Santander Consumer USA Holdings Inc.
Form 10-Q
May 02, 2018

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 March 31, 2018
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-36270
SANTANDER CONSUMER USA HOLDINGS INC.
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

Class	Outstanding at April 30, 2018
Common Stock ($0.01 par value)	361,263,822 shares

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

Cautionary Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements about the Company's expectations, beliefs, plans, predictions, forecasts, objectives, assumptions, or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “anticipates,” “believes,” “can,” “could,” “may,” “predicts,” “potential,” “should,” “will,” “estimate,” “plans,” “projects,” “con “expects,” “intends,” and similar words or phrases. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, these statements are not guarantees of future performance and involve risks and uncertainties which are subject to change based on various important factors, some of which are beyond the Company's control. For more information regarding these risks and uncertainties as well as certain additional risks that the Company faces, refer to the Risk Factors detailed in Item 1A of Part I of the 2017 Annual Report on Form 10-K, as well as factors more fully described in Part I, Item 2, “Management's Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report, including the exhibits hereto, and subsequent reports and registration statements filed from time to time with the SEC. Among the factors that could cause the Company's actual results to differ materially from those suggested by the forward-looking statements are:

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

If one or more of the factors affecting the Company's forward-looking information and statements renders forward-looking information and statements incorrect, the Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements. Therefore, the Company cautions the reader 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 the Company's results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties as new factors emerge from time to time and management cannot assess the impact of any such factor on the Company's 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 the Company undertakes 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 the Company are expressly qualified by these cautionary statements.

Glossary

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

2017 Annual Report on Form 10-K	Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 28, 2018.
ABS	Asset-backed securities
Advance Rate	The maximum percentage of collateral that a lender is willing to lend.
Affiliates	A party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity.
ALG	Automotive Lease Guide
APR	Annual Percentage Rate
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bluestem	Bluestem Brands, Inc., an online retailer for whose customers SC provides financing
Board	SC’s Board of Directors
CBP	Citizens Bank of Pennsylvania
CCART	Chrysler Capital Auto Receivables Trust, a securitization platform
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CFO	Chief Financial Officer
Chrysler Agreement	Ten-year private-label financing agreement with FCA
Clean-up Call	The early redemption of a debt instrument by the issuer, generally when the underlying portfolio has amortized to 5% or 10% of its original balance
Commission	U.S. Securities and Exchange Commission
Credit Enhancement	A method such as overcollateralization, insurance, or a third-party guarantee, whereby a borrower reduces default risk
DCF	Discounted Cash Flow Analysis
Dealer Loan	A floorplan line of credit, real estate loan, working capital loan, or other credit extended to an automobile dealer
Dodd-Frank Act	Comprehensive financial regulatory reform legislation enacted by the U.S. Congress on July 21, 2010
DOJ	U.S. Department of Justice
DRIVE	Drive Auto Receivables Trust, a securitization platform
ECOA	Equal Credit Opportunity Act
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FCA	Fiat Chrysler Automobiles US LLC, formerly Chrysler Group LLC
FICO®	A common credit score created by Fair Isaac Corporation that is used on the credit reports that lenders use to assess an applicant’s credit risk. FICO® is computed using mathematical models that take into account five factors: payment history, current level of indebtedness, types of credit used, length of credit history, and new credit
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act of 1989
Floorplan Loan	A revolving line of credit that finances inventory until sold
Federal Reserve	Board of Governors of the Federal Reserve System

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

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

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

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents - $188,747 and $106,295 held at affiliates, respectively	$618,809	$527,805
Finance receivables held for sale, net	1,611,535	2,210,421
Finance receivables held for investment, net	22,587,358	22,427,769
Restricted cash - $1,802 and $2,529 held at affiliates, respectively	2,895,615	2,553,902
Accrued interest receivable	269,258	326,640
Leased vehicles, net	10,612,824	10,160,327
Furniture and equipment, net of accumulated depreciation of $58,650 and $55,525, respectively	65,961	69,609
Federal, state and other income taxes receivable	99,099	95,060
Related party taxes receivable	634	467
Goodwill	74,056	74,056
Intangible assets, net of amortization of $45,900 and $36,616, respectively	31,088	29,734
Due from affiliates	53,408	33,270
Other assets	1,125,543	913,244
Total assets	$40,045,188	$39,422,304
Liabilities and Equity		
Liabilities:		
Notes payable — credit facilities	$5,294,358	$4,848,316
Notes payable — secured structured financings	22,862,607	22,557,895
Notes payable — related party	3,148,194	3,754,223
Accrued interest payable	38,375	38,529
Accounts payable and accrued expenses	430,361	429,531
Deferred tax liabilities, net	966,444	897,121
Due to affiliates	103,012	82,382
Other liabilities	475,822	333,806
Total liabilities	33,319,173	32,941,803
Commitments and contingencies (Notes 5 and 10)		
Equity:		
Common stock, $0.01 par value — 1,100,000,000 shares authorized;		
361,260,828 and 360,779,465 shares issued and 361,008,826 and 360,527,463 shares outstanding, respectively	3,610	3,605
Additional paid-in capital	1,689,996	1,681,558
Accumulated other comprehensive income, net	63,211	44,262
Retained earnings	4,969,198	4,751,076
Total stockholders’ equity	6,726,015	6,480,501
Total liabilities and equity	$40,045,188	$39,422,304

See notes to unaudited condensed consolidated financial statements.

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

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

	March 31, 2018	December 31, 2017
Assets		
Restricted cash	$2,380,619	$1,995,557
Finance receivables held for sale, net	452,984	1,106,393
Finance receivables held for investment, net	21,760,294	21,715,365
Leased vehicles, net	10,612,824	10,160,327
Various other assets	810,497	733,123
Total assets	$36,017,218	$35,710,765
Liabilities		
Notes payable	$28,634,202	$28,467,942
Various other liabilities	193,133	197,969
Total liabilities	$28,827,335	$28,665,911

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

See notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2018	2017
Interest on finance receivables and loans	$1,114,137	$1,209,186
Leased vehicle income	504,278	418,233
Other finance and interest income	7,137	3,825
Total finance and other interest income	1,625,552	1,631,244
Interest expense — Including $42,033 and $37,724 to affiliates, respectively	241,028	227,089
Leased vehicle expense	358,683	290,171
Net finance and other interest income	1,025,841	1,113,984
Provision for credit losses	458,995	635,013
Net finance and other interest income after provision for credit losses	566,846	478,971
Profit sharing	4,377	7,945
Net finance and other interest income after provision for credit losses and profit sharing	562,469	471,026
Investment gains (losses), net — Including $(16,903) and $2,719 from affiliates, respectively	(86,520)	(76,399)
Servicing fee income — Including $7,811 and $3,263 from affiliates, respectively	26,182	31,684
Fees, commissions, and other — Including $225 and $225 from affiliates, respectively	85,391	100,195
Total other income	25,053	55,480
Compensation expense	122,005	136,262
Repossession expense	72,081	71,299
Other operating costs — Including $1,161 and $21,644 to affiliates, respectively	93,826	97,517
Total operating expenses	287,912	305,078
Income before income taxes	299,610	221,428
Income tax expense	57,311	78,001
Net income	$242,299	$143,427
Net income	$242,299	$143,427
Other comprehensive income (loss):		
Change in unrealized gains (losses) on cash flow hedges, net of tax of $2,903 and $4,327, respectively	12,800	7,245
Comprehensive income	$255,099	$150,672
Net income per common share (basic)	$0.67	$0.40
Net income per common share (diluted)	$0.67	$0.40
Dividend paid per common share	$0.05	$—
Weighted average common shares (basic)	360,703,234	359,105,050
Weighted average common shares (diluted)	361,616,732	360,616,032

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 Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance — January 1, 2017	358,908	$3,589	$1,657,611	$ 28,259	$3,549,160	$5,238,619
Cumulative-effect adjustment upon adoption of ASU 2016-09	—	—	1,439	—	25,113	26,552
Stock issued in connection with employee incentive compensation plans	487	5	1,085	—	—	1,090
Stock-based compensation expense	—	—	2,067	—	—	2,067
Tax sharing with affiliate	—	—	(2)	—	—	(2)
Net income	—	—	—	—	143,427	143,427
Other comprehensive income (loss), net of taxes	—	—	—	7,245	—	7,245
Balance — March 31, 2017	359,395	$3,594	$1,662,200	$ 35,504	$3,717,700	$5,418,998
Balance — January 1, 2018	360,527	$3,605	$1,681,558	$ 44,262	$4,751,076	$6,480,501
Cumulative-effect adjustment upon adoption of ASU 2018-02 (Note 1)	—	—	—	6,149	(6,149)	—
Stock issued in connection with employee incentive compensation plans	481	5	464	—	—	469
Stock-based compensation expense	—	—	4,208	—	—	4,208
Purchase of treasury stock	—	—	—	—	—	—
Dividends	—	—	—	—	(18,028)	(18,028)
Tax sharing with affiliate	—	—	3,766	—	—	3,766
Net income	—	—	—	—	242,299	242,299
Other comprehensive income (loss), net of taxes	—	—	—	12,800	—	12,800
Balance — March 31, 2018	361,008	$3,610	$1,689,996	$ 63,211	$4,969,198	$6,726,015

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 Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$242,299	$143,427
Adjustments to reconcile net income to net cash provided by operating activities		
Derivative mark to market	(7,164)	(760)
Provision for credit losses	458,995	635,013
Depreciation and amortization	392,847	317,154
Accretion of discount	(48,075)	(69,945)
Originations and purchases of receivables held for sale	(1,019,425)	(818,817)
Proceeds from sales of and collections on receivables held for sale	1,551,109	973,118
Change in revolving personal loans	5,722	(5,064)
Investment losses, net	86,520	76,399
Stock-based compensation	4,208	2,067
Deferred tax expense	64,048	86,218
Changes in assets and liabilities:		
Accrued interest receivable	37,118	49,650
Accounts receivable	11,760	(8,420)
Federal income tax and other taxes	(4,215)	(5,415)
Other assets	(46,923)	(10,435)
Accrued interest payable	(2,529)	1,086
Other liabilities	113,090	53,708
Due to/from affiliates	(4,150)	45,026
Net cash provided by operating activities	1,835,235	1,464,010
Cash flows from investing activities:		
Originations of and disbursements on finance receivables held for investment	(3,253,263)	(2,985,822)
Purchases of portfolios of finance receivables held for investment	(43,177)	(152,208)
Collections on finance receivables held for investment	2,673,428	2,585,085
Leased vehicles purchased	(2,118,545)	(1,608,151)
Manufacturer incentives received	215,113	330,017
Proceeds from sale of leased vehicles	957,863	625,628
Change in revolving personal loans	45,184	49,236
Purchases of furniture and equipment	(1,012)	(7,551)
Sales of furniture and equipment	57	409
Other investing activities	(3,705)	(1,931)
Net cash used in investing activities	(1,528,057)	(1,165,288)
Cash flows from financing activities:		
Proceeds from notes payable related to secured structured financings — net of debt issuance costs	3,687,932	5,692,771
Payments on notes payable related to secured structured financings	(3,386,999)	(3,638,774)
Proceeds from unsecured notes payable	—	4,315,000
Payments on unsecured notes payable	—	(3,887,283)
Proceeds from notes payable	7,795,002	4,772,034
Payments on notes payable	(7,954,759)	(7,105,930)

Proceeds from stock option exercises, gross	2,391	3,543
Dividends paid	(18,028)	—
Net cash provided by financing activities	125,539	151,361
Net increase in cash and cash equivalents and restricted cash	432,717	450,083
Cash and cash equivalent and restricted cash — Beginning of period	3,081,707	2,917,479
Cash and cash equivalents and restricted cash — End of period	$3,514,424	$3,367,562
Supplemental cash flow information:		
Cash and cash equivalents	$618,809	$420,826
Restricted cash	2,895,615	2,946,736
Total cash and cash equivalents and restricted cash	$3,514,424	$3,367,562
Noncash investing and financing transactions:		
Transfer of notes payable between secured and unsecured notes payable	$300,000	$120,748

See notes to unaudited condensed consolidated financial statements.

