346,763,261 shares issued and 348,928,336 and 346,760,107 shares outstanding, respectively	3,489	3,468
Additional paid-in capital	1,550,513	1,409,463
Accumulated other comprehensive loss	(4,129)	(2,853)
Retained earnings	1,552,385	1,276,754
Total stockholders' equity	3,102,258	2,686,832
Total liabilities and equity	$29,732,396	$26,401,896

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,	
	2014	2013	2014	2013
Interest on finance receivables and loans	$1,163,448	$900,375	$2,303,777	$1,712,282
Leased vehicle income	218,938	10,030	366,061	10,030
Other finance and interest income	874	2,156	1,124	4,841
Total finance and other interest income	1,383,260	912,561	2,670,962	1,727,153
Interest expense — Including $36,836, $15,390, $71,079, and $26,884 to affiliates, respectively	128,314	87,476	252,760	170,473
Leased vehicle expense	179,135	7,028	299,204	7,028
Net finance and other interest income	1,075,811	818,057	2,118,998	1,549,652
Provision for loan losses	589,136	408,411	1,287,730	625,604
Net finance and other interest income after provision for loan losses	486,675	409,646	831,268	924,048
Profit sharing	24,056	7,564	56,217	7,564
Net finance and other interest income after provision for loan losses and profit sharing	462,619	402,082	775,051	916,484
Gain on sale of finance receivables and leases	21,602	1,272	57,416	1,272
Servicing fee income	22,099	6,355	32,504	13,626
Fees, commissions, and other	95,030	46,782	184,334	115,640
Total other income	138,731	54,409	274,254	130,538
Salary and benefits expense	93,689	75,332	295,604	137,879
Repossession expense	45,648	30,982	94,079	67,140
Other operating costs	71,889	64,984	139,991	115,153
Total operating expenses	211,226	171,298	529,674	320,172
Income before income taxes	390,124	285,193	519,631	726,850
Income tax expense	143,643	104,129	191,684	256,927
Net income	246,481	181,064	327,947	469,923
Noncontrolling interests	—	854	—	2,397
Net income attributable to Santander Consumer USA Holdings Inc. shareholders	$246,481	$181,918	$327,947	$472,320
Net income	$246,481	$181,064	$327,947	$469,923
Other comprehensive income (loss):				
Change in unrealized gains (losses) on cash flow hedges, net of tax of $1,950, ($1,238), $720 and ($2,944)	(3,364)	2,001	(1,276)	4,835
Change in unrealized gains on investments available for sale, net of tax of zero, $682, zero and $1,625	—	(1,167)	—	(2,623)
Other comprehensive income (loss), net	(3,364)	834	(1,276)	2,212
Comprehensive income	$243,117	$181,898	$326,671	$472,135
Comprehensive loss attributable to noncontrolling interests	—	586	—	1,577
Comprehensive income attributable to Santander Consumer USA Holdings Inc. shareholders	$243,117	$182,484	$326,671	$473,712
Net income per common share (basic)	$0.71	$0.53	$0.94	$1.36

Net income per common share (diluted)	$0.69	$0.53	$0.92	$1.36
Dividends declared per common share	$0.15	$0.84	$0.15	$0.84
Weighted average common shares (basic)	348,826,897	346,171,491	348,465,666	346,168,144
Weighted average common shares (diluted)	356,381,921	346,171,491	356,008,288	346,168,144

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Noncontrolling	Total Stockholders’
	Shares	Amount	Capital	Loss	Earnings	Interests	Equity
Balance — January 1, 2013	346,165	$3,462	$1,335,572	$ (9,164)	$869,664	$ 39,932	$2,239,466
Repayment of employee loans	—	—	519	—	—	—	519
Stock issued in connection with employee incentive compensation plans	4	—	69	—	—	—	69
Capital contribution received from shareholder	—	—	48,275	—	—	—	48,275
Net income	—	—	—	—	472,320	(2,397)	469,923
Other comprehensive income, net of taxes	—	—	—	2,212	—	—	2,212
Dividends	—	—	—	—	(290,401)	—	(290,401)
Balance — June 30, 2013	346,169	$3,462	$1,384,435	$ (6,952)	$1,051,583	$ 37,535	$2,470,063
Balance — January 1, 2014	346,760	$3,468	$1,409,463	$ (2,853)	$1,276,754	$ —	$2,686,832
Stock issued in connection with employee incentive compensation plans	2,168	21	18,239	—	—	—	18,260
Stock-based compensation expense	—	—	122,811	—	—	—	122,811
Net income	—	—	—	—	327,947	—	327,947
Other comprehensive loss, net of taxes	—	—	—	(1,276)	—	—	(1,276)
Dividends	—	—	—	—	(52,316)	—	(52,316)
Balance — June 30, 2014	348,928	$3,489	$1,550,513	$ (4,129)	$1,552,385	$ —	$3,102,258

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,	
	2014	2013
Cash flows from operating activities:		
Net income	$327,947	$469,923
Adjustments to reconcile net income to net cash provided by operating activities:		
Derivative mark to market	(8,112)	(17,329)
Provision for credit losses	1,287,730	625,604
Depreciation and amortization	335,902	36,269
Accretion of discount and capitalized origination costs, net	(403,654)	(193,359)
Originations and purchases of receivables held for sale	(2,385,913)	(253,141)
Proceeds from sales of and repayments on receivables held for sale	2,376,818	162,232
Gain on sale of finance receivables and leases	(57,416)	(1,272)
Stock-based compensation	122,811	324
Deferred tax benefit	(13,027)	(107,707)
Changes in assets and liabilities:		
Accrued interest receivable	(59,825)	(38,872)
Accounts receivable	(19,740)	(2,999)
Federal income tax and other taxes	438,373	(72,306)
Other assets	(21,774)	(12,561)
Accrued interest payable	(2,061)	4,283
Other liabilities	(9,242)	140,174
Net cash provided by operating activities	1,908,817	739,263
Cash flows from investing activities:		
Retail installment contracts originated or purchased from dealers	(7,573,492)	(7,254,246)
Collections on retail installment contracts	4,561,823	4,241,026
Proceeds from sale of loans held for investment	776,746	—
Leased vehicles purchased	(2,491,092)	(492,569)
Manufacturer incentives received	499,500	105,393
Proceeds from sale of leased vehicles	366,471	—
Change in revolving unsecured consumer loans	(87,217)	(283,406)
Unsecured consumer term loans purchased	(300,832)	(47,350)
Collections on unsecured consumer term loans	46,633	1,022
Disbursements for receivables from lenders held for investment	(21,766)	(190,554)
Collections on receivables from lenders held for investment	23,573	4,040
Collections on investments available for sale	—	34,748
Purchases of furniture and equipment	(11,543)	(11,036)
Sales of furniture and equipment	885	827
Upfront fee paid in accordance with private label financing agreement	—	(150,000)
Change in restricted cash	(444,333)	(193,155)
Other investing activities	(22,979)	(3,398)
Net cash used in investing activities	(4,677,623)	(4,238,658)
Cash flows from financing activities:		
Proceeds from notes payable related to secured structured financings — net of debt issuance costs	7,717,856	4,318,966
Payments on notes payable related to secured structured financings	(4,526,678)	(3,811,491)

Proceeds from unsecured notes payable	2,407,533	1,286,119
Payments on unsecured notes payable	(2,807,016)	(839,958)
Proceeds from notes payable	12,684,871	10,937,485
Payments on notes payable	(12,622,210)	(8,219,888)
Proceeds from stock option exercises, gross	14,625	—
Repurchase of stock - employee tax withholding	(5,908)	—
Dividends paid	(52,316)	(290,401)
Repayment of employee notes	—	519
Capital contribution from shareholder	—	48,275
Cash collateral posted on cash flow hedges	(6,569)	—
Net cash provided by financing activities	2,804,188	3,429,626
Net increase (decrease) in cash and cash equivalents	35,382	(69,769)
Cash — Beginning of period	10,531	70,887
Cash — End of period	$45,913	$1,118

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 Changes in Significant Accounting Policies and Practices
Santander Consumer USA Holdings Inc., a Delaware Corporation ("SCUSA Delaware" or, together with its subsidiaries, "SCUSA" or "the Company"), is the holding company for Santander Consumer USA Inc., an Illinois corporation ("SCUSA Illinois"), and subsidiaries, a specialized consumer finance company focused on vehicle finance and unsecured consumer lending products.
The Company is owned approximately 60.5% by Santander Holdings USA, Inc. ("SHUSA"), a subsidiary of Banco Santander, S.A. ("Santander"), approximately 4.1% by Sponsor Auto Finance Holdings Series LP ("Auto Finance Holdings"), approximately 10.0% by DDFS LLC, an entity affiliated with Thomas G. Dundon, the Company's Chairman and Chief Executive Officer ("CEO"), approximately 25.3% by public shareholders and approximately 0.1% by other holders, primarily members of senior management.
The Company's primary business is the indirect origination 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 with Chrysler Group (the "Chrysler Agreement") that became effective May 1, 2013, the Company offers a full spectrum of auto financing products and services to Chrysler 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 unsecured consumer loans, private label credit cards and other consumer finance products.
Basis of Presentation
The accompanying condensed consolidated financial statements include the accounts of the Company and its subsidiaries, including certain special purpose financing trusts utilized in financing transactions ("Trusts"), which are considered variable interest entities ("VIEs"). The Company consolidates other VIEs for which it was deemed the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.
The accompanying condensed consolidated financial statements as of June 30, 2014 and December 31, 2013, and for the three and six months ended June 30, 2014 and 2013, have been prepared in accordance with United States generally accepted accounting principles (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 generally accepted accounting principles for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly 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 Company's Annual Report on Form 10-K for the year ended December 31, 2013.
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions which 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 loan loss allowance, discount accretion, impairment, 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.

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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 well as financial products and services related to motorcycles, RVs, and watercraft. It also includes the Company’s unsecured personal loan and point-of-sale financing operations.

Accounting Policies

The Company has identified the following significant accounting policies and estimates used by management in the preparation of the Company’s financial statements: retail installment contracts, unsecured consumer loans, receivables from dealers, provision for loan losses, leased vehicles, income taxes, and earnings per share. As of June 30, 2014, there have been no significant changes to the Company's accounting policies as disclosed in the Company’s consolidated financial statements for the year ended December 31, 2013.

Recently Adopted Accounting Standards

In July 2013, the FASB issued ASU 2013-11, Income Taxes: Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU provides guidance on the presentation of unrecognized tax benefits, particularly the manner in which an entity would settle, at the reporting date, any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This guidance became effective for the Company January 1, 2014 and implementation did not have a significant impact on the Company’s financial position, results of operations, or cash flows.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides guidance on a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This guidance is effective beginning after December 15, 2016. The Company does not expect the adoption to have a material impact to the consolidated financial statements as loan and lease contracts are excluded.

In June 2014, the FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The standard requires entities to account for repurchase-to-maturity transactions as secured borrowings, eliminates accounting guidance on linked repurchase financing transactions, and expands disclosure requirements related to certain transfers of financial assets that are accounted for as secured borrowings. This guidance is effective for the Company beginning January 1, 2015 and early adoption is not permitted. The Company is currently evaluating the impact of the adoption on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award That a Performance Target Could be Achieved after the Requisite Service Period. This standard affects entities that issue share-based payments when the terms of an award stipulate that a performance target could be achieved after an employee completes the requisite service period. This guidance is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted. The Company is currently evaluating the impact of the adoption on its consolidated financial statements.

2. Finance Receivables

Finance receivables held for investment at June 30, 2014 and December 31, 2013, were comprised as follows:

	June 30, 2014				
	Retail Installment Contracts Held for Investment				
	Loans Acquired Individually	Purchased Receivables Portfolios	Total	Receivables from Dealers Held for Investment	Unsecured Consumer Loans
Unpaid principal balance	$23,675,889	$1,272,807	$24,948,696	$85,885	$1,448,709
Loan loss allowance (Note 3)	(2,668,587)	(197,844)	(2,866,431)	(923)	(212,954)
Discount	(659,154)	(13,679)	(672,833)	—	(3,067)
Capitalized origination costs and fees	35,169	—	35,169	232	949
Net carrying balance	$20,383,317	$1,061,284	$21,444,601	$85,194	$1,233,637

	December 31, 2013				
	Retail Installment Contracts Held for Investment				
	Loans Acquired Individually	Purchased Receivables Portfolios	Total	Receivables from Dealers Held for Investment	Unsecured Consumer Loans
Unpaid principal balance	$21,238,281	$1,961,060	$23,199,341	$95,835	$1,165,778
Loan loss allowance (Note 3)	(2,132,634)	(226,356)	(2,358,990)	(1,090)	(179,350)
Discount	(573,462)	(81,216)	(654,678)	—	(32,831)
Capitalized origination costs and fees	33,936	—	33,936	—	592
Net carrying balance	$18,566,121	$1,653,488	$20,219,609	$94,745	$954,189

As of June 30, 2014, retail installment contracts and receivables from dealers held for sale totaled $89,404 and $34,387, respectively. As of December 31, 2013, retail installment contracts and receivables from dealers held for sale totaled $56,066 and $26,437, respectively. Sales of retail installment contracts for the three and six months ended June 30, 2014 included principal balance amounts of approximately $1,384,174 and $3,069,898. The Company retains servicing of sold retail installment contracts and was servicing $4,589,650 and $2,847,656 as of June 30, 2014 and December 31, 2013, respectively, of contracts owned by unrelated third parties, including contracts sold by the Company. No receivables from dealers were sold during the six months ended June 30, 2014.

