

Ally Financial Inc.  
Form S-1/A  
July 09, 2013  
Table of Contents

As filed with the Securities and Exchange Commission on July 9, 2013

Registration No. 333-173198

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 8**

**TO**

**FORM S-1**

**REGISTRATION STATEMENT**

**UNDER**

**THE SECURITIES ACT OF 1933**

**ALLY FINANCIAL INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

**6172**

**38-0572512**  
(I.R.S. Employer Identification Number)

Edgar Filing: Ally Financial Inc. - Form S-1/A

(State or Other Jurisdiction of  
Incorporation or Organization)

(Primary Standard Industrial  
Classification Code Number)  
**200 Renaissance Center**

**P.O. Box 200**

**Detroit, MI 48265-2000**

**(866) 710-4623**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**David J. DeBrunner**

**Vice President, Chief Accounting Officer, and Corporate Controller**

**Ally Financial Inc.**

**200 Renaissance Center**

**P.O. Box 200**

**Detroit, MI 48265-2000**

**(866) 710-4623**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

*Copies to:*

**Richard J. Sandler, Esq.  
Richard A. Drucker, Esq.  
Davis Polk & Wardwell LLP  
450 Lexington Avenue  
New York, NY 10017  
(212) 450-4000**

**James J. Clark, Esq.  
  
Noah B. Newitz, Esq.  
Brian Kelleher, Esq.  
Cahill Gordon & Reindel LLP  
80 Pine Street  
New York, NY 10005-1702  
(212) 701-3000**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

## Edgar Filing: Ally Financial Inc. - Form S-1/A

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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

Large accelerated filer "   
 Accelerated filer "   
 Non-accelerated filer  (Do not check if a smaller reporting company)  
 Smaller reporting company "

### CALCULATION OF REGISTRATION FEE

Title Of Each Class Of Securities To Be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount Of Registration Fee
Common Stock, par value \$0.01 per share	\$100,000,000	\$11,610(3)
Tangible Equity Units	\$100,000,000	\$11,610(3)
Stock Purchase Contracts(4)		
Junior Subordinated Amortizing Notes		

- (1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act.
- (2) Includes offering price of shares and units that the underwriters have the option to purchase pursuant to their over-allotment option.
- (3) Previously paid.
- (4) In accordance with Rule 457(i) under the Securities Act, this registration statement also registers \_\_\_\_\_ shares of our common stock, which is our reasonable good-faith estimate of the maximum number of shares of our common stock that are initially issuable upon settlement of the stock purchase contracts registered hereby. The number of shares of our common stock issuable upon such settlement may vary based on the market price of the common stock registered hereby. If the number of shares of our common stock needed to settle such purchase contracts is greater than such estimate due to the operation of the formula described herein that links the number of shares to the market price of our common stock at the time of such settlement, the Registrant will either file an additional registration statement or rely on an available exemption from registration, such as Section 3(a)(9) of the Securities Act. In addition, the number of shares of our common stock initially issuable upon such settlement is subject to adjustment pursuant to the anti-dilution provisions of the stock purchase contracts, as described herein. Pursuant to Rule 416 under the Securities Act, this registration statement is deemed to have registered the shares of our common stock offered or issued as a result of such anti-dilution adjustments.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**Table of Contents**

**EXPLANATORY NOTE**

This Registration Statement contains a prospectus relating to an offering of shares of our common stock (for purposes of this Explanatory Note, the Common Stock Prospectus), together with separate prospectus pages relating to an offering of our tangible equity units (for purposes of this Explanatory Note, the Units Prospectus). The complete Common Stock Prospectus follows immediately. Following the Common Stock Prospectus are the following alternative and additional pages for the Units Prospectus:

front and back cover pages, which will replace the front and back cover pages of the Common Stock Prospectus;

pages for the Prospectus Summary The Offering section, which will replace the Prospectus Summary The Offering section of the Common Stock Prospectus;

pages for the Risk Factors Risks Related to Ownership of the Units, Separate Purchase Contracts, Separate Amortizing Notes and Common Stock section, which will replace the Risk Factors Risks Related to this Offering and Ownership of Our Common Stock section of the Common Stock Prospectus;

pages for Ratio of Earnings to Fixed Charges and Preferred Stock Dividends section, which will be added to the Units Prospectus;

pages for the Description of the Units , Description of the Purchase Contracts and Description of the Amortizing Notes sections, which will replace the Concurrent Transactions section of the Common Stock Prospectus;

pages for the Book-Entry Procedures and Settlement section, which will be added to the Units Prospectus;

pages for the Concurrent Transactions section, which will replace the Concurrent Transactions section of the Common Stock Prospectus;

pages for the Certain U.S. Federal Income Tax Considerations section, which will replace the U.S. Federal Tax Considerations for Non-U.S. Holders section of the Common Stock Prospectus; and

pages for the Underwriting section, which will replace the Underwriting section of the Common Stock Prospectus.

In addition, the references to common stock in Validity of Common Stock in the Common Stock Prospectus will be replaced with references to tangible equity units in the Units Prospectus.

Each of the complete Common Stock Prospectus and Units Prospectus will be filed with the Securities and Exchange Commission in accordance with Rule 424 under the Securities Act of 1933, as amended. The closing of the offering of common stock is conditioned upon the closing of the offering of Units, and the closing of the offering of Units is conditioned upon the closing of the offering of common stock.

**Table of Contents**

**The information in this preliminary prospectus is not complete and may be changed. The selling stockholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and the selling stockholder is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.**

**Subject to Completion, Dated July 9, 2013**

PRELIMINARY PROSPECTUS

**Shares**

**ALLY FINANCIAL INC.**

**COMMON STOCK**

The United States Department of the Treasury (the selling stockholder or Treasury ) is offering \_\_\_\_\_ shares of common stock of Ally Financial Inc. ( Ally ). See Principal and Selling Stockholders. Ally Financial Inc. will not receive any of the proceeds from the sale of shares of common stock by the selling stockholder.

This is our initial public offering and no public market exists for our shares. We anticipate that the initial public offering price will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share. We have applied to list the common stock on the New York Stock Exchange (the NYSE ) under the symbol ALLY .

The selling stockholder has granted the underwriters the right to purchase up to \_\_\_\_\_ additional shares of common stock to cover over-allotments, if any, at the public offering price, less the underwriters' discount, within 30 days from the date of this prospectus.

Concurrently with this offering, Treasury is also making a public offering of \_\_\_\_\_ tangible equity units issued by us (the Units ). Treasury has granted the underwriters of that offering the right to purchase up to \_\_\_\_\_ additional Units to cover over-allotments, if any, at the public offering price of the Units, less the underwriters' discount for the Units, within 30 days from the date of the prospectus for the concurrent Units offering. The closing of the offering of Units is conditioned upon the closing of the offering of our common stock, and the closing of the offering of our common stock is conditioned upon the closing of the offering of Units.

**Investing in our common stock involves risks. See Risk Factors beginning on page 22 of this prospectus.**

Edgar Filing: Ally Financial Inc. - Form S-1/A

	<b>Per Share</b>	<b>Total</b>
Public offering price and proceeds to the selling stockholder	\$	\$
Underwriting discounts and commissions(1)	\$	\$

(1) Ally has agreed to pay all underwriting discounts and commissions, transfer taxes and transaction fees, if any, applicable to the sale of the common stock and the fees and disbursement of counsel for the selling stockholder incurred in connection with the sale.

**Neither the Securities and Exchange Commission nor any state securities regulators has approved or disapproved these securities, or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the shares of common stock to investors on or about \_\_\_\_\_, 2013.

**Citigroup**

**Goldman, Sachs & Co.**

**Morgan Stanley**

**Barclays**

**Deutsche Bank Securities**

The date of this prospectus is \_\_\_\_\_, 2013

**Table of Contents**

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	22
<u>Special Note Regarding Forward-Looking Statements</u>	42
<u>Use of Proceeds</u>	43
<u>Dividend Policy</u>	44
<u>Capitalization</u>	45
<u>Selected Consolidated Financial Data</u>	47
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	51
<u>Business</u>	163
<u>Management</u>	183
<u>Executive Compensation</u>	189
<u>Certain Stockholder Agreements</u>	211
<u>Certain Relationships and Related Party Transactions</u>	215
<u>Principal and Selling Stockholders</u>	218
<u>Concurrent Transactions</u>	220
<u>Description of Capital Stock</u>	222
<u>U.S. Federal Tax Considerations For Non-U.S. Holders</u>	231
<u>Shares Eligible for Future Sale</u>	234
<u>Underwriting</u>	236
<u>Validity of Common Stock</u>	242
<u>Experts</u>	242
<u>Where You Can Find More Information</u>	242
<u>Index to Consolidated Financial Statements</u>	F-1

In this prospectus, unless the context indicates otherwise, Ally, the company, we, us and our refer to Ally Financial Inc. and its direct and indirect subsidiaries on a consolidated basis. None of us, the underwriters, or the selling stockholder have authorized anyone to provide any information other than that contained in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. Neither we nor the underwriters nor the selling stockholder take responsibility for, and can provide any assurance as to the reliability of, any other information that others may give you. The selling stockholder is offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock.

**INDUSTRY AND MARKET DATA**

We obtained the industry, market and competitive position data throughout this prospectus from our own internal estimates and research as well as from industry and general publications and research, surveys, and studies conducted by third parties. Industry publications, studies, and surveys generally state that they have been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information.



**Table of Contents**

**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus. This summary may not contain all of the information that you should consider before deciding to invest in our common stock. You should read this entire prospectus carefully, including the Risk Factors section and the consolidated financial statements and the notes to those statements, before making an investment decision.*

**Overview**

Ally is one of the largest providers of automotive financing products, including wholesale loans and retail loans and leases, a leader in direct banking, and the 16th largest bank holding company in the United States based on total assets. We have over 90 years of experience supporting automotive dealers and their retail customers with a premium service model offering a broad array of financial products and services. Our bank subsidiary, Ally Bank, is a leading competitor with a comprehensive consumer value proposition and well-regarded brand in the rapidly growing direct banking market. We had \$166.2 billion of total assets and \$49.5 billion of bank deposits at March 31, 2013.

Our primary operations are conducted within Dealer Financial Services, which consist of our Automotive Finance operations and Insurance operations. In addition, Ally Bank has successfully built a leading brand offering its customers a full spectrum of innovative savings, checking, and other deposit products and provides us with stable and diversified funding.

Our strategy is to extend our leading position in automotive finance in the United States by continuing to provide automotive dealers and their retail customers with premium service, a comprehensive product suite, consistent funding and competitive pricing, reflecting our commitment to the automotive industry. We will also seek to broaden and deepen the Ally Bank franchise, prudently growing stable, quality deposits while extending our foundation of innovative products and outstanding customer service.

**Dealer Financial Services**

Our Dealer Financial Services business is centered around our strong and longstanding relationships with automotive dealers and supports our original equipment manufacturer ( OEM ) partners and their marketing programs. We serve the financial needs of almost 16,000 dealers in the United States and approximately 4 million of their retail customers as of March 31, 2013. We have approximately 1,600 automotive finance and 600 insurance employees across the United States focused on serving the needs of our dealer customers with finance and insurance products, expanding the number of overall dealer and automotive manufacturer relationships, and supporting our dealer lending and underwriting functions. In addition, we have over 1,700 employees focused on supporting our automotive loan and servicing operations.

***Our Dealer-Centric Business Model***

Ally's primary customers are automotive dealers, which are independently owned businesses. As part of the process of selling a vehicle, automotive dealers typically originate loans and leases for their retail customers. Dealers then sell these loans and leases to Ally or another automotive finance provider.

Over our 90 year history, we have successfully differentiated ourselves from our competition by providing premium services for automotive dealers with comprehensive product offerings, and through our nationwide dealer support and sales forces and our unrelenting industry focus. We have multi-generational relationships with many of our dealers and have been a trusted partner through various economic cycles.

## **Table of Contents**

Our comprehensive suite of financial products includes new vehicle retail loans and leases, used vehicle loans, floorplan loans, dealer working capital and real estate loans, vehicle service contracts, gap insurance, floorplan insurance, and our SmartAuction service for remarketing vehicles. Through this suite of products, we have financing capabilities that follow vehicles from the manufacturer, to the dealer's showroom floor, to the individual retail customer.

We are fully committed to broadly serving the needs of our dealer customers. Our 2,200 dealer-facing employees provide a consistent high level of service at the dealership level. The field service team provides training to the dealers' employees related to our financing products and helps the rollout of specialized financing programs to support automobile manufacturer marketing initiatives. In addition, our continued investment in our retail loan application infrastructure has allowed us to access almost 7 million applications in 2012, up from 2 million in 2009.

As part of our premium services to our dealer customers, and to strengthen our relationship with them, we offer market driven programs, such as Ally Dealer Rewards. These programs support increasing business volumes as well as the number of products used by each dealer. During the first quarter of 2013, 57% of our U.S. dealer customers received benefits under the Ally Dealer Rewards program, which was initiated in 2009. As of March 31, 2013, over 5,700 of our automotive dealer customers utilized four or more of our products.

Our dealer-centric business model has led to the development of products and services that profitably support our dealer customers. For example, our proprietary internet-based SmartAuction system supports the remarketing of off-lease and other used vehicles among the nearly 9,000 dealers that are on our system. SmartAuction enabled us to maximize proceeds on the 67,000 vehicles sold through the system during the first quarter of 2013. In addition, our SmartAuction remarketing capabilities provide dealers with additional retail sale opportunities when existing customers decide to replace a vehicle. These retail sale opportunities include the sale of the used vehicle being replaced as well as a new vehicle being obtained, with a potential opportunity for Ally to finance each of these transactions.

### ***Automotive Finance Operations***

We have extensive experience providing and servicing automotive loan and lease products to consumers who purchase vehicles from our dealer customer network. According to Experian Automotive, we were the largest provider of automotive financing in the United States during the first quarter of 2013, funding one out of every fifteen new vehicles that were financed or leased through franchised dealers in the United States. We were also the third largest provider of used vehicle financing for retail customers of franchised dealers during the first quarter of 2013. We are focused on expanding profitable dealer relationships, prudently increasing earning asset growth, and delivering higher risk-adjusted returns. As a result of this strategic focus, we funded total retail loan and lease originations in the United States of \$38.7 billion in 2012 as well as \$9.7 billion during the first quarter of 2013. The bulk of our consumer financing is in the form of fully amortizing, intermediate term installment loans to fund the purchase of new and used vehicles.

According to Experian Automotive, Ally was the fourth largest vehicle lessor in the United States during the first quarter of 2013. Leasing is an important and growing part of our business. It is integral to the business of our automotive dealer customers, and facilitates dealer automotive sales to consumers who prefer recent vintage vehicles and are attracted to the lower monthly payments associated with a lease. Our lease programs are designed to support the return of the vehicle to the dealer at the end of the lease term in order to facilitate the sale or lease of a new vehicle by the dealer. We believe dealers and OEMs value our unique infrastructure and ability to structure innovative lease programs designed to provide a second transaction for the dealer from the sale or lease of the returned off-lease vehicle.

**Table of Contents**

The following table sets forth our volume of new and used retail automotive loans and leases in the United States:

(\$ in billions)	Three months ended March 31,		Year ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
New GM/Chrysler Standard	2.5	2.7	10.7	13.1	11.8	5.0	3.8
Other New Retail	0.5	0.5	2.2	1.7	0.7	0.2	0.9
Lease	2.7	1.6	8.4	7.3	3.9	0.3	7.6
Used	2.5	2.6	9.6	9.0	4.7	2.3	5.6
New GM/Chrysler Subvented	1.5	2.3	7.8	9.1	10.5	10.6	10.9
Total	9.7	9.7	38.7	40.2	31.6	18.4	28.8

We provide floorplan inventory lending and other commercial loans to approximately 5,000 dealers in the United States. We were one of the largest providers of floorplan inventory lending in the United States during 2012. As of March 31, 2013, we had \$31.9 billion of outstanding commercial loans to our dealer customers consisting primarily of floorplan inventory loans.

Ally is also one of the largest automotive loan servicers in the United States. We provide consumer asset servicing for our \$76.5 billion portfolio of retail automotive loans and leases as of March 31, 2013. The extensive infrastructure and experience of our servicing operation are important to our ability to minimize our loan losses and enable us to deliver a favorable customer experience to both our dealers and their retail customers. Our remarketing services, including SmartAuction, efficiently support dealer-to-dealer and other vehicle sale transactions.