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

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

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

Since May 1, 2013, under the terms of a ten-year private label financing agreement (the Chrysler Agreement) with Fiat Chrysler Automobiles US LLC (FCA), the Company has been FCA's preferred provider for consumer loans and leases and dealer loans. In conjunction with the Chrysler Agreement, the Company offers a full spectrum of auto financing products and services to FCA customers and dealers under the Chrysler Capital brand. These products and services include consumer retail installment contracts and leases, as well as dealer loans for inventory, construction, real estate, working capital and revolving lines of credit. Retail installment contracts and vehicle leases entered into with FCA customers, as part of the Chrysler Agreement, represent a significant concentration of those portfolios and there is a risk that the Chrysler Agreement could be terminated prior to its expiration date. Termination of the Chrysler Agreement could result in a decrease in the amount of new retail installment contracts and vehicle leases entered into with FCA customers.

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 other relationships through which it provides personal loans, private-label revolving lines and other consumer finance products.

As of March 31, 2018, the Company was owned approximately 68.0% by Santander Holdings USA, Inc. (SHUSA), a subsidiary of Banco Santander, S.A. (Santander), and approximately 32.0% by other shareholders.

Basis of Presentation

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

The accompanying condensed consolidated financial statements as of March 31, 2018 and December 31, 2017, and for the three months ended March 31, 2018 and 2017, have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring adjustments, necessary for the fair statement of the financial position, results of operations and cash flows for the periods indicated. Results of operations for the periods presented herein are not necessarily indicative of results of operations for the entire year. These financial statements should be read in conjunction with the 2017 Annual Report on Form 10-K.

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

Business Segment Information

The Company has one reportable segment: Consumer Finance, which includes the Company’s vehicle financial products and services, including retail installment contracts, vehicle leases, and dealer loans, as well as financial products and services related to recreational vehicles, and marine vehicles. It also includes the Company’s personal loan and point-of-sale financing operations.

Accounting Policies

There have been no material changes in the Company's accounting policies from those disclosed in Part II, Item 8 - Financial Statements and Supplementary Data in the 2017 Annual Report on Form 10-K.

Recently Adopted Accounting Standards

Since January 1, 2018, the Company adopted the following Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASUs):

- ASU 2014-09, Revenue from Contracts with Customers (Topic 606) as amended. This ASU, requires an entity to recognize revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It includes a five-step process to assist an entity in achieving the main principles of revenue recognition under ASC 606. Because the ASU does not apply to revenue associated with leases and financial instruments (including loans, securities, and derivatives), it did not have a material impact on the elements of the Company's Consolidated Statements of Operations most closely associated with leases and financial instruments (such as interest income, interest expense and investment gains and losses). All other revenue streams in the scope of the new standard were not material. The Company adopted this standard as of January 1, 2018 using a modified retrospective approach. The adoption of this standard did not require any adjustments to the opening balance of retained earnings as of January 1, 2018.
- ASU 2016-18, Statement of Cash Flows (Topic 230). Restricted Cash (A consensus of the FASB Emerging Issues Task Force), which requires that the statement of cash flows include restricted cash in the beginning and end-of-period total amounts shown on the statement of cash flows and that the statement of cash flows explain changes in restricted cash during the period. The Company adopted this standard as of January 1, 2018 using retrospective approach. The impact of this adoption was disclosure only for periods presented on the Company's Statements of Cash Flows.
- ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. The new guidance amends the hedge accounting model to enable entities to more accurately reflect their risk management activities in the financial statements. The amendments expand an entity’s ability to hedge nonfinancial and financial risk components and reduce complexity in hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line in which the earnings effect of the hedged item is reported. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company elected to early adopt this standard as of January 1, 2018 using modified retrospective approach. The adoption of this standard did not require any adjustments to the opening balance of retained earnings for cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness.
- ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The new guidance is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company elected to early adopt this standard as of January 1, 2018 and has reclassified $6,149 stranded income tax effects from accumulated other comprehensive income to retained earnings.

The adoption of the following ASUs did not have an impact on the Company's business financial position or results of operations.

- ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, as amended
- ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments
- ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory
- ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business
- ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets
- ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
- ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting
- ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which will, among other impacts, change the criteria under which leases are identified and accounted for as on- or off-balance sheet. The guidance will be effective for the fiscal year beginning after December 15, 2018, including interim periods within that year. Once effective, the new guidance must be applied for all periods presented. The Company is in the process of reviewing its existing property and equipment lease contracts as well as service contracts that may include embedded leases. Upon adoption, the Company will gross up its balance sheet by the present value of future minimum lease payments for these operating leases. The Company does not intend to early adopt this ASU.

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

In addition to those described in detail above, the Company is also in the process of evaluating the following ASUs and does not expect them to have a material impact on the Company's business, financial position, results of operations or disclosures:

- ASU 2017-06, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force)
- ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities
- ASU 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.

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2. Finance Receivables

Held For Investment

Finance receivables held for investment, net is comprised of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Retail installment contracts acquired individually (a)	$22,526,948	$22,362,509
Purchased receivables	25,345	27,839
Receivables from dealers	15,334	15,623
Personal loans	3,582	4,459
Capital lease receivables (Note 3)	16,149	17,339
Finance receivables held for investment, net	$22,587,358	$22,427,769

(a) The Company has elected the fair value option for certain retail installment contracts reported in finance receivables held for investment, net. As at March 31, 2018 and December 31, 2017, $18,850 and $22,124 of loans were recorded at fair value (Note 13).

The Company's held for investment portfolio of retail installment contracts acquired individually, receivables from dealers, and personal loans is comprised of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018			
	Retail Installment Contracts Acquired Individually		Receivables from Dealers	Personal Loans
	Non-TDR	TDR		
Unpaid principal balance	$19,987,763	$5,998,768	$ 15,495	$5,158
Credit loss allowance - specific	—	(1,595,465)	—	—
Credit loss allowance - collective	(1,586,557)	—	(161)	(1,714)
Discount	(281,345)	(64,034)	—	—
Capitalized origination costs and fees	62,400	5,418	—	138
Net carrying balance	$18,182,261	$4,344,687	$ 15,334	$3,582

	December 31, 2017			
	Retail Installment Contracts Acquired Individually		Receivables from Dealers	Personal Loans
	Non-TDR	TDR		
Unpaid principal balance	$19,681,394	$6,261,894	$ 15,787	$6,887
Credit loss allowance - specific	—	(1,731,320)	—	
Credit loss allowance - collective	(1,529,815)	—	(164)	(2,565)
Discount	(309,191)	(74,832)	—	(1)
Capitalized origination costs and fees	58,638	5,741	—	138
Net carrying balance	$17,901,026	$4,461,483	$ 15,623	$4,459

Retail installment contracts

Retail installment contracts are collateralized by vehicle titles, and the Company has the right to repossess the vehicle in the event the consumer defaults on the payment terms of the contract. Most of the Company's retail installment contracts held for investment are pledged against warehouse lines or securitization bonds (Note 5). Most of the borrowers on the Company's retail installment contracts held for investment are retail consumers; however, $579,578 and $641,003 of the unpaid principal balance represented fleet contracts with commercial borrowers as of March 31, 2018 and December 31, 2017, respectively.

During the three months ended March 31, 2018 and 2017, the Company originated $1,962,180 and $1,588,506, respectively, in Chrysler Capital loans which represented 46% and 42%, respectively, of the total retail installment contract originations. As of March 31, 2018 and December 31, 2017, the Company's auto retail installment contract

portfolio consisted of $7,045,671 and $8,234,653, respectively, of Chrysler loans which represents 31% and 37%, respectively, of the Company's auto retail installment contract portfolio.
As of March 31, 2018, borrowers on the Company’s retail installment contracts held for investment are located in Texas (16%), Florida (12%), California (9%), Georgia (6%) and other states each individually representing less than 5% of the Company’s total portfolio.
Purchased receivables

Purchased receivables portfolios, which were acquired with deteriorated credit quality, is comprised of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Outstanding balance	$ 39,361	$ 43,474
Outstanding recorded investment, net of impairment	25,534	28,069

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

	For the Three Months Ended March 31,	
	2018	2017
Balance — beginning of period	$19,464	$107,041
Accretion of accretable yield	(2,840)	(11,144)
Disposals/transfers	—	—
Reclassifications from (to) nonaccretable difference (a)	1,822	2,049
Balance — end of period	$18,446	$97,946

(a) Reclassifications from (to) nonaccretable difference represents the increases (decreases) in accretable yield resulting from higher (lower) estimated undiscounted cash flows.
During the three months ended March 31, 2018 and 2017, the Company did not acquire any vehicle loan portfolios for which it was probable at acquisition that not all contractually required payments would be collected. However, during the three months ended March 31, 2018 and 2017, the Company recognized certain retail installment contracts with an unpaid principal balance of $42,996 and $152,208, respectively, held by non-consolidated securitization Trusts, under optional clean-up calls (Note 6). Following the initial recognition of these loans at fair value, the performing loans in the portfolio are carried at amortized cost, net of allowance for credit losses. The Company elected the fair value option for all non-performing loans acquired (more than 60 days delinquent as of re-recognition date), for which it was probable that not all contractually required payments would be collected (Note 13).
Receivable from Dealers
The receivables from dealers held for investment are all Chrysler Agreement-related. As of March 31, 2018, borrowers on these dealer receivables are located in Virginia (62%), New York (27%), Missouri (10%) and Wisconsin (1%).
Personal Loans
At September 30, 2016, the Company determined that its intent to sell certain personal revolving loans had changed and now expects to hold these loans through their maturity. The Company recorded a lower of cost or market adjustment through investment gains (losses), net, immediately prior to transferring the loans to finance receivables held for investment at their new recorded investment. The carrying value of these loans was $3,582 and $4,459 at March 31, 2018 and December 31, 2017, respectively.
Held For Sale
The carrying value of the Company's finance receivables held for sale, net is comprised of the following at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Retail installment contracts acquired individually	$643,746	$ 1,148,332
Personal loans	967,789	1,062,089
Finance receivables held for sale, net	$1,611,535	$ 2,210,421