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 facilities or securitization bonds (Note 6). Most of the creditors on the Company's retail installment contracts are retail consumers; however, approximately $605,261 and $345,177 of the unpaid principal balance represented fleet contracts with commercial consumers as of June 30, 2014 and December 31, 2013, respectively.

Borrowers on the Company's retail installment contracts held for investment are located in Texas (18%), Florida (11%), California (9%), Georgia (5%), and other states each individually representing less than 5% of the Company's total.

Receivables from dealers held for investment includes a term loan, which was previously a residual warehouse credit facility, with a third-party vehicle dealer and lender that operates in multiple states. The loan allowed committed borrowings of $50,000 at June 30, 2014 and December 31, 2013, and the facility balance was $50,000 at each of those dates. The term loan will mature on December 1, 2019.

Borrowers on the Company’s remaining receivables from dealers held for investment, all of which are Chrysler-affiliated, are located in Ohio (31%), New York (19%), California (14%), Tennessee (12%), Louisiana (9%), Mississippi (5%), and other states each individually representing less than 5% of the Company’s total.

Borrowers on the Company's unsecured consumer loans are located in California (10%), New York (8%), Texas (8%), Florida (6%), Pennsylvania (5%), and other states each individually representing less than 5% of the Company's total.
Changes in accretable yield on the Company's purchased receivables portfolios for the periods indicated were as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Balance — beginning of period	$362,823	$743,348	$403,400	$816,854
Accretion of accretable yield	(52,519)	(112,513)	(117,565)	(247,712)
Reclassifications from (to) nonaccretable difference	(5,050)	(95,179)	19,419	(33,486)
Balance — end of period	$305,254	$535,656	$305,254	$535,656

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 during the six months ended June 30, 2014 and 2013. Interest receivable on purchased receivables portfolios totaled $10,516 and $16,950 at June 30, 2014 and December 31, 2013, respectively.

3. Loan Loss Allowance and Credit Quality

Loan Loss Allowance

The Company estimates loan losses on individually acquired retail installment contracts and unsecured consumer loans held for investment based on delinquency status, historical loss experience, estimated values of underlying collateral, when applicable, and various economic factors. The Company maintains a general loan loss allowance for receivables from dealers based on risk ratings, and individually evaluates the loans for specific impairment as necessary. The activity in the loan loss allowance for individually acquired loans for the three and six months ended June 30, 2014 and 2013 was as follows:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Retail Installment Contracts Acquired Individually	Receivables from Dealers Held for Investment	Unsecured Consumer Loans	Retail Installment Contracts Acquired Individually	Receivables from Dealers Held for Investment	Unsecured Consumer Loans
Balance — beginning of period	$2,444,552	$1,035	$203,190	$1,660,612	$—	$—
Provision for loan losses	527,362	(112)	70,212	375,281	1,490	39,256
Charge-offs	(700,965)	—	(66,966)	(369,395)	—	(6)
Recoveries	397,638	—	6,518	197,815	—	—
Balance — end of period	$2,668,587	$923	$212,954	$1,864,313	$1,490	$39,250

The loan loss allowance for receivables from dealers is comprised entirely of general allowances as none of these receivables have been determined to be individually impaired.

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Retail Installment Contracts Acquired Individually	Receivables from Dealers Held for Investment	Unsecured Consumer Loans	Retail Installment Contracts Acquired Individually	Receivables from Dealers Held for Investment	Unsecured Consumer Loans
Balance — beginning of period	$2,132,634	$1,090	$179,350	$1,555,362	$—	$—
Provision for loan losses	1,184,068	(167)	132,341	626,922	1,490	39,256
Charge-offs	(1,453,530)	—	(107,914)	(754,121)		(6)
Recoveries	805,415	—	9,177	436,150	—	—

Balance — end of period	$2,668,587	$923	$212,954	$1,864,313	$1,490	$39,250

The activity in the impairment reserves related to purchased receivables portfolios for the three and six months ended June 30, 2014 and 2013 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance — beginning of period	$206,170	$184,192	$226,356	$218,640
Incremental provisions for purchased receivable portfolios	350	18,314	1,675	39,976
Incremental reversal of provisions for purchased receivable portfolios	(8,676)	(25,930)	(30,187)	(82,040)
Balance — end of period	$197,844	$176,576	$197,844	$176,576

Delinquencies

Retail installment contracts and unsecured consumer amortizing term loans are classified as non-performing when they are greater than 60 days past due as to contractual principal or interest payments. At the time a loan is placed on non-accrual status, previously accrued and uncollected interest is reversed against interest income. If an account is returned to a performing status of 60 days or less past due, the Company returns to accruing interest on the contract. The accrual of interest on revolving unsecured consumer loans continues until the loan is charged off. A summary of delinquencies as of June 30, 2014 and December 31, 2013 is as follows:

	June 30, 2014				
	Retail Installment Contracts Held for Investment			Receivables from Dealers Held for Investment	Unsecured Consumer Loans
	Loans Acquired Individually	Purchased Receivables Portfolios	Total		
Principal, current	$21,047,173	$981,616	$22,028,789	$85,885	$1,283,884
Principal, 31-60 days past due	1,829,261	194,069	2,023,330	—	45,382
Delinquent principal over 60 days	799,455	97,122	896,577	—	119,443
Total principal	$23,675,889	$1,272,807	$24,948,696	$85,885	$1,448,709

	December 31, 2013				
	Retail Installment Contracts Held for Investment			Receivables from Dealers Held for Investment	Unsecured Consumer Loans
	Loans Acquired Individually	Purchased Receivables Portfolios	Total		
Principal, current	$18,653,827	$1,457,813	$20,111,640	$95,835	$1,072,316
Principal, 31-60 days past due	1,729,139	321,549	2,050,688	—	28,102
Delinquent principal over 60 days	855,315	181,698	1,037,013	—	65,360
Total principal	$21,238,281	$1,961,060	$23,199,341	$95,835	$1,165,778

As of June 30, 2014 and December 31, 2013, there were no receivables held for sale that were non-performing.
FICO® Distribution — A summary of the credit risk profile of the Company's consumer loans by FICO® distribution, determined at origination, as of June 30, 2014 and December 31, 2013 was as follows:

June 30, 2014

FICO Band	Retail Installment Contracts Held for Investment	Unsecured Consumer Loans
<540	26.7%	10.0%
540-599	32.3%	21.3%
600-659	26.5%	40.9%
>660	14.5%	27.8%

December 31, 2013

FICO Band	Retail Installment Contracts Held for Investment	Unsecured Consumer Loans
<540	26.8%	6.3%
540-599	31.8%	24.2%
600-659	26.3%	39.4%
>660	15.1%	30.1%

Commercial Lending Credit Quality Indicators — The credit quality of receivables from dealers, which are considered commercial loans, is summarized according to standard regulatory classifications as follows:

Pass — Asset is well protected by the current net worth and paying capacity of the obligor or guarantors, if any, or by the fair value less costs to acquire and sell any underlying collateral in a timely manner.

Special Mention — Asset has potential weaknesses that deserve management's close attention, which, if left uncorrected, may result in deterioration of the repayment prospects for an asset at some future date. Special Mention assets are not adversely classified.

Substandard — Asset is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. A well-defined weakness or weaknesses exist that jeopardize the liquidation of the debt. The loans are characterized by the distinct possibility that the Company will sustain some loss if deficiencies are not corrected.

Doubtful — Exhibits the inherent weaknesses of a substandard credit. Additional characteristics exist that make collection or liquidation in full highly questionable and improbable, on the basis of currently known facts, conditions and values. Possibility of loss is extremely high, but because of certain important and reasonable specific pending factors which may work to the advantage and strengthening of the credit, an estimated loss cannot yet be determined.

Loss — Credit is considered uncollectible and of such little value that it does not warrant consideration as an active asset. There may be some recovery or salvage value, but there is doubt as to whether, how much or when the recovery would occur.

Commercial loan credit quality indicators for receivables from dealers held for investment as of June 30, 2014 and December 31, 2013 were as follows:

	June 30, 2014	December 31, 2013
Pass	$83,754	$95,835
Special Mention	2,131	—
Substandard	—	—
Doubtful	—	—
Loss	—	—
	$85,885	$95,835

Troubled Debt Restructurings

In certain circumstances, the Company modifies the terms of its finance receivables to troubled borrowers. Modifications may include a reduction in interest rate, an extension of the maturity date, rescheduling future cash flows, or a combination thereof. A modification of finance receivable terms is considered a troubled debt restructuring (“TDR”) if the Company grants a concession to a borrower for economic or legal reasons related to the debtor’s financial difficulties which 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 during the period. Additionally, modifications set forth through bankruptcy proceeding are deemed to be TDRs by the Company. The purchased receivables portfolio is excluded from the scope of the applicable guidance. As of June 30, 2014 and December 31, 2013, there were no receivables from dealers classified as a TDR.

The table below presents the Company’s loans modified in TDRs as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Retail Installment Contracts	Unsecured Consumer Loans	Retail Installment Contracts	Unsecured Consumer Loans
Total TDR principal	$3,151,614	$19,540	$2,604,351	$8,391
Accrued interest	85,218	—	70,965	—
Discount	(87,743)	(58)	(70,321)	(274)
Origination costs	4,682	18	4,161	5
Outstanding recorded investment	3,153,771	19,500	2,609,156	8,122
Allowance for loan losses	(551,767)	(6,040)	(475,128)	(2,345)
Outstanding recorded investment, net of allowance	$2,602,004	$13,460	$2,134,028	$5,777

A summary of the Company’s performing and non-performing TDRs at June 30, 2014 and December 31, 2013, is as follows:

	June 30, 2014		December 31, 2013	
	Retail Installment Contracts	Unsecured Consumer Loans	Retail Installment Contracts	Unsecured Consumer Loans
Current	$2,171,354	$13,008	$1,690,893	$6,120
31-60 days past due	635,787	972	556,489	875
Greater than 60 days past due (non-performing)	344,473	5,560	356,969	1,396
Total TDRs	$3,151,614	$19,540	$2,604,351	$8,391

A loan that has been classified as a TDR remains so until the loan is liquidated through payoff or charge-off. Consistent with other of the Company’s retail installment contracts, TDRs are placed on nonaccrual status when the account becomes past due more than 60 days, and return to accrual status when the account is 60 days or less past due.

Average recorded investment and income recognized on TDR loans are as follows:

	Three Months Ended				Six Months Ended			
	June 30, 2014		June 30, 2013		June 30, 2014		June 30, 2013	
	Retail Installment Contracts	Unsecured Consumer Loans	Retail Installment Contracts	Unsecured Consumer Loans	Retail Installment Contracts	Unsecured Consumer Loans	Retail Installment Contracts	Unsecured Consumer Loans
Average outstanding recorded	$2,979,944	$14,570	$1,683,372	$62	$2,856,348	$12,510	$1,628,540	$41

investment in TDRs								
Interest income recognized	$112,138	$391	$38,260	$1	$232,589	$720	$130,401	$1

TDR Impact on Allowance for Loan Losses

Prior to a loan being classified as a TDR, the Company generally estimates an appropriate allowance for loan loss 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, impairment is measured based on present value of expected future cash flows considering all available evidence, including collateral values.