In addition, we believe our longstanding relationship with General Motors ( GM ) and more recent relationship with Chrysler Group LLC ( Chrysler ) and other OEMs have resulted in particularly strong relationships between us and thousands of dealers, providing us with extensive operating experience relative to other automotive finance providers. We offer primarily standard rate retail loans and leases through our dealers, and we also work with manufacturers to offer new vehicle retail loans and leases at manufacturer-subvented rates. Our strong dealer relationships have allowed us to increase our standard rate retail loan and lease origination volumes. Subvented retail loan origination volumes have decreased to 15.7% of our U.S. originations during the first quarter of 2013, compared to 58.0% in 2009.

**Insurance Operations**

Our Insurance operations offer both consumer insurance products sold primarily through dealers and commercial insurance products sold to dealers. As part of our focus on offering dealers a broad range of products, we provide vehicle service contracts and maintenance coverages. We also underwrite selected commercial insurance coverages which primarily insure dealers' wholesale vehicle inventory.

Our national insurance platform provides us with a competitive advantage relative to other automotive financing providers, allowing us to design products tailored to our dealer customers, control underwriting, and retain the profits generated by this business. For the year ended December 31, 2012, we had over \$1.0 billion in total insurance premiums written. We sell insurance products to approximately 4,000 dealers in the United States. Moreover, our Insurance operations maintain high wholesale insurance penetration levels, with approximately 80 percent of U.S. dealers with Ally floorplan financing also carrying our floorplan insurance. Dealers who receive wholesale financing from Ally are eligible for wholesale insurance incentives, such as automatic eligibility in our preferred insurance programs and increased financial benefits.

## **Table of Contents**

### **Ally Bank**

Ally Bank has achieved sustained franchise momentum in the retail deposits business based upon a highly regarded brand, customer-centric approach, innovative products, competitive pricing, and consumer friendly fee structure. Ally Bank has become a leader in the direct banking market, with consistent and steady expansion of customer relationships. Our direct bank business model caters to the expanding population of technologically comfortable consumers who are increasingly adopting digital technologies to meet their banking preferences. We have distinguished ourselves with consumers with our philosophy of Talk Straight, Do Right, Be Obviously Better, with approximately 691,000 customers and over 1.3 million accounts at March 31, 2013. Ally Bank has received numerous accolades, including being recognized as Best Online Bank, Best One-Year CD and One of the Best Savings Accounts by MONEY Magazine, and Best Deals in Online Banking by Kiplinger.com. Ally Bank is also consistently recognized for the customer-friendly design and execution of our products, features, delivery channels and service, including Outstanding Website by Web Marketing Association, Innovation in Customer Service Award by The Stevie Awards, Fewest Complaints / Highest Satisfaction by Bank Innovation, and Checking Account Safety & Transparency by The Pew Charitable Trusts. Our retail banking products include savings and money market accounts, certificates of deposit (CD), interest-bearing checking accounts, trust accounts and individual retirement accounts. Ally Bank's competitive direct banking features include online and mobile banking, electronic bill pay, remote deposit, electronic funds transfer nationwide, ATM fee reimbursements and no minimum balance requirements.

We believe Ally Bank is well-positioned to continue to benefit from the consumer-driven shift from branch banking to direct banking. According to a 2012 American Bankers Association survey, the percentage of customers who prefer to do their banking via direct channels (internet, mail, phone, and mobile) increased from 34% to 62% between 2007 and 2012, while those who prefer branch banking declined from 39% to 18% over the same period.

At March 31, 2013, Ally Bank had \$49.5 billion of deposits, including \$38.8 billion of retail deposits, making Ally Bank the 28th largest FDIC-insured depository institution in the United States by total bank deposits. The growth of our retail deposit base from \$7.2 billion at the end of 2008, to \$38.8 billion at March 31, 2013, as well as a reduction in the average cost of deposits, has enabled us to reduce our cost of funds. Ally Bank has steadily expanded its loyal customer base through best-in-class customer service, innovative and competitive products, and growing brand awareness, and as of March 31, 2013, Ally Bank had approximately 691,000 customers. Ally Bank had an over 90% CD retention rate for fiscal year-end 2012 and in first quarter 2013. We expect to continue to lower our cost of funds and diversify our overall funding as the deposit base grows.

## **Table of Contents**

The following chart shows the amount and type of Ally Bank's customer deposits and the average retail deposit rate as of the dates indicated:

### **Our Strengths**

#### ***Automotive financial services category leader with full product suite.***

We are one of the largest providers of automotive financing products, including wholesale loans and retail loans and leases, in the United States and are an integral part of the automotive industry. We believe that our over 90-year history has provided us extensive knowledge of the automotive industry and the financial services needs of its dealers, automotive manufacturers, and retail consumers.

The combination of our full suite of finance and insurance products, premium service standards, market driven programs, and infrastructure and scale, distinguish us as a preferred and trusted business partner to our dealer customers and puts us in a position to compete effectively with other financial institutions and new entrants to the market.

#### ***Market-driven and dealer-centric business model.***

Implementation of our market-driven programs, such as Ally Dealer Rewards and SmartAuction, since 2008 have enabled us to grow our Dealer Financial Services business within our existing dealer relationships and expand into new relationships with dealers of various manufacturers. This business model has allowed us to offer more products, expand our dealer base, and strengthen our existing network of dealer relationships. These strong relationships have allowed us to diversify our asset base and decrease our subvented retail loan origination volumes to 15.7% of our U.S. originations during the first quarter of 2013, compared to 58.0% in 2009. In addition, as of March 31, 2013, over 5,700 of our automotive dealer customers utilized four or more of our products and 57% of our U.S. dealer customers received benefits under the Ally Dealer Rewards program.

Our 2,200 automotive finance and insurance employees are dedicated to directly supporting the needs of our dealer customers in the United States. This infrastructure allows us to accommodate our growing volume of business and support our existing customers. Our national sales force meets the needs of our dealer customers,

**Table of Contents**

expands our market penetration in the dealer network, and supports our existing and new OEM partners. Our sales force consists of direct dealer account relationship professionals, supplemental product support coverage professionals, and primary manufacturer relationship account professionals.

***Infrastructure scale and breadth.***

We believe the scale and breadth of our platform provide us with a significant competitive advantage. We have invested significantly in our technology infrastructure and other initiatives to support our automotive platform to further enhance our dealer and retail customer relationships and increase business volumes. This focus has resulted in increased credit application flow and originations from dealers representing various manufacturers. We are able to access applications with respect to almost all brands sold by U.S. automotive dealerships. In 2012, we had access to almost 7 million applications compared to 2 million applications in 2009. We believe that our scale, breadth of platform and strong market presence across all 50 states differentiate us from others in the auto finance industry. The combination of our extensive infrastructure, our relationships with finance and insurance departments of dealers, and our participation in the major credit application on-line networks, provides us with a strong platform to efficiently grow our consumer business volumes across a broad mix of automotive dealers.

***Attractive market opportunities.***

We are well-positioned to benefit from continued growth in the automotive finance market as both the U.S. economy and the U.S. Seasonally Adjusted Annualized Rate (SAAR) of vehicle sales continue to rebound from their 2008-2009 recessionary levels. While consumer and business automotive spending has recovered from recent lows, it still remains well below historical average levels. According to U.S. Department of Transportation, the average age of vehicles in the United States has continued to rise and was at an all-time high of 10.8 years in 2011. The chart below shows historical consumer, business and government spending on automobiles as a percentage of U.S. GDP.

Source: Bureau of Economic Analysis, U.S. Department of Commerce

**Table of Contents**

The chart below shows historical and projected U.S. SAAR (in millions):

Source: Bureau of Economic Analysis as to 2006-2012 data and Blue Chip Economic Indicators, Vol. 38, No. 4, as to projected 2013-2014 data.

The used vehicle financing market is significant and highly fragmented. We continue to increase our focus on used vehicle financing, primarily through franchised dealers. According to Experian Automotive, over 11.1 million used vehicles were sold by franchised dealers in 2012. The fragmented used vehicle financing segment provides an attractive opportunity that we believe will further expand and support our dealer relationships and increase our volume of retail loan originations.

***Leading scalable consumer-focused direct banking franchise.***

Our consumer-focused strategy and scalable bank platform position Ally Bank well in the growing direct banking market. We provide a full array of retail banking products to the growing number of customers who choose Ally Bank. Ally Bank provides much of the same functionality as a traditional bank, while seeking to provide superior accessibility, lower fees and better customer service. We also benefit from avoiding the overhead expense of a traditional brick and mortar branch network. We continue to focus on Ally Bank's foundation of innovative, competitive products, and best-in-class service. Our platform is highly scalable. We have consistently benefited from increased operating efficiencies, which have more than supported our continued investment in technology and other competitive differentiators. The Ally Bank brand has attained strong recognition and positions us for further growth. In addition, Ally Bank provides us with a diversified source of stable, low-cost funding.

***Strong and streamlined balance sheet and sophisticated risk management.***

We believe one of our core strengths is the high quality, short duration, and streamlined nature of our asset base. Our assets are predominately consumer automotive loans and leases and commercial loans to automotive dealers. We have a long history of originating these assets and they have typically performed predictably based on the credit attributes of the loans and leases. These attributes include FICO scores, loan-to-value ratios, and payment-to-income ratios. Since 2008, we have made efforts to significantly streamline our balance sheet to focus on U.S. automotive related assets in order to provide a more predictable earnings stream. These streamlining efforts include selling our automotive finance businesses in Europe, Canada and Latin America and several international insurance businesses, as well as exiting the mortgage origination and servicing business.

## **Table of Contents**

We are prudently expanding automotive originations across the credit spectrum in accordance with our underwriting standards. During the first quarter of 2013 and fiscal year 2012, we originated \$7.0 and \$30.4 billion of retail automotive loans, respectively. During the first quarter of 2013 and fiscal year 2012, the loss rate on our U.S. consumer automotive portfolio was 0.69% and 0.53%, respectively.

We believe our many years of experience in the automotive industry, and our rigorous underwriting standards result in the high quality of the leases on our balance sheet. We manage risk using our robust combination of credit metrics, including, among others, FICO scores and proprietary vehicle residual value models. Estimating future vehicle residual values is one of the most important steps of writing a new lease. We have extensive experience in underwriting new leases. This experience and the large volume of off-lease and other used vehicles sold through the SmartAuction system help us set appropriate residual value rates at the time a lease is written. During the first quarter of 2013 and fiscal year 2012, we originated a total of 87,100 and 273,200 U.S. automotive leases totaling approximately \$2.7 billion and \$8.4 billion, respectively.

Our commercial automotive financing business consists primarily of wholesale financing in which credit is extended to individual dealers and is secured by vehicles in inventory and, in some circumstances, other assets owned by the dealer or by a personal guarantee. We manage risk in our commercial automotive financing business through our rigorous credit underwriting process which utilizes our proprietary dealer credit evaluation system, our ongoing risk monitoring program, and vehicle inventory audits to verify collateral and dealer compliance with lending agreements. At March 31, 2013, we maintained a portfolio of \$31.9 billion of commercial automotive loans. During the first quarter of 2013 and fiscal year 2012, the loss rate on our U.S. commercial automotive loan portfolio was 0.007% and 0.003%, respectively.

Our balance sheet is well capitalized. At March 31, 2013, we had a Tier 1 capital ratio of 14.6%, and a Tier 1 common ratio of 7.9%. We currently estimate based on preliminary analysis of the Basel III guidelines published to date that such enhanced Basel III capital requirements would lower our Tier 1 capital ratio by approximately 30 to 50 basis points. We believe this capitalization compares favorably to our peers and positions us for future growth.

### ***Access to liquidity.***

We have demonstrated strong access to diversified funding and liquidity sources, which are critical to our business. As of March 31, 2013, we had \$29.9 billion of current liquidity in the form of cash, highly liquid unencumbered securities, and committed credit facilities.

Ally Bank provides us stable, low-cost deposit funding utilizing an efficient direct-to-consumer delivery model. Deposits accounted for approximately 40% of our funding at the end of the first three months of 2013, compared to 14% at the end of 2008. We expect the percentage of deposit funding to continue to grow, which will further reduce our cost of funds. We have a diversified source of funding, including unsecured debt markets, unsecured retail term notes, public and private securitizations, committed and uncommitted credit facilities, FHLB advances, CDs, and retail deposits.

### ***Experienced management team.***

Our senior management team is comprised of financial professionals with deep operating experience in automotive and consumer finance, and extensive experience managing some of the largest and most successful financial institutions in the world. Our senior management team has successfully led us to consistent profitability in our core Automotive Finance operations and the development of our strong liquidity and capital position following the financial crisis. Furthermore, our senior management team has led our strategic transformation into a U.S.-focused, market-driven and dealer-centric business model, divesting our International businesses and substantially exiting the mortgage origination and servicing business.



## **Table of Contents**

### **Our Business Strategy**

#### ***Improve our shareholder return profile and ROE.***

We expect to improve profitability through (a) reducing funding costs, (b) operating efficiencies and lower non-interest expense, and (c) longer term changes in the impact of our regulatory requirements that currently impact our returns to shareholders. We expect to continue to decrease our overall funding costs through proactive liability management, refinancing high coupon debt, growing our retail deposit base, increasing the number of loans and leases we originate at Ally Bank, improving our credit ratings, and efficiently accessing secured and unsecured wholesale markets as certain higher-cost legacy funding matures. We expect to lower our non-interest expense by rationalizing our operational footprint as the Company has been, and is being, streamlined significantly in 2012 and 2013. Our scalable business platform provides us with operating leverage which will also assist returns as we seek to expand our Automotive Finance operations. We seek to prudently grow our balance sheet by originating high quality automotive assets across a diversified business mix, which we believe will allow us to generate stable, attractive risk-adjusted returns in a variety of interest rate and credit environments.

#### ***Expand our dealer relationships through innovative products and premium services.***

We believe that our dealer-centric business model, full range of product offerings, and sales organization position us to further broaden our relationships with existing and new dealers, and to originate attractive retail automotive loans, leases, and other products. Our strategies, including market driven programs such as Ally Dealer Rewards and SmartAuction, have been designed and implemented to drive higher business volumes with our dealers. We are also leveraging our existing dealer relationships, product suite, and extensive operating experience to expand our diversified dealer network and prudently expand our automotive originations across the credit spectrum in accordance with our underwriting standards. Furthermore, we have dedicated resources to the underwriting and financing of used vehicle sales that allow us to expand loan origination volume with our existing dealer base.

#### ***Continue to grow our leading direct bank franchise.***

Ally Bank's strategy is to continue to invest in the development of our well regarded brand and strong consumer value proposition in order to expand the relationship with our growing deposit base. For the first quarter of 2013, most of our U.S. wholesale balances and approximately two-thirds of our U.S. consumer automotive originations were funded within the bank. We plan to continue to increase the amount of assets that are funded by the bank. This growth will allow us to more efficiently utilize the bank's capital and to take advantage of the lower cost and greater stability of Ally Bank's funding sources, including deposits. We expect to continue to prudently expand the products Ally Bank offers in order to improve our customers' banking experience, broaden our dealer relationships, and expand our funding alternatives.

#### ***Maintain a strong balance sheet through disciplined origination, servicing, and risk management.***

We will continue to focus primarily on commercial and consumer automotive loans, leases, and related products. These assets performed well through the credit cycle, including the recent financial crisis.

We believe that we maintain strong levels of capital and liquidity relative to our loan and lease portfolio as well as to other bank holding companies. Our strategy is to expand profitable dealer relationships and grow our earning assets, which we believe will allow us to efficiently utilize our capital and enhance our profitability.

## **Table of Contents**

### **Our History**

#### ***Our History and Strategic Transformation***

Ally was formed in 1919 as the captive finance subsidiary of GM. In 2006, a majority ownership interest in Ally was sold to third parties.

We became a bank holding company on December 24, 2008, under the Bank Holding Company Act and are subject to supervision and examination by the Board of Governors of the Federal Reserve System. Our bank subsidiary, Ally Bank, is supervised by the Federal Deposit Insurance Corporation and the Utah Department of Financial Institutions. In conjunction with our conversion to a bank holding company, Treasury made its initial investment in Ally as part of the Troubled Asset Relief Program.

Ally has undergone a strategic transformation from a captive finance subsidiary into a focused category leader in U.S. automotive finance. We have substantially streamlined our operations, de-risked our balance sheet, and enhanced our focus on increased risk adjusted returns. As part of that strategy, we have divested our International businesses and have substantially exited the mortgage origination and servicing business.

We have had a long and extensive historical relationship as a financing provider for GM and subsequently with Chrysler, including contractual relationships for manufacturer-subservent retail loan originations. Our over 90-year history has resulted in particularly strong relationships between us and thousands of dealers and provided us with extensive operating experience relative to other automotive finance companies. Our relationships with dealers and transformation to a market-driven business model has substantially diminished our reliance on such agreements, which have or will expire in the near future. Our transformation has allowed us to successfully grow our automotive operations and supported the increase in our standard rate retail loan and lease origination volumes and decrease in subservent volumes, which comprised only 15.7% of our U.S. originations during the first quarter of 2013, compared to 58.0% in 2009.