Sales of retail installment contracts and proceeds from sales of charged-off assets for the three months ended March 31, 2018 and 2017 were as follows:

	For the Three Months Ended March 31,	
	2018	2017
Sales of retail installment contracts to third parties	$ —	$230,568
Sales of retail installment contracts to affiliates	[illegible]	[illegible]
Proceeds from sales of charged-off assets to third parties	[illegible]	[illegible]

The Company retains servicing of retail installment contracts and leases sold to third parties. Total contracts sold to unrelated third parties and serviced as of March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Serviced balance of retail installment contracts and leases sold to third parties	$4,965,059	$ 5,771,085

3. Leases

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

Operating Leases

Leased vehicles, net, which is comprised of leases originated under the Chrysler Agreement, consisted of the following as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Leased vehicles	$14,660,698	$14,285,769
Less: accumulated depreciation	(3,007,858)	(3,110,167)
Depreciated net capitalized cost	11,652,840	11,175,602
Manufacturer subvention payments, net of accretion	(1,076,716)	(1,042,477)
Origination fees and other costs	36,700	27,202
Net book value	$10,612,824	$10,160,327

The following summarizes the future minimum rental payments due to the Company as lessor under operating leases as of March 31, 2018:

Remainder of 2018	$1,376,726
2019	1,309,509
2020	634,099
2021	49,097
2022	153
Thereafter	—
Total	$3,369,584

Capital Leases

Certain leases originated by the Company are accounted for as capital leases, as the contractual residual values are nominal amounts. Capital lease receivables, net consisted of the following as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Gross investment in capital leases	$ 25,992	$ 27,234
Origination fees and other	155	124
Less: unearned income	(4,241)	(4,377)
Net investment in capital leases before allowance	21,906	22,981
Less: allowance for lease losses	(5,757)	(5,642)
Net investment in capital leases	$ 16,149	$ 17,339

The following summarizes the future minimum lease payments due to the Company as lessor under capital leases as of March 31, 2018:

Remainder of 2018	$ 7,809
2019	7,046
2020	5,004
2021	3,322
2022	2,752
Thereafter	59
Total	$ 25,992

4. Credit Loss Allowance and Credit Quality

Credit Loss Allowance

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

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

The Company maintains a general credit loss allowance for receivables from dealers based on risk ratings and individually evaluates loans for specific impairment as necessary. As of March 31, 2018 and 2017, the credit loss allowance for receivables from dealers is comprised entirely of general allowance as none of these receivables have been determined to be individually impaired.

The activity in the credit loss allowance for individually acquired and dealer loans for the three months ended March 31, 2018 and 2017 was as follows:

	Three Months Ended March 31, 2018		
	Retail Installment Contracts Acquired Individually	Receivables from Dealers	Personal Loans
Balance — beginning of period	$3,261,135	$ 164	$2,565
Provision for credit losses	458,679	(3)	(102)
Charge-offs (a)	(1,199,021)	—	(1,068)
Recoveries	661,229	—	319
Balance — end of period	$3,182,022	$ 161	$1,714

(a) For the three months ended March 31, 2018, charge-offs for retail installment contracts acquired individually includes approximately $7 million for the partial write-down of loans to the collateral value less estimated costs to sell, for which a bankruptcy notice was received. There is no additional credit loss allowance on these loans.

	Three Months Ended March 31, 2017		
	Retail Installment Contracts Acquired Individually	Receivables from Dealers	Personal Loans
Balance — beginning of period	$3,411,055	$ 724	$—
Provision for credit losses	629,097	10	7,975
Charge-offs (a)	(1,224,697)	—	(3,632)
Recoveries	625,764	—	174
Balance — end of period	$3,441,219	$ 734	$4,517

(a) For the three months ended March 31, 2017, charge-offs for retail installment contracts acquired individually includes approximately $24 million for the partial write-down of loans to the collateral value less estimated costs to sell, for which a bankruptcy notice was received. There is no additional credit loss allowance on these loans.

The Company estimates lease losses on the capital lease receivable portfolio based on delinquency status and loss experience to date, as well as various economic factors. The activity in the lease loss allowance for capital leases for the three months ended March 31, 2018 and 2017 was as follows:

	Three Months Ended March 31,	
	2018	2017
Balance — beginning of period	$5,642	$9,988
Provision for lease losses	421	(2,069)
Charge-offs	(1,381)	(3,679)
Recoveries	1,075	2,365
Balance — end of period	$5,757	$6,605

There was no impairment activity noted for purchased receivable portfolio for the three months ended March 31, 2018 and March 31, 2017.

Delinquencies

Retail installment contracts and personal amortizing term loans are classified as non-performing (or nonaccrual) when they are greater than 60 days past due as to contractual principal or interest payments. See discussion of TDR under the "Troubled Debt Restructurings" section below. Dealer receivables are classified as non-performing when they are greater than 90 days past due. At the time a loan is placed in non-performing (nonaccrual) status, previously accrued and uncollected interest is reversed against interest income. If an account is returned to a performing (accrual) status, the Company returns to accruing interest on the loan.

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

The accrual of interest on personal loans continues until the loan is charged off. The unpaid principal balance on personal loans (including revolving personal loans) 90 days past due and still accruing totaled $108,022 and $130,034 as of March 31, 2018 and December 31, 2017, respectively.

A summary of delinquencies as of March 31, 2018 and December 31, 2017 is as follows:

	March 31, 2018		
	Retail Installment Contracts Held for Investment		
	Loans Acquired Individually	Purchased Receivables Portfolios	Total
Principal, 30-59 days past due	$2,234,126	$ 4,299	$2,238,425
Delinquent principal over 59 days (a)	1,087,491	2,157	1,089,648
Total delinquent principal	$3,321,617	$ 6,456	$3,328,073

	December 31, 2017		
	Retail Installment Contracts Held for Investment		
	Loans Acquired Individually	Purchased Receivables Portfolios	Total
Principal, 30-59 days past due	$2,822,686	$ 4,992	$2,827,678
Delinquent principal over 59 days (a)	1,541,728	2,855	1,544,583
Total delinquent principal	$4,364,414	$ 7,847	$4,372,261

(a) Interest is accrued until 60 days past due in accordance with the Company's accounting policy for retail installment contracts. The Company's delinquency ratio continues to be calculated using the end of period delinquent principal over 60 days. Refer to Item 2 "Selected Financial Data" for details on delinquent principal over 60 days and related delinquency ratios.

In addition, retail installment contracts acquired individually held for investment that were placed on nonaccrual status, as of March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Amount	Percent (a)	Amount	Percent (a)
Non-TDR	$470,674	1.8 %	$666,926	2.6 %
TDR	1,346,148	5.2 %	1,390,373	5.4 %
Total nonaccrual principal	$1,816,822	7.0 %	$2,057,299	7.9 %

(a) Percent of unpaid principal balance of retail installment contracts individually held for investment.

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

As of March 31, 2018 and December 31, 2017, there were no receivables from dealers that were 30 days or more delinquent. As of March 31, 2018 and December 31, 2017, there were $1,244 and $1,701, respectively, of retail installment contracts held for sale that were 30 days or more delinquent.

Credit Quality Indicators

FICO® Distribution — A summary of the credit risk profile of the Company's retail installment contracts held for investment by FICO® distribution, determined at origination, as of March 31, 2018 and December 31, 2017 was as follows:

FICO® Band	March 31, 2018 (b)	December 31, 2017 (b)
Commercial (a)	2.2%	2.5%
No-FICOs	11.2%	11.2%
<540	21.6%	21.8%
540-599	32.4%	32.0%
600-639	17.6%	17.4%
>640	15.0%	15.1%

(a)No FICO score is obtained on loans to commercial borrowers.
(b)Percentages are based on unpaid principal balance.

Commercial Lending — The Company's risk department performs a credit analysis and classifies certain loans over an internal threshold based on the commercial lending classifications described in Note 4 of the 2017 Annual Report on Form 10-K. Fleet loan credit quality indicators for retail installment contracts held for investment with commercial borrowers as of March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Pass	$ 11,154	$ 12,276
Special Mention	4,812	5,324
Substandard	600	715
Doubtful	—	—
Loss	—	—
Total (Unpaid principal balance)	$ 16,566	$ 18,315

Commercial loan credit quality indicators for receivables from dealers held for investment as of March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Pass	$ 13,910	$ 14,130
Special Mention	1,585	1,657
Substandard	—	—
Doubtful	—	—
Loss	—	—
Total (Unpaid principal balance)	$ 15,495	$ 15,787

Troubled Debt Restructurings

In certain circumstances, the Company modifies the terms of its finance receivables to troubled borrowers. Modifications may include a temporary reduction in monthly payment, reduction in interest rate, an extension of the maturity date, rescheduling of future cash flows, or a combination thereof. A modification of finance receivable terms is considered a TDR if the Company grants a concession to a borrower for economic or legal reasons related to the debtor's financial difficulties that would not otherwise have been considered. Management considers TDRs to include all individually acquired retail installment contracts that have been modified at least once, deferred for a period of 90 days or more, or deferred at least twice. Additionally, restructurings through bankruptcy proceedings are deemed to be TDRs. The purchased receivables portfolio, operating and capital leases, and loans held for sale, including personal loans, are excluded from the scope of the applicable guidance. The Company's TDR balance as of March 31, 2018 and December 31, 2017 primarily consisted of loans that had been deferred or modified to receive a temporary reduction in monthly payment. As of March 31, 2018 and December 31, 2017, there were no receivables from dealers classified as a TDR.

For loans not classified as TDRs, the Company generally estimates an appropriate allowance for credit losses based on delinquency status, the Company's historical loss experience, estimated values of underlying collateral, and various economic factors. Once a loan has been classified as a TDR, it is generally assessed for impairment based on the present value of expected future cash flows discounted at the loan's original effective interest rate considering all available evidence. For loans that are considered collateral-dependent, such as certain bankruptcy modifications, impairment is measured based on the fair value of the collateral, less its estimated cost to sell.
The table below presents the Company's TDRs as of March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
	Retail Installment Contracts	
Outstanding recorded investment (a)	$5,978,182	$6,261,432
Impairment	(1,595,465)	(1,731,320)
Outstanding recorded investment, net of impairment	$4,382,717	$4,530,112

(a) As of March 31, 2018, the outstanding recorded investment excludes $68.1 million of collateral-dependent bankruptcy TDRs that has been written down by $31.1 million to fair value less cost to sell. As of December 31, 2017, the outstanding recorded investment excludes $64.7 million of collateral-dependent bankruptcy TDRs that has been written down by $29.2 million to fair value less cost to sell.