The following table summarizes the financial effects of loan modifications accounted for as TDRs that occurred during the three and six months ended June 30, 2014 and 2013:

	Three Months Ended			
	June 30, 2014		June 30, 2013	
	Retail Installment Contracts	Unsecured Consumer Loans	Retail Installment Contracts	Unsecured Consumer Loans
Troubled Debt Restructurings:				
Outstanding recorded investment before TDR	$743,664	$4,637	$473,775	$150
Outstanding recorded investment after TDR	$699,158	$4,573	$444,971	$149
Number of contracts	44,524	4,116	29,797	143

	Six Months Ended			
	June 30, 2014		June 30, 2013	
	Retail Installment Contracts	Unsecured Consumer Loans	Retail Installment Contracts	Unsecured Consumer Loans
Troubled Debt Restructurings:				
Outstanding recorded investment before TDR	$1,367,673	$6,748	$764,636	$150
Outstanding recorded investment after TDR	$1,280,211	$6,667	$733,812	$149
Number of contracts	83,753	6,135	50,271	143

For retail installment contracts, a TDR is considered to have subsequently defaulted at the earlier of the date of repossession or 120 days past due after becoming a TDR. For unsecured consumer loans, a TDR is considered to have subsequently defaulted upon charge off, which for revolving unsecured loans is generally at 180 days past due. Loan modifications accounted for as TDRs within the previous 12 months that subsequently defaulted during the three and six months ended June 30, 2014 and 2013 are summarized in the following table:

	Three Months Ended			
	June 30, 2014		June 30, 2013	
	Retail Installment Contracts	Unsecured Consumer Loans	Retail Installment Contracts	Unsecured Consumer Loans
Troubled debt restructurings that subsequently defaulted	$70,811	(a)	$24,471	$—
Number of contracts	7,234	(a)	2,609	—

	Six Months Ended June 30, 2014		June 30, 2013	
	Retail Installment Contracts	Unsecured Consumer Loans	Retail Installment Contracts	Unsecured Consumer Loans
Troubled debt restructurings that subsequently defaulted	$120,275	(a)	$38,491	$—
Number of contracts	13,123	(a)	4,234	—

(a) Subsequent defaults on unsecured consumer loan TDRs were immaterial for the periods presented.

4. Leased Vehicles, net

Leased vehicles consisted of the following as of June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
Leased vehicles	$4,481,384	$2,402,052
Origination fees and other costs	1,157	2,716
Manufacturer subvention payments	(495,597)	(259,152)
	3,986,944	2,145,616
Less: accumulated depreciation	(419,398)	(122,183)
	$3,567,546	$2,023,433

The following summarizes the future minimum rental payments due to the Company as lessor under operating leases as of June 30, 2014:

Remainder of 2014	$318,976
2015	616,414
2016	472,417
2017	90,436
2018	96
Thereafter	—
Total	$1,498,339

5. Debt

Revolving Credit Facilities

The following table presents information regarding credit facilities as of June 30, 2014 and December 31, 2013:

	June 30, 2014					
	Maturity Date(s)	Utilized Balance	Committed Amount	Effective Rate	Assets Pledged	Restricted Cash Pledged
Warehouse line (a)	July 2014	$109,461	$500,000	2.05%	$158,591	$172
Warehouse line	Various (b)	552,268	1,235,038	1.14%	816,330	25,768
Warehouse line (c)	January 2016	1,318,088	4,550,000	1.15%	1,756,086	35,685
Warehouse line	December 2015	464,037	2,000,000	2.18%	570,306	11,993
Warehouse line	July 2015	153,515	500,000	1.64%	191,391	7,532
Warehouse line (d)	September 2015	196,880	200,000	1.97%	290,043	12,054
Repurchase facility (e)	Various	747,342	747,342	1.52%	844,305	—
Warehouse line	December 2015	495,765	750,000	0.91%	675,143	10,083
Warehouse line (f)	November 2016	175,000	175,000	1.71%	—	—
Warehouse line (g)	March 2015	250,594	250,594	0.99%	296,929	—
Total facilities with third parties		4,462,950	10,907,974		5,599,124	103,287
Lines of credit with Santander and related subsidiaries (h):						
Line of credit	December 2016	500,000	500,000	2.45%	1,623	—
Line of credit	December 2018	—	500,000	0.25%	—	—
Line of credit	December 2016	1,750,000	1,750,000	2.26%	—	—
Line of credit	December 2018	750,000	1,750,000	2.59%	187,555	—
Line of credit	March 2017	300,000	300,000	1.70%	—	—
Total facilities with Santander and related subsidiaries		3,300,000	4,800,000		189,178	—
Total revolving credit facilities		$7,762,950	$15,707,974		$5,788,302	$103,287

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	December 31, 2013					
	Maturity Date(s)	Utilized Balance	Committed Amount	Effective Rate	Assets Pledged	Restricted Cash Pledged
Warehouse line	June 2014	$483,738	$500,000	0.82%	$757,352	$—
Warehouse line	Various	159,300	1,219,474	3.62%	232,015	3,667
Warehouse line	April 2014	613,600	4,550,000	2.12%	745,759	15,184
Warehouse line	June 2015	1,360,070	2,000,000	0.96%	1,672,082	42,510
Warehouse line	July 2015	495,786	500,000	0.85%	598,754	25,056
Warehouse line	September 2015	73,080	200,000	2.84%	76,807	2,701
Repurchase facility	Various	879,199	879,199	1.59%	—	—
Warehouse line	December 2015	210,000	750,000	1.84%	302,632	—
Warehouse line	November 2016	175,000	175,000	1.72%	—	—
Total facilities with third parties		4,449,773	10,773,673		4,385,401	89,118
Lines of credit with Santander and related subsidiaries:						
Line of credit	December 2016	500,000	500,000	2.48%	10,674	—
Line of credit	December 2018	—	500,000	3.10%	—	—
Line of credit	December 2016	1,750,000	1,750,000	2.09%	—	—
Line of credit	December 2018	1,400,000	1,750,000	2.58%	93,969	—
Total facilities with Santander and related subsidiaries		3,650,000	4,500,000		104,643	—
Total revolving credit facilities		$8,099,773	$15,273,673		$4,490,044	$89,118

(a) In July 2014, the maturity date of this facility was extended to June 2015.

(b) Half of the outstanding balance on this facility matures in March 2015 and half in March 2016.

(c) This line is held exclusively for Chrysler Capital retail loan and lease financing, with lease financing comprising no more than 50% of the outstanding balance upon advance. In July 2014, the committed amount was reduced to $4.3 billion and the maturity date was extended to June 2016.

(d) This line is held exclusively for unsecured consumer term loans.

(e) The repurchase facility is also collateralized by securitization notes payable retained by the Company. No portion of this facility is unsecured. This facility has rolling 30-day and 90-day maturities.

(f) This line is collateralized by residuals retained by the Company.

(g) This line is collateralized by securitization notes payable retained by the Company.

(h) These lines are also collateralized by securitization notes payable and residuals retained by the Company. As of June 30, 2014 and December 31, 2013, $1,569,930 and $1,123,354, respectively, of the aggregate outstanding balances on these facilities were unsecured.

Facilities with Third Parties

The warehouse lines and repurchase facility are fully collateralized by a designated portion of the Company’s retail installment contracts (Note 2), leased vehicles (Note 4), securitization notes payables and residuals retained by the Company. The Company was in compliance with all covenants related to these financing arrangements at June 30, 2014.

Lines of Credit with Santander and Related Subsidiaries

Through its New York branch, Banco Santander provides the Company with $4,500,000 of long-term committed revolving credit facilities. Through SHUSA, under an agreement entered into on March 6, 2014, Santander provides the Company with an additional $300,000 of committed revolving credit, collateralized by residuals retained on its own securitizations. The fundings through the New York branch and through SHUSA are collectively known as the “Santander Credit Facilities.”

The facilities offered through the New York branch are structured as three- and five- year floating rate facilities, with current maturity dates of December 31, 2016 and December 31, 2018. Santander has the option to continue to renew the term of these facilities annually going forward, thereby maintaining the three and five year maturities. These

facilities currently permit unsecured borrowing but generally are collateralized by retail installment contracts and retained residuals. Any secured balances outstanding under the facilities at the time of their maturity will amortize to match the maturities and expected cash flows of the corresponding collateral.
Secured Structured Financings

The following table presents information regarding secured structured financings as of June 30, 2014 and December 31, 2013:

	June 30, 2014					
	Original Estimated Maturity Date(s)	Balance	Initial Note Amounts Issued	Initial Weighted Average Interest Rate	Collateral	Restricted Cash
2010 Securitizations	October 2016 - November 2017	$333,148	$3,671,749	1.04%-1.44%	$641,669	$142,992
2011 Securitizations	October 2015 - September 2017	653,968	4,693,289	1.21%-2.80%	1,038,660	157,307
2012 Securitizations	November 2017 - December 2018	3,088,855	8,023,840	0.92%-1.68%	3,899,764	355,658
2013 Securitizations	January 2019 - January 2021	4,338,610	6,689,700	0.89%-1.59%	5,295,330	348,040
2014 Securitizations	April 2020 - August 2020	3,706,441	4,100,000	1.63%-1.72%	4,385,840	236,269
Public securitizations		12,121,022	27,178,578		15,261,263	1,240,266
2010 Private issuances	June 2011	209,128	516,000	1.29%	338,513	9,538
2011 Private issuances	December 2018	1,222,065	4,856,525	1.46%-1.80%	1,652,724	56,942
2012 Private issuances	May 2016	14,962	70,308	1.07%	20,177	1,874
2013 Private issuances	September 2018 - September 2020	2,411,661	2,693,754	1.13%-1.38%	3,249,917	89,031
2014 Private issuances	March 2018 - August 2021	2,412,822	2,680,379	1.09%-1.85%	2,965,196	112,116
Privately issued amortizing notes		6,270,638	10,816,966		8,226,527	269,501
Total secured structured financings		$18,391,660	$37,995,544		$23,487,790	$1,509,767

	December 31, 2013					
	Original Estimated Maturity	Balance	Initial Note Amounts Issued	Initial Weighted Average	Collateral	Restricted Cash

	Date(s)			Interest Rate		
2010 Securitizations	October 2016 - November 2017	$632,251	$4,671,749	1.04%-1.44%	$1,143,435	$205,190
2011 Securitizations	October 2015 - September 2017	1,218,208	5,605,609	1.21%-2.80%	1,634,220	195,854
2012 Securitizations	November 2017 - December 2018	4,061,127	8,023,840	0.92%-1.68%	5,013,135	383,677
2013 Securitizations	January 2019 - January 2021	5,503,580	6,689,700	0.89%-1.59%	6,465,840	351,160
Public securitizations		11,415,166	24,990,898		14,256,630	1,135,881
2010 Private issuances	June 2011	219,704	516,000	1.29%	378,434	8,435
2011 Private issuances	December 2018	662,138	4,856,525	1.46%-1.80%	908,304	36,449
2012 Private issuances	May 2016	30,526	70,308	1.07%	35,378	3,016
2013 Private issuances	September 2018 - September 2020	2,868,353	2,693,754	1.13%-1.38%	3,554,569	97,100
Privately issued amortizing notes		3,780,721	8,136,587		4,876,685	145,000
Total secured structured financings		$15,195,887	$33,127,485		$19,133,315	$1,280,881

Notes Payable — Secured Structured Financings
The principal and interest on secured structured financings are paid using the cash flows from the underlying retail installment contracts, loans and leases, which serve as collateral for the notes. Accordingly, the timing of the principal payments on these notes is dependent on the payments received on the underlying collateral.

Most of the Company's secured structured financings are in the form of public, SEC-registered securitizations. The Company also executes private securitizations under Rule 144A of the Securities Act and periodically issues private term amortizing notes, which are structured similarly to securitizations but are acquired by banks and conduits. Historically, all of the Company's securitizations and private issuances have been collateralized by vehicle retail installment contracts and loans; however, in 2013, the Company issued its first amortizing notes backed by vehicle leases. As of June 30, 2014, the Company had private issuances of notes backed by vehicle leases totaling approximately $1,433,658.
Unamortized debt issuance costs are amortized as interest expense over the terms of the related notes payable using a method that approximates the effective interest method. Amortization of premium or accretion of discount on acquired notes payable is also included in interest expense using a method that approximates the effective interest method, over the estimated remaining life of the acquired notes. Total interest expense on secured structured financings for the three months ended June 30, 2014 and 2013 was $57,217 and $56,626, respectively. Total interest expense on secured structured financings for the six months ended June 30, 2014 and 2013 was $117,079 and $114,336, respectively.