### **Recent Developments**

#### ***International Operations Sale***

On February 1, 2013, we completed the sale of our Canadian automobile finance operations, Ally Credit Canada Limited, and ResMor Trust (Ally Canada) to Royal Bank of Canada. Ally received \$4.1 billion for the business in the form of a \$3.7 billion payment at closing and \$400 million of dividends from Ally Canada following the announcement of the transaction. On May 2, 2013, we completed the sale of ABA Seguros, to the ACE Group. Ally received approximately \$865 million in proceeds, which was comprised of a \$690 million cash payment at closing and a \$175 million dividend that was paid in the fourth quarter of 2012.

On November 21, 2012, we announced that we had reached an agreement to sell our operations in Europe and Latin America, as well as our share in a joint venture in China, to General Motors Financial Corp, Inc. (GM Financial). On April 1, 2013, we completed the sale of the majority of our operations in Europe and Latin America to GM Financial. The transaction included European operations in Germany, the United Kingdom, Italy, Sweden, Switzerland, Austria, Belgium, and the Netherlands; and Latin American operations in Mexico, Chile, and Colombia. We received \$2.6 billion for these European businesses, which was composed of a \$2.4 billion payment at closing and \$190 million of dividends paid by the business to us prior to the closing. On June 3, 2013, we completed the sale of our remaining European operations, which included primarily our operations in France. We received approximately \$155 million at closing, which is subject to certain post-closing adjustments. We expect to complete the sale of the remaining operations during 2013 and possibly 2014.

Following the completion of the sale of our international operations, we intend to focus all of our resources on our operations in the United States.

---

**Table of Contents**

***Residential Capital, LLC***

Our Mortgage operations were historically a significant portion of our operations and were conducted primarily through our Residential Capital, LLC ( ResCap ) subsidiary. On May 14, 2012, ResCap and certain of its wholly owned direct and indirect subsidiaries (collectively, the Debtors ) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court ).

On May 14, 2013, Ally Financial Inc., on behalf of itself and certain of its subsidiaries (collectively, AFI ) entered into a Plan Support Agreement (the PSA ) with the Debtors, the official committee of unsecured creditors appointed in the Debtors Chapter 11 cases (the Creditors Committee ), and certain creditors, including AIG Asset Management (U.S.), LLC; Allstate Insurance Company; Financial Guaranty Insurance Company ( FGIC ), which has executed the agreement pending regulatory approval; counsel to the putative class of persons represented in the consolidated class action entitled *In re: Community Bank of Northern Virginia Second Mortgage Lending Practice Litigation*, filed in the United States District Court for the Western District of Pennsylvania, MDL No. 1674, Case Nos. 03-0425, 02-01201, 05-0688, 05-1386; Massachusetts Mutual Life Insurance Company; MBIA Insurance Corporation; Paulson & Co. Inc., a holder of ResCap s senior unsecured notes issued by ResCap; Prudential Insurance Company of America; certain investors in residential mortgage-backed securities ( RMBS ) backed by mortgage loans held by securitization trusts associated with securitizations sponsored by the Debtors between 2004 and 2007 represented by Kathy Patrick of Gibbs & Bruns LLP and Keith H. Wofford of Ropes & Gray LLP; Talcott Franklin of Talcott Franklin, P.C. as counsel for certain RMBS investors; Wilmington Trust, National Association in its capacity as Indenture Trustee for ResCap s senior unsecured notes; and certain trustees or indenture trustee for certain mortgage-backed securities trusts (collectively, the Consenting Claimants ).

On May 23, 2013, the Debtors filed a motion in the Bankruptcy Court to approve the PSA, which was approved on June 26, 2013. The PSA provides for the parties to support a Chapter 11 plan in the Debtors Chapter 11 cases (the Plan ) that will, among other things, settle and provide AFI full releases for all existing and potential claims between AFI and the Debtors, including all representation and warranty claims that reside with the Debtors, and all pending and potential claims held by third parties related to the Debtors that could be brought against AFI, except for securities claims by the Federal Housing Finance Agency and the Federal Deposit Insurance Corporation, as receiver for certain failed banks. AFI believes it has strong defenses against these claims and will vigorously defend its position, as necessary.

The PSA also provides, among other things, that, on the effective date of the Plan, AFI will contribute to the Debtors estates \$1.95 billion in cash or cash equivalents, and will further contribute \$150 million received by AFI for claims it pursues against its insurance carriers related to the claims released in connection with the Plan, with such amount guaranteed by AFI to be paid no later than September 30, 2014 (collectively, the Ally Contribution ) in exchange for the releases of AFI to be included in the Plan. The Ally Contribution and other assets of the Debtors estates will be distributed to creditors under the Plan. In addition, the PSA contemplated the payoff of Ally secured debt on or before the effective date of the Plan. On June 13, 2013, the Debtors paid Ally approximately \$1.127 billion in full satisfaction of the AFI revolving credit facility and line of credit. The payment to Ally was approved by the Bankruptcy Court with an express reservation of rights, claims and remedies against Ally and a reciprocal reservation of rights, claims and remedies for Ally s benefit in the event the Plan does not become effective.

The PSA also provides that the Debtors will remain responsible for all costs and obligations imposed on the Debtors under (i) the consent judgment among the United States Department of Justice, the Attorneys General of certain states, ResCap, GMAC Mortgage, LLC ( GMACM ) and Ally Financial Inc. entered by the District Court for the District of Columbia on February 9, 2012, (ii) the consent order among ResCap, GMACM, Ally

---

**Table of Contents**

Financial Inc., Ally Bank, the Federal Reserve Board ( FRB ) and the FDIC, dated April 13, 2011 (the Consent Order ) and (iii) the order of assessment among ResCap, GMACM, Ally Financial Inc. and the Board of Governors of the Federal Reserve System, excluding certain obligations that are being performed by Ocwen Loan Servicing, LLC. Notably, on June 26, 2013, the Bankruptcy Court approved a term sheet for a settlement agreement with the FRB (the FRB Settlement Agreement ), which requires the Debtors to escrow approximately \$230 million in exchange for the FRB suspending the foreclosure review mandated under the Consent Order for 30 days. If the Bankruptcy Court approves the FRB Settlement Agreement, the \$230 million payment would be distributed to individual borrowers in full satisfaction of the Debtors foreclosure review obligations.

Further, the PSA requires that the Plan include a settlement of insurance disputes between AFI and the Debtors under which the Debtors will relinquish in favor of AFI all of their rights to coverage under certain insurance policies. The PSA also requires that all litigation against AFI by the Debtors, the Creditors Committee and the Consenting Claimants be stayed so long as the PSA has not been terminated.

In connection with the PSA, and as a result of an expected increase to our reserve for litigation, AFI expects to record a charge of approximately \$1.55 billion in the second quarter of 2013.

The PSA requires, among other things, that the following milestones be satisfied: (i) the FGIC rehabilitation court must approve the PSA and a separate settlement agreement entered into among the Debtors, FGIC, trustees of residential mortgage-backed trusts and certain institutional investors (the FGIC Settlement ) on or before August 19, 2013; (ii) the Bankruptcy Court must approve the Disclosure Statement on or before August 30, 2013; and (iii) the effective date of the Plan must occur on or before December 15, 2013. In the event any of the above milestones are not satisfied, the PSA could be terminated.

The PSA also includes a number of additional events that could result in the PSA being terminated, including the following: (i) the Bankruptcy Court enters an order appointing a Chapter 11 trustee; (ii) any of the Debtors Chapter 11 cases are dismissed or converted to a case under Chapter 7 of the Bankruptcy Code; (iii) any court has entered a final, non-appealable judgment or order declaring any material portion of the PSA unenforceable; (iv) the releases set forth in the PSA are modified, amended, changed, severed or otherwise altered in the Plan or any other definitive document; and (v) the PSA ceases to be binding on AFI or the Creditors Committee.

Additionally, the PSA requires that several conditions be satisfied or waived before the Plan can be effective, including, the following: (i) the Bankruptcy Court approves the Plan and Disclosure Statement on terms reasonably acceptable to the parties; (ii) the order confirming the Plan (the Confirmation Order ) must have been entered by the Bankruptcy Court and provide for, among other things, the releases specified in the PSA; (iii) the Confirmation Order must not have been stayed, modified, or vacated on appeal, and the time to appeal shall have passed; (iv) the FGIC rehabilitation court must have approved the PSA and FGIC Settlement Agreement, including the release of all present and future claims against FGIC relating to FGIC policies; (v) AFI must have funded the Ally Contribution; and (vi) AFI s secured claims against the Debtors must have been fully satisfied.

On July 3, 2013, the Plan and related disclosure statement (the Disclosure Statement ) were filed with the Bankruptcy Court.

On June 4, 2012, Berkshire Hathaway Inc. filed a motion in the Bankruptcy Court for the appointment of an independent examiner to investigate, among other things, certain of the Debtors transactions with AFI occurring prior to the Petition Date, any claims the Debtors may hold against AFI s officers and directors, and any claims the Debtors proposed to release under the Plan. On June 20, 2012, the Bankruptcy Court approved the appointment of an examiner and, subsequently, the United States Trustee for the Southern District of New York appointed former bankruptcy judge Arthur J. Gonzalez, Esq. as the examiner (the Examiner). On July 27, 2012, the Bankruptcy Court entered an order approving the scope of the Examiner s investigation. The investigation

---

## **Table of Contents**

included, among other things: (a) all material pre-petition transactions between or among the Debtors and AFI, Cerberus Capital Management, L.P. and its subsidiaries and affiliates, and/or Ally Bank; (b) certain post-petition negotiations and transactions with the Debtors, including with respect to plan sponsor, plan support, and settlement agreements, the debtor-in-possession financing with AFI, the stalking horse asset purchase agreement with AFI, and the servicing agreement with Ally Bank; (c) all state and federal law claims or causes of action the Debtors proposed to release as part of the Plan; and (d) the release of all existing or potential ResCap-related causes of action against AFI held by third parties. On May 13, 2013, the Bankruptcy entered an order approving the Debtors' oral application requesting that the Examiner's investigative report be filed under seal until the earlier of (i) the date the Bankruptcy Court approves the PSA and (ii) July 3, 2013, as required by the terms of the PSA. Pursuant to the Bankruptcy Court order, on May 13, 2013, the Examiner filed his investigative report under seal. Upon approving the PSA on June 26, 2013, the Bankruptcy Court unsealed the Examiner's investigative report.

### ***Our Mortgage Operations***

With the completion of the ResCap settlement, we will have exited the mortgage origination and servicing business. Our ongoing Mortgage operations are limited to the management of our held-for-investment mortgage portfolio. On February 28, 2013, we sold our business lending operations to Walter Investment Management Corp. On April 16, 2013, we completed substantially all of the sales of agency mortgage servicing rights (MSRs) to Ocwen Financial Corp. and Quicken Loans, Inc. On April 17, 2013, we announced a decision to exit the correspondent lending channel and cease production of any new jumbo mortgage loans.

### **Our Challenges**

Our business is subject to challenges described within the Risk Factors section and elsewhere in this Prospectus. Some of these challenges include the following:

The profitability and financial condition of our operations are heavily dependent upon the performance, operations, and prospects of the overall U.S. automotive market, and also upon GM and Chrysler,

We are currently party to an agreement with GM that provides for certain exclusivity privileges that expires in December 2013, and were previously party to a similar agreement with Chrysler which has expired. We cannot predict the ultimate impact that the expiration of these agreements will have on our operations.

The PSA may not be consummated if certain conditions are not met or if delays occur. If the PSA is not consummated, we will not be entitled to any release from claims of the Debtors or third parties,

Our business, financial condition, and results of operations could be adversely affected by regulations to which we are subject as a result of our bank holding company status,

Our business requires substantial capital and liquidity, and disruption in our funding sources and access to the capital markets would have a material adverse effect on us,

Our indebtedness and other obligations are significant and could materially and adversely affect our business, and

If we are unable to compete successfully or if there is increased competition in the markets in which we operate, our business could be negatively affected.

### **Corporate Information**

## Edgar Filing: Ally Financial Inc. - Form S-1/A

Our principal executive offices are located at 200 Renaissance Center, P.O. Box 200, Detroit, Michigan 48265-2000 and our telephone number is (866) 710-4623. Our website is [www.ally.com](http://www.ally.com). Our website and the information included on, or linked to our website are not part of this prospectus.

**Table of Contents**

**THE OFFERING**

Common stock offered by the selling stockholder	shares.
Common stock to be outstanding after this offering	shares (assuming no exercise of the underwriters' over-allotment option and assuming that the public offering price of our common stock in this offering will be \$ _____ per share (the midpoint of the price range set forth on the cover of this prospectus) for purposes of calculating the number of shares we issue to Treasury in the conversion under Concurrent transactions below). This number of shares to be outstanding after this offering does not include any shares of our common stock that may be issued upon settlement of the purchase contracts that are components of the Units being offered concurrently with this offering, as described opposite the caption Concurrent transactions below.
Over-allotment option	shares from the selling stockholder to cover over-allotments.
Common stock listing	We have applied to list our common stock on the NYSE under the symbol ALLY.
Voting rights	One vote per share.
Use of proceeds	Ally will not receive any proceeds from sale of common stock in the offering.
Dividend policy	<p>We have no current plans to commence payment of a dividend on our common stock. Our payment of dividends on our common stock in the future will be determined by our Board of Directors in its sole discretion and will depend on business conditions, our financial condition, earnings and liquidity, and other factors. Our Fixed Rate Cumulative Perpetual Preferred Stock, Series G (the Series G preferred stock) prohibits us from making dividend payments on our common stock before January 1, 2014 and restricts our ability to pay dividends thereafter. In addition, so long as any share of our Fixed Rate / Floating Rate Perpetual Preferred Stock, Series A (the Series A preferred stock) remains outstanding, no dividend or distribution may be declared or paid on our common stock unless all accrued and unpaid dividends have been paid on such series of preferred stock.</p> <p>In addition, any plans to commence payment of dividends on our common stock in the future would be subject to the FRB's review and absence of objection.</p>
Concurrent transactions	Treasury currently holds 118,750,000 shares of our Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series F-2 (the Series F-2 preferred stock), having an aggregate liquidation amount

**Table of Contents**

of \$5,937,500,000. In connection with this offering and the concurrent Units offering, Treasury intends (i) to convert (the conversion ) 58,750,000 shares of Series F-2 preferred stock into shares of our common stock based on a conversion price equal to the public offering price of our common stock in this offering (the common stock public offering price ), and (ii) to exchange (the exchange ) the remaining 60,000,000 shares of Series F-2 preferred stock having an aggregate liquidation amount of \$3 billion, for a number of our tangible equity units (the Units ) having an aggregate stated amount of \$3 billion.

The number of shares of common stock we intend to issue to Treasury in connection with the conversion will depend upon the common stock public offering price. The higher the common stock public offering price is, the fewer the number of shares of common stock Treasury will receive and the lower the common stock public offering price is, the greater the number of shares of common stock Treasury will receive. The following table sets forth the number of shares we will issue to Treasury in connection with the conversion for each common stock public offering price set forth below:

Public Offering Price	Number of Shares Issued to Treasury
\$	
\$	
\$	
\$	

In addition, we and Treasury intend to modify certain terms of the Series F-2 preferred stock relating to the anti-dilution provisions applicable to the common stock received by Treasury from its partial conversion of Series F-2 preferred stock in December 2010, so that Treasury will receive additional shares of our common stock in connection with the offering.

Treasury is offering in the concurrent Units offering a number of Units having an aggregate stated amount of \$ , plus up to an additional number of Units having an aggregate stated amount of \$ to cover over-allotments, if any. Upon completion of the Units offering, Treasury will hold Units having an aggregate stated amount of \$ (or \$ if the underwriters for the Units offering exercise their over-allotment option in full). The Units that are retained by Treasury will be fungible with the Units being offered in the Units offering.

The closing of each of the Units offering, this offering, the conversion and the exchange is conditioned upon the closing of each such other transaction.



**Table of Contents**

Certain Accounting Treatment of Treasury's Conversion and Receipt of Additional Shares

In connection with Treasury's intention to convert shares of Series F-2 preferred stock it holds into common stock as part of this offering and at the common stock public offering price, Treasury will receive a number of shares of our common stock in excess of the amount it would have received pursuant to the stated conversion rate in the Series F-2 preferred stock. In addition, as stated above, Treasury will also receive additional shares of our common stock as a result of an agreed upon modification to the terms of the Series F-2 preferred stock. The value of these additional shares received by Treasury will be treated as a dividend or equivalent for financial reporting purposes.