A summary of the Company's delinquent TDRs at March 31, 2018 and December 31, 2017, is as follows:

	March 31, 2018	December 31, 2017
	Retail Installment Contracts (a)	
Principal, 30-59 days past due	$1,097,661	$ 1,332,239
Delinquent principal over 59 days	576,396	818,938
Total delinquent TDR principal	$1,674,057	$ 2,151,177

(a) The balances in the above table reflects total unpaid principal balance rather than net recorded investment before allowance.

Within the total non-accrual principal in the "Delinquencies" section above, as of March 31, 2018 and December 31, 2017, the Company had $1,346,148 and $1,390,373 of TDRs on nonaccrual status respectively, of which $942,890 and $790,461 of TDRs as of March 31, 2018 and December 31, 2017 followed cost recovery basis respectively. The remaining nonaccrual TDR loans follow cash basis of accounting. Out of the total TDRs on cost recovery basis, $832,066 and $652,679 of TDRs were less than 60 days past due as of March 31, 2018 and December 31, 2017 respectively. The Company applied $99,860 and $56,740 of interest received, on these loans, towards recorded investment (as compared to interest income), in accordance with cost recovery method as of March 31, 2018 and December 31, 2017 respectively.

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

	Three Months Ended	
	March 31, 2018	March 31, 2017
	Retail Installment Contracts	
Average outstanding recorded investment in TDRs	$6,078,203	$5,711,412
Interest income recognized	$241,211	$260,352

The following table summarizes the financial effects, excluding impacts related to credit loss allowance and impairment, of TDRs that occurred for the three months ended March 31, 2018 and 2017:

	Three Months Ended	
	March 31, 2018	March 31, 2017
	Retail Installment Contracts	
Outstanding recorded investment before TDR	$584,448	$881,699
Outstanding recorded investment after TDR	$582,664	$866,278
Number of contracts (not in thousands)	34,374	49,499

Loan restructurings accounted for as TDRs within the previous twelve months that subsequently defaulted during the three months ended March 31, 2018 and 2017 are summarized in the following table:

	Three Months Ended	
	March 31, 2018	March 31, 2017
	Retail Installment Contracts	
Recorded investment in TDRs that subsequently defaulted (a)	$195,265	$211,697
Number of contracts (not in thousands)	11,540	11,894

(a) For TDR modifications and TDR modifications that subsequently defaults, the allowance methodology remains unchanged, however the transition rates of the TDR loans are adjusted to reflect the respective risks.

5. Debt

Revolving Credit Facilities

The following table presents information regarding credit facilities as of March 31, 2018 and December 31, 2017:

	March 31, 2018					
	Maturity Date(s)	Utilized Balance	Committed Amount	Effective Rate	Assets Pledged	Restricted Cash Pledged
Facilities with third parties						
Warehouse line	August 2019	$229,984	$500,000	3.74%	$348,645	$19,915
Warehouse line	Various (a)	603,145	1,250,000	2.71%	865,991	24,063
Warehouse line (b)	August 2019	2,105,843	3,900,000	3.42%	3,108,422	68,631
Warehouse line	December 2018	—	300,000	—%	—	—
Warehouse line	October 2019	611,477	1,800,000	3.43%	839,499	14,727
Repurchase facility (d)	Various (c)	291,949	291,949	3.49%	407,299	12,962
Repurchase facility (d)	April 2018 (e)	196,727	196,727	3.06%	257,054	—
Repurchase facility (d)	June 2018	153,177	153,177	3.80%	222,108	—
Repurchase facility (d)	December 2018	67,772	67,772	3.55%	156,202	—
Warehouse line	November 2019	297,699	1,000,000	3.63%	420,623	11,557
Warehouse line	October 2019	148,565	400,000	3.65%	206,287	4,070
Warehouse line	November 2019	358,220	500,000	2.06%	421,622	21,337
Warehouse line	October 2018	229,800	300,000	3.37%	268,054	10,719
Total facilities with third parties		5,294,358	10,659,625		7,521,806	187,981
Facilities with Santander and related subsidiaries:						
Line of credit (f)	December 2018	30,000	1,000,000	3.09%	30,000	—
Promissory Note (g)	December 2021	250,000	250,000	3.70%	—	—
Promissory Note (g)	December 2022	250,000	250,000	3.95%	—	—
Promissory Note (g)	March 2019	300,000	300,000	3.38%	—	—

Promissory Note (g)	October 2020	400,000	400,000	3.10%	—	—
Promissory Note (g)	May 2020	500,000	500,000	3.49%	—	—
Promissory Note (g) (h)	March 2022	650,000	650,000	4.20%	—	—
Promissory Note (g)	August 2021	650,000	650,000	3.44%	—	—
Line of credit (f)	December 2018	114,200	750,000	4.34%	126,392	2,376
Line of credit (f)	March 2019	—	3,000,000	3.94%	—	—
Total facilities with Santander and related subsidiaries		3,144,200	7,750,000		156,392	2,376
Total revolving credit facilities		$8,438,558	$18,409,625		$7,678,198	$190,357

(a) Half of the outstanding balance on this facility matures in March 2019 and remaining balance matures in March 2020.
(b) This line is held exclusively for financing of Chrysler Capital leases.
(c) The maturity of this repurchase facility ranges from April 2018 to July 2018.

(d) These repurchase facilities are collateralized by securitization notes payable retained by the Company. These facilities have rolling maturities of up to one year. As the borrower, we are exposed to liquidity risk due to changes in the market value of the retained securities pledged. In some instances, we place or receive cash collateral with counterparties under collateral arrangements associated with our repurchase agreements.
(e) Half of this repurchase facility was settled on maturity in April 2018 and remaining balance of this repurchase facility was extended to July 2018.
(f) These lines are also collateralized by securitization notes payable and residuals retained by the Company.
(g) As of March 31, 2018 and December 31, 2017, $3,000,000 and $3,000,000, respectively, of the aggregate outstanding balances on these facilities were unsecured.
(h) In 2017, the Company entered into an interest rate swap to hedge the interest rate risk on this fixed rate debt. This derivative was designated as fair value hedge at inception. This was later terminated and the unamortized fair value hedge adjustment as of March 31, 2018 and December 31, 2017 was $$3,994 and $4,223, the amortization of which will reduce interest expense over the remaining life of the fixed rate debt.

	December 31, 2017					
	Maturity Date(s)	Utilized Balance	Committed Amount	Effective Rate	Assets Pledged	Restricted Cash Pledged
Facilities with third parties:						
Warehouse line	January 2018	$336,484	$500,000	2.87%	$473,208	$—
Warehouse line	Various	339,145	1,250,000	2.53%	461,353	12,645
Warehouse line	August 2019	2,044,843	3,900,000	2.96%	2,929,890	53,639
Warehouse line	December 2018	—	300,000	1.49%	—	—
Warehouse line	October 2019	226,577	1,800,000	4.95%	311,336	6,772
Repurchase facility	Various	325,775	325,775	3.24%	474,188	13,842
Repurchase facility	April 2018	202,311	202,311	2.67%	264,120	—
Repurchase facility	March 2018	147,500	147,500	3.91%	222,108	—
Repurchase facility	March 2018	68,897	68,897	3.04%	95,762	—
Warehouse line	November 2019	403,999	1,000,000	2.66%	546,782	14,729
Warehouse line	October 2019	81,865	400,000	4.09%	114,021	3,057
Warehouse line	November 2019	435,220	500,000	1.92%	521,365	16,866
Warehouse line	October 2018	235,700	300,000	2.84%	289,634	10,474
Total facilities with third parties		4,848,316	10,694,483		6,703,767	132,024
Facilities with Santander and related subsidiaries:						
Line of credit	December 2018	—	1,000,000	3.09%	—	—
Promissory Note	December 2021	250,000	250,000	3.70%	—	—
Promissory Note	December 2022	250,000	250,000	3.95%	—	—
Promissory Note	March 2019	300,000	300,000	2.67%	—	—
Promissory Note	October 2020	400,000	400,000	3.10%	—	—
Promissory Note	May 2020	500,000	500,000	3.49%	—	—
Promissory Note	March 2022	650,000	650,000	4.20%	—	—
Promissory Note	August 2021	650,000	650,000	3.44%	—	—
Line of credit		750,000	750,000	1.33%	—	—

	December 2018					
Line of credit	March 2019	—	3,000,000	3.94%	—	—
Total facilities with Santander and related subsidiaries		3,750,000	7,750,000		—	—
Total revolving credit facilities		$8,598,316	$18,444,483		$6,703,767	$132,024

Facilities with Third Parties

The warehouse lines and repurchase facilities are fully collateralized by a designated portion of the Company's retail installment contracts (Note 2), leased vehicles (Note 3), securitization notes payables and residuals retained by the Company.

Facilities with Santander and Related Subsidiaries

Lines of Credit

Through SHUSA, Santander provides the Company with $3,000,000 of committed revolving credit that can be drawn on an unsecured basis. Through its New York branch, Santander provides the Company with $1,750,000 of long-term committed revolving credit facilities. The $1,750,000 of longer-term committed revolving credit facilities is composed of a $1,000,000 facility that permits unsecured borrowing but is generally collateralized by retained residuals and $750,000 facility that is securitized by Prime retail installment loans. Both facilities have current maturity dates of December 31, 2018.

Promissory Notes

Through SHUSA, Santander provides the Company with $3,000,000 of promissory notes.

Secured Structured Financings

The following table presents information regarding secured structured financings as of March 31, 2018 and December 31, 2017:

	March 31, 2018					
	Estimated Maturity Date(s)	Balance	Initial Note Amounts Issued	Initial Weighted Average Interest Rate	Collateral (b)	Restricted Cash
2013 Securitization	March 2021	$159,041	$2,260,930	1.24%	$183,756	$46,212
2014 Securitizations	February 2020 - April 2022	982,601	6,391,020	1.16% - 1.72%	1,163,941	218,420
2015 Securitizations	June 2020 - January 2023	2,132,438	9,158,532	1.33% - 2.29%	3,019,846	378,911
2016 Securitizations	April 2022 - March 2024	3,153,267	7,462,790	1.63%-2.80%	4,221,844	366,250
2017 Securitizations	April 2023 - September 2024	6,433,289	9,296,570	1.35% - 2.52%	8,691,397	487,993
2018 Securitizations	May 2022 - May 2025	3,082,538	3,415,030	2.41% - 2.77%	3,629,647	131,952
Public Securitizations (a)		15,943,174	37,984,872		20,910,431	1,629,738
2011 Private issuance	September 2028	213,510	1,700,000	1.46%	332,325	21,100
2013 Private issuances	August 2021-September 2024	1,848,474	2,044,054	1.28%-1.38%	3,118,953	221,752
2014 Private issuance	November 2021	74,908	1,530,125	1.10%	157,838	8,355
2015 Private issuances	November 2018 - September 2021	1,723,235	2,058,187	0.88%-2.80%	733,193	101,080
2016 Private issuances	May 2020 - September 2024	1,215,814	3,050,000	1.55%-2.86%	1,799,082	122,417
2017 Private issuances	April 2021 - September 2021	1,214,597	1,600,000	1.85%-2.44%	1,550,015	83,298
2018 Private issuance	June 2022	628,895	650,002	2.42%	831,285	15,484
Privately issued amortizing notes		6,919,433	12,632,368		8,522,691	573,486
Total secured structured		$22,862,607	$50,617,240		$29,433,122	$2,203,224

financings

(a)Securitizations executed under Rule 144A of the Securities Act are included within this balance.