6. Variable Interest Entities
The Company transfers retail installment contracts and leased vehicles into newly formed Trusts which then issue one or more classes of notes payable backed by the collateral. The Company's continuing involvement with the credit facilities and Trusts are in the form of servicing loans held by special purpose financing Trusts and, except for the Chrysler Capital securitizations, through holding a residual interest in the Trust. These transactions are structured without recourse. The Trusts are considered variable interest entities ("VIEs") under U.S. GAAP and, except for the Chrysler Capital securitizations, are consolidated because the Company has: (a) power over the significant activities of the entity as servicer of its financial assets and (b) the residual interest and in some cases debt securities held by the Company, an obligation to absorb losses or the right to receive benefits from the VIE which are potentially significant to the VIE. The Company did not retain any debt or equity interests in the Chrysler Capital securitizations executed in 2013 and 2014, and recorded these transactions as sales of the associated retail installment contracts.
The collateral, borrowings under credit facilities and securitization notes payable of the consolidated Trusts remain on the consolidated balance sheets. The Company recognizes finance charges and fee income on the retail installment contracts and leased vehicles and interest expense on the debt, and records a provision for loan losses to cover probable inherent losses on the contracts. All of the Trusts are separate legal entities and the collateral and other assets held by these subsidiaries are legally owned by them and are not available to other creditors.
The Company also uses a titling trust to originate and hold its leases, in order to facilitate the pledging of leases to financing facilities or sale of leases to other parties without incurring the costs and administrative burden of retitling the leased vehicles. The titling trust, and each special unit of beneficial interest ("SUBI") in the titling trust such as those transferred to financing facilities or other parties, is considered a VIE.
The following table summarizes the assets and liabilities related to VIEs included in the Company's consolidated financial statements:

	June 30, 2014	December 31, 2013
Restricted cash	$1,613,054	$1,370,174
Retail installment contracts, net	21,020,328	19,166,392
Leased vehicles, net	3,567,546	2,023,433
Various other assets	901,100	541,469
Notes payable	26,297,908	23,810,950

Various other liabilities	49,983	25,682

A summary of the cash flows received from securitization trusts during the three and six months ended June 30, 2014 and 2013, is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Receivables securitized	$5,051,048	$1,317,633	$9,141,478	$4,121,367
Net proceeds from securitizations (a)	$4,707,336	$1,136,460	$8,206,756	$3,586,460
Cash received for servicing fees	157,698	107,848	306,257	209,436
Cash received upon release from reserve and restricted cash accounts	60	2,806	810	6,225
Net distributions from Trusts	384,093	431,723	710,812	759,290
Total cash received from securitization trusts	$5,249,187	$1,678,837	$9,224,635	$4,561,411

(a) Includes additional advances on existing securitizations

The Company retains servicing responsibility for receivables transferred to the Trusts and receives a monthly servicing fee on the outstanding principal balance. Supplemental fees, such as late charges, for servicing the receivables are reflected in fees, commissions and other income. As of June 30, 2014 and December 31, 2013, the Company was servicing $24,344,700 and $21,935,874, respectively, of gross retail installment contracts that have been transferred to consolidated Trusts. The remainder of the Company’s retail installment contracts is either pledged in private issuances or warehouse facilities or unpledged.

During the six months ended June 30, 2014, the Company sold $774,183 of gross retail installment contracts in off-balance sheet securitizations for a gain of approximately $32,538. During the three months ended June 30, 2014, the Company executed no off-balance sheet securitizations. As of June 30, 2014 and December 31, 2013, the Company was servicing $1,528,072 and $1,017,756, respectively, of gross retail installment contracts that have been sold in these off-balance sheet Chrysler Capital securitizations.

7. Derivative Financial Instruments

Certain of the Company’s interest rate swap agreements are designated as cash flow hedges for accounting purposes. The Company’s remaining interest rate swap agreements, as well as its interest rate cap agreements, the corresponding options written in order to offset the interest rate cap agreements, and a total return swap, are not designated as hedges for accounting purposes. The underlying notional amounts and aggregate fair values of these agreements at June 30, 2014 and December 31, 2013, were as follows:

	June 30, 2014		December 31, 2013	
	Notional	Fair Value	Notional	Fair Value
Interest rate swap agreements designated as cash flow hedges	$6,057,000	$(7,592)	$3,873,000	$(5,686)
Interest rate swap agreements not designated as hedges	2,841,861	(23,041)	3,444,459	(31,360)
Interest rate cap agreements	6,398,207	46,631	4,616,960	28,274
Options for interest rate cap agreements	6,398,207	(46,677)	4,616,960	(28,389)
Total return swap	250,594	—	—	—

The aggregate fair value of the interest rate swap agreements was included on the Company’s consolidated balance sheets in other assets and other liabilities, as appropriate. The interest rate cap agreements were included in other assets and the related options in other liabilities on the Company’s consolidated balance sheets.

In March 2014, the Company entered into a financing arrangement with a third party where by the Company pledged certain bonds retained in its own securitizations in exchange for approximately $250,594 in cash. In conjunction with the financing arrangement, the Company entered into a total return swap related to the bonds as an effective avenue to monetize the Company’s retained bonds as a source of financing. The Company will receive the fixed return on the bonds in exchange for paying a variable rate of three-month LIBOR plus 75 basis points. In addition, at maturity, the

Company will receive a payment from, or make a payment to, the counterparty based on the change in fair value of the bonds during the one-year term of the facility. Throughout the term of the facility, the party in a net liability position

must post collateral. The Company has the ability to substitute collateral and may do so if a bond is set to begin amortizing. Alternatively, the amortization may be utilized to reduce the notional amount of the facility.
The Company enters into legally enforceable master netting agreements which reduce risk by permitting netting of transactions, such as derivatives and collateral posting, with the same counterparty on the occurrence of certain events. A master netting agreement allows two counterparties the ability to net-settle amounts under all contracts, including any related collateral posted, through a single payment. The right to offset and certain terms regarding the collateral process, such as valuation, credit events and settlement, are contained in ISDA master agreements.
Information on the offsetting of derivative assets and derivative liabilities due to the right of offset was as follows, as of June 30, 2014 and December 31, 2013:

Offsetting of Financial Assets

				Gross Amounts Not Offset in the Consolidated Balance Sheet		
	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amount
June 30, 2014						
Interest rate swaps - Santander & affiliates	$537	$—	$ 537	$—	$—	$537
Interest rate caps - Santander & affiliates	33,201	—	33,201	—	—	33,201
Interest rate caps - third party	13,430	—	13,430	—	—	13,430
Total derivatives subject to a master netting arrangement or similar arrangement	47,168	—	47,168	—	—	47,168
Total derivatives not subject to a master netting arrangement or similar arrangement	—	—	—	—	—	—
Total derivative assets	$47,168	$—	$ 47,168	$—	$—	$47,168
Total financial assets	$47,168	$—	$ 47,168	$—	$—	$47,168
December 31, 2013						
Interest rate swaps - Santander & affiliates	$1,601	$—	$ 1,601	$—	$—	$1,601
Interest rate caps - Santander & affiliates	9,342	—	9,342	—	—	9,342
Interest rate caps - third party	18,932	—	18,932	—	—	18,932
Total derivatives subject to a master netting arrangement or similar arrangement	29,875	—	29,875	—	—	29,875
Total derivatives not subject to a master netting arrangement or similar arrangement	—	—	—	—	—	—
Total derivative assets	$29,875	$—	$ 29,875	$—	$—	$29,875

Total financial assets	$29,875	$—	$ 29,875	$—	$—	$29,875

Offsetting of Financial Liabilities

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash Collateral Pledged	Net Amount
June 30, 2014						
Interest rate swaps - Santander & affiliates	$31,169	$ (9,612)	$ 21,557	$—	$ —	$21,557
Back to back - Santander & affiliates	33,201	(32,369)	$ 832	$—	$ —	$832
Back to back - third party	13,476	(13,476)	—	—	—	—
Total derivatives subject to a master netting arrangement or similar arrangement	77,846	(55,457)	22,389	—	—	22,389
Total derivatives not subject to a master netting arrangement or similar arrangement	—	—	—	—	—	—
Total derivative liabilities	$77,846	$ (55,457)	$ 22,389	$—	$ —	$22,389
Total financial liabilities	$77,846	$ (55,457)	$ 22,389	$—	$ —	$22,389
December 31, 2013						
Interest rate swaps - Santander & affiliates	$38,647	$ (2,258)	$ 36,389	$—	$ —	$36,389
Back to back - Santander & affiliates	9,342	(9,342)	—	—	—	—
Back to back - third party	19,047	(15,420)	3,627	—	—	3,627
Total derivatives subject to a master netting arrangement or similar arrangement	67,036	(27,020)	40,016	—	—	40,016
Total derivatives not subject to a master netting arrangement or similar arrangement	—	—	—	—	—	—
Total derivative liabilities	$67,036	$ (27,020)	$ 40,016	$—	$ —	$40,016
Total financial liabilities	$67,036	$ (27,020)	$ 40,016	$—	$ —	$40,016

The Company is the holder of a warrant that gives it the right, if certain vesting conditions are satisfied, to purchase additional shares in a company in which it has a cost method investment. This warrant was issued in 2012 and is carried at its estimated fair value of zero at June 30, 2014 and December 31, 2013.

The gross gains (losses) reclassified from accumulated other comprehensive income to net income, and gains (losses) recognized in net income, are included as components of interest expense. The Company's interest rate swap agreements had effects on its consolidated statements of income and comprehensive income for the three and six months ended June 30, 2014 and 2013 as follows:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Gains (Losses) Recognized in Interest Expense	Gross Gains (Losses) Recognized in Accumulated Other Comprehensive Income	Gross Gains (Losses) Reclassified From Accumulated Other Comprehensive Income to Interest Expense	Gains (Losses) Recognized in Interest Expense	Gross Gains (Losses) Recognized in Accumulated Other Comprehensive Income	Gross Gains (Losses) Reclassified From Accumulated Other Comprehensive Income to Interest Expense
Interest rate swap agreements designated as cash flow hedges	$(47)	$(7,246)	$ (1,931)	$—	$(1,155)	$(4,444)
Derivative instruments not designated as hedges	$3,199			$10,682		

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Gains (Losses) Recognized in Interest Expense	Gross Gains (Losses) Recognized in Accumulated Other Comprehensive Income	Gross Gains (Losses) Reclassified From Accumulated Other Comprehensive Income To Interest Expense	Gains (Losses) Recognized in Interest Expense	Gross Gains (Losses) Recognized in Accumulated Other Comprehensive Income	Gross Gains (Losses) Reclassified From Accumulated Other Comprehensive Income to Interest Expense
Interest rate swap agreements designated as cash flow hedges	$91	$(6,592)	$ (4,595)	$—	$(1,660)	$ (9,439)
Derivative instruments not designated as hedges	$8,388			$17,339		

The ineffectiveness related to the interest rate swap agreements designated as cash flow hedges was not material for the six months ended June 30, 2014 and 2013.

8. Other Assets

Other assets were comprised as follows:

	June 30, 2014	December 31, 2013
Upfront fee (a)	$132,500	$140,000
Inventory of repossessed vehicles	140,792	129,323
Manufacturer subvention payments receivable (a)	73,240	55,579
Derivative assets (Note 7)	47,168	29,875
Indemnification payments receivable (b)	8,603	8,603

Other	90,884	46,925
	$493,187	$410,305

(a) These amounts relate to the Chrysler agreement. The Company paid a $150,000 upfront fee at the effective date of the agreement. This fee is being amortized into finance and other interest income over the ten-year term of the agreement. As the preferred financing provider for Chrysler, the Company is entitled to subvention payments on loans and leases with below-market customer payments.

(b) This amount represents tax indemnification payments to the original equity investors in two investment partnerships now owned by the Company. These payments are expected to be recovered through tax refunds passed through to the Company as the original investors recognize losses related to the investments.

9. Income Taxes

The Company recorded income tax expense of $143,643 (36.8% effective tax rate) and $191,684 (36.9% effective tax rate) during the three and six months ended June 30, 2014, respectively. The Company recorded income tax expense of $104,129 (36.5% effective tax rate) and $256,927 (35.3% effective tax rate) during the three and six months ended June 30, 2013, respectively. The effective tax rate increased primarily due to a partial release of a valuation allowance during the six months ended June 30, 2013 versus a build in the valuation allowance during the six months ended June 30, 2014.

Significant judgment is required in evaluating and reserving for uncertain tax positions. Although management believes adequate reserves have been established for all uncertain tax positions, the final outcomes of these matters may differ. Management does not believe the outcome of any uncertain tax position, individually or combined, will have a material effect on the results of operations. The reserve for uncertain tax positions, as well as associated penalties and interest, are a component of the income tax provision.

10. Commitments and Contingencies

In connection with the sale of retail installment contracts through securitizations and other sales, the Company has made standard representations and warranties customary to the consumer finance industry. Violations of these representations and warranties may require the Company to repurchase loans previously sold to on- or off-balance sheet trusts or other third parties. As of June 30, 2014, the Company had no repurchase requests outstanding. In the opinion of management, the potential exposure of other recourse obligations related to the Company’s retail installment contract sales agreements will not have a material adverse effect on the Company’s consolidated financial position, results of operations, or cash flows.