The issuance of these additional shares will be a one-time non-cash transaction, which will not affect the amount of our total equity. It will increase our accumulated deficit with an offsetting increase to common stock and paid-in capital, and the value of the non-cash dividend will reduce our net income attributable to common shareholders and therefore will substantially affect the calculation of earnings per share in the quarter in which this offering closes and the full year.

Assuming that the public offering price of our common stock in this offering will be \$ \_\_\_\_\_ per share (the midpoint of the range set forth on the cover of this prospectus), net income attributable to common stock will be reduced by \$ \_\_\_\_\_ in the quarter in which this offering closes and earnings per share will be reduced by \$ \_\_\_\_\_ per share due to this one time, non-cash transaction.

Risk factors

See Risk Factors beginning on page 22 of this prospectus for a discussion of risks you should carefully consider before deciding whether to invest in our common stock.

Unless we specifically state otherwise, the information in this prospectus (i) does not take into account shares issuable under our equity compensation incentive plan and (ii) assumes for purposes of calculating the number of shares of common stock we will issue to Treasury in the conversion that the common stock public offering price will be \$ \_\_\_\_\_ per share (the midpoint of the price range set forth on the cover of this prospectus). All applicable share, per share and related information in this prospectus for periods on or subsequent to \_\_\_\_\_ has been adjusted retroactively for the \_\_\_\_\_-for-one stock split on shares of our common stock effected on \_\_\_\_\_, 2013.

**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA**

The following summary consolidated financial data of Ally should be read in conjunction with, and are qualified by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this prospectus. The consolidated statement of income data for the years ended December 31, 2012, 2011 and 2010 and the consolidated balance sheet data at December 31, 2012 and 2011 are derived from, and qualified by reference to, our audited consolidated financial statements included elsewhere in this prospectus and should be read in conjunction with those consolidated financial statements and notes thereto. The consolidated statement of income data for the years ended December 31, 2009 and 2008 and the consolidated balance sheet data at December 31, 2010, 2009 and 2008 are derived from our audited consolidated financial statements not included in this prospectus. The condensed consolidated statement of income data for the three months ended March 31, 2013 and 2012 and the condensed consolidated balance sheet data at March 31, 2013 and 2012 are derived from, and qualified by reference to, our unaudited condensed consolidated financial statements included elsewhere in this prospectus and should be read in conjunction with those condensed consolidated financial statements and notes thereto. In our opinion, the unaudited financial statements provided herein have been prepared on substantially the same basis as the audited historical consolidated financial statements and reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our financial position and results of operations for the periods presented. Our results for the three months ended March 31, 2013 are not necessarily indicative of those to be expected for the fiscal year.

	At and for three months ended March 31,			At and for the year ended December 31,				
	2013	2012	2012	2011	2010	2009	2008	
	(\$ in millions)							
<b>Financial statement data</b>								
<i>Statement of income data:</i>								
Total financing revenue and other interest income	\$ 1,956	\$ 1,716	\$ 7,342	\$ 6,671	\$ 7,156	\$ 8,069	\$ 10,465	
Interest expense	881	1,060	4,052	4,606	4,832	4,876	5,858	
Depreciation expense on operating lease assets	435	305	1,399	941	1,251	2,256	3,159	
Impairment of investment in operating leases								1,082
Net financing revenue	640	351	1,891	1,124	1,073	937	366	
Total other revenue (a)	386	605	2,574	2,288	2,672	3,226	10,996	
Total net revenue	1,026	956	4,465	3,412	3,745	4,163	11,362	
Provision for loan losses	131	98	329	161	361	3,584	1,701	
Total noninterest expense	958	855	3,622	3,428	3,621	3,937	4,213	
(Loss) income from continuing operations before income tax (benefit) expense	(63)	3	514	(177)	(237)	(3,358)	5,448	
Income tax (benefit) expense from continuing operations (b)	(123)	1	(856)	42	97	12	(87)	
Net income (loss) from continuing operations	60	2	1,370	(219)	(334)	(3,370)	5,535	
Income (loss) from discontinued operations, net of tax	1,033	308	(174)	62	1,363	(6,973)	(3,667)	
Net income (loss)	\$ 1,093	\$ 310	\$ 1,196	\$ (157)	\$ 1,029	\$ (10,343)	\$ 1,868	
(in millions, except per share data)								
<i>Net income (loss) attributable to common shareholders</i>								
Net income (loss) from continuing operations	\$ 60	\$ 2	\$ 1,370	\$ (219)	\$ (334)	\$ (3,370)	\$ 5,535	
Less: Preferred stock dividends U.S. Department of Treasury	133	134	535	534	963	(855)		
Less: Preferred stock dividends	67	67	267	260	282	(370)		
Less: Impact of preferred stock conversion or amendment				(32)	616			
	(140)	(199)	568	(981)	(2,195)	(4,595)	5,535	

## Edgar Filing: Ally Financial Inc. - Form S-1/A

Net (loss) income from continuing operations  
attributable to common shareholders (c)

Income (loss) from discontinued operations, net of tax	<b>1,033</b>	308	<b>(174)</b>	62	1,363	(6,973)	(3,667)
Net income (loss) attributable to common shareholders	\$ <b>893</b>	\$ 109	\$ <b>394</b>	\$ (919)	\$ (832)	(11,568)	1,868
Basic and diluted weighted-average common shares outstanding (c)	<b>1,330,970</b>	1,330,970	<b>1,330,970</b>	1,330,970	800,597	529,392	108,884

**Table of Contents**

	At and for three months ended March 31,		2012	At and for the year ended December 31,			
	2013	2012	2012	2011	2010	2009	2008
(per share data in whole dollars)							
<b>Basic and diluted earnings per common share (d)</b>							
Net (loss) income from continuing operations	\$ (105)	\$ (149)	\$ 427	\$ (738)	\$ (2,742)	\$ (8,677)	\$ 50,827
Income (loss) from discontinued operations, net of tax	776	231	(131)	47	1,703	(13,173)	(33,675)
Net income (loss)	\$ 671	\$ 82	\$ 296	\$ (691)	\$ (1,039)	\$ (21,850)	\$ 17,152

(\$ in millions)

**Pro forma data (e)**

**Basic and diluted earnings per common share**

Net (loss) income from continuing operations  
Income (loss) from discontinued operations, net of tax

Net (loss) income

Basic and diluted weighted-average common shares outstanding

**Non-GAAP financial measures (f):**

Net income (loss)	\$ 1,093	\$ 310	\$ 1,196	\$ (157)	\$ 1,029	\$ (10,343)	\$ 1,868
Add: Original issue discount amortization expense (g)	57	108	336	962	1,300	1,143	70
Add: Income tax (benefit) expense from continuing operations	(123)	1	(856)	42	97	12	(87)
Less: Gain on extinguishment of debt related to the 2008 bond exchange							11,460
Less: Income (loss) from discontinued operations, net of tax	1,033	308	(174)	62	1,363	(6,973)	(3,667)
Core pretax (loss) income (f)	\$ (6)	\$ 111	\$ 850	\$ 785	\$ 1,063	\$ (2,215)	\$ (5,942)

**Selected period-end balance sheet data:**

Total assets	\$ 166,199	\$ 186,350	\$ 182,347	\$ 184,059	\$ 172,008	\$ 172,306	\$ 189,476
Long-term debt	\$ 67,621	\$ 93,990	\$ 74,561	\$ 92,885	\$ 86,703	\$ 88,066	\$ 115,935
Preferred stock/interests (d)	\$ 6,940	\$ 6,940	\$ 6,940	\$ 6,940	\$ 6,972	\$ 12,180	\$ 6,287
Total equity	\$ 20,474	\$ 19,576	\$ 19,898	\$ 19,280	\$ 20,398	\$ 20,794	\$ 21,854

**Financial ratios**

Efficiency ratio (h)	93.37%	89.44%	81.12%	100.47%	96.69%	94.57%	37.08%
Core efficiency ratio (h)	88.46%	80.36%	75.44%	78.37%	71.77%	74.20%	n/m
Return on assets (i)							
Net income (loss) from continuing operations	0.14%	%	0.75%	(0.12)%	(0.19)%	(1.89)%	2.92%
Net income (loss)	2.54%	0.68%	0.65%	(0.09)%	0.58%	(5.81)%	0.99%
Core pretax (loss) income	(0.01)%	0.24%	0.46%	0.43%	0.60%	(1.25)%	(3.14)%
Return on equity (i)							
Net income (loss) from continuing operations	1.20%	0.04%	7.24%	(1.09)%	(1.62)%	(13.90)%	25.33%
Net income (loss)	21.98%	6.40%	6.32%	(0.78)%	4.98%	(42.65)%	8.55%
Core pretax (loss) income	(0.12)%	2.29%	4.49%	3.91%	5.14%	(9.13)%	(27.19)%
Equity to assets (i)	11.57%	10.56%	10.30%	11.10%	11.69%	13.63%	11.53%
Net interest spread (i)(j)	1.67%	0.86%	1.18%	0.69%	0.81%	0.31%	(k)

## Edgar Filing: Ally Financial Inc. - Form S-1/A

Net interest spread excluding original issue discount (i)(j)	<b>1.89%</b>	1.29%	<b>1.49%</b>	1.57%	2.16%	1.84%	(k)
Net yield on interest-earning assets (i)(l)	<b>1.90%</b>	1.11%	<b>1.40%</b>	0.92%	1.02%	0.94%	(k)
Net yield on interest-earning assets excluding original issue discount (i)(l)	<b>2.07%</b>	1.45%	<b>1.66%</b>	1.68%	2.18%	2.10%	(k)

**Table of Contents**

	At and for three months ended March 31,			At and for the year ended December 31,			2008
	2013	2012	2012	2011	2010	2009	
<b>Regulatory capital ratios</b>							
Tier 1 capital (to risk-weighted assets) (m)	14.59%	13.45%	13.13%	13.65%	14.93%	14.12%	(k)
Total risk-based capital (to risk-weighted assets) (n)	15.59%	14.47%	14.07%	14.69%	16.30%	15.52%	(k)
Tier 1 leverage (to adjusted quarterly average assets) (o)	12.01%	11.60%	11.16%	11.45%	12.99%	12.68%	(k)
Total equity	\$ 20,474	\$ 19,576	\$ 19,898	\$ 19,280	\$ 20,398	\$ 20,794	(k)
Goodwill and certain other intangibles	(489)	(494)	(494)	(493)	(532)	(534)	(k)
Unrealized gains and other adjustments	(1,865)	(317)	(1,715)	(262)	(309)	(447)	(k)
Trust preferred securities	2,543	2,542	2,543	2,542	2,541	2,540	(k)
Tier 1 capital (m)	20,663	21,307	20,232	21,067	22,098	22,353	(k)
Preferred equity	(6,940)	(6,940)	(6,940)	(6,940)	(6,972)	(12,180)	(k)
Trust preferred securities	(2,543)	(2,542)	(2,543)	(2,542)	(2,541)	(2,540)	(k)
Tier 1 common capital (non-GAAP) (p)	\$ 11,180	\$ 11,825	\$ 10,749	\$ 11,585	\$ 12,585	\$ 7,633	(k)
Risk-weighted assets (q)	\$ 141,623	\$ 158,468	\$ 154,038	\$ 154,319	\$ 147,979	\$ 158,326	(k)
Tier 1 common (to risk-weighted assets) (p)	7.89%	7.46%	6.98%	7.51%	8.50%	4.82%	(k)

- (a) Total other revenue for 2008 includes \$12.6 billion of gains on the extinguishment of debt, primarily related to private exchange and cash tender offers settled during the fourth quarter.
- (b) Effective June 30, 2009, we converted from a limited liability company into a corporation and, as a result, became subject to corporate U.S. federal, state, and local taxes. Our conversion to a corporation resulted in a change in tax status and a net deferred tax liability of \$1.2 billion was established through income tax expense. Refer to Note 25 to the Consolidated Financial Statements for additional information regarding our change in tax status.
- (c) Due to the antidilutive effect of converting the Fixed Rate Cumulative Mandatorily Convertible Preferred Stock into common shares and the net loss from continuing operations attributable to common shareholders for the three months ended March 31, 2013 and 2012, and the years ended December 31, 2011, 2010 and 2009, respectively, net income (loss) from continuing operations attributable to common shareholders and basic weighted-average common shares outstanding were used to calculate basic and diluted earnings per share.
- (d) Effective June 30, 2009, we converted from a Delaware limited liability company into a Delaware corporation. Each unit of each class of common membership interest issued and outstanding immediately prior to the conversion was converted into an equivalent number of shares of common stock with substantially the same rights and preferences as the common membership interests. Upon conversion, holders of our preferred membership interests also received an equivalent number of shares of preferred stock with substantially the same rights and preferences as the former preferred membership interests.
- (e) The pro forma financial information gives effect to this offering as if it has closed on \_\_\_\_\_, and reflects (i) the receipt by Treasury of additional shares of common stock in connection with this offering, (ii) increased interest expense on the amortizing notes at an assumed interest rate of \_\_\_\_\_% (tax affected at the historical rates reflected in the financial statements for the three months ended March 31, 2013 and the year ended December 31, 2012) and (iii) the elimination of dividends of \$ \_\_\_\_\_ on the Series F-2 preferred stock being converted into common stock and exchanged for Units in this offering. The pro forma financial information does not reflect the value of the additional shares received by Treasury that will be treated as a one-time, non-cash dividend of \$ \_\_\_\_\_ in the quarter in which this offering closes and the related reduction of \$ \_\_\_\_\_ per share in earnings per share.

(f)

## Edgar Filing: Ally Financial Inc. - Form S-1/A

Core pretax income (loss) is not a financial measure defined by generally accepted accounting principles in the United States of America (GAAP). We define core pretax income as earnings from continuing operations before income taxes, original issue discount amortization expense primarily associated with our

**Table of Contents**

2008 bond exchange, and the gain on extinguishment of debt related to the 2008 bond exchange. We believe that the presentation of core pretax income (loss) is useful information for the users of our financial statements in understanding the earnings from our core businesses. In addition, core pretax income (loss) is the primary measure that management uses to assess the performance of our operations. We believe that core pretax income (loss) is a useful alternative measure of our ongoing profitability and performance, when viewed in conjunction with GAAP measures. The presentation of this additional information is not a substitute for net income (loss) determined in accordance with GAAP.

- (g) Primarily represents original issue discount amortization expense associated with the 2008 bond exchange that was reported as a loss on extinguishment of debt in Consolidated Statement of Income, respectively.
- (h) The efficiency ratio equals total other noninterest expense divided by total net revenue. The core efficiency ratio equals total other noninterest expense divided by total net revenue excluding original issue discount amortization expense and gain on extinguishment of debt related to the 2008 bond exchange.
- (i) The 2013, 2012, 2011, 2010 and 2009 ratios were computed based on average assets and average equity using a combination of monthly and daily average methodologies. The 2008 ratios have been computed based on period-end total assets and period-end total equity at December 31, 2008.
- (j) Net interest spread represents the difference between the rate on total interest earning assets and the rate on total interest-bearing liabilities, excluding discontinued operations for the periods shown.
- (k) Not applicable at December 31, 2008, as we did not become a bank holding company until December 24, 2008.
- (l) Net yield on interest-earning assets represents net financing revenue as a percentage of total interest-earning assets.
- (m) Tier 1 capital generally consists of common equity, minority interests, qualifying noncumulative preferred stock, and the fixed rate cumulative preferred stock sold to Treasury under TARP and purchase contracts (including the purchase contracts that are components of the Units being offered in the concurrent offering) less goodwill and other adjustments.
- (n) Total risk-based capital is the sum of Tier 1 and Tier 2 capital. Tier 2 capital generally consists of preferred stock not qualifying as Tier 1 capital, limited amounts of subordinated debt and the allowance for loan losses, and other adjustments. The amount of Tier 2 capital may not exceed the amount of Tier 1 capital.
- (o) Tier 1 leverage equals Tier 1 capital divided by adjusted quarterly average total assets (which reflects adjustments for disallowed goodwill and certain intangible assets). The minimum Tier 1 leverage ratio is 3% or 4% depending on factors specified in the regulations.
- (p) We define Tier 1 common as Tier 1 capital less noncommon elements, including qualifying perpetual preferred stock, minority interest in subsidiaries, trust preferred securities, and mandatorily convertible preferred securities. However, the purchase contracts that are components of the Units being offered in the concurrent offering are not subtracted from Tier 1 capital to determine Tier 1 common. Ally considers various measures when evaluating capital utilization and adequacy, including the Tier 1 common equity ratio, in addition to capital ratios defined by banking regulators. This calculation is intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes. Because GAAP does not include capital ratio measures, Ally believes there are no comparable GAAP financial measures to these ratios. Tier 1 common equity is not formally defined by GAAP or codified in the federal banking





**Table of Contents**

regulations and, therefore, is considered to be a non-GAAP financial measure. Ally believes the Tier 1 common equity ratio is important because we believe analysts and banking regulators may assess our capital adequacy using this ratio. Additionally, presentation of this measure allows readers to compare certain aspects of our capital adequacy on the same basis to other companies in the industry.