(b)Secured structured financings may be collateralized by the Company's collateral overages of other issuances.

	December 31, 2017					
	Estimated Maturity Date(s)	Balance	Initial Note Amounts Issued	Initial Weighted Average Interest Rate	Collateral	Restricted Cash
2013 Securitizations	January 2019 - March 2021	$418,806	$4,239,700	0.89%-1.59%	$544,948	$125,696
2014 Securitizations	February 2020 - April 2022	1,150,422	6,391,020	1.16%-1.72%	1,362,814	210,937
2015 Securitizations	September 2019 - January 2023	2,484,051	9,171,332	1.33%-2.29%	3,465,671	366,062
2016 Securitizations	April 2022 - March 2024	3,596,822	7,462,790	1.63%-2.80%	4,798,807	344,899
2017 Securitizations	April 2023 - September 2024	7,343,157	9,535,800	2.01%-2.52%	9,701,381	422,865
Public Securitizations		14,993,258	36,800,642		19,873,621	1,470,459
2011 Private issuance	September 2028	281,946	1,700,000	1.46%	398,051	20,356
2013 Private issuances	August 2021 - September 2024	2,292,279	2,044,054	1.28%-1.38%	3,719,148	155,066
2014 Private issuances	March 2018 - November 2021	117,730	1,538,087	1.05%-1.40%	231,997	9,552
2015 Private issuances	November 2018 - September 2021	2,009,627	2,305,062	0.88%-4.09%	988,247	55,451
2016 Private issuances	May 2020 - September 2024	1,489,464	3,050,000	1.55%-2.86%	2,147,988	89,460
2017 Private issuances	April 2021 - September 2021	1,373,591	1,641,079	1.85%-2.27%	1,747,227	47,415
Privately issued amortizing notes		7,564,637	12,278,282		9,232,658	377,300
Total secured structured financings		$22,557,895	$49,078,924		$29,106,279	$1,847,759

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. The Company's securitizations and private issuances are collateralized by vehicle retail installment contracts and loans or leases. As of March 31, 2018 and December 31, 2017, the Company had private issuances of notes backed by vehicle leases totaling $4,604,923 and $3,710,377, respectively.
Unamortized debt issuance costs are amortized as interest expense over the terms of the related notes payable using the effective interest method and are classified as a discount to the related recorded debt balance. Amortized debt issuance costs were $7,920 and $8,729 for the three months ended March 31, 2018 and 2017, respectively. For securitizations, the term takes into consideration the expected execution of the contractual call option, if applicable. Amortization of premium or accretion of discount on acquired notes payable is also included in interest expense using 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 March 31, 2018 and 2017 was $150,675 and $124,065, respectively.

6. Variable Interest Entities
The Company transfers retail installment contracts and vehicle leases into newly formed Trusts that then issue one or more classes of notes payable backed by the collateral. The Company's continuing involvement with these Trusts is in

the form of servicing the assets and, generally, through holding residual interests in the Trusts. The Trusts are considered VIEs under U.S. GAAP and the Company may or may not consolidate these VIEs on the condensed consolidated balance sheets.
For further description of the Company's securitization activities, involvement with VIEs and accounting policies regarding consolidation of VIEs, see Note 7 of the 2017 Annual Report on Form 10-K.

On-balance sheet variable interest entities

The Company retains servicing 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 March 31, 2018 and December 31, 2017, the Company was servicing $25,500,802 and $26,250,482, respectively, of gross retail installment contracts that have been transferred to consolidated Trusts. The remainder of the Company's retail installment contracts remain unpledged.

A summary of the cash flows received from consolidated securitization trusts during the three months ended March 31, 2018 and 2017, is as follows:

	Three Months Ended	
	March 31, 2018	March 31, 2017
Assets securitized	$7,240,944	$7,646,625
Net proceeds from new securitizations (a)	$3,476,322	$5,576,801
Net proceeds from sale of retained bonds	211,610	115,970
Cash received for servicing fees (b)	215,790	208,923
Net distributions from Trusts (b)	545,152	678,229
Total cash received from Trusts	$4,448,874	$6,579,923

(a) Includes additional advances on existing securitizations.

(b) These amounts are not reflected in the accompanying condensed consolidated statements of cash flows because these cash flows are intra-company and eliminated in consolidation.

Off-balance sheet variable interest entities

During the three months ended March 31, 2018 and 2017 the Company sold $1,475,253 and $700,022 of gross retail installment contracts to VIEs in off-balance sheet securitizations for a loss of $16,903 and $2,719, respectively, which is recorded in investment losses, net in the accompanying condensed consolidated statements of income. These transactions were executed under securitization platforms with Santander. Santander, as a majority owned affiliate, holds eligible vertical interest in Notes and Certificates of not less than 5% to comply with the Dodd-Frank Act risk retention rules.

As of March 31, 2018 and December 31, 2017, the Company was servicing $4,358,695 and $3,428,248, respectively, of gross retail installment contracts that have been sold in off-balance sheet securitizations and were subject to an optional clean-up call. The portfolio was comprised as follows:

	March 31, 2018	December 31, 2017
SPAIN	$3,176,238	$2,024,016
Total serviced for related parties	3,176,238	2,024,016
Chrysler Capital securitizations	1,182,457	1,404,232
Total serviced for third parties	1,182,457	1,404,232
Total serviced for others portfolio	$4,358,695	$3,428,248

Other than repurchases of sold assets due to standard representations and warranties, the Company has no exposure to loss as a result of its involvement with these VIEs.

A summary of the cash flows received from off-balance sheet securitization trusts during the three months ended March 31, 2018 and 2017 is as follows:

	Three Months Ended	
	March 31, 2018	March 31, 2017
Receivables securitized (a)	$1,475,253	$700,022
Net proceeds from new securitizations	$1,474,820	$702,319
Cash received for servicing fees	8,078	1,398
Total cash received from securitization trusts	$1,482,898	$703,717

(a) Represents the unpaid principal balance at the time of original securitization.

7. Derivative Financial Instruments

The Company uses derivatives financial instruments such as interest rate swaps, interest rate caps and the corresponding options written in order to offset the interest rate caps to manage the Company's exposure to changing interest rates. The Company uses both derivatives that qualify for hedge accounting treatment and economic hedges.

In addition, 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 March 31, 2018 and December 31, 2017.

The underlying notional amounts and aggregate fair values of these derivatives financial instruments at March 31, 2018 and December 31, 2017, are as follows:

	March 31, 2018			
	Notional	Fair Value	Asset	Liability
Interest rate swap agreements designated as cash flow hedges	$4,682,300	$71,351	$71,351	$ —
Interest rate swap agreements not designated as hedges	2,163,600	16,474	16,685	(211)
Interest rate cap agreements	10,825,149	197,667	197,667	—
Options for interest rate cap agreements	10,825,149	(197,548)	—	(197,548)
	December 31, 2017			
	Notional	Fair Value	Asset	Liability
Interest rate swap agreements designated as cash flow hedges	$4,926,900	$45,986	$45,986	$ —
Interest rate swap agreements not designated as hedges	1,736,400	9,596	9,596	—
Interest rate cap agreements	10,906,081	103,721	135,830	(32,109)
Options for interest rate cap agreements	10,906,081	(103,659)	32,165	(135,824)

See Note 13 for disclosure of fair value and balance sheet location of the Company's derivative financial instruments. The Company enters into legally enforceable master netting agreements that 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. The Company has elected to present derivative balances on a gross basis even if the derivative is subject to a legally enforceable master netting (ISDA) agreement. Collateral that is received or pledged for these transactions is disclosed within the “Gross amounts not offset in the Condensed Consolidated Balance Sheet” section of the tables below. Information on the offsetting of derivative assets and derivative liabilities due to the right of offset was as follows, as of March 31, 2018 and December 31, 2017:

	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
	Assets Presented in the Condensed Consolidated Balance Sheet	Cash Collateral Received (a)	Net Amount
March 31, 2018			
Interest rate swaps - Santander and affiliates	$—	$—	$—
Interest rate swaps - third party (b)	88,036	(61,617)	26,419
Interest rate caps - Santander and affiliates	21,241	(12,240)	9,001
Interest rate caps - third party	176,426	(64,993)	111,433
Total derivatives subject to a master netting arrangement or similar arrangement	285,703	(138,850)	146,853
Total derivatives not subject to a master netting arrangement or similar arrangement	—	—	—
Total derivative assets	$285,703	$(138,850)	$146,853
Total financial assets	$285,703	$(138,850)	$146,853
December 31, 2017			
Interest rate swaps - Santander and affiliates	$8,621	$(3,461)	$5,160
Interest rate swaps - third party	46,961	(448)	46,513
Interest rate caps - Santander and affiliates	18,201	(12,240)	5,961
Interest rate caps - third party	149,794	(55,835)	93,959
Total derivatives subject to a master netting arrangement or similar arrangement	223,577	(71,984)	151,593
Total derivatives not subject to a master netting arrangement or similar arrangement	—	—	—
Total derivative assets	$223,577	$(71,984)	$151,593
Total financial assets	$223,577	$(71,984)	$151,593

(a) Cash collateral received is reported in Other liabilities or Due to affiliate, as applicable, in the consolidated balance sheet.

(b) Includes derivative instruments originally transacted with Santander and affiliates and subsequently amended to reflect clearing with central clearing counterparties.

	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
	Liabilities Presented in the Condensed Consolidated Balance Sheet	Cash Collateral Pledged (a)	Net Amount
March 31, 2018			
Interest rate swaps - third party	211	(211)	—
Back to back - Santander & affiliates	21,241	(21,241)	—
Back to back - third party	176,307	(176,307)	—

Total derivatives subject to a master netting arrangement or similar arrangement	197,759	(197,759)	—
Total derivatives not subject to a master netting arrangement or similar arrangement	—	—	—
Total derivative liabilities	$197,759	$(197,759)	$—
Total financial liabilities	$197,759	$(197,759)	$—
December 31, 2017			
Back to back - Santander & affiliates	18,201	(18,201)	—
Back to back - third party	149,732	(133,540)	16,192
Total derivatives subject to a master netting arrangement or similar arrangement	167,933	(151,741)	16,192
Total derivatives not subject to a master netting arrangement or similar arrangement	—	—	—
Total derivative liabilities	$167,933	$(151,741)	$16,192
Total financial liabilities	$167,933	$(151,741)	$16,192

(a) Cash collateral pledged is reported in Other assets or Due from affiliate, as applicable, in the consolidated balance sheet. In certain instances, the Company is over-collateralized since the actual amount of cash pledged as collateral exceeds the associated financial liability. As a result, the actual amount of cash collateral pledged that is reported in Other assets or Due from affiliates may be greater than the amount shown in the table above.