The Company has a letter of credit facility with Santander — New York Branch totaling $500,000 at June 30, 2014 and December 31, 2013. The amount issued was zero as of June 30, 2014 and December 31, 2013. The letters of credit can serve as collateral for certain warehouse lines. These commitments will expire on December 31, 2014.

Santander has provided guarantees on the covenants, agreements, and obligations of the Company under the governing documents of its warehouse facilities and privately issued amortizing notes. These guarantees are limited to the obligations of SCUSA as servicer.

The Company committed to purchase certain new advances of unsecured revolving financings originated by a third party retailer, along with existing balances on accounts with new advances, for an initial term ending on April 2020 and renewing through April 2022 at the retailer's option. The Company also is required to make a profit-sharing payment to the retailer each month.

Under terms of the agreement with Chrysler, the Company must make revenue sharing payments to Chrysler and also must make loss-sharing payments when residual losses on leased vehicles exceed a specified threshold.

Under terms of an application transfer agreement with another original equipment manufacturer (OEM), the Company has the first opportunity to review for its own portfolio any credit applications turned down by the OEM's captive finance company. The agreement does not require the Company to originate any loans, but for each loan originated the Company will pay the OEM a referral fee, comprised of a volume bonus fee and a loss betterment bonus fee. The loss betterment bonus fee will be calculated annually and is based on the amount by which losses on loans originated under the agreement are lower than an established percentage threshold.

The Company is obligated to make purchase price holdback payments to a third party originator of loans that it purchases on a periodic basis, when losses are lower than originally expected.

The Company has a flow agreement with Bank of America whereby the Company is committed to sell up to $300,000 of eligible loans to the bank each month through May 2018. The Company retains servicing on all sold loans and will receive or pay a servicer performance payment if yields, net of credit losses, on the loans are higher or lower, respectively, than expected at origination.

The Company has sold loans to Citizens Bank of Pennsylvania (CBP) in 2014 under terms of a flow agreement and predecessor sale agreements. The Company retains servicing on the sold loans and will owe CBP a loss-sharing payment capped at 0.5% of the original pool balance if losses exceed a specified threshold, established on a pool-by-pool basis.

The Company has an agreement with Santander Bank, N.A. (“SBNA,” formerly Sovereign Bank), a subsidiary of SHUSA, whereby the Company provides SBNA the first right to review and assess Chrysler dealer lending opportunities and, if SBNA elects, to provide the proposed financing. The Company provides servicing on all loans originated under this arrangement. The Company received a $9,000 referral fee in June 2013 in connection with this arrangement and is amortizing the fee into income over the ten-year term of agreement. The Company also will receive or pay a servicer performance payment if yields, net of credit losses, on the loans are higher or lower, respectively, than expected at origination. At the end of each quarter, the Company has the first right to originate loans

in an amount equal to the amount of originations the Company made during the quarter due to SBNA decline or a failure to timely respond. Throughout the year, these amounts aggregate if the Company does not exercise its right of first refusal. At the end of each year, any amounts not used expire and do not roll over to the next year. As of June 30, 2014 and December 31, 2013, approximately $456,006 and $202,494 had been originated by SBNA under this agreement, and SCUSA had not exercised its right to originate additional loans.
The Company also has agreements with SBNA to service recreational and marine vehicle portfolios. These agreements call for a periodic retroactive adjustment, based on cumulative return performance, of the servicing fee rate to inception of the contract. The adjustment for the three months ended June 30, 2014 and 2013 was an upward adjustment of $1,329 and zero, respectively, and adjustments for the six months ended June 30, 2014 and 2013 totaled a net upward adjustment of $3,249 and zero, respectively.
The Company also provides SBNA with the first right to review and approve consumer vehicle lease applications. As of June 30, 2014, the Company has indemnified SBNA for potential credit and residual losses on $48,226 of leases that had been originated by SBNA under this program but were subsequently determined not to meet SBNA’s underwriting requirements. This indemnification agreement is supported by an equal amount of cash collateral posted by the Company in an SBNA bank account. The collateral account balance is included in restricted cash in the Company's condensed consolidated balance sheet.
Under terms of agreements with a peer-to-peer unsecured lending platform company, the Company has committed to purchase at least the lesser of $30,000 per month or 75% of the lending platform company’s near-prime originations through July 2015, and the lesser of $30,000 per month or 50% of the lending platform company’s near-prime originations thereafter through July 2017. This commitment can be reduced or canceled with 90 days’ notice.
Periodically, the Company is party to or otherwise involved in other legal proceedings arising in the normal course of business. The Company does not believe that there are any proceedings threatened or pending, if determined adversely, that would have a material adverse effect on the consolidated financial position, results of operations, or liquidity of the Company.

11. Related-Party Transactions

Related-party transactions not otherwise disclosed in these footnotes to the consolidated financial statements include the following:
The Company has a line of credit agreement with Santander — New York Branch (Note 5). Interest expense on these lines of credit totaled $22,709 and $13,957 for the three months ended June 30, 2014 and 2013, respectively, and $47,583 and $20,451 for the six months ended June 30, 2014 and 2013, respectively. Accrued interest was $6,146 and $11,435 at June 30, 2014 and December 31, 2013, respectively.
The Company has a line of credit agreement with SHUSA (Note 5). Interest expense on this line of credit totaled $1,299 and $1,662 for the three and six months ended June 30, 2014, respectively. Accrued interest was $213 as of June 30, 2014.
The Company has a letter of credit facility with Santander — New York Branch (Note 10). Letter of credit fees for the used and unused portions, which are included as a component of interest expense, totaled $126 and $144 for the three months ended June 30, 2014 and 2013, and $251 and $270 for the six months ended June 30, 2014 and 2013, respectively. Accrued fees totaled $126 and $128 at June 30, 2014 and December 31, 2013, respectively.
The Company has derivative financial instruments with Santander and affiliates with outstanding notional amounts of $14,619,274 and $10,461,378 at June 30, 2014 and December 31, 2013, respectively (Note 7). Interest expense on these agreements includes amounts totaling $12,702 and $1,289 for the three months ended June 30, 2014 and 2013, respectively, and $21,583 and $6,163 for the six months ended June 30, 2014 and 2013, respectively.
During 2013, the Company sold approximately $222,384 of the Company’s receivables from dealers to SBNA. The Company continues to service these loans but the loans are not subject to the servicer performance payment that applies to dealer loans originated under the SBNA flow agreement, described in Note 10. Servicing fee income recognized on receivables from dealers sold to SBNA or originated by SBNA

totaled $3,033 and $4,298 for the three and six months ended June 30, 2014, including $1,259 and $1,723, respectively, in servicer performance payments. Other information on the dealer loan portfolio serviced for SBNA as of June 30, 2014 and December 31, 2013 is as follows:

	June 30, 2014	December 31, 2013
Total serviced portfolio	$764,869	$513,684
Cash collections due to owner, net	$10,930	$6,941
Servicing fees receivable	$1,676	$817

The Company also has agreements with SBNA to service auto retail installment contracts and recreational and marine vehicle portfolios. Servicing fee income recognized under these agreements totaled $5,784 and $3,157 for the three months ended June 30, 2014 and 2013, respectively, and $6,649 and $9,371 for the six months ended June 30, 2014 and 2013, respectively. Other information on the serviced auto loan and retail installment contract portfolios for SBNA as of June 30, 2014 and December 31, 2013 is as follows:

	June 30, 2014	December 31, 2013
Total serviced portfolio	$1,017,002	$1,175,566
Cash collections due to owner	$30,522	$32,831
Servicing fees receivable (refundable)	$2,566	$(3,163)

During 2014, the Company entered into a flow agreement with SBNA whereby SBNA has the first right to review and approve Chrysler Capital consumer vehicle lease applications. SCUSA may review any applications declined by SBNA for the Company's own portfolio. The Company provides servicing and receives an origination fee on all leases originated under this agreement.

On June 27, 2014, the Company executed a bulk sale of Chrysler Capital leases with a depreciated net capitalized cost of $369,114 and a net book value of $317,275 in Chrysler Capital leases to SBNA. This sale was effected through the transfer of a SUBI in SCUSA's titling trust. Proceeds from the sale were $322,851, for a total gain of $5,576. SCUSA retained servicing on the sold leases.

Origination and service fee income recognized on leases originated and serviced for SBNA totaled $6,937 and $535, respectively, for the three months ended June 30, 2014, and $10,622 and $629, respectively, for the six months ended June 30, 2014. Other information on the consumer vehicle lease portfolio serviced for SBNA as of June 30, 2014 is as follows:

	June 30, 2014
Total serviced portfolio	$1,077,111
Cash collections due to owner	$6,055
Origination and servicing fees receivable	$2,499

On June 30, 2014, the Company entered into an indemnification agreement with SBNA whereby SCUSA indemnifies SBNA for any credit or residual losses on a pool of $48,226 in leases originated under the flow agreement. The covered leases are non-conforming units because they did not meet SBNA's credit criteria at origination. In connection with this agreement, SCUSA established a $48,226 collateral account with SBNA that will be released over time to SBNA, in the case of losses, and SCUSA, in the case of payments and sale proceeds.

Produban Servicios Informaticos Generales S.L., a Santander affiliate, is under contract with the Company to provide professional services, telecommunications, and internal and/or external applications. Expenses incurred, which are included as a component of data processing, communications and other expenses, total

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$22 for each of the three-month periods ended June 30, 2014 and 2013, and $75 for each of the six-month periods ended June 30, 2014 and 2013.
During the three and six months ended June 30, 2014, the Company originated $2,207 and $2,911, respectively, in unsecured revolving loans under terms entered into under a Master Services Agreement (MSA) with a company in which it has a cost method investment and holds a warrant to increase its ownership if certain vesting conditions are satisfied. The MSA enables SCUSA to review credit applications of retail store customers.
The Company paid expenses totaling $97 and $478, respectively, for the three and six months ended June 30, 2013, on behalf of the former managing member of the investment partnerships described in Note 8. The former managing member is an investor in Auto Finance Holdings. The Company has paid no expenses on behalf of this former managing member in 2014.
The Company paid certain expenses incurred by the Chairman and CEO in the operation of his private plane when used for SCUSA business within the contiguous 48 states of the United States. Under this practice, payment is based on a set flight time hourly rate, and the amount of our reimbursement is not subject to a maximum cap per fiscal year. For the three and six months ended June 30, 2014, the Company paid $141 and $414, respectively to Meregrass Company, Inc., a 135 charter company that manages this operation, for flight time with an average hourly rate of $5.8 per hour.
On October 21, 2013, we entered into a lease for approximately 373,000 square feet at a property intended to serve as our corporate headquarters, and in which property that the Chairman and CEO, President and Chief Financial Officer, and a member of our Board of Directors who is also a Santander employee each have a minority equity investment. For the three and six months ended June 30, 2014, the Company paid $54 and $108, respectively for monthly base rent. Future minimum lease payments for the 12-year term of the lease total approximately $83,555.

12. Computation of Basic and Diluted Earnings per Common Share

Earnings per common share is computed using the two-class method required for participating securities. Restricted stock awards are considered to be participating securities because holders of such shares have non-forfeitable dividend rights in the event of a declaration of a dividend on the Company’s common shares.

We have excluded 1,539,861 and 1,308,177 employee stock option awards from the calculation of earnings per share for the three and six months ended June 30, 2014, respectively, as the effect would be anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Earnings per common share				
Net income attributable to SCUSA	$246,481	$181,918	$327,947	$472,320
Weighted average number of common shares outstanding before restricted participating shares (in thousands)	348,243	346,171	347,882	346,168
Weighted average number of participating restricted common shares outstanding (in thousands)	584	—	584	—
Weighted average number of common shares outstanding (in thousands)	348,827	346,171	348,466	346,168
Earnings per common share	$0.71	$0.53	$0.94	$1.36
Earnings per common share - assuming dilution				
Net income attributable to SCUSA	$246,481	$181,918	$327,947	$472,320
Weighted average number of common shares outstanding (in thousands)	348,827	346,171	348,466	346,168
Effect of employee stock-based awards (in thousands)	7,555	—	7,543	—
Weighted average number of common shares outstanding - assuming dilution (in thousands)	356,382	346,171	356,008	346,168

Earnings per common share - assuming dilution	$0.69	$0.53	$0.92	$1.36

13. Fair Value of Financial Instruments

Fair value estimates, methods, and assumptions are as follows:

	June 30, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Cash and cash equivalents (a)	$45,913	$45,913	$10,531	$10,531
Receivables held for sale (b)	123,791	124,120	82,503	83,344
Retail installment contracts held for investment, net (c)	21,444,601	21,961,413	20,219,609	21,465,236
Unsecured consumer loans, net (d)	1,233,637	1,321,051	954,189	1,187,286
Receivables from dealers held for investment (e)	85,194	85,194	94,745	94,745
Restricted cash (a)	2,007,946	2,007,946	1,563,613	1,563,613
Notes payable — credit facilities (f)	7,762,950	7,762,950	8,099,773	8,099,773
Notes payable — secured structured financings (g)	18,391,660	18,544,914	15,195,887	15,565,013

(a) Cash and cash equivalents and restricted cash — The carrying amount of cash and cash equivalents, including restricted cash, approximated fair value at June 30, 2014 and December 31, 2013, due to the short maturity of these instruments and is considered a Level 1 measurement.