- (q) Risk-weighted assets are defined by regulation and are determined by allocating assets and specified off-balance sheet financial instruments into several broad risk categories.

---

**Table of Contents**

**RISK FACTORS**

*You should carefully consider the following risk factors that may affect our business, future operating results and financial condition, as well as the other information set forth in this prospectus before making a decision to invest in our common stock. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. In such case, the trading price of our common stock would likely decline due to any of these risks, and you may lose all or part of your investment.*

**Risks Related to Regulation**

*Our business, financial condition, and results of operations could be adversely affected by regulations to which we are subject as a result of our bank holding company status.*

We are a bank holding company under the Bank Holding Company Act of 1956 (BHC Act). Many of the regulatory requirements to which we are subject as a bank holding company were not applicable to us prior to December 2008 and have and will continue to require significant expense and devotion of resources to fully implement necessary policies and procedures to ensure continued compliance. Compliance with such laws and regulations involves substantial costs and may adversely affect our ability to operate profitably. Recent events, particularly in the financial and real estate markets, have resulted in bank regulatory agencies placing increased focus and scrutiny on participants in the financial services industry, including us. For a description of our regulatory requirements, see [Business](#) [Certain Regulatory Matters](#) .

Ally is subject to ongoing supervision, examination and regulation by the FRB, and Ally Bank by the FDIC and the Utah DFI, in each case, through regular examinations and other means that allow the regulators to gauge management's ability to identify, assess, and control risk in all areas of operations in a safe-and-sound manner and to ensure compliance with laws and regulations.

Ally is currently required by its banking supervisors to make improvements in areas such as board and senior management oversight, risk management, regulatory reporting, internal audit planning, capital adequacy process, stress testing, and Bank Secrecy Act / anti-money-laundering compliance, and to continue to reduce problem assets. Separately, Ally Bank is currently required by its banking supervisors to make improvements in areas such as compliance management and training, consumer protection monitoring, consumer complaint resolution, internal audit program and residential mortgage loan pricing, and fee monitoring. These requirements are judicially enforceable, and if we are unable to implement and maintain these required actions, plans, policies and procedures in a timely and effective manner and otherwise comply with the requirements outlined above, we could become subject to formal supervisory actions which could subject us to significant restrictions on our existing business or on our ability to develop any new business. Such forms of supervisory action could include, without limitation, written agreements, cease and desist orders, and consent orders and may, among other things, result in restrictions on our ability to pay dividends, requirements to increase capital, restrictions on our activities, the imposition of civil monetary penalties, and enforcement of such action through injunctions or restraining orders. We could also be required to dispose of certain assets and liabilities within a prescribed period. The terms of any such supervisory action could have a material adverse effect on our business, operating flexibility, financial condition, and results of operations.

*Our ability to engage in certain activities may be adversely affected by our status as a bank holding company.*

As a bank holding company, Ally's activities are generally limited to banking or to managing or controlling banks or to other activities deemed closely related to banking or otherwise permissible under the BHC Act and related regulations. Likewise, subject to certain exceptions, Ally is not permitted to acquire more than 5% of any class of voting shares of any nonaffiliated bank or bank holding company, directly or indirectly, or to acquire control of any other company, directly or indirectly (including by acquisition of 25% or more of a class of voting

**Table of Contents**

shares). Upon our bank holding company approval, we were permitted an initial two-year grace period to bring our activities and investments into conformity with these restrictions. This grace period expired in December 2010. The FRB then granted two one-year extensions that expired in December 2012, and recently granted a third and final one-year extension that expires in December 2013. We will not be permitted to apply to the FRB for any further extensions. Certain of Ally's existing activities and investments are deemed impermissible under the BHC Act and must be terminated or disposed of by the expiration of this extension, the most significant of which includes most of our insurance activities and our SmartAuction vehicle remarketing services for third parties. While these activities may be continued if Ally is able to convert to a financial holding company under the BHC Act, Ally may be unable to satisfy the requirements to enable it to convert to a financial holding company prior to that time, and activities, businesses, or investments that would be permissible for a financial holding company will need to be terminated or disposed of. This could have a material adverse effect on our business, results of operations, and financial position.

As a bank holding company, our ability to expand into new business activities would require us to obtain the prior approval of the relevant banking supervisors. There can be no assurance that any required approval will be obtained or that we will be able to execute on any such plans in a timely manner or at all. If we are unable to obtain approval to expand into new business activities, our business, results of operations, and financial position may be materially adversely affected.

***Our ability to execute our business strategy may be affected by regulatory considerations.***

Our business strategy for Ally Bank, which is primarily focused on automotive lending and growth of our direct-channel deposit business, is subject to regulatory oversight from a safety and soundness perspective. If our banking supervisors raise concerns regarding any aspect of our business strategy for Ally Bank, we may be obliged to alter our strategy, which could include moving certain activities, such as certain types of lending, outside of Ally Bank to one of our nonbanking affiliates. Alternative funding sources outside of Ally Bank, such as asset securitization or financings in the capital markets, could be more expensive than funding through Ally Bank and could adversely effect our business prospects, results of operations and financial condition.

***We are subject to new capital planning and systemic risk regimes, which impose significant restrictions and requirements.***

As a bank holding company with \$50 billion or more of consolidated assets, Ally is required to conduct periodic stress tests and submit a proposed capital action plan to the FRB every January, which the FRB must take action on by the following March. The proposed capital action plan must include a description of all planned capital actions over a nine-quarter planning horizon, including any issuance of a debt or equity capital instrument, any capital distribution, and any similar action that the FRB determines could have an impact on Ally's consolidated capital. The proposed capital action plan must also include a discussion of how Ally will maintain capital above the minimum regulatory capital ratios and above a Tier 1 common equity-to-total risk-weighted assets ratio of 5 percent, and serve as a source of strength to Ally Bank. The FRB's capital plan rule requires that Ally receive no objection from the FRB prior to making a capital distribution. Ally submitted its capital plan in January 2013. In March 2013, the FRB objected to our capital plan both on quantitative and qualitative grounds. In their published results, the FRB estimated our stressed tier 1 common ratio with adjusted planned capital actions to be 1.52 for the nine-quarter planning period. The FRB noted that the post-stress capital ratios assumed that Ally remains subject to contingent liabilities associated with ResCap.

In addition, in December 2011, the FRB proposed rules to implement certain provisions of the systemic risk regime under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). If adopted as proposed, among other provisions, the rules would require Ally to maintain a sufficient quantity of highly liquid assets to survive a projected 30-day liquidity stress event and implement various liquidity-related corporate governance measures; limit Ally's aggregate exposure to any unaffiliated counterparty to 25% of Ally's capital and surplus; and potentially subject Ally to an early remediation regime that could limit the ability of Ally to pay

---

**Table of Contents**

dividends or expand its business if the FRB identified Ally as suffering from financial or management weaknesses. The systemic risk provisions, when implemented, could adversely affect our business prospects, results of operations, and financial condition.

***Our ability to rely on deposits as a part of our funding strategy may be limited.***

Ally Bank continues to be a key part of our funding strategy, and we have increased our reliance on deposits as an alternative source of funding through Ally Bank. Ally Bank does not have a retail branch network, and it obtains its deposits through direct banking and brokered deposits which, at December 31, 2012, included \$9.4 billion of brokered certificates of deposit that may be more price sensitive than other types of deposits and may become less available if alternative investments offer higher interest rates. At December 31, 2012, brokered deposits represented 20% of Ally Bank total deposits. Our ability to maintain our current level of deposits or grow our deposit base could be affected by regulatory restrictions including the possible imposition of prior approval requirements, restrictions on deposit growth, or restrictions on our rates offered. In addition, perceptions of our financial strength, rates offered by third parties, and other competitive factors beyond our control, including returns on alternative investments, will also impact our ability to grow our deposit base. Even if we are able to grow the deposit base of Ally Bank, our regulators may impose restrictions on our ability to use Ally Bank deposits as a source of funding for certain business activities potentially raising the cost of funding those activities without the use of Ally Bank deposits.

***The regulatory environment in which we operate could have a material adverse effect on our business and earnings.***

Our domestic operations are subject to various laws and judicial and administrative decisions imposing various requirements and restrictions relating to supervision and regulation by state and federal authorities. Such regulation and supervision are primarily for the benefit and protection of our customers, not for the benefit of investors in our securities, and could limit our discretion in operating our business. Noncompliance with applicable statutes, regulations, rules, or policies could result in the suspension or revocation of any license or registration at issue as well as the imposition of civil fines and criminal penalties.

Ally, Ally Bank, and many of our nonbank subsidiaries are heavily regulated by bank and other regulatory agencies at the federal and state levels. This regulatory oversight is established to protect depositors, the FDIC's Deposit Insurance Fund, and the banking system as a whole, not security holders. Changes to statutes, regulations, rules, or policies including the interpretation or implementation of statutes, regulations, rules, or policies could affect us in substantial and unpredictable ways including limiting the types of financial services and products we may offer, limiting our ability to pursue acquisitions and increasing the ability of third parties to offer competing financial services and products.

Our operations are also heavily regulated in many jurisdictions outside the United States. For example, certain of our foreign subsidiaries operate either as a bank or a regulated finance company, and our insurance operations are subject to various requirements in the foreign markets in which we operate. The varying requirements of these jurisdictions may be inconsistent with U.S. rules and may materially adversely affect our business or limit necessary regulatory approvals, or if approvals are obtained, we may not be able to continue to comply with the terms of the approvals or applicable regulations. In addition, in many countries, the regulations applicable to the financial services industry are uncertain and evolving.

Our inability to remain in compliance with regulatory requirements in a particular jurisdiction could have a material adverse effect on our operations in that market with regard to the affected product and on our reputation generally. No assurance can be given that applicable laws or regulations will not be amended or construed differently, that new laws and regulations will not be adopted, or that we will not be prohibited by local laws or regulators from raising interest rates above certain desired levels, any of which could materially adversely affect our business, operating flexibility, financial condition, or results of operations.

---

**Table of Contents**

***Financial services legislative and regulatory reforms may have a significant impact on our business and results of operations.***

The Dodd-Frank Act, which became law in July 2010, has and will continue to substantially change the legal and regulatory framework under which we operate. Certain portions of the Dodd-Frank Act were effective immediately, and others have become effective since enactment, while others are subject to further rulemaking and discretion of various regulatory bodies. The Dodd-Frank Act, when fully implemented, will have material implications for Ally and the entire financial services industry. Among other things, it will or potentially could:

result in Ally being subject to enhanced oversight and scrutiny as a result of being a bank holding company with \$50 billion or more in consolidated assets;

affect the levels of capital and liquidity with which Ally must operate and how it plans capital and liquidity levels;

subject Ally to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;

impact a number of Ally's business and risk management strategies;

restrict the revenue that Ally generates from certain businesses;

require Ally to provide to the Federal Reserve and FDIC an annual plan for its rapid and orderly resolution in the event of material financial distress; and

subject Ally to a new Consumer Financial Protection Bureau (CFPB), which has very broad rule-making and enforcement authorities.

In light of the further study and rulemaking required to fully implement the Dodd-Frank Act, as well as the discretion afforded to federal regulators, the full impact of this legislation on Ally, its business strategies, and financial performance cannot be known at this time and may not be known for a number of years. In addition, regulations may impact us differently in comparison to other more established financial institutions. However, these impacts are expected to be substantial and some of them are likely to adversely affect Ally and its financial performance. The extent to which Ally can adjust its strategies to offset such adverse impacts also is not knowable at this time.

***Our business may be adversely affected upon our implementation of the revised capital requirements under the Basel III capital rules.***

In December 2010, the Bank for International Settlements' Basel Committee on Banking Supervision adopted new capital, leverage, and liquidity guidelines under the Basel Accord (Basel III), which when implemented in the United States, may have the effect of raising capital requirements beyond those required by current law and the Dodd-Frank Act. In June 2012, the U.S. banking regulators proposed rules to implement many aspects of Basel III (the U.S. Basel III proposals). The U.S. Basel III proposals contain new capital standards that raise the quality of capital and strengthen counterparty credit risk capital requirements and introduce a leverage ratio as a supplemental measure to the risk-based ratio. The proposals include a new capital conservation buffer, which imposes a common equity requirement above the new minimum that can be depleted under stress, and could result in restrictions on capital distributions and discretionary bonuses under certain circumstances. The U.S. Basel III proposals also provide for a potential countercyclical buffer that regulators can activate during periods of excessive credit growth in their jurisdiction. The U.S. Basel III proposals contemplate that the new capital requirements would be phased in over several years, beginning in 2013. In November 2012, the U.S. banking regulators announced that the U.S. Basel III proposals would not become effective on January 1, 2013. The announcement did not specify new implementation or phase-in dates for the U.S. Basel III proposals.



## **Table of Contents**

The Basel III rules and the Dodd-Frank Act, when implemented, will over time impose limits on Ally's ability to meet its regulatory capital requirements through the use of mortgage servicing rights (MSRs), trust preferred securities, or other hybrid securities, if applicable. At March 31, 2013, Ally had \$825 million of MSRs and \$2.5 billion of trust preferred securities, which were included as Tier 1 capital. Ally currently has no other hybrid securities outstanding. Pending final U.S. implementation of rules for Basel III and subsequent regulatory interpretation, there remains a degree of uncertainty on the full impact of Basel III.

If we or Ally Bank fail to satisfy regulatory capital requirements, we or Ally Bank may be subject to serious regulatory sanctions ranging in severity from being precluded from making acquisitions or engaging in new activities to becoming subject to informal or formal supervisory actions by the FRB and/or FDIC and, potentially, FDIC receivership of Ally Bank. If any of these were to occur, such actions could prevent us from successfully executing our business plan and have a material adverse effect on our business, results of operations, and financial position.

### ***Our business, financial condition, and results of operations could be adversely affected by governmental fiscal and monetary policies.***

The actions of the FRB and international central banking authorities directly impact our cost of funds for lending, capital raising, and investment activities and may impact the value of financial instruments we hold. In addition, such changes in monetary policy may affect the credit quality of our customers. Changes in domestic and international monetary policy are beyond our control and difficult to predict.

In addition, our business and earnings are significantly affected by the fiscal and monetary policies of the U.S. government and its agencies. We are particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States. The FRB's policies influence the new and used vehicle financing market, which significantly affects the earnings of our businesses. The FRB's policies also influence the yield on our interest earning assets and the cost of our interest-bearing liabilities. Changes in those policies are beyond our control and difficult to predict and could adversely affect our revenues, profitability, and financial condition.

### ***Future consumer legislation could harm our competitive position.***

In addition to the enactment of the Dodd-Frank Act, various legislative bodies have also recently been considering altering the existing framework governing creditors' rights, including legislation that would result in or allow loan modifications of various sorts. Such legislation may change banking statutes and the operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business; limit or expand permissible activities; or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether new legislation will be enacted, and if enacted, the effect that it or any regulations would have on our activities, financial condition, or results of operations.

### ***Ally and its subsidiaries are involved in investigations, and proceedings by government and self-regulatory agencies, which may lead to material adverse consequences.***

Ally and its subsidiaries, including Ally Bank, are and may become involved from time to time in reviews, investigations, and proceedings (both formal and informal), and information gathering requests by government and self-regulatory agencies, including the FRB, FDIC, Utah DFI, CFPB, SEC, and the Federal Trade Commission regarding their respective operations. Such requests include subpoenas from each of the SEC and the U.S. Department of Justice. We continue to respond to subpoenas and document requests from the SEC, seeking information covering a wide range of mortgage-related matters, including, among other things, various aspects surrounding securitizations of residential mortgages. The subpoenas received from the U.S. Department of Justice include a broad request for documentation and other information in connection with its investigation of potential fraud and other potential legal violations related to mortgage-backed securities, as well as the



---

**Table of Contents**

origination and/or underwriting of mortgage loans. In addition, the CFPB has recently advised us that they are investigating certain of our retail financing practices. These matters, or any other investigation or information-gathering request, may result in material adverse consequences including without limitation, adverse judgments, settlements, fines, penalties, injunctions, or other actions.