The gross gains (losses) reclassified from accumulated other comprehensive income (loss) to net income, are included as components of interest expense. The impacts on the condensed consolidated statements of income and comprehensive income for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31, 2018		
	Recognized in Earnings	Gross Gains Recognized in Accumulated Other Comprehensive Income (Loss)	Gross amount Reclassified From Accumulated Other Comprehensive Income to Interest Expense
Interest rate swap agreements designated as cash flow hedges	$—	$ 26,429	$ 4,578
Derivative instruments not designated as hedges:			
Gains (losses) recognized in interest expenses	$(9,717)		

	Three Months Ended March 31, 2017		
	Recognized in Earnings	Gross Gains (Losses) Recognized in Accumulated Other Comprehensive Income (Loss)	Gross Gains (Losses) Reclassified From Accumulated Other Comprehensive Income to Interest Expense
Interest rate swap agreements designated as cash flow hedges	$383	$ 7,332	$ 4,240
Derivative instruments not designated as hedges:			
Gains (losses) recognized in interest expense	$(1,204)		
Gains (losses) recognized in operating expenses	$(505)		

The Company estimates that approximately $34,698 of unrealized gains included in accumulated other comprehensive income (loss) will be reclassified to interest expense within the next twelve months.

8. Other Assets

Other assets were comprised as follows:

	March 31, 2018	December 31, 2017
Vehicles (a)	$383,657	$ 293,546
Manufacturer subvention payments receivable (b)	120,268	83,910
Upfront fee (b)	76,250	80,000
Derivative assets at fair value (c)	264,462	196,755
Derivative - third party collateral	187,226	149,805
Prepaids	37,702	40,830
Accounts receivable	26,799	38,583
Other	29,179	29,815
Other assets	$1,125,543	$ 913,244

(a) Includes vehicles obtained through repossession as well as vehicles obtained due to lease terminations.

(b) These amounts relate to the Chrysler Agreement. The Company paid a $150,000 upfront fee upon the May 2013 inception of the agreement. The fee is being amortized into finance and other interest income over a ten-year term. As the preferred financing provider for FCA, the Company is entitled to subvention payments on loans and leases with below-market customer payments.

(c)

Derivative assets at fair value represent the gross amount of derivatives presented in the condensed consolidated financial statements. Refer to Note 7 to these Condensed Consolidated Financial Statements for the detail of these amounts.

9. Income Taxes

The Company recorded income tax expense of $57,311 (19.1% effective tax rate) and $78,001 (35.2% effective tax rate) during the three months ended March 31, 2018 and 2017, respectively.

The Company is a party to a tax sharing agreement requiring that the unitary state tax liability among affiliates included in unitary state tax returns be allocated using the hypothetical separate company tax calculation method. The

Company had a net receivable from affiliates under the tax sharing agreement of $634 and $467 at March 31, 2018 and December 31, 2017, respectively, which was included in related party taxes receivable in the condensed consolidated balance sheet.

The Company provides U.S. income taxes on earnings of foreign subsidiaries unless the subsidiaries' earnings are considered indefinitely reinvested outside of the United States. As of December 31, 2017 and March 31, 2018, the Company has no earnings that are considered indefinitely reinvested.

During the three months ended March 31, 2018, the Company adopted ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This standard requires entities to reclassify from accumulated other comprehensive income to retained earnings stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act. The Company reclassified $6,149 related to stranded tax effects.

The Company applies an aggregate portfolio approach whereby income tax effects from accumulated other comprehensive income are released only when an entire portfolio (i.e. all related units of account) of a particular type is liquidated, sold or extinguished.
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 Company's business, financial position or results of operations. The reserve for uncertain tax positions, as well as associated penalties and interest, is a component of the income tax provision.

10. Commitments and Contingencies

The following table summarizes liabilities recorded for commitments and contingencies as of March 31, 2018 and December 31, 2017, all of which are included in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets:

Agreement or Legal Matter	Commitment or Contingency	March 31, 2018	December 31, 2017
Chrysler Agreement	Revenue-sharing and gain-sharing payments	$ 11,571	$ 6,580
Agreement with Bank of America	Servicer performance fee	7,453	8,072
Agreement with CBP	Loss-sharing payments	5,506	5,625
Other Contingencies	Consumer arrangements	3,410	6,326
Legal and regulatory proceedings	Aggregate legal and regulatory liabilities	115,600	108,800

Following is a description of the agreements and legal matters pursuant to which the liabilities in the preceding table were recorded.

Chrysler Agreement
Under terms of the Chrysler Agreement, the Company must make revenue sharing payments to FCA and also must make gain-sharing payments to FCA when residual gains on leased vehicles exceed a specified threshold. The Company had accrued $11,571 and $6,580 at March 31, 2018 and December 31, 2017, respectively, related to these

obligations.

The Chrysler Agreement requires, among other things, that the Company bear the risk of loss on loans originated pursuant to the agreement, but also that FCA shares in any residual gains and losses from consumer leases. The agreement also requires that Company maintain at least $5.0 billion in funding available for dealer inventory financing and $4.5 billion of financing dedicated to FCA retail financing. In turn, FCA must provide designated minimum threshold percentages of its subvention business to the Company. The Chrysler Agreement is subject to early termination in certain circumstances, including the failure by either party to comply with certain of their ongoing obligations under the Chrysler Agreement. These obligations include the Company's meeting specified escalating penetration rates for the first five years of the agreement. The Company has not met these penetration rates at

March 31, 2018. If the Chrysler Agreement were to terminate, there could be a materially adverse impact to the Company's business, financial position and results of operations.

Agreement with Bank of America

Until January 31, 2017, the Company had a flow agreement with Bank of America whereby the Company was committed to sell up to $300,000 of eligible loans to the bank each month. The Company retains servicing on all sold loans and may receive or pay a servicer performance payment based on an agreed-upon formula if performance on the sold loans is better or worse, respectively, than expected performance at time of sale. Servicer performance payments are due six years from the cut-off date of each loan sale. The Company had accrued $7,453 and $8,072 at March 31, 2018 and December 31, 2017, respectively, related to this obligation.

Agreement with CBP

Until May 1, 2017, the Company sold loans to CBP under terms of a flow agreement and predecessor sale agreements. The Company retained 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. Loss-sharing payments are due the month in which net losses exceed the established threshold of each loan sale. The Company had accrued $5,506 and $5,625 at March 31, 2018 and December 31, 2017, respectively, related to the loss-sharing obligation.

Other Contingencies

The Company is or may be subject to potential liability under various other contingent exposures. The Company had accrued $3,410 and $6,326 at March 31, 2018 and December 31, 2017, respectively, for other miscellaneous contingencies.

Legal and regulatory proceedings

Periodically, the Company is party to, or otherwise involved in, various lawsuits and other legal proceedings that arise in the ordinary course of business. In view of the inherent difficulty of predicting the outcome of any such lawsuit, regulatory matter and legal proceeding, particularly where the claimants seek very large or indeterminate damages or where the matters present novel legal theories or involve a large number of parties, the Company generally cannot predict the eventual outcome of the pending matters, the timing of the ultimate resolution of the matters, or the eventual loss, fines or penalties related to the matter. Further, it is reasonably possible that actual outcomes or losses may differ materially from the Company's current assessments and estimates and any adverse resolution of any of these matters against it could materially and adversely affect the Company's business, financial condition and results of operation.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation, regulatory matters and other legal proceedings when those matters present material loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. When a loss contingency is not both probable and estimable, the Company does not establish an accrued liability. As a litigation, regulatory matter or other legal proceeding develops, the Company, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether the matter presents a material loss contingency that is probable and estimable. If a determination is made during a given quarter that a material loss contingency is probable and estimable, an accrued liability is established during such quarter with respect to such loss contingency. The Company continues to monitor the matter for further developments that could affect the amount of the accrued liability previously established.

As of March 31, 2018, the Company has accrued aggregate legal and regulatory liabilities of $115,600. Further, the Company believes that the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for legal and regulatory proceedings is up to $207,000 as of March 31, 2018. Set forth below are descriptions of the material lawsuits, regulatory matters and other legal proceedings to which the Company is subject.

Securities Class Action and Shareholder Derivative Lawsuits

•Deka Lawsuit: The Company is a defendant in a purported securities class action lawsuit (the Deka Lawsuit) in the United States District Court, Northern District of Texas, captioned Deka Investment GmbH et al. v. Santander Consumer USA Holdings Inc. et al., No. 3:15-cv-2129-K. The Deka Lawsuit, which was filed in August 26, 2014, was brought against the Company, certain of its current and former directors and executive officers and certain institutions that served as underwriters in the Company's IPO on behalf of a class consisting of those who purchased or otherwise acquired our securities between January 23, 2014 and June 12, 2014. The complaint alleges, among other things, that our IPO registration statement and prospectus and certain subsequent public disclosures violated federal securities laws by containing misleading statements concerning the Company's ability to pay dividends and the adequacy of the Company's compliance systems and oversight. On December 18, 2015, the Company and the individual defendants moved to dismiss the lawsuit, which was denied. On December 2, 2016, the plaintiffs moved to certify the proposed classes. On July 11, 2017, the court entered an order staying the Deka Lawsuit pending the resolution of the appeal of a class certification order in In re Cobalt Int'l Energy, Inc. Sec. Litig., No. H-14-3428, 2017 U.S. Dist. LEXIS 91938 (S.D. Tex. June 15, 2017).

•Feldman Lawsuit: On October 15, 2015, a shareholder derivative complaint was filed in the Court of Chancery of the State of Delaware, captioned Feldman v. Jason A. Kulas, et al., C.A. No. 11614 (the Feldman Lawsuit). The Feldman Lawsuit names as defendants current and former members of the Board, and names the Company as a nominal defendant. The complaint alleges, among other things, that the current and former director defendants breached their fiduciary duties in connection with overseeing the Company's nonprime vehicle lending practices, resulting in harm to the Company. The complaint seeks unspecified damages and equitable relief. On December 29, 2015, the Feldman Lawsuit was stayed pending the resolution of the Deka Lawsuit.