(b) Receivables held for sale — Receivables held for sale are carried at the lower of cost or market, as determined on an aggregate basis. The estimated fair value is based on the prices obtained or expected to be obtained in the subsequent sales and is considered a Level 2 measurement.

(c) Retail installment contracts held for investment — Retail installment contracts held for investment are carried at amortized cost, net of loan loss allowance. The estimated fair value is calculated based on estimated market rates for similar contracts with similar credit risks and is considered a Level 3 measurement.

(d) Unsecured consumer loans, net — Unsecured consumer loans are carried at amortized cost, net of loan loss allowance. Carrying value approximates fair value for unsecured revolving loans because the loans are short term in duration, do not have a defined maturity date and/or are at a market-based interest rate. For unsecured amortizing loans, the estimated fair value is calculated based on estimated market rates for similar loans with similar credit risks and is considered a level 3 measurement.

(e) Receivables from dealers, held for investment, net — Receivables from dealers held for investment are carried at amortized cost, net of loan loss allowance. The estimated fair value is calculated based on estimated market rates for similar receivables with similar credit risks and is considered a Level 3 measurement.

(f) Notes payable — credit facilities — The carrying amount of notes payable related to revolving credit facilities is estimated to approximate fair value as of June 30, 2014 and December 31, 2013. Management believes that the terms of these credit agreements approximate market terms for similar credit agreements. The fair value of notes payable is considered a Level 3 measurement.

(g) Notes payable — secured structured financings — The estimated fair value of notes payable related to secured structured financings is calculated based on market quotes for the Company's publicly traded debt and estimated market rates currently available from recent transactions involving similar debt with similar credit risks, and is considered a Level 2 measurement.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2014 and December 31, 2013, and are categorized using the fair value hierarchy. The fair value hierarchy includes three levels based on the reliability of the inputs used to determine the fair value:

	Fair Value Measurements at June 30, 2014			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets — trading interest rate caps (a)	$46,631	$—	$46,631	$—
Assets — cash flow hedging interest rate swaps (a)	$537	$—	$537	$—
Assets — trading interest rate swaps (a)	$—	$—	$—	$—
Liabilities — trading options for interest rate caps (a)	$46,677	$—	$46,677	$—
Liabilities — cash flow hedging interest rate swaps (a)	$8,129	$—	$8,129	$—
Liabilities — trading interest rate swaps (a)	$23,041	$—	$23,041	$—
Total return swap (b)	$—	$—	$—	$—

	Fair Value Measurements at December 31, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets — trading interest rate caps (a)	$28,274	$—	$28,274	$—
Assets — cash flow hedging interest rate swaps (a)	$1,601	$—	$1,601	$—
Liabilities — trading options for interest rate caps (a)	$28,389	$—	$28,389	$—
Liabilities — cash flow hedging interest rate swaps (a)	$7,287	$—	$7,287	$—
Liabilities — trading interest rate swaps (a)	$31,360	$—	$31,360	$—

(a) The valuation of swaps and caps is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurement of its derivatives. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings and guarantees. The Company utilizes the exception in ASC 820-10-35-18D (commonly referred to as the "portfolio exception") with respect to measuring counterparty credit risk for instruments (Note 7).

(b) The total return swap is valued based on the estimated market value of the underlying bonds pledged to the associated credit facility.

No amounts were transferred in or out of Level 3 during 2014 or 2013.

The following table presents the Company's assets and liabilities that are measured at fair value on a nonrecurring basis at June 30, 2014 and December 31, 2013, and are categorized using the fair value hierarchy:

	Fair Value Measurements at June 30, 2014			
	Total	Quoted Prices in Active	Significant Other	Significant Unobservable

		Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
Assets — repossessed vehicle inventory	$140,792	$—	$140,792	$—

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	Fair Value Measurements at December 31, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets — repossessed vehicle inventory	$129,323	$—	$129,323	$—

The Company estimates the fair value of its repossessed vehicle inventory using historical auction rates and current market levels of used car prices.

14. Employee Benefit Plans

SCUSA Compensation Plan — Beginning in 2012, the Company granted stock options to certain executives, other employees, and independent directors under a Management Equity Plan (the "Plan"). The Plan is administered by the Board of Directors and enables the Company to make stock awards up to a total of approximately 29 million common shares (net of shares canceled and forfeited), or 8.5% of the equity invested in the Company as of December 31, 2011. Stock options granted have an exercise price based on the estimated fair market value of the Company's common stock on the grant date. The stock options expire after ten years and include both time vesting options and performance vesting options. The fair value of the stock options is amortized into income over the vesting period as time and performance vesting conditions are met. Under the Management Shareholder Agreements entered into by certain employees, no shares obtained through exercise of stock options could be transferred until the later of December 31, 2016, and the Company's execution of an IPO (the later date of which is referred to as the Lapse Date). Until the Lapse Date, if an employee were to leave the Company, the Company would have the right to repurchase any or all of the stock obtained by the employee through option exercise. If the employee were terminated for cause (as defined in the Plan) or voluntarily left the Company without good reason (as defined in the Plan), in each case, prior to the Lapse Date the repurchase price would be the lower of the strike price or fair market value at the date of repurchase. If the employee were terminated without cause or voluntarily left the Company with good reason, in each case, prior to the Lapse Date the repurchase price is the fair market value at the date of repurchase. Management believes the Company's repurchase right caused the IPO event to constitute an implicit vesting condition and therefore did not record any stock compensation expense until the date of the IPO, January 23, 2014.

On December 28, 2013, the Board approved certain changes to the Plan and the Management Shareholders Agreement, including acceleration of vesting for certain employees, removal of transfer restrictions for shares underlying a portion of the options outstanding under the Plan, and addition of transfer restrictions for shares underlying another portion of the outstanding options. All of the changes were contingent on, and effective upon, the Company's execution of an IPO and, as such, became effective upon pricing of the IPO on January 22, 2014. Also on December 28, 2013, the Board established the Omnibus Incentive Plan, which enables the Company to grant awards of nonqualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock units and other awards that may be settled in or based upon the value of the Company's common stock up to a total of 5,192,640 common shares. As of June 30, 2014, the Company had granted 583,890 shares of restricted stock to certain executives under terms of the Omnibus Incentive Plan. Compensation expense related to this restricted stock is recognized over a five-year vesting period, with $1,216 recorded for the six months ended June 30, 2014.

On January 23, 2014, the Company executed an IPO, in which selling stockholders offered and sold to the public 85,242,042 shares of common stock at a price of $24.00 per share. The Company received no proceeds from the initial public offering. Stock-based compensation expense totaling $117,770 related to vested options was recognized upon the IPO, including expense related to accelerated vesting for certain executives of $33,845. Also in connection with the IPO, the Company granted additional stock options under the Plan to certain executives, other employees, and an independent director with an estimated fair value of $10,216, which will be recognized over the awards' vesting period of five years for the employees and three years for the director. Additional stock option grants have been made during the six months ended June 30, 2014 to employees and another independent director; the expense associated with these additional grants is immaterial.

A summary of the Company’s stock options and related activity as of and for the six months ended June 30, 2014 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(in whole dollars)			
Options outstanding at January 1, 2014	23,910,062	$9.81	8.0	
Granted	1,539,861	23.94		
Exercised	(2,977,250)	9.55		(43,836)
Expired	—	—		
Forfeited	(722,634)	(12.36)		
Options outstanding at June 30, 2014	21,750,039	10.76	7.7	188,766
Options exercisable at June 30, 2014	15,620,920	9.87	7.5	149,421

15. Shareholders' Equity

Treasury Stock

The Company has 3,154 shares of treasury stock outstanding as of June 30, 2014 and December 31, 2013. Prior to the IPO on January 23, 2014, the Company repurchased the shares as a result of an employee leaving the company. The value of the treasury stock is immaterial and included within additional paid-in-capital.

Accumulated Other Comprehensive Loss

A summary of changes in accumulated other comprehensive loss, net of tax, for the six months ended June 30, 2014 and 2013 is as follows:

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Unrealized gains (losses) on cash flow hedges (a)	Unrealized gains (losses) on investments available for sale (a)	Total	Unrealized gains (losses) on cash flow hedges (a)	Unrealized gains (losses) on investments available for sale (a)	Total
Beginning balance	$(765)	$ —	$(765)	$(9,582)	$ 1,796	$(7,786)
Other comprehensive income (loss) before reclassifications	(4,579)	—	(4,579)	(804)	(887)	(1,691)
Amounts reclassified out of accumulated other comprehensive income (loss) (b)	1,215	—	1,215	2,804	(279)	2,525
Ending balance	$(4,129)	$ —	$(4,129)	$(7,582)	$ 630	$(6,952)

(a) Amounts in this table are net of tax

(b) Amounts reclassified out of accumulated other comprehensive income (loss) consist of the following:

Reclassification	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
	Amount reclassified	Income statement line item	Amount reclassified	Income statement line item
Cash flow hedges:				
Settlements of derivatives	$ 1,931	Interest expense	$ 4,444	Interest expense
Tax expense (benefit)	(716)		(1,640)	
Net of tax	$ 1,215		$ 2,804	
Investments available for sale:				
Discount accretion	$ —		$ (443)	Interest expense
Tax expense (benefit)	—		164	
Net of tax	$ —		$ (279)	

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Unrealized gains (losses) on cash flow hedges (a)	Unrealized gains (losses) on investments available for sale (a)	Total	Unrealized gains (losses) on cash flow hedges (a)	Unrealized gains (losses) on investments available for sale (a)	Total
Beginning balance	$ (2,853)	$ —	$ (2,853)	$ (12,416)	$ 3,252	$ (9,164)
Other comprehensive income (loss) before reclassifications	(4,167)	—	(4,167)	(1,123)	(2,022)	(3,145)
Amounts reclassified out of accumulated other comprehensive income (loss) (b)	2,891	—	2,891	5,957	(600)	5,357
Ending balance	$ (4,129)	$ —	$ (4,129)	$ (7,582)	$ 630	$ (6,952)

(a) Amounts in this table are net of tax
(b) Amounts reclassified out of accumulated other comprehensive income (loss) consist of the following:

Reclassification	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
	Amount reclassified	Income statement line item	Amount reclassified	Income statement line item
Cash flow hedges:				
Settlements of derivatives	$ 4,595	Interest expense	$ 9,439	Interest expense
Tax expense (benefit)	(1,704)		(3,482)	
Net of tax	$ 2,891		$ 5,957	
Investments available for sale:				
Discount accretion	$ —		$ (951)	Interest expense
Tax expense (benefit)	—		351	
Net of tax	$ —		$ (600)	

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

Background and Overview

We are a full-service, technology-driven consumer finance company focused on vehicle finance and unsecured consumer lending products. We believe that, since our founding in 1995, we have achieved strong brand recognition in the nonprime vehicle finance space. We mainly originate loans indirectly through manufacturer-franchised and selected independent automotive dealers, as well as through relationships with national and regional banks and Original Equipment Manufacturers ("OEMs"). We also directly originate and refinance vehicle loans online. In February 2013, we entered into a ten-year agreement with Chrysler whereby we originate private-label loans and leases under the Chrysler Capital brand. With this agreement, we are now the preferred financing provider for all of Chrysler’s retail consumers, including both prime and nonprime customers. From May 1, 2013, the effective date of the agreement, through June 30, 2014, 32% of our retail installment contract origination volume has been prime, as compared to only 14% in 2012, the last full year prior to our entry into the agreement. In addition, we have several relationships through which we provide unsecured consumer loans, private label credit cards and other consumer finance products. We generate revenues and cash flows through interest and other finance charges on our loans and leases. We also earn servicing fee income on our serviced for others portfolios, which consist of loans that we service but do not own and do not report on our balance sheet.

We have demonstrated significant access to the capital markets by funding our operations through securitization transactions and committed credit lines. We raised a total of over $30 billion of ABS from 2010 through the second quarter of 2014, and we have been the largest issuer of retail auto ABS since 2011. We have significant bank funding relationships, with third-party banks and Santander currently providing approximately $17.2 billion and $4.8 billion, respectively, in committed financing. In addition, we have flow agreements in place with Bank of America, Citizens Bank of Pennsylvania (a subsidiary of RBS Citizens Financial Group) and SBNA to fund Chrysler Capital business.