***Our business, financial position, and results of operations could be adversely affected by the impact of affiliate transaction restrictions imposed in connection with certain financing transactions.***

Certain transactions between Ally Bank and any of its nonbank affiliates, including but not limited to Ally Financial Inc. are subject to federal statutory and regulatory restrictions. Pursuant to these restrictions, unless otherwise exempted, covered transactions, including Ally Bank's extensions of credit to and asset purchases from its nonbank affiliates, generally (1) are limited to 10% of Ally Bank's capital stock and surplus with respect to transactions with any individual affiliate, with an aggregate limit of 20% of Ally Bank's capital stock and surplus for all affiliates and all such transactions; (2) in the case of certain credit transactions, are subject to stringent collateralization requirements; (3) in the case of asset purchases by Ally Bank, may not involve the purchase of any asset deemed to be a low quality asset under federal banking guidelines; and (4) must be conducted in accordance with safe-and-sound banking practices (collectively, the Affiliate Transaction Restrictions). Furthermore, there is an attribution rule that provides that a transaction between Ally Bank and a third party must be treated as a transaction between Ally Bank and a nonbank affiliate to the extent that the proceeds of the transaction are used for the benefit of, or transferred to, a nonbank affiliate of Ally Bank. Retail financing transactions by Ally Bank involving vehicles for which Ally provided floorplan financing are subject to the Affiliate Transaction Restrictions because the proceeds of the retail financings are deemed to benefit, and are ultimately transferred to, Ally.

Under the Dodd-Frank Act, among other changes to Sections 23A and 23B of the Federal Reserve Act, credit exposures resulting from derivatives transactions, securities lending and borrowing transactions, and acceptance of affiliate-issued debt obligations (other than securities) as collateral for a loan or extension of credit will be treated as covered transactions. The Dodd-Frank Act also expands the scope of covered transactions required to be collateralized and places limits on acceptable collateral.

Historically, the FRB was authorized to exempt, in its discretion, transactions or relationships from the requirements of these rules if it found such exemptions to be in the public interest and consistent with the purposes of the rules. As a result of the Dodd-Frank Act, exemptions now may be granted by the FDIC if the FDIC and FRB jointly find that the exemption is in the public interest and consistent with the purposes of the rules, and the FDIC finds that the exemption does not present an unacceptable risk to the Deposit Insurance Fund. The FRB granted several such exemptions to Ally Bank in the past. However, the existing exemptions are subject to various conditions and, particularly in light of the statutory changes made by the Dodd-Frank Act, any requests for future exemptions may not be granted. Moreover, these limited exemptions generally do not encompass consumer leasing or used vehicle financing. Since there is no assurance that Ally Bank will be able to obtain future exemptions or waivers with respect to these restrictions, the ability to grow Ally Bank's business will be affected by the Affiliate Transaction Restrictions.

***Ally Financial Inc. may require distributions in the future from its subsidiaries.***

We currently fund Ally Financial Inc.'s obligations, including dividend payments to our preferred shareholders, and payments of interest and principal on our indebtedness, from cash generated by Ally Financial Inc. In the future, Ally Financial Inc. may not generate sufficient funds at the parent company level to fund its obligations. As such, it may require dividends, distributions, or other payments from its subsidiaries to fund its obligations. However, regulatory and other legal restrictions may limit the ability of Ally Financial Inc.'s subsidiaries to transfer funds freely to Ally Financial Inc. In particular, many of Ally Financial Inc.'s subsidiaries are subject to laws, regulations, and rules that authorize regulatory bodies to block or reduce the flow of funds to it or that prohibit such transfers entirely in certain circumstances. These laws, regulations, and rules may hinder

---

**Table of Contents**

Ally Financial Inc.'s ability to access funds that it may need to make payments on its obligations in the future. Furthermore, as a bank holding company, Ally Financial Inc. may become subject to a prohibition or to limitations on its ability to pay dividends. The bank regulators have the authority and, under certain circumstances, the duty to prohibit or to limit payment of dividends by the banking organizations they supervise, including Ally Financial Inc. and its subsidiaries.

***Current and future increases in FDIC insurance premiums, including the FDIC special assessment imposed on all FDIC-insured institutions, could decrease our earnings.***

Beginning in 2008 and continuing through 2012, higher levels of bank failures have dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund (the DIF). In May 2009, the FDIC announced that it had voted to levy a special assessment on insured institutions in order to facilitate the rebuilding of the DIF. In September 2009, the FDIC voted to adopt an increase in the risk-based assessment rate effective beginning January 1, 2011, by three basis points. Further, the Dodd-Frank Act alters the calculation of an insured institution's deposit base for purposes of deposit insurance assessments and removes the upper limit for the reserve ratio designated by the FDIC each year. On February 7, 2011, the FDIC approved a final rule implementing these changes, which took effect on April 1, 2011. The FDIC will continue to assess the changes to the assessment rates at least annually. Future deposit premiums paid by Ally Bank depend on the level of the DIF and the magnitude and cost of future bank failures. Any increases in deposit insurance assessments could decrease our earnings.

**Risks Related to Our Business**

***The profitability and financial condition of our operations are heavily dependent upon the performance, operations, and prospects of the overall U.S. automotive market, and also upon GM and Chrysler.***

GM and Chrysler dealers and their retail customers compose a significant portion of our customer base, and our Dealer Financial Service operations are highly dependent on GM and Chrysler production and sales volume. In 2012, 63% of our U.S. new vehicle dealer inventory financing and 59% of our U.S. new vehicle consumer automotive financing volume were for GM franchised dealers and customers, and 28% of our U.S. new vehicle dealer inventory financing and 32% of our U.S. new vehicle consumer automotive financing volume were for Chrysler dealers and customers.

On October 1, 2010, GM acquired AmeriCredit Corp. (which GM subsequently renamed General Motors Financial Company, Inc. (GMF)), an independent automotive finance company that focuses on providing leasing and subprime financing options. Further, and as previously announced, we have entered into an agreement with GMF pursuant to which GMF will purchase our automotive finance operations in Europe and Latin America, as well as our interest in a joint venture in China. As GMF continues to grow, and as GM directs additional business to GMF, it could reduce GM's reliance on our services over time, which could have a material adverse effect on our profitability and financial condition. In addition, it is possible that GM or other automotive manufacturers could utilize other existing companies to support their financing needs including offering products or terms that we would not or could not offer, which could have a material adverse impact on our business and operations. Furthermore, other automotive manufacturers could expand or establish or acquire captive finance companies to support their financing needs thus reducing their need for our services.

A significant adverse change in GM's or Chrysler's business, including the production or sale of GM or Chrysler vehicles; the quality or resale value of GM or Chrysler vehicles; the use of GM or Chrysler marketing incentives; GM's or Chrysler's relationships with its key suppliers; or GM's or Chrysler's relationship with the United Auto Workers and other labor unions and other factors impacting GM or Chrysler or their respective employees, or significant adverse changes in their respective liquidity position and access to the capital markets; could have a material adverse effect on our profitability and financial condition.

There is no assurance that the global automotive market or GM's and Chrysler's respective share of that market will not suffer downturns in the future, and any negative impact could in turn have a material adverse effect on our business, results of operations, and financial position.

---

**Table of Contents**

*We are currently party to an agreement with GM that provides for certain exclusivity privileges that expires in December 2013, and were previously party to a similar agreement with Chrysler which has expired. We cannot predict the ultimate impact that the expiration of these agreements will have on our operations.*

We are currently party to an agreement with GM that provides for certain exclusivity privileges related to subvention programs that it offers, and were previously party to a similar agreement with Chrysler. On April 25, 2012, Chrysler provided us with notification of nonrenewal for our existing agreement with them, and as a result our agreement with Chrysler expired in April 2013. Further, in May 2013 Chrysler announced that it has entered into a ten-year agreement with Santander Consumer USA Inc. (Santander), pursuant to which Santander will provide a full range of wholesale and retail financing services to Chrysler dealers and consumers. In addition, our agreement with GM will expire in December 2013. These agreements provided Ally with certain preferred provider benefits, including limiting the use of other financing providers by GM and Chrysler in their incentive programs. We cannot predict the ultimate impact that the expiration of these agreements will have on our operations. However, the expiration of these agreements will likely increase competitive pressure on Ally, as some competitors have or could in the future have exclusive agreements with GM and/or Chrysler.

*Our business requires substantial capital and liquidity, and disruption in our funding sources and access to the capital markets would have a material adverse effect on our liquidity, capital positions, and financial condition.*

Our liquidity and the long-term viability of Ally depend on many factors, including our ability to successfully raise capital and secure appropriate bank financing. We are currently required to maintain a Tier 1 leverage ratio of 15% at Ally Bank, which will require that Ally maintain substantial equity funds in Ally Bank and inject substantial additional equity funds into Ally Bank as Ally Bank's assets increase over time.

We have significant maturities of unsecured debt each year. While we have reduced our reliance on unsecured funding, it continues to remain a critical component of our capital structure and financing plans. At March 31, 2013, approximately \$1.0 billion in principal amount of total outstanding consolidated unsecured debt is scheduled to mature in 2013, and approximately \$5.6 billion and \$5.1 billion in principal amount of consolidated unsecured debt is scheduled to mature in 2014 and 2015, respectively. We also obtain short-term funding from the sale of floating rate demand notes, all of which the holders may elect to have redeemed at any time without restriction. At March 31, 2013, a total of \$3.2 billion in principal amount of Demand Notes were outstanding. We also rely on secured funding. At March 31, 2013, approximately \$7.1 billion of outstanding consolidated secured debt is scheduled to mature in 2013, approximately \$12.0 billion is scheduled to mature in 2014, and approximately \$8.1 billion is scheduled to mature in 2015. Furthermore, at March 31, 2013, approximately \$15.9 billion in certificates of deposit at Ally Bank are scheduled to mature in 2013, which is not included in the 2013 unsecured maturities provided above. Additional financing will be required to fund a material portion of the debt maturities over these periods. The capital markets continue to be volatile, and Ally's access to the debt markets may be significantly reduced during periods of market stress. In addition, we will continue to have significant original issue discount amortization expenses (OID expense) in the near future, which will adversely affect our net income and resulting capital position. OID expense was \$60 million during the first three months of March 31, 2013 and the remaining scheduled amortization of OID is \$201 million, \$188 million, and \$56 million in 2013, 2014, and 2015, respectively.

As a result of the volatility in the markets and our current unsecured debt ratings, we have increased our reliance on various secured debt markets. Although market conditions have improved, there can be no assurances that this will continue. In addition, we continue to rely on our ability to borrow from other financial institutions, and many of our primary bank facilities are up for renewal on a yearly basis. Any weakness in market conditions and a tightening of credit availability could have a negative effect on our ability to refinance these facilities and increase the costs of bank funding. Ally and Ally Bank also continue to access the securitization markets. While markets have continued to stabilize following the 2008 liquidity crisis, there can be no assurances these sources of liquidity will remain available to us.

---

**Table of Contents**

***Our indebtedness and other obligations are significant and could materially and adversely affect our business.***

We have a significant amount of indebtedness. At December 31, 2012, we had approximately \$82.8 billion in principal amount of indebtedness outstanding (including \$45.1 billion in secured indebtedness). Interest expense on our indebtedness constituted approximately 48% of our total financing revenue and other interest income for the year ended December 31, 2012. In addition, during the twelve months ending December 31, 2012, we declared and paid preferred stock dividends of \$802 million in the aggregate.

We have the ability to create additional unsecured indebtedness. If our debt service obligations increase, whether due to the increased cost of existing indebtedness or the incurrence of additional indebtedness, we may be required to dedicate a significant portion of our cash flow from operations to the payment of principal of, and interest on, our indebtedness, which would reduce the funds available for other purposes. Our indebtedness also could limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions.

***The worldwide financial services industry is highly competitive. If we are unable to compete successfully or if there is increased competition in the automotive financing and/or insurance markets or generally in the markets for securitizations or asset sales, our business could be negatively affected.***

The markets for automotive financing, banking, and insurance are highly competitive. The market for automotive financing has grown more competitive as more consumers are financing their vehicle purchases and as more competitors continue to enter this market as a result of how well automotive finance assets generally performed relative to other asset classes during the 2008 economic downturn. More recently, competition for automotive financing has further intensified as a growing number of banks have become increasingly interested in automotive-finance assets, which has resulted in pressure on our net interest margins. For example, on April 1, 2011, TD Bank Group announced the closing of its acquisition of Chrysler Financial, which could enhance Chrysler Financial's ability to expand its product offerings and may result in increased competition. Ally Bank faces significant competition from commercial banks, savings institutions, mortgage companies, and other financial institutions. Our insurance business faces significant competition from insurance carriers, reinsurers, third-party administrators, brokers, and other insurance-related companies. Many of our competitors have substantial positions nationally or in the markets in which they operate. Some of our competitors have lower cost structures, substantially lower costs of capital, and are much less reliant on securitization activities, unsecured debt, and other public markets. Our competitors may be subject to different, and in some cases, less stringent, legislative and regulatory regimes than we are, thus putting us at a competitive disadvantage to these competitors. We face significant competition in most areas including product offerings, rates, pricing and fees, and customer service. If we are unable to compete effectively in the markets in which we operate, our profitability and financial condition could be negatively affected.

The markets for asset securitizations and whole-loan sales are competitive, and other issuers and originators could increase the amount of their issuances and sales. In addition, lenders and other investors within those markets often establish limits on their credit exposure to particular issuers, originators, and asset classes, or they may require higher returns to increase the amount of their exposure. Increased issuance by other participants in the market or decisions by investors to limit their credit exposure to (or to require a higher yield for) us or to automotive securitizations or whole-loans could negatively affect our ability and that of our subsidiaries to price our securitizations and whole-loan sales at attractive rates. The result would be lower proceeds from these activities and lower profits for our subsidiaries and us.

***Our allowance for loan losses may not be adequate to cover actual losses, and we may be required to materially increase our allowance, which may adversely affect our capital, financial condition, and results of operations.***

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expenses, which represents management's best estimate of probable credit losses that have been

---

**Table of Contents**

incurred within the existing portfolio of loans, all as described in Note 1 to the Consolidated Financial Statements. The allowance, in the judgment of management, is established to reserve for estimated loan losses and risks inherent in the loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing qualitative and quantitative information, all of which may undergo material changes. Changes in economic conditions affecting borrowers, accounting rules and related guidance, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of our control, may require an increase in the allowance for loan losses.

Bank regulatory agencies periodically review our allowance for loan losses, as well as our methodology for calculating our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different than those of management. An increase in the allowance for loan losses results in a decrease in net income and capital and may have a material adverse effect on our capital, financial condition and results of operations.

***The PSA may not be consummated if certain conditions are not met or if delays occur. If the PSA is not consummated, we will not be entitled to any release from claims of the Debtors or third parties.***

On May 14, 2012, the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court.

On May 14, 2013, AFI entered into the PSA with the Debtors, the Creditors' Committee, and the Consenting Claimants. The PSA provides for the parties to support the Plan, which, among other things, would settle and provide AFI full releases for all existing and potential claims between AFI and the Debtors and all pending and potential claims held by third parties related to the Debtors that could be brought against AFI, except for securities claims by the Federal Housing Finance Agency and the Federal Deposit Insurance Corporation, as receiver for certain failed banks. The Plan will also include a settlement of insurance disputes between AFI and the Debtors under which the Debtors will relinquish in favor of AFI all of their rights to coverage under certain insurance policies. Further, the PSA requires that all litigation against AFI by the Debtors, the Creditors' Committee and the Consenting Claimants be stayed so long as the PSA has not been terminated.

The PSA requires, among other things, that the following milestones be satisfied: (i) the FGIC rehabilitation court must approve the PSA and a separate FGIC Settlement on or before August 19, 2013; (ii) the Bankruptcy Court must approve the Disclosure Statement on or before August 30, 2013; and (iii) the effective date of the Plan must occur on or before December 15, 2013. In the event any of the above milestones are not satisfied, the PSA could be terminated.

The PSA also includes a number of additional events that could result in the PSA being terminated, including the following: (i) the Bankruptcy Court enters an order appointing a Chapter 11 trustee; (ii) any of the Debtors' Chapter 11 cases are dismissed or converted to a case under Chapter 7 of the Bankruptcy Code; (iii) any court has entered a final, non-appealable judgment or order declaring any material portion of the PSA unenforceable; (iv) the releases set forth in the PSA are modified, amended, changed, severed or otherwise altered in the Plan or any other definitive document; and (v) the PSA ceases to be binding on AFI or the Creditors' Committee.

Additionally, the PSA requires that several conditions be satisfied or waived before the Plan can be effective, including, the following: (i) the Bankruptcy Court approves the Plan and Disclosure Statement on terms reasonably acceptable to the parties; (ii) the Confirmation Order must have been entered by the Bankruptcy Court and provide for, among other things, the releases specified in the PSA; (iii) the Confirmation Order must not have been stayed, modified, or vacated on appeal, and the time to appeal shall have passed; (iv) the FGIC rehabilitation court must have approved the PSA and FGIC Settlement Agreement, including the release of all

---

**Table of Contents**

present and future claims against FGIC relating to FGIC policies; (v) AFI must have funded the Ally Contribution; and (vi) AFI's secured claims against the Debtors must have been fully satisfied.