•Parmelee Lawsuit: The Company is a defendant in two purported securities class actions lawsuits that were filed in March and April 2016 in the United States District Court, Northern District of Texas. The lawsuits were consolidated and are now captioned Parmelee v. Santander Consumer USA Holdings Inc. et al., No. 3:16-cv-783. The lawsuits were filed against the Company and certain of its current and former directors and executive officers on behalf of a class consisting of all those who purchased or otherwise acquired our securities between February 3, 2015 and March 15, 2016. The complaint alleges that the Company violated federal securities laws by making false or misleading statements, as well as failing to disclose material adverse facts, in its periodic reports filed under the Exchange Act and certain other public disclosures, in connection with, among other things, the Company's change in its methodology for estimating its allowance for credit losses and correction of such allowance for prior periods. On March 14, 2017, the Company filed a motion to dismiss the lawsuit. On January 3, 2018, the court granted the Company's motion as to defendant Ismail Dawood (the Company's former Chief Financial Officer) and denied the motion as to all other defendants.

•Jackie888 Lawsuit: On September 27, 2016, a shareholder derivative complaint was filed in the Court of Chancery of the State of Delaware, captioned Jackie888, Inc. v. Jason Kulas, et al., C.A. # 12775 (the Jackie888 Lawsuit). The Jackie888 Lawsuit names as defendants current and former members of the Board, and names the Company as a nominal defendant. The complaint alleges, among other things, that the defendants breached their fiduciary duties in connection with the Company's accounting practices and controls. The complaint seeks unspecified damages and equitable relief. On April 13, 2017, the Jackie888 Lawsuit was stayed pending the resolution of the Deka Lawsuit.

Consumer Lending Cases
The Company is also party to various lawsuits pending in federal and state courts alleging violations of state and federal consumer lending laws, including, without limitation, the Equal Credit Opportunity Act, the Fair Debt Collection Practices Act, Fair Credit Reporting Act, Section 5 of the Federal Trade Commission Act, the Telephone Consumer Protection Act, the Truth in Lending Act, wrongful repossession laws, usury laws and laws related to unfair and deceptive acts or practices. In general, these cases seek damages and equitable and/or other relief.

Regulatory Investigations and Proceedings
The Company is party to, or is periodically otherwise involved in, reviews, investigations, examinations and proceedings (both formal and informal), and information-gathering requests, by government and self-regulatory

agencies, including the FRBB, the CFPB, the DOJ, the SEC, the FTC and various state regulatory and enforcement agencies.

Currently, such matters include, but are not limited to, the following:

- The Company received a civil subpoena from the DOJ, under FIRREA, requesting the production of documents and communications that, among other things, relate to the underwriting and securitization of nonprime vehicle loans, and also from the SEC requesting the production of documents and communications that, among other things, relate to the underwriting and securitization of nonprime vehicle loans. The Company has responded to these requests within the deadlines specified in the subpoenas and has otherwise cooperated with the DOJ and SEC with respect to these matters.

- In October 2014, May 2015, July 2015 and February 2017, the Company received subpoenas and/or Civil Investigative Demands (CIDs) from the Attorneys General of California, Illinois, Oregon, New Jersey, Maryland and Washington under the authority of each state's consumer protection statutes. The Company has been informed that these states will serve as an executive committee on behalf of a group of 30 state Attorneys General. The subpoenas and/or CIDs from the executive committee states contain broad requests for information and the production of documents related to the Company’s underwriting, securitization, servicing and collection of nonprime vehicle loans. The Company has responded to these requests within the deadlines specified in the CIDs and has otherwise cooperated with the Attorneys General with respect to this matter.

- In February 2016, the CFPB issued a supervisory letter relating to its investigation of the Company’s compliance systems, Board and senior management oversight, consumer complaint handling, marketing of GAP coverage and loan deferral disclosure practices. The Company subsequently received a series of CIDs from the CFPB requesting information and testimony regarding the Company’s marketing of GAP coverage and loan deferral disclosure practices. The Company has responded to these requests within the deadlines specified in the CIDs and has otherwise cooperated with the CFPB with respect to this matter.

- In August 2017, the Company received a CID from the CFPB. The stated purpose of the CID is to determine whether the Company has complied with the Fair Credit Reporting Act and related regulations. The Company has responded to these requests within the deadlines specified in the CIDs and has otherwise cooperated with the CFPB with respect to this matter.

These matters are ongoing and could in the future result in the imposition of damages, fines or other penalties. No assurance can be given that the ultimate outcome of these matters or any resulting proceedings would not materially and adversely affect the Company’s business, financial condition and results of operations.

•2017 Written Agreement with the Federal Reserve
On March 21, 2017, the Company and SHUSA entered into a written agreement with the FRBB. Under the terms of the agreement, the Company is required to enhance its compliance risk management program, Board oversight of risk management and senior management oversight of risk management, and SHUSA is required to enhance its oversight of the Company's management and operations.

•Mississippi Attorney General Lawsuit

On January 10, 2017, the Attorney General of Mississippi filed a lawsuit against the Company in the Chancery Court of the First Judicial District of Hinds County, Mississippi, captioned State of Mississippi ex rel. Jim Hood, Attorney General of the State of Mississippi v. Santander Consumer USA Inc., C.A. # G-2017-28. The complaint alleges that the Company engaged in unfair and deceptive business practices to induce Mississippi consumers to apply for loans that they could not afford. The complaint asserts claims under the Mississippi Consumer Protection Act (the MCPA) and seeks unspecified civil penalties, equitable relief and other relief. On March 31, 2017, the Company filed motions to dismiss the lawsuit and subsequently filed a motion to stay the lawsuit pending the resolution of an interlocutory appeal relating to the MCPA before the Mississippi Supreme Court in Purdue Pharma, L.P., et al. v. State, No. 2017-IA- 00300-SCT. On September 25, 2017, the court granted the motion to stay and ordered a stay of all proceedings, excluding discovery and final briefing on motions to dismiss.

•SCRA Consent Order

In February 2015, the Company entered into a consent order with the DOJ, approved by the United States District Court for the Northern District of Texas, that resolves the DOJ's claims against the Company that certain of its repossession and collection activities during the period of time between January 2008 and February 2013 violated the Servicemembers Civil Relief Act (SCRA). The consent order requires the Company to pay a civil fine in the amount of $55, as well as at least $9,360 to affected servicemembers consisting of $10 per servicemember plus compensation for any lost equity (with interest) for each repossession by the Company, and $5 per servicemember for each instance where the Company sought to collect repossession-related fees on accounts where a repossession was conducted by a prior account holder. The consent order also provides for monitoring by the DOJ for the Company's SCRA compliance for a period of five years and requires the Company to undertake certain additional remedial measures.

Agreements

The Company is party to agreements with Bluestem whereby the Company is committed to purchase certain new advances on personal revolving financings receivables, along with existing balances on accounts with new advances, originated by Bluestem for an initial term ending in April 2020 and renewing through April 2022 at Bluestem's option. As of March 31, 2018 and December 31, 2017, the total unused credit available to customers was $3.7 billion, and $3.9 billion, respectively. In 2017, the Company purchased $1.2 billion of receivables, out of the $4.0 billion unused credit available to customers as of December 31, 2016. In addition, the Company purchased $263,831 of receivables related to newly opened customer accounts in 2017. During the three months ended March 31, 2018, the Company purchased $0.3 billion of receivables, out of the $3.9 billion unused credit available to customers as of December 31, 2017. In addition, the Company purchased $17,398 of receivables related to newly opened customer accounts during the three months ended March 31, 2018.

Each customer account generated under the agreements generally is approved with a credit limit higher than the amount of the initial purchase, with each subsequent purchase automatically approved as long as it does not cause the account to exceed its limit and the customer is in good standing. As of March 31, 2018 and December 31, 2017, the Company was obligated to purchase $10,345 and $11,539, respectively, in receivables that had been originated by Bluestem but not yet purchased by the Company. The Company also is required to make a profit-sharing payment to Bluestem each month if performance exceeds a specified return threshold. During the year ended December 31, 2015, the Company and Bluestem executed an amendment that, among other provisions, increases the profit-sharing percentage retained by the Company, gives Bluestem the right to repurchase up to 9.99% of the existing portfolio at any time during the term of the agreement, and, provided that repurchase right is exercised, gives Bluestem the right to retain up to 20% of new accounts subsequently originated.

Under terms of an application transfer agreement with Nissan, the Company has the first opportunity to review for its own portfolio any credit applications turned down by the Nissan's captive finance company. The agreement does not require the Company to originate any loans, but for each loan originated the Company will pay Nissan a referral fee.

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. There were zero adjustments for the three months ended March 31, 2018 and March 31, 2017.

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 March 31, 2018, there were no loans that were the subject of a demand to repurchase or replace for breach of representations and warranties for the Company's asset-backed securities or other sales. In the opinion of management, the potential exposure of other recourse obligations related to the Company's retail installment contract sales agreements is not expected to have a material adverse effect on the Company's business, financial position, results of operations, or cash flows.

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

The Company provided SBNA with the first right to review and approve consumer vehicle lease applications, subject to volume constraints, under terms of a flow agreement that was terminated on May 9, 2015. 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 consolidated balance sheets. As of March 31, 2018, the balance in the collateral account is $18. In January 2015, the Company additionally agreed to indemnify SBNA for residual losses, up to a cap, on certain leases originated under the flow agreement between September 24, 2014 and May 9, 2015 for which SBNA and the Company had differing residual value

expectations at lease inception. As of March 31, 2018 and December 31, 2017, the Company had a recorded liability of $1,481 and $2,206, respectively, related to the residual losses covered under the agreement.
In November 2015, the Company executed a forward flow asset sale agreement with a third party under terms of which the Company committed to sell $350,000 in charged off loan receivables in bankruptcy status on a quarterly basis . However, any sale more than $275,000 is subject to a market price check. As of March 31, 2018 and December 31, 2017, the remaining aggregate commitment was $87,998 and $98,858, respectively.

Leases

The Company has entered into various operating leases, primarily for office space and computer equipment. Lease expense incurred totaled $2,559 and $2,739 for the three months ended March 31, 2018 and 2017, respectively. The remaining obligations under lease commitments at March 31, 2018 are as follows:

Years ended December 31,	
2018	$9,462
2019	12,771
2020	13,032
2021	12,907
2022	12,282
Thereafter	44,663
Total	$105,117

11. Related-Party Transactions
Related-party transactions not otherwise disclosed in these footnotes to the condensed consolidated financial statements include the following:
Credit Facilities
Interest expense, including unused fees, for affiliate lines/letters of credit for the three months ended March 31, 2018 and 2017, was as follows:

	Three Months Ended	
	March 31, 2018	March 31, 2017
Line of credit agreement with Santander - New York Branch (Note 5)	$4,367	$ 22,976
Debt facilities with SHUSA (Note 5)	35,846	12,634

Accrued interest for affiliate lines/letters of credit at March 31, 2018 and December 31, 2017, was as follows:

	March 31, 2018	December 31, 2017
Line of credit agreement with Santander - New York Branch (Note 5)	$ 563	$ 1,435
Debt facilities with SHUSA (Note 5)	18,073	18,670

In August 2015, under an agreement with Santander, the Company agreed to begin incurring a fee of 12.5 basis points (per annum) on certain warehouse lines, as they renew, for which Santander provides a guarantee of the Company's servicing obligations. The Company recognized guarantee fee expense of $2,048 and $1,465 for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, the Company had $9,647 and $7,598 of related fees payable to Santander, respectively.
Derivatives
The Company has derivative financial instruments with Santander and affiliates with outstanding notional amounts of $2,532,000 and $3,734,400 at March 31, 2018 and December 31, 2017, respectively (Note 7). The Company had a collateral overage on derivative liabilities with Santander and affiliates of $11,898 and $1,622 at March 31, 2018 and

December 31, 2017, respectively. Interest and mark-to-market adjustments on these agreements totaled $229 and $29 for the three months ended March 31, 2018 and 2017, respectively.