We have produced consistent, controlled growth and robust profitability in both growth periods and economic downturns. We have been profitable every year for the past ten years, we delivered an average return on assets of 3.7% from 2009 to 2013 and a return on total common equity of more than 27% in each of those years.

Economic and Business Environment

Consistent with indicators throughout 2013, the U.S. economy continued its slow-paced recovery during the first half of 2014. According to the Bureau of Labor Statistics, unemployment declined from 6.7% at the beginning of the year to 6.1% for June. The Federal Reserve continues to taper its bond purchases. Vehicle sales are strong and as of June are on pace to total nearly 17 million for the year. Wholesale used vehicle prices also are up for the year, although they have declined in May and June.

Regulatory Matters

The U.S. lending industry is highly regulated under various U.S. federal laws, including the Truth-in-Lending, Equal Credit Opportunity, Fair Credit Reporting, Fair Debt Collection Practices, Servicemembers Civil Relief, and Unfair, Deceptive, or Abusive Acts or Practices, Credit CARD, Telephone Consumer Protection, Financial Institutions Reform, Recovery and Enforcement (FIRREA), and Gramm-Leach-Bliley Acts, as well as various state laws. We are subject to inspections, examinations, supervision, and regulation by each state in which we are licensed, the Consumer Financial Protection Bureau (“CFPB”), and the Federal Trade Commission. In addition, as our controlling shareholder, SHUSA, is a bank holding company, we are subject to certain bank regulations, including oversight by the Office of the Comptroller of the Currency, the Bank of Spain, and the Federal Reserve, which has the ability to limit certain of our activities, such as the timing and amount of dividends and certain transactions that we might otherwise desire to enter into, such as merger and acquisition opportunities, or to impose other limitations on our growth.

Dodd-Frank Wall Street Reform and Consumer Protection Act

At the federal level, Congress enacted comprehensive financial regulatory reform legislation on July 21, 2010. A significant focus of the new law (the "Dodd-Frank Act") is heightened consumer protection. The Dodd-Frank Act established a new body, the CFPB, which has regulatory, supervisory, and enforcement powers over providers of consumer financial products and services, including us, including explicit supervisory authority to examine and require registration of non-depository lenders and promulgate rules that can affect the practices and activities of lenders. Recently, the Company began clearing its applicable interest rate swaps on a regulated exchange in order to maintain compliance with the Dodd-Frank Act.

Although the Dodd-Frank Act expressly provides that the CFPB has no authority to establish usury limits, some consumer advocacy groups have suggested that various forms of alternative financial services or specific features of consumer loan products should be a regulatory priority, and it is possible that at some time in the future the CFPB could propose and adopt rules making such lending services materially less profitable or impractical, which may impact finance loans or other products that we offer.

In March 2013, the CFPB issued a bulletin recommending that indirect vehicle lenders, a class that includes us, take steps to monitor and impose controls over dealer markup policies whereby dealers charge consumers higher interest rates, with the markup shared between the dealer and the lender.

The CFPB is also conducting supervisory audits of large vehicle lenders and has indicated it intends to study and take action with respect to possible Equal Credit Opportunity Act (“ECOA”) “disparate impact” credit discrimination in indirect vehicle finance. If the CFPB enters into a consent decree with one or more lenders on disparate impact claims, it could negatively impact the business of the affected lenders, and potentially the business of dealers and other lenders in the vehicle finance market. This impact on dealers and lenders could increase our regulatory compliance requirements and associated costs.

In addition to the grant of certain regulatory powers to the CFPB, the Dodd-Frank Act gives the CFPB authority to pursue administrative proceedings or litigation for violations of federal consumer financial laws. In these proceedings, the CFPB can obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief) and monetary penalties.

Dividend Restrictions

Dodd-Frank also requires certain banks and bank holding companies, including SHUSA, to perform a stress test and submit a capital plan to the Federal Reserve on an annual basis. On March 26, 2014, the Federal Reserve Bank of Boston (the “FRB”) informed SHUSA that, based on qualitative concerns, the FRB objected to SHUSA’s capital plan (the “capital plan”) pursuant to the Comprehensive Capital Analysis and Review (“CCAR”). SHUSA had previously submitted to the FRB. On May 1, 2014, the Company's Board of Directors declared a dividend of $0.15 per share of SCUSA common stock, payable on May 30, 2014 to shareholders of record on May 12, 2014 (the “May Dividend”). The FRB informed SHUSA on May 22, 2014 that it did not object to SCUSA’s payment of the May Dividend, provided that Santander contribute at least $20.9 million of capital to SHUSA prior to such payment, so that SHUSA’s consolidated capital position would be unaffected by the May Dividend. The FRB also informed SHUSA that, until the FRB issues a written non-objection to SHUSA’s capital plan, any future Company dividend will require prior receipt of a written non-objection from the FRB.

On May 30, 2014, Santander provided $21.0 million of additional capital to SHUSA and the Company paid the May Dividend. The Company will not pay dividends other than the May Dividend until such time as SHUSA has submitted to the FRB a capital plan and the FRB issues a written non-objection to such plan or the FRB otherwise issues its written non-objection to the payment of a dividend by the Company. SHUSA has informed the Company that SHUSA does not currently expect to submit a revised capital plan to the FRB until January 2015, subject to the FRB’s approval. Accordingly, other than the May Dividend, the Company does not expect to pay dividends during the remainder of 2014. The Company currently intends to resume paying quarterly dividends in accordance with the Company’s previously disclosed dividend policy at such time as it is permitted to do so by the FRB.

Additional legal and regulatory matters affecting the Company’s activities are further discussed in part II, Item 1A—Risk Factors

Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), an issuer is required to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with individuals or entities designated pursuant to certain Executive Orders. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law.

The Company does not have any activities, transactions, or dealings with Iran or Syria which require disclosure. The following activities are disclosed in response to Section 13(r) with respect to affiliates of the Company through its relationship with Santander. During the period covered by this quarterly report:

- A Santander UK entity holds frozen savings and current accounts for three customers resident in the U.K. who are currently designated by the U.S for terrorism. The accounts held by each customer were blocked after the customer's designation and have remained blocked and dormant for the first half of 2014. No revenue was generated by Santander UK on these accounts.

- An Iranian national, resident in the U.K., who is currently designated by the U.S. under the Iranian Financial Sanctions Regulations and designation held a mortgage with Santander UK that was issued prior to any such designation. No further draw-down has been made (or would be allowed) under this mortgage, although Santander UK continues to receive repayment installments. In the first half of 2014, total revenue in connection with this mortgage was £27,550, while net profits were negligible relative to the overall profits of Santander UK. Santander UK does not intend to enter into any new relationships with this customer, and any disbursements will only be made in accordance with applicable sanctions. The same Iranian national also holds two investment accounts with Santander Asset Management UK Limited. The accounts remained frozen for the first half of 2014. The investment returns are being automatically reinvested, and no disbursements have been made to the customer. In the first half of 2014, total revenue for the Group in connection with the investment accounts was £23,200 whilst net profits were negligible relative to the overall profits of Santander.

In addition, the Group has certain legacy export credits and performance guarantees with Bank Mellat, which are included in the U.S. Department of the Treasury's Office of Foreign Assets Control's Specially Designated Nationals and Blocked Persons List. Santander entered into two bilateral credit facilities in February 2000 in an aggregate principal amount of €25.9 million. Both credit facilities matured in 2012. In addition, in 2005 Santander participated in a syndicated credit facility for Bank Mellat of €15.5 million, which matures on July 6, 2015. As of June 30, 2014, the Santander group was owed €3.6 million under this credit facility.

Bank Mellat has been in default under all of these agreements in recent years and Santander has been and expects to continue to be repaid any amounts due by official export credit agencies, which insure between 95% and 99% of the outstanding amounts under these credit facilities. No funds have been extended by Santander under these facilities since they were granted.

The Santander group also has certain legacy performance guarantees for the benefit of Bank Sepah and Bank Mellat (stand-by letters of credit to guarantee the obligations - either under tender documents or under contracting agreements - of contractors who participated in public bids in Iran) that were in place prior to April 27, 2007. However, should any of the contractors default in their obligations under the public bids, the Santander group would not be able to pay any amounts due to Bank Sepah or Bank Mellat because any such payments would be frozen pursuant to Council Regulation (EU) No. 961/2010.

In the aggregate, all of the transactions described above resulted in approximately €76,600 gross revenues and approximately in €40,000 net loss to the Santander group in the first half of 2014, all of which resulted from the performance of export credit agencies rather than any Iranian entity. The Santander group has undertaken significant steps to withdraw from the Iranian market such as closing its representative office in Iran and ceasing all banking activities therein, including correspondent relationships, deposit taking from Iranian entities and issuing export letters of credit, except for the legacy transactions described above. The Santander group is not contractually permitted to cancel these arrangements without either (i) paying the guaranteed amount - which payment would be frozen as explained above (in the case of the performance guarantees), or (ii) forfeiting the outstanding amounts due to it (in the case of the export credits). Accordingly, the Santander group intends to continue to provide the guarantees and hold these assets in accordance with company policy and applicable laws.

How We Assess Our Business Performance

Net income attributable to our shareholders, and the associated return on equity, are the primary metrics by which we judge the performance of our business. Accordingly, we closely monitor the primary drivers of net income:

- Net financing income — We track the spread between the interest and finance charge income earned on our assets and the interest expense incurred on our liabilities, and continually monitor the components of our yield and our cost of funds. In addition, we monitor external rate trends, including the Treasury swap curve and spot and forward rates.
- Net credit losses — Each of our loans and leases is priced using our risk-based proprietary models. The profitability of a loan is directly connected to whether or not the actual net credit losses are consistent with forecasted losses; therefore, we closely analyze credit performance. We perform this analysis at the vintage

level for individually acquired retail installment contracts and at the pool level for purchased portfolios, enabling us to pinpoint drivers of any unusual or unexpected trends. We also monitor recovery rates, both industry-wide and our own, because of their contribution to the severity of our charge offs. Additionally, because delinquencies are an early indicator of future net credit losses, we analyze delinquency trends, adjusting for seasonality, to determine whether or not our loans are performing in line with our original estimation.

- Operating expenses — We assess our operational efficiency using our cost-to-income ratio. We perform extensive analysis to determine whether observed fluctuations in operating expense levels indicate a trend or are the nonrecurring impact of large projects. Our operating expense analysis also includes a loan- and portfolio-level review of origination and servicing costs to assist us in assessing profitability by pool and vintage.

Because volume and portfolio size determine the magnitude of the impact of each of the above factors on our earnings, we also closely monitor new business volume along with annual percentage rate (“APR”) and discounts (including subvention and net of dealer participation).

Recent Developments and Other Factors Affecting Our Results of Operations

Regulatory Restrictions

As further described above under Regulatory Matters, the FRB has objected to SHUSA's capital plan, resulting in, among other consequences, SCUSA's inability to pay dividends until such time as SHUSA has submitted to the FRB a revised capital plan and the FRB issues a written non-objection to such plan or the FRB otherwise issues its written non-objection to the payment of a dividend by SCUSA.

We expect to incur additional compliance costs related to regulatory compliance, including CCAR, as we seek to develop a best-in-class compliance capability. Costs of the process will include, but may not be limited to, personnel, IT systems, consultants and advisors, and legal costs. These costs, as well as other aspects of the current regulatory environment applicable to the Company (including dividend and growth restrictions), could limit the Company's earnings growth.

Chrysler Capital

Since May 1, 2013, we have been the preferred provider for Chrysler’s consumer loans and leases and dealer loans under terms of a ten-year Master Private Label Financing Agreement (“Chrysler Agreement”). Business generated under terms of the Chrysler Agreement is branded as Chrysler Capital. In connection with entering into the Chrysler Agreement, we paid Chrysler a $150 million upfront, nonrefundable fee, which is being amortized over the ten-year term as an adjustment to finance and other interest income. We have also executed an Equity Option Agreement with Chrysler, whereby Chrysler may elect to purchase an equity participation of any percentage in the Chrysler Capital portion of our business at fair market value.