See Prospectus Summary Recent Developments for further details regarding the PSA and the Plan.

There can be no assurance that any of the required milestones will be satisfied, that the conditions to effectiveness will be satisfied or waived or that none of the specified termination events will occur. The termination of the PSA or the failure of the PSA to become effective could result in modifications to the Plan, or the pursuit of an alternative form of reorganization or liquidation. This would result in delay and significant expense, and any modifications to the Plan or other alternative may well be less favorable to AFI. If AFI does not receive the releases described above, the Debtors and/or third party creditors are expected to assert substantial claims directly against AFI, which could have a material adverse impact on us. Even if substantial elements of the Plan are confirmed by the Bankruptcy Court and all required conditions are satisfied, there could be significant litigation against AFI for any claims not released under the Plan.

***We are exposed to consumer credit risk, which could adversely affect our profitability and financial condition.***

We are subject to credit risk resulting from defaults in payment or performance by customers for our contracts and loans, as well as contracts and loans that are securitized and in which we retain a residual interest. Furthermore, a weak economic environment and high unemployment rates could exert pressure on our consumer automotive finance customers resulting in higher delinquencies, repossessions, and losses. There can be no assurances that our monitoring of our credit risk as it affects the value of these assets and our efforts to mitigate credit risk through our risk-based pricing, appropriate underwriting policies, and loss-mitigation strategies are, or will be, sufficient to prevent a further adverse effect on our profitability and financial condition. We have begun to increase our nonprime automobile financing. We define nonprime consumer automobile loans as those loans with a FICO score (or an equivalent score) at origination of less than 620. In addition, we have increased our used automobile financing. Borrowers that finance used vehicles tend to have lower FICO scores as compared to new vehicle borrowers, and defaults resulting from vehicle breakdowns are more likely to occur with used vehicles as compared to new vehicles that are financed. At March 31, 2013, the carrying value of our Automotive Finance operations nonprime consumer automobile loans before allowance for loan losses was \$5.4 billion, or approximately 9.7% of our total consumer automobile loans. Of these loans, \$67 million were considered nonperforming as they had been placed on nonaccrual status in accordance with internal loan policies. Refer to the Nonaccrual Loans section of Note 1 to the Consolidated Financial Statements for additional information. As we grow our nonprime automobile financing loans over time, our credit risk may increase. As part of the underwriting process, we rely heavily upon information supplied by third parties. If any of this information is intentionally or negligently misrepresented and the misrepresentation is not detected before completing the transaction, the credit risk associated with the transaction may be increased.

***General business and economic conditions may significantly and adversely affect our revenues, profitability, and financial condition.***

Our business and earnings are sensitive to general business and economic conditions in the United States. A downturn in economic conditions resulting in increased short and long term interest rates, inflation, fluctuations in the debt capital markets, unemployment rates, consumer and commercial bankruptcy filings, or a decline in the strength of national and local economies and other factors that negatively affect household incomes could decrease demand for our financing products and increase financing delinquency and losses on our customer and dealer financing operations. We have been negatively affected due to the significant stress in the residential real estate and related capital markets and, in particular, the lack of home price appreciation in many markets in which we lend. Further, a significant and sustained increase in fuel prices could lead to diminished new and used vehicle purchases and negatively affect our automotive finance business.

**Table of Contents**

If the rate of inflation were to increase, or if the debt capital markets or the economies of the United States were to weaken, or if home prices or new and used vehicle purchases experience declines, we could be significantly and adversely affected, and it could become more expensive for us to conduct our business. For example, business and economic conditions that negatively affect household incomes, housing prices, and consumer behavior related to our businesses could decrease (1) the demand for our new and used vehicle financing and (2) the value of the collateral underlying our portfolio of held-for-investment assets and new and used vehicle loans and interests that continue to be held by us, thus further increasing the number of consumers who become delinquent or default on their loans. In addition, the rate of delinquencies, foreclosures, and losses on our loans could be higher during more severe economic slowdowns.

Any sustained period of increased delinquencies, foreclosures, or losses could further harm our ability to sell our new and used vehicle loans, the prices we receive for our new and used vehicle loans, or the value of our portfolio of mortgage and new and used vehicle loans held-for-investment or interests from our securitizations, which could harm our revenues, profitability, and financial condition. Continued adverse business and economic conditions could affect demand for new and used vehicles, housing, the cost of construction, and other related factors that could harm the revenues and profitability of our business.

***The current debt crisis in Europe, the risk that certain countries may default on their sovereign debt, and recent rating agency actions with respect to European countries and the United States and the resulting impact on the financial markets, could have a material adverse impact on our business, results of operations and financial position.***

The current crisis in Europe has created uncertainty with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations. In the past several years, rating agencies have lowered their ratings on several euro-zone countries. The continuation of the European debt crisis has adversely impacted financial markets and has created substantial volatility and uncertainty, and will likely continue to do so. Risks related to this have had, and are likely to continue to have, a negative impact on global economic activity and the financial markets. The effects of the European debt crisis could be even more significant if a Eurozone country determines to depart the European Monetary Union, which would lead to redenomination of obligations of obligors in that country and cause foreign exchange, operational, and settlement disruptions. In addition, on August 5, 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States of America to AA+ from AAA, and the outlook on its long-term rating is negative. The U.S. downgrade, any future downgrades, as well as the perceived creditworthiness of U.S. government-related obligations, including uncertainty surrounding the U.S. federal deficit and debt ceiling debate, could impact our ability to obtain, and the pricing with respect to, funding that is collateralized by affected instruments and obtained through the secured and unsecured markets. As these conditions persist, our business, results of operation, and financial position could be materially adversely affected.

***Acts or threats of terrorism and political or military actions taken by the United States or other governments could adversely affect general economic or industry conditions.***

Geopolitical conditions may affect our earnings. Acts or threats of terrorism and political or military actions taken by the United States or other governments in response to terrorism, or similar activity, could adversely affect general economic or industry conditions.

***Treasury (or its designee) will continue to own a substantial interest in us following this offering, and its interests may differ from those of our other stockholders.***

Immediately following this offering, and the concurrent transactions described under Concurrent Transactions, Treasury will own approximately % of our outstanding shares of common stock ( % if the underwriters in the offering of common stock and the underwriters in the concurrent offering of Units exercise their over-allotment options in full), assuming the common stock public offering price is the midpoint of

---

**Table of Contents**

the price range set forth on the cover of this prospectus, and Treasury will own approximately % of the outstanding Units ( % if the underwriters in the concurrent offering of Units exercise their over-allotment options in full).

Pursuant to the Amended and Restated Governance Agreement dated May 21, 2009, as of the date hereof, Treasury also has the right to appoint six of the eleven members to our board of directors. As a result of this stock ownership interest and Treasury's right to appoint six directors to our board of directors, Treasury has the ability to exert control, through its power to vote for the election of our directors, over various matters. To the extent Treasury elects to exert such control over us, its interests (as a government entity) may differ from those of our other stockholders and it may influence, through its ability to vote for the election of our directors, matters including:

the selection, tenure and compensation of our management;

our business strategy and product offerings;

our relationship with our employees and other constituencies; and

our financing activities, including the issuance of debt and equity securities.

In particular, Treasury may have a greater interest in promoting U.S. economic growth and jobs than our other stockholders. In the future we may also become subject to new and additional laws and government regulations regarding various aspects of our business as a result of participation in the TARP program and the U.S. government's ownership in our business. These regulations could make it more difficult for us to compete with other companies that are not subject to similar regulations.

***The limitations on compensation imposed on us due to our participation in TARP, including the restrictions placed on our compensation by the Special Master for TARP Executive Compensation, may adversely affect our ability to retain and motivate our executives and employees.***

Our performance largely is dependent on the talent and efforts of our management team and employees. As a result of our participation in TARP, the compensation of certain members of our management team and employees is subject to extensive restrictions under the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009 (the ARRA), which was signed into law on February 17, 2009, as implemented by the Interim Final Rule issued by Treasury on June 15, 2009 (the IFR). In addition, due to our level of participation in TARP, pursuant to ARRA and the IFR, the Office of the Special Master for TARP Executive Compensation has the authority to further regulate our compensation arrangements with certain of our executives and employees. In addition, we may become subject to further restrictions under any other future legislation or regulation limiting executive compensation. Many of the restrictions are not limited to our senior executives and affect other employees whose contributions to revenue and performance may be significant. These limitations may leave us unable to create a compensation structure that permits us to retain and motivate certain of our executives and employees or to attract new executives or employees, especially if we are competing against institutions that are not subject to the same restrictions. Any such inability could have a material and adverse effect on our business, financial condition, and results of operations.

***Our borrowing costs and access to the unsecured debt capital markets depend significantly on our credit ratings.***

The cost and availability of unsecured financing are materially affected by our short- and long-term credit ratings. Each of Standard & Poor's Rating Services; Moody's Investors Service, Inc.; Fitch, Inc.; and Dominion Bond Rating Service rates our debt. Our current ratings as assigned by each of the respective rating agencies are below investment grade, which negatively impacts our access to liquidity and increases our borrowing costs in the unsecured market. Ratings reflect the rating agencies' opinions of our financial strength, operating



---

**Table of Contents**

performance, strategic position, and ability to meet our obligations. Future downgrades of our credit ratings would increase borrowing costs and further constrain our access to the unsecured debt markets and, as a result, would negatively affect our business. In addition, downgrades of our credit ratings could increase the possibility of additional terms and conditions being added to any new or replacement financing arrangements as well as impact elements of certain existing secured borrowing arrangements.

Agency ratings are not a recommendation to buy, sell, or hold any security and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

***Our profitability and financial condition could be materially and adversely affected if the residual value of off-lease vehicles decrease in the future.***

Our expectation of the residual value of a vehicle subject to an automotive lease contract is a critical element used to determine the amount of the lease payments under the contract at the time the customer enters into it. As a result, to the extent the actual residual value of the vehicle, as reflected in the sales proceeds received upon remarketing at lease termination, is less than the expected residual value for the vehicle at lease inception, we incur additional depreciation expense and/or a loss on the lease transaction. General economic conditions, the supply of off-lease and other vehicles to be sold, new vehicle market prices, perceived vehicle quality, overall price and volatility of gasoline or diesel fuel, among other factors, heavily influence used vehicle prices and thus the actual residual value of off-lease vehicles. Consumer confidence levels and the strength of automotive manufacturers and dealers can also influence the used vehicle market. For example, during 2008, sharp declines in demand and used vehicle sale prices adversely affected our remarketing proceeds and financial results.

Vehicle brand images, consumer preference, and vehicle manufacturer marketing programs that influence new and used vehicle markets also influence lease residual values. In addition, our ability to efficiently process and effectively market off-lease vehicles affects the disposal costs and proceeds realized from the vehicle sales. While manufacturers, at times, may provide support for lease residual values including through residual support programs, this support does not in all cases entitle us to full reimbursement for the difference between the remarketing sales proceeds for off-lease vehicles and the residual value specified in the lease contract. Differences between the actual residual values realized on leased vehicles and our expectations of such values at contract inception could have a negative impact on our profitability and financial condition.

***Significant indemnification payments or contract, lease, or loan repurchase activity of retail contracts or leases could harm our profitability and financial condition.***

We have repurchase obligations in our capacity as servicer in securitizations and whole-loan sales. If a servicer breaches a representation, warranty, or servicing covenant with respect to an automotive receivable, the servicer may be required by the servicing provisions to repurchase that asset from the purchaser or otherwise compensate one or more classes of investors for losses caused by the breach. If the frequency at which repurchases of assets or other payments occurs increases substantially from its present rate, the result could be a material adverse effect on our financial condition, liquidity, and results of operations.

***A loss of contractual servicing rights could have a material adverse effect on our financial condition, liquidity, and results of operations.***

We are the servicer for all of the receivables we have acquired or originated and transferred to other parties in securitizations and whole-loan sales of automotive receivables. We are paid a fee for these services, which fees in the aggregate constitute a substantial revenue stream for us. In each case, we are subject to the risk of termination under the circumstances specified in the applicable servicing provisions.

In most securitizations and whole-loan sales, the owner of the receivables will be entitled to declare a servicer default and terminate the servicer upon the occurrence of specified events. These events typically

---

**Table of Contents**

include a bankruptcy of the servicer, a material failure by the servicer to perform its obligations, and a failure by the servicer to turn over funds on the required basis. The termination of these servicing rights, were it to occur, could have a material adverse effect on our financial condition, liquidity, and results of operations.

*Our earnings may decrease because of decreases or increases in interest rates.*

We are subject to risks from decreasing interest rates, particularly given the Federal Reserve's recent steps to keep interest rates low in an attempt to improve economic growth. A low interest rate environment or a flat or inverted yield curve may adversely affect certain of our businesses by compressing net interest margins or reducing the amounts we earn on our investment securities portfolio, thereby reducing our net interest income and other revenues.

Rising interest rates could also have an adverse impact on our business as well. For example, rising interest rates:

will increase our cost of funds;

may reduce our consumer automotive financing volume by influencing customers to pay cash for, as opposed to financing, vehicle purchases or not to buy new vehicles;

may negatively impact our ability to remarket off-lease vehicles; and

will generally reduce the value of automotive financing loans and contracts and retained interests and fixed income securities held in our investment portfolio.

Throughout 2009 and 2010 the credit risk embedded in the balance sheet was reduced as a result of asset sales, asset markdowns, and a change in the mix of our loan assets as the legacy portfolios were replaced with assets underwritten to tighter credit standards. This reduction in risk has resulted in a mix of assets outstanding on the balance sheet as of December 31, 2012, with a lower yielding profile than the prior year. During this same period of time we experienced a significant decline in our consumer automotive operating lease portfolio that was realizing higher yields from remarketing gains due to historically high used vehicle prices. The combination of the above factors resulted in a decline in asset yields more than the decline in liability rates, and therefore the decline in the net interest spread on the balance sheet throughout 2010 and into 2011.

*Our hedging strategies may not be successful in mitigating our risks associated with changes in interest rates and could affect our profitability and financial condition as could our failure to comply with hedge accounting principles and interpretations.*

We employ various economic hedging strategies to mitigate the interest rate and prepayment risk inherent in many of our assets and liabilities. Our hedging strategies rely on assumptions and projections regarding our assets, liabilities, and general market factors. If these assumptions and projections prove to be incorrect or our hedges do not adequately mitigate the impact of changes in interest rates or prepayment speeds, we may experience volatility in our earnings that could adversely affect our profitability and financial condition. In addition, we may not be able to find market participants that are willing to act as our hedging counterparties, which could have an adverse effect on the success of our hedging strategies.

In addition, hedge accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) requires the application of significant subjective judgments to a body of accounting concepts that is complex.

*A failure of or interruption in, as well as, security risks of the communications and information systems on which we rely to conduct our business could adversely affect our revenues and profitability.*

We rely heavily upon communications and information systems to conduct our business. Any failure or interruption of our information systems or the third-party information systems on which we rely as a result of



---

**Table of Contents**

inadequate or failed processes or systems, human errors, employee misconduct, catastrophic events, or other external events could cause underwriting or other delays and could result in fewer applications being received, slower processing of applications, and reduced efficiency in servicing. In addition, our communication and information systems may present security risks, and could be susceptible to hacking or identity theft. For example, similar to other large financial institutions, Ally's website, ally.com, was recently the subject of cyber attacks that resulted in slow performance and unavailability of the website for some customers. The occurrence of any of these events could have a material adverse effect on our business.

***We use estimates and assumptions in determining the fair value of certain of our assets. If our estimates or assumptions prove to be incorrect, our cash flow, profitability, financial condition, and business prospects could be materially and adversely affected.***

We use estimates and various assumptions in determining the fair value of many of our assets, including certain held-for-investment and held-for-sale loans for which we elected fair value accounting, retained interests from securitizations of loans and contracts, MSR, and other investments, which do not have an established market value or are not publicly traded. We also use estimates and assumptions in determining the residual values of leased vehicles. In addition, we use estimates and assumptions in determining our reserves for legal matters, insurance losses and loss adjustment expenses which represent the accumulation of estimates for both reported losses and those incurred, but not reported, including claims adjustment expenses relating to direct insurance and assumed reinsurance agreements. For further discussion related to estimates and assumptions, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates. Our actual experience may differ materially from these estimates and assumptions. A material difference between our estimates and assumptions and our actual experience may adversely affect our cash flow, profitability, financial condition, and business prospects.