Originations

The Company is required to permit SBNA a first right to review and assess Chrysler Capital dealer lending opportunities, and SBNA is required to pay the Company a relationship management fee based upon the performance and yields of Chrysler Capital dealer loans held by SBNA. On April 15, 2016, the relationship management fee was replaced with an origination fee and annual renewal fee for each loan. The Company did not recognize any relationship management fee income the three months period ended March 31, 2018 and 2017. The Company recognized $456 and $600 of origination fee income for the three months ended March 31, 2018 and 2017, respectively. Additionally, the Company recognized $384 and $306 of renewal fee income for the three months ended March 31, 2018 and 2017, respectively. As of March 31, 2018 and December 31, 2017, the Company had origination and renewal fees receivable from SBNA of $268 and $369. The agreement also transferred the servicing of all Chrysler Capital receivables from dealers, including receivables held by SBNA and by the Company, from the Company to SBNA. Servicing fee expense under this agreement totaled $20 for the three months ended March 31, 2018. As of March 31, 2018 and December 31, 2017, the Company had $9 and $9, respectively, of servicing fees payable to SBNA. The Company may provide advance funding for dealer loans originated by SBNA, which is reimbursed to the Company by SBNA. The Company had no outstanding receivable from SBNA as of March 31, 2018 and December 31, 2017 for such advances.

Under the agreement with SBNA, the Company may originate retail consumer loans in connection with sales of vehicles that are collaterally held against floorplan loans by SBNA. Upon origination, the Company remits payment to SBNA, who settles the transaction with the dealer. The Company owed SBNA $6,708 and $4,481 related to such originations as of March 31, 2018 and December 31, 2017, respectively.

The Company received a $9,000 referral fee in connection with the original arrangement and was amortizing the fee into income over the ten-year term of the agreement. The remaining balance of the referral fee SBNA paid to the Company in connection with the original sourcing and servicing agreement is considered a referral fee in connection with the new agreements and will continue to be amortized into income through the July 1, 2022 termination date of the new agreements. As of March 31, 2018 and December 31, 2017, the unamortized fee balance was $4,725 and $4,950, respectively. The Company recognized $225 and $225 of income related to the referral fee for the three months ended March 31, 2018 and 2017, respectively.

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 $742 and $925 for the three months ended March 31, 2018 and 2017, respectively. Other information on the serviced auto loan and retail installment contract portfolios for SBNA as of March 31, 2018 and December 31, 2017 is as follows:

	March 31, 2018	December 31, 2017
Total serviced portfolio	$ 371,622	$ 400,788
Cash collections due to owner	12,917	11,870
Servicing fees receivable	819	839

During the year ended December 31, 2017, the Company sold certain receivables previously acquired with deteriorated credit quality to SBNA. These loans were sold with a gain of $35,927 recognized in investment losses, net in the accompanying condensed consolidated financial statements. The Company will continue to perform the servicing of these assets and has recorded $297 of servicing fee income from SBNA for the three months ended March 31, 2018. There were no such sales of receivables previously acquired with deteriorated credit quality to SBNA for the three months ended March 31, 2017.

Other information on the serviced receivables for SBNA as of March 31, 2018 is as follows:

	March 31, 2018

Total serviced portfolio	$ 112,900
Cash collections due to owner	291
Servicing fees receivable	96

Beginning in 2016, the Company agreed to pay SBNA a market rate-based fee expense for payments made at SBNA retail branch locations for accounts originated/serviced by the Company and the costs associated with modifying the Advanced Teller platform to the payments. The Company incurred $187 and $197 for these services during the three ended March 31, 2018 and 2017.

Beginning in 2018, the Company agreed to provide SBNA with origination support services in connection with the processing, underwriting and purchase of retail loans, primarily from Chrysler dealers. In addition, the Company agreed to perform the servicing for any loans originated on SBNA's behalf. The Company facilitated the purchase of $24 million of retail installment contacts. The Company recognized referral fee and servicing fee income of $146 and $26, respectively, for the three months ended March 31, 2018 of which $155 is receivable as of March 31, 2018.

Flow Agreements

Until May 9, 2015, the Company was party to a flow agreement with SBNA whereby SBNA had the first right to review and approve Chrysler Capital consumer vehicle lease applications. The Company could review any applications declined by SBNA for the Company's own portfolio. The Company received an origination fee on all leases originated under this agreement and continues to service these vehicles leases. Pursuant to the Chrysler Agreement, the Company pays FCA on behalf of SBNA for residual gains and losses on the flowed leases. Servicing fee income recognized on leases serviced for SBNA totaled $781 and $1,393 for the three months ended March 31, 2018 and 2017, respectively.

Other information on the consumer vehicle lease portfolio serviced for SBNA as of March 31, 2018 and December 31, 2017 is as follows:

	March 31, 2018	December 31, 2017
Total serviced portfolio	$ 97,274	$ 321,629
Cash collections due to owner	—	—
Origination and servicing fees receivable	238	2,067
Revenue share reimbursement receivable	3,793	1,548

On June 30, 2014, the Company entered into an indemnification agreement with SBNA whereby the Company 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. At the time of the agreement, the Company established a $48,226 collateral account with SBNA in restricted cash that will be released over time to SBNA, in the case of losses, and the Company, in the case of payments and sale proceeds. As of March 31, 2018 and December 31, 2017, the balance in the collateral account is $18 and $18, respectively. The Company recognized $722 and zero indemnification expense for the three months ended March 31, 2018 and 2017.

Also, in January 2015, the Company agreed to indemnify SBNA for residual losses, up to a cap, on certain leases originated under the flow agreement between September 24, 2014 and May 9, 2015 for which SBNA and the Company had differing residual value expectations at lease inception. At the time of the agreement, the Company established a collateral account held by SBNA to cover the expected losses, as of March 31, 2018 and December 31, 2017, the balance in the collateral account was $1,483 and $2,210, respectively. As of March 31, 2018 and December 31, 2017, the Company had a recorded liability of $1,481 and $2,206 respectively, related to the residual losses covered under the agreement.

Securitizations

On March 29, 2017, the Company entered into a Master Securities Purchase Agreement (MSPA) with Santander, whereby the Company has the option to sell a contractually determined amount of eligible prime loans to Santander, through the SPAIN securitization platform, for a term ending in December 2018. The Company will provide servicing on all loans originated under this arrangement. For the three months ended March 31, 2017, the Company sold $700,000 of loans at fair value under this MSPA arrangement. The MSPA was amended in March 2018 and under this amended agreement, the Company sold $1,475,253 of prime loans at fair value to Santander for the three months ended March 31, 2018. A total loss of $16,903 and $2,700 was recognized for the three months ended March 31, 2018 and March 31, 2017 respectively, which is included in investment losses, net in the accompanying condensed consolidated financial statements. Servicing fee income recognized totaled $4,792 and zero for the three months ended

March 31, 2018 and March 31, 2017 respectively of which $2,755 and $1,848 was receivable as of March 31, 2018 and December 31, 2017 respectively. The Company had $15,408 and $12,961 of collections due to Santander as of March 31, 2018 and December 31, 2017 respectively.

CEO compensation

On August 28, 2017, the Board of the Company announced that Scott Powell would succeed Jason Kulas as President and CEO, effective immediately. During the first quarter of year 2018, the Company paid $250 as its share of compensation expense based on time allocation between his services to the Company and SHUSA.

Other related-party transactions

As of March 31, 2018, Jason Kulas and Mr. Thomas G. Dundon, both being former members of the Board and CEO of the Company, along with a Santander employee who was a member of the Board until the second quarter of 2015, each had a minority equity investment in a property in which the Company leases 373,000 square feet as its corporate headquarters. For the three months ended March 31, 2018 and 2017, the Company recorded $1,194 and $1,275, respectively, in lease expenses on this property. The Company subleases approximately 13,000 square feet of its corporate office space to SBNA. For the three months ended March 31, 2018 and 2017, the Company recorded $41 and $41 respectively, in sublease revenue on this property. Future minimum lease payments over the remainder of the 9-year term of the lease, which extends through 2026, total $60,697.

The Company's wholly-owned subsidiary, Santander Consumer International Puerto Rico, LLC (SCI), opened deposit accounts with Banco Santander Puerto Rico, an affiliated entity. As of March 31, 2018 and December 31, 2017, SCI had cash of $189,049 and $106,596, respectively, on deposit with Banco Santander Puerto Rico.

Santander Investment Securities Inc. (SIS), an affiliated entity, serves as co-manager on certain of the Company's securitizations. Amounts paid to SIS as co-manager for the three months ended March 31, 2018 and 2017, totaled $710 and $150, respectively, and are included in debt issuance costs in the accompanying condensed consolidated financial statements.

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 other operating costs in the accompanying consolidated statements of income, totaled zero and $21 for the three months ended March 31, 2018 and 2017.

Beginning in 2017, the Company and SBNA entered into a Credit Card Agreement (Card Agreement) whereby SBNA will provide credit card services for travel and related business expenses and for vendor payments. This service is at zero cost but generate rebates based on purchases made. As of March 31, 2018, the activities associated with the program were insignificant.

Effective April 1, 2017, the Company contracted Aquanima, a Santander affiliate, to provide procurement services. Expenses incurred and paid for totaled $379 for the three months ended March 31, 2018.

The Company partners with SHUSA to place Cyber Liability Insurance in which participating national entities share $150 million aggregate limits. The Company repays SHUSA for the Company's equitably allocated portion of insurance premiums and fees. Expenses incurred totaled $92 and $78 for the three months ended March 31, 2018 and 2017, respectively.

12. Computation of Basic and Diluted Earnings per Common Share

Earnings per common share (EPS) 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.

The calculation of diluted EPS excludes 284,951 and 973,230 employee stock options and zero RSUs for the three months ended March 31, 2018 and 2017, respectively, as the effect of exercise or settlement of those securities would be anti-dilutive.

The following table represents EPS numbers for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Earnings per common share		
Net income	$242,299	$143,427