The Chrysler Agreement could be terminated in the event of a change in control of SCUSA, which, as defined in the agreement, would occur if both a single shareholder acquired more than 20% of our outstanding shares of common stock and SHUSA owned fewer shares than that shareholder. We also required to meet specific transition milestones related to market penetration rates, approval rates, dedicated staffing, and service-level standards for the initial year following launch. If the transition milestones were not met in the first year, the agreement could terminate and we could lose the ability to operate as Chrysler Capital. We recently agreed with Chrysler that these milestones have been met to Chrysler’s satisfaction as of the end of the first year, April 30, 2014, and that the Agreement will continue in effect. We must continue to meet penetration and approval rate targets and maintain service-level standards or the agreement can be terminated. Our penetration rate targets, which are measured as of the end of each year of the Chrysler Agreement (April 30), for years one through five of the Chrysler Agreement are 31%, 44%, 54%, 64% and 65%, respectively. Our penetration rate for the three months ended June 30, 2014 was 31%. During the period from the May 1, 2013 launch of the Chrysler Capital business through June 30, 2014, we originated approximately $13.6 billion of Chrysler Capital retail installment contracts and more than $4.8 billion of Chrysler Capital vehicle leases, and facilitated the origination of more than $1.2 billion in leases and dealer loan originations for SBNA under flow agreements.

In 2013, we entered into a flow agreement with SBNA whereby we provide the bank with the first right to review and assess dealer lending opportunities and, if the bank elects, to provide the proposed financing. We provide servicing on all loans originated under this arrangement. We also will receive or pay a servicer performance payment if yield, net of credit losses, on the loans are higher or lower, respectively, than expected at origination. As of June 30, 2014, SBNA owned approximately $765 million of loans originated under this agreement. During the second quarter of 2014, we agreed with SBNA that SBNA will take on servicing of these loans by September 30, 2014. As a result, we expect to reduce our own holdings of Chrysler Capital dealer loans by this date, and any loans remaining will be serviced by SBNA. Other than the servicer performance payments, which will no longer be necessary due to the transfer of servicing, the terms of the flow agreement will remain in effect.

In February 2014 we entered into a lease flow agreement with SBNA, whereby we provide SBNA with the first right to review and approve consumer vehicle lease applications. We continue to service the leases originated under this agreement. As of June 30, 2014, approximately $732 million had been originated under this agreement.

In May 2014, we entered into a loan flow agreement with Citizens Bank of Pennsylvania (CBP) (a subsidiary of RBS Citizens Financial Group) whereby CBP has committed to purchase up to $600 million per quarter of Chrysler Capital prime loans over the next three years. The minimum commitment is $250 million per quarter for the first four quarters and $400 million thereafter. Year-to-date through July 31, 2014, we have sold $859 million to CBP under terms of this flow agreement and predecessor purchase agreements.

Other OEM Relationships

In April 2014, SCUSA executed an application transfer agreement with Nissan, whereby SCUSA provides nonprime retail auto financing through a turn-down program for new and used vehicles for Nissan's customers and dealers in the U.S. As of June 30, 2014, approximately $113 million had been originated under this agreement and a predecessor pilot arrangement.

Unsecured Lending

In April 2014, SCUSA expanded its unsecured personal lending business by executing an additional agreement with LendingClub Corporation, whereby SCUSA has the first opportunity to review for its own portfolio applications that do not meet either the public credit policy or custom credit policy facilitated by LendingClub's platform.

Stock Compensation

Beginning in 2012, we granted stock options to certain executives, other employees, and independent directors under the Santander Consumer USA Inc. 2011 Management Equity Plan (the "Plan"). The Plan is administered by our Board of Directors and enables us to make stock awards up to a total of approximately 29 million common shares, or 8.5% of our equity as of December 31, 2011. Stock options granted have an exercise price based on the estimated fair market value of the Company's common stock on the grant date. The stock options expire after ten years and include both time vesting options and performance vesting options. The fair value of the stock options is amortized into income over the vesting period as time and performance vesting conditions are met.

On December 28, 2013, the Board approved certain changes to the Plan and the Management Shareholders Agreement, including acceleration of vesting for certain employees, removal of transfer restrictions for shares underlying a portion of the options outstanding under the Plan, and addition of transfer restrictions for shares underlying another portion of the outstanding options. All of the changes were contingent on, and effective upon, the Company's execution of an IPO and, as such, became effective upon pricing of the IPO on January 22, 2014. Prior to the amendments that took effect upon the IPO, all options had a restriction such that until the later of an IPO or December 31, 2016, if an option holder terminated employment, we had the right to repurchase any or all of the stock obtained by the employee through option exercise. If the employee was terminated for cause or voluntarily left the Company without good reason, the repurchase price would be the lower of the strike price or fair market value at the date of repurchase. If the employee was terminated without cause or voluntarily left the Company with good reason, the repurchase price would be the fair market value at the date of repurchase. Management believes the Company's repurchase right caused the IPO event to constitute an implicit vesting condition. The Company recognized approximately $118 million of this expense on a pre-tax basis upon occurrence of the IPO, with an additional $25 million to be recognized over the remaining vesting period.

Upon the IPO, we granted additional options to certain executives, other employees, and an independent director under terms of the Plan. The fair value of these additional options is approximately $10 million and is being amortized into income over the vesting period as time and, if applicable, performance vesting conditions are met. Additional stock option grants have been made under the plan during the six months ended June 30, 2014 to employees and another independent director; the expense associated with these additional grants is immaterial.

In December 2013, we established the Santander Consumer USA Inc. Omnibus Incentive Plan (the "Omnibus Incentive Plan"). The Omnibus Incentive Plan is administered by our Board of Directors and enables us to grant awards of nonqualified and incentive stock options, stock appreciation rights ("SARs"), restricted stock awards, restricted stock units and other awards that may be settled in or based upon the value of our common stock up to a total of 5,192,640 common shares. The fair value of any instruments issued under the Omnibus Incentive Plan is amortized into income over the vesting period as time and performance vesting conditions are met. As of June 30, 2014, the Company had granted 583,890 shares of restricted stock to certain executives under terms of the Omnibus Incentive Plan. Compensation expense related to this restricted stock of approximately $12 million, based on the estimated fair market value of our common stock on the grant date, will be recognized over a five-year vesting period, with $1.2 million recorded for the six months ended June 30, 2014.

Our Reportable Segment

The Company has one reportable segment: Consumer Finance. This segment includes our vehicle financial products and services, including retail installment contracts, vehicle leases, and dealer loans, as well as financial products and services related to motorcycles, RVs, and watercraft. It also includes our unsecured personal loan and point-of-sale financing operations.

Originations and Acquisitions

Our volume of individually acquired loans and leases, including net balance increases on revolving loans, average APR, and average discount during the three and six months ended June 30, 2014 and 2013 have been as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Retained Originations	(Dollars in thousands)			
Retail installment contracts	$3,142,527	$4,566,082	$7,069,439	$7,250,973
Average APR	16.0 %	15.6 %	16.1 %	16.3 %
Average discount	4.6 %	2.0 %	4.6 %	3.5 %
Unsecured consumer loans	$262,617	$388,698	$370,519	$388,901
Average APR	20.0 %	22.3 %	20.2 %	22.3 %
Average discount	—	9.5 %	—	9.5 %
Receivables from dealers	$17,806	$99,664	$32,629	$182,744
Average APR	3.8 %	3.1 %	3.5 %	3.1 %
Average discount	—	—	—	—
Leases	$909,924	$491,244	$2,121,923	$491,304
Total originations retained	$4,332,874	$5,545,688	$9,594,510	$8,313,922
Asset sales				
Retail installment contracts	$1,384,174	$158,048	$3,069,898	$158,048
Unsecured consumer loans	—	—	—	—
Receivables from dealers	—	—	—	—
Leases	369,114	—	369,114	—
Total originations sold	$1,753,288	$158,048	$3,439,012	$158,048
Total volume for SCUSA portfolio	$6,086,162	$5,703,736	$13,033,522	$8,471,970
Facilitated Originations				
Retail installment contracts	$—	$—	$—	$—
Unsecured consumer loans	—	—	—	—
Receivables from dealers	108,759	—	253,512	—
Leases	486,446	—	732,114	—
Total originations facilitated for affiliates	$595,205	$—	$985,626	$—
Total originations	$6,681,367	$5,703,736	$14,019,148	$8,471,970

We record interest income from individually acquired retail installment contracts, unsecured consumer loans and receivables from dealers in accordance with the terms of the loans, generally discontinuing and reversing accrued income once a loan becomes more than 60 days past due, except in the case of revolving unsecured loans and receivables from dealers, for which we continue to accrue interest until charge off. Receivables from dealers and term unsecured consumer loans generally are not acquired at a discount. We amortize discounts, subvention payments from manufacturers, and origination costs as adjustments to income from individually acquired retail installment contracts using the effective yield method. We amortize the discount, if applicable, on revolving unsecured consumer loans straight-line over the estimated period over which the receivables are expected to be outstanding.

For individually acquired retail installment contracts, unsecured consumer loans and receivables from dealers, we also establish a loan loss allowance for the estimated losses inherent in the portfolio. We estimate probable losses based on contractual delinquency status, historical loss experience, expected recovery rates from sale of repossessed collateral, bankruptcy trends, and general economic conditions such as unemployment rates.

We classify substantially all of our vehicle leases as operating leases. The net capitalized cost of each lease is recorded as an asset, which is depreciated straight-line over the contractual term of the lease to the expected residual value. Lease payments due from customers are recorded as income until and unless a customer becomes more than 60 days delinquent, at which time the accrual of revenue is discontinued and reversed. The accrual is resumed and reinstated if a delinquent account subsequently becomes 60 days or less past due. Subvention payments from the manufacturer, down payments from the customer, and initial direct costs incurred in connection with originating the lease are amortized straight-line over the contractual term of the lease.

Historically, our primary means of acquiring retail installment contracts was through individual acquisitions immediately after origination by a dealer. We also periodically purchase pools of receivables and had significant volumes of these purchases during the credit crisis. While we continue to pursue such opportunities when available, we did not purchase any material pools during the six months ended June 30, 2014 and 2013. All of the retail installment contracts acquired during these periods were acquired individually. For our existing purchased receivables portfolios, which were acquired at a discount partially attributable to credit deterioration since origination, we estimate the expected yield on each portfolio at acquisition and record monthly accretion income based on this expectation. We periodically re-evaluate performance expectations and may increase the accretion rate if a pool is performing better than expected. If a pool is performing worse than expected, we are required to continue to record accretion income at the previously established rate and to record a loan loss provision to account for the worsening performance.

Selected Financial Data

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(Dollars in thousands, except per share data)			
Income Statement Data				
Interest on individually acquired retail installment contracts	$1,025,622	$778,611	$2,013,675	$1,454,229
Interest on purchased receivables portfolios	52,482	105,194	121,420	240,475
Interest on receivables from dealers	1,276	1,727	2,606	2,735
Interest on unsecured consumer loans	84,068	14,843	166,076	14,843
Interest on finance receivables and loans	1,163,448	900,375	2,303,777	1,712,282
Net leased vehicle income	39,803	3,002	66,857	3,002
Other finance and interest income	874	2,156	1,124	4,841
Interest expense	128,314	87,476	252,760	170,473
Net finance and other interest income	1,075,811	818,057	2,118,998	1,549,652
Provision for loan losses on individually acquired retail installment contracts	527,362	375,281	1,184,068	626,922
Increase (decrease) in allowance related to purchased receivables portfolios	(8,326)	(7,616)	(28,512)	(42,064)
Provision for loan losses on receivables from dealers	(112)	1,490	(167)	1,490
Provision for loan losses on unsecured consumer loans	70,212	39,256	132,341	39,256
Provision for loan losses	589,136	408,411	1,287,730	625,604
Profit sharing	24,056	7,564	56,217	7,564
Other income	138,731	54,409	274,254	130,538
Operating expenses	211,226	171,298	529,674	320,172
Income before tax expense	390,124	285,193	519,631	726,850
Income tax expense	143,643	104,129	191,684	256,927
Net income	246,481	181,064	327,947	469,923
Noncontrolling interests	—	854	—	2,397
Net income attributable to Santander Consumer USA Holdings Inc. shareholders	$246,481	$181,918	$327,947	$472,320
Share Data				
Weighted-average common shares outstanding				
Basic	348,826,897	346,171,491	348,465,666	346,168,144
Diluted	356,381,921	346,171,491	356,008,288	346,168,144
Earnings per share attributable to Santander Consumer USA Holdings Inc shareholders				
Basic	$0.71	$0.53	$0.94	$1.36
Diluted	$0.69	$0.53	$0.92	$1.36
Dividends declared per share of common stock	$0.15	$0.84	$0.15	$0.84
Balance Sheet Data				
Finance receivables and loans	$22,887,223	$19,325,064	$22,887,223	$19,325,064
Goodwill and intangible assets	127,693	127,990	127,693	127,990
Total assets	29,732,396	22,778,430	29,732,396	22,778,430
Total borrowings	26,154,610	19,907,914	26,154,610	19,907,914
Total liabilities	26,630,138	20,308,367	26,630,138	20,308,367

Total equity	3,102,258	2,470,063	3,102,258	2,470,063
Allowance for loan losses				