***Fluctuations in valuation of investment securities or significant fluctuations in investment market prices could negatively affect revenues.***

Investment market prices in general are subject to fluctuation. Consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value and could negatively affect our revenues. Additionally, negative fluctuations in the value of available-for-sale investment securities could result in unrealized losses recorded in equity. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments, national and international events, and general market conditions.

***Changes in accounting standards issued by the Financial Accounting Standards Board (FASB) could adversely affect our reported revenues, profitability, and financial condition.***

Our financial statements are subject to the application of GAAP, which are periodically revised and/or expanded. The application of accounting principles is also subject to varying interpretations over time. Accordingly, we are required to adopt new or revised accounting standards or comply with revised interpretations that are issued from time to time by various parties, including accounting standard setters and those who interpret the standards, such as the FASB and the SEC, banking regulators, and our independent registered public accounting firm. Those changes could adversely affect our reported revenues, profitability, or financial condition.

Recently, the FASB has proposed new financial accounting standards, and has many active projects underway, that could materially affect our reported revenues, profitability, or financial condition. These proposed standards or projects include the potential for significant changes in the accounting for financial instruments (including loans, deposits, allowance for loan losses, and debt) and the accounting for leases, among others. It is possible that any changes, if enacted, could adversely affect our reported revenues, profitability, or financial condition.

## **Table of Contents**

### ***The soundness of other financial institutions could adversely affect us.***

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to different counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty.

### ***Our inability to maintain relationships with dealers could have an adverse effect on our business, results of operations, and financial condition.***

Our business depends on the continuation of our relationships with our customers, particularly the automotive dealers with whom we do business. If we are not able to maintain existing relationships with key automotive dealers or if we are not able to develop new relationships for any reason, including if we are not able to provide services on a timely basis or offer products that meet the needs of the dealers, our business, results of operations, and financial condition could be adversely affected.

### ***Adverse economic conditions or changes in laws in states in which we have customer concentrations may negatively affect our operating results and financial condition.***

We are exposed to consumer loan portfolio concentration in certain states including California, Texas, and Florida. Factors adversely affecting the economies and applicable laws in these and other states could have an adverse effect on our business, results of operations and financial position.

## **Risks Related to this Offering and Ownership of Our Common Stock**

### ***The sale or availability for sale of substantial amounts of our common stock could cause our common stock price to decline or impair our ability to raise capital.***

Sales of a substantial number of shares of our common stock in the public market following this offering, or the perception that large sales could occur, or the settlement of the purchase contracts that are components of the Units being offered in the concurrent offering or the perception that settlement could occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of equity and equity-related securities. Upon completion of this offering, there will be \_\_\_\_\_ shares of common stock issued and outstanding, assuming the common stock public offering price is the midpoint of the price range set forth on the cover of this prospectus.

Of the \_\_\_\_\_ outstanding shares of common stock, the \_\_\_\_\_ shares of common stock to be sold in this offering ( \_\_\_\_\_ shares if the underwriters in this offering exercise their over-allotment option in full) will be freely tradable without restriction or further registration under the Securities Act, unless those shares are held by any of our \_\_\_\_\_ affiliates, as that term is defined under Rule 144 of the Securities Act. Following the expiration of any applicable lock-up periods referred to in the section of this prospectus entitled "Shares Eligible for Future Sale," the \_\_\_\_\_ remaining outstanding shares of common stock may be eligible for resale under Rule 144 under the Securities Act subject to applicable restrictions under Rule 144. In addition, pursuant to Exhibit A of the Bylaws of Ally Financial Inc. (the "Registration Rights Agreement"), we have granted our existing common stockholders the right to require us in certain circumstances to file registration statements under the Securities Act covering additional resales of our common stock held by them and the right to participate in other registered offerings in certain circumstances. As restrictions on resale end or if these stockholders exercise their registration rights or otherwise sell their shares, the market price of our common stock could decline.

In particular, following this offering, Treasury or GMAC Common Equity Trust I might sell a large number of the shares of our common stock that they hold. Such sales of a substantial number of shares of our common stock could adversely affect the market price of our common stock.

---

**Table of Contents**

***The number of shares of our common stock Treasury will receive upon conversion of our Series F-2 preferred stock will depend upon the public offering price of the common stock in this offering.***

Treasury currently holds 118,750,000 shares of our Series F-2 preferred stock having an aggregate liquidation preference of approximately \$5.9 billion. In connection with this offering and the concurrent Units offering, Treasury intends to convert 58,750,000 shares of Series F-2 preferred stock into shares of our common stock based on a conversion price equal to the common stock public offering price, which, based on the midpoint of the price range set forth on the cover of this prospectus, would result in the conversion of the Series F-2 preferred stock into shares of common stock. See Concurrent Transactions.

Accordingly, the number of shares of our common stock we will issue to Treasury in connection with the conversion will depend upon the common stock public offering price. For example, if the common stock public offering price is \$ (the midpoint of the price range set forth on the cover of this prospectus), then we will issue shares of our common stock to Treasury upon conversion. By contrast, if the common stock public offering price were to increase by \$1.00, then we will issue shares of our common stock to Treasury upon conversion and if the common stock public offering price were to decrease by \$1.00, then we will issue shares of our common stock to Treasury upon conversion.

***We have no current plans to pay dividends on our common stock, and our ability to pay dividends on our common stock may be limited.***

We have no current plans to commence payment of a dividend on our common stock. Our payment of dividends on our common stock in the future will be determined by our Board of Directors in its sole discretion and will depend on business conditions, our financial condition, earnings and liquidity, and other factors. Our Series G preferred stock prohibits us from making dividend payments on our common stock before January 1, 2014 and allows dividend payments thereafter only if 1) our senior guaranteed notes issued on December 31, 2008 are rated investment grade and 2) the payment, together with other dividend payments we made since December 31, 2008, is less than 25% of the excess of our cumulative consolidated net income from January 1, 2014 to the most recently ended fiscal quarter for which financial statements are available at the time of such dividend payment. In addition, so long as any share of our Series A preferred stock remains outstanding, no dividend or distribution may be declared or paid on our common stock unless all accrued and unpaid dividends have been paid on such series of preferred stock.

Any indentures and other financing agreements that we enter into in the future may limit our ability to pay cash dividends on our capital stock, including our common stock. In the event that any of our indentures or other financing agreements in the future restrict our ability to pay dividends in cash on our common stock, we may be unable to pay dividends in cash on our common stock unless we can refinance the amounts outstanding under those agreements.

In addition, under Delaware law, our Board of Directors may declare dividends on our capital stock only to the extent of our statutory surplus (which is defined as the amount equal to total assets minus total liabilities, in each case at fair market value, minus statutory capital), or if there is no such surplus, out of our net profits for the then current and/or immediately preceding fiscal year. Further, even if we are permitted under our contractual obligations and Delaware law to pay cash dividends on our common stock, we may not have sufficient cash to pay dividends in cash on our common stock.

Any plans to commence payment of dividends on our common stock in the future would be subject to the FRB's review and absence of objection. See Business Certain Regulatory Matters Bank Holding Company Status. There is no assurance that, upon the FRB's review of our future capital plans, we would be permitted to make any planned payments of dividends on our common stock.

## **Table of Contents**

***Anti-takeover provisions contained in our organizational documents and Delaware law could delay or prevent a takeover attempt or change in control of our company, which could adversely affect the price of our common stock.***

Our amended and restated certificate of incorporation, our amended and restated bylaws, and Delaware law contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our Board of Directors. Our organizational documents include provisions:

Limiting the liability of our directors, and providing indemnification to our directors and officers; and

Limiting the ability of our stockholders to call and bring business before special meetings.

These provisions, alone or together, could delay hostile takeovers and changes in control of the company or changes in management.

In addition, after the completion of this offering, we will be subject to Section 203 of the General Corporation Law of the State of Delaware (the DGCL), which generally prohibits a corporation from engaging in various business combination transactions with any interested stockholder (generally defined as a stockholder who owns 15% or more of a corporation's voting stock) for a period of three years following the time that such stockholder became an interested stockholder, except under certain circumstances including receipt of prior board approval.

Any provision of our Certificate of Incorporation or our Bylaws or Delaware law that has the effect of delaying or deterring a hostile takeover or change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

See [Description of Capital Stock](#) for a further discussion of these provisions.

***Because there has not been any public market for our common stock, the market price and trading volume of our common stock may be volatile.***

You should consider an investment in our common stock to be risky and you should invest in our common stock only if you can withstand a significant loss and wide fluctuations in the market value of your investment. The price of our common stock after the closing of this offering may fluctuate widely, depending upon many factors, including, but not limited to:

the perceived prospects for the auto finance and mortgage industries in general or for our company;

differences between our actual financial and operating results and those expected by investors;

changes in the share price of public companies with which we compete;

news about our new products or services, enhancements, significant contracts, acquisitions or strategic investments;

changes in our capital structure, such as future issuances of securities, repurchases of our common stock or our incurrence of debt;

changes in general economic or market conditions;

broad market fluctuations;

regulatory actions or changes in applicable laws, rules or regulations;

unfavorable or lack of published research by securities or industry analysts; and

departure of key personnel.



**Table of Contents**

In addition, the market price of our common stock is likely to be influenced by the purchase contracts that are components of the Units being offered in the concurrent offering. For example, the market price of our common stock could become more volatile and could be depressed by investors' anticipation of the potential resale in the market of a substantial number of additional shares of our common stock, including shares of common stock received upon settlement of the purchase contracts that are components of the Units being offered in the concurrent offering, possible sales of our common stock by investors who view the Units as a more attractive means of equity participation in us than owning shares of our common stock; and hedging or arbitrage trading activity that may develop involving the Units and our common stock.

Our common stock may trade at prices significantly below the initial public offering price. In addition, when the market price of a company's common equity drops significantly, stockholders often institute securities class action lawsuits against the company. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources.

***Treasury, which is the selling stockholder, is a federal agency and your ability to bring a claim against Treasury under the federal securities laws may be limited.***

The doctrine of sovereign immunity, as limited by the Federal Tort Claims Act (the "FTCA"), provides that claims may not be brought against the United States of America or any agency or instrumentality thereof unless specifically permitted by act of Congress. The FTCA bars claims for fraud or misrepresentation. At least one federal court, in a case involving a federal agency, has held that the United States may assert its sovereign immunity to claims brought under the federal securities laws. In addition, Treasury and its officers, agents, and employees are exempt from liability for any violation or alleged violation of the anti-fraud provisions of Section 10(b) of the Exchange Act by virtue of Section 3(c) thereof. The underwriters are not claiming to be agents of Treasury in this offering. Accordingly, any attempt to assert such a claim against the officers, agents or employees of Treasury for a violation of the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act resulting from an alleged material misstatement in or material omission from this prospectus or the registration statement of which this prospectus is a part or resulting from any other act or omission in connection with the offering of the common stock by Treasury would likely be barred.

---

**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

We have made statements under the captions Prospectus Summary, Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and in other sections of this prospectus that may contain certain statements that constitute forward-looking statements within the meaning of the federal securities laws. The words expect, anticipate, estimate, forecast, initiative, objective, plan, project, outlook, priorities, target, intend, evaluate, pursue, seek, may, would, could, should, believe, potential, of these words or similar expressions are intended to identify forward-looking statements. All statements herein, other than statements of historical fact, including without limitation statements about future events and financial performance, are forward-looking statements that involve certain risks and uncertainties. You should not place undue reliance on any forward-looking statement and should consider all uncertainties and risks discussed in this prospectus, including those under the caption Risk Factors. Forward-looking statements apply only as of the date they are made, and Ally undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date the forward looking statement is made. Factors that could cause our actual results to be materially different from our expectations include, among others, the risk factors set forth herein under the caption Risk Factors, and the following:

Maintaining the mutually beneficial relationship between the company and GM, and the company and Chrysler;

The profitability and financial condition of GM and Chrysler;

Resolution of the bankruptcy filings by Residential Capital, LLC and certain of its subsidiaries;

Our ability to realize the anticipated benefits associated with being a bank holding company, and the increased regulation and restrictions that we are now subject to;

The potential for deterioration in the residual value of off-lease vehicles;

Disruptions in the market in which we fund our operations, with resulting negative impact on our liquidity;

Changes in our accounting assumptions that may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings;

Changes in the credit ratings of Ally, Chrysler, or GM;

Changes in economic conditions, currency exchange rates or political stability in the markets in which we operate; and

Changes in the existing or the adoption of new laws, regulations, policies or other activities of governments, agencies and similar organizations (including as a result of the Dodd-Frank Act and Basel III).

**Table of Contents**

**USE OF PROCEEDS**

The selling stockholder is selling all of the shares of common stock in this offering and Ally will not receive any proceeds from the sale of the shares.

**Table of Contents**

**DIVIDEND POLICY**

We have no current plans to commence payment of a dividend on our common stock. Our payment of dividends on our common stock in the future will be determined by our Board of Directors in its sole discretion and will depend on business conditions, our financial condition, earnings and liquidity, and other factors. Our Series G preferred stock prohibits us from making dividend payments on our common stock before January 1, 2014 and allows dividend payments thereafter only if (1) our senior guaranteed notes issued on December 31, 2008 are rated investment grade and (2) the payment, together with other dividend payments we made since December 31, 2008, is less than 25% of the excess of our cumulative consolidated net income from January 1, 2014 to the most recently ended fiscal quarter for which financial statements are available at the time of such dividend payment. In addition, so long as any share of our Series A preferred stock remains outstanding, no dividend or distribution may be declared or paid on our common stock unless all accrued and unpaid dividends have been paid on such series of preferred stock.

Any plans to commence payment of dividends on our common stock in the future would, as announced by the FRB on March 18, 2011, with respect to the completion of its Comprehensive Capital Analysis and Review of the capital plans of the nineteen largest U.S. bank holding companies, including Ally, be subject to the FRB's review and absence of objection. *See* Business Certain Regulatory Matters Bank Holding Company Status .

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of March 31, 2013, actual and pro forma to reflect:

the concurrent conversion and exchange by Treasury of our Series F-2 preferred stock and the concurrent offering by Treasury of our Units (assuming no exercise by the underwriters of that offering of their over-allotment option and that the public offering price of our common stock in this offering will be \$ \_\_\_\_\_ per share (the midpoint of the price range set forth on the cover of this prospectus) for purposes of calculating the number of shares we issue to Treasury in the conversion), in each case as described under Concurrent Transactions, and

the \_\_\_\_\_-for-one stock split on shares of our common stock effected on \_\_\_\_\_, 2013.

This table should be read in conjunction with Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto appearing elsewhere in this prospectus.

	As of March 31, 2013	
	Actual	Pro forma
	(\$ in millions)	
Cash and cash equivalents	\$ 7,437	\$
Short-term borrowings	7,618	
Long-term debt (1)	67,621	
Series A preferred stock, 1,021,764 shares issued and outstanding, actual and pro forma	1,021	
Series F-2 preferred stock, 118,750,000 shares issued and outstanding, actual and 0 shares issued and outstanding, pro forma (2)	5,685	
Series G preferred stock, 2,576,601 shares issued and outstanding, actual and pro forma	234	
Tangible Equity Units, 0 units issued and outstanding, actual and _____ units issued and outstanding, pro forma	0	
Common stock, \$0.01 par value per share, 1,330,970 shares issued and outstanding, actual, shares issued and outstanding pro forma and additional paid-in capital (2)	19,668	
Accumulated deficit (2)	(6,128)	
Accumulated other comprehensive income	(6)	
<b>Total equity (2)</b>	<b>20,474</b>	
<b>Total capitalization</b>	<b>\$ 95,713</b>	<b>\$</b>

(1) The amortizing notes which are a component of the Units are included in pro forma long-term debt.

(2) In connection with this offering and the concurrent Units offering, Treasury intends to convert (the conversion) 58,750,000 shares of Series F-2 preferred stock it holds into shares of our common stock based on a conversion price equal to the common stock public offering price.

**Table of Contents**

Because the conversion price in the conversion is based on the common stock public offering price, the number of shares of common stock we will issue to Treasury in connection with the conversion will depend on the common stock public offering price. The higher the common stock public offering price is, the fewer the number of shares of common stock Treasury will receive and the lower the common stock public offering price is, the greater the number of shares of common stock Treasury will receive. The following table sets forth the number of shares we will issue to Treasury in connection with the conversion for each common stock public offering price set forth below:

Public Offering Price	Number of Shares Issued to Treasury
\$	
\$	
\$	
\$	

In addition, we and Treasury intend to modify certain terms of the Series F-2 preferred stock so that Treasury will receive additional shares of our common stock in connection with the offering.

The issuance of these additional shares will be a one-time non-cash transaction, which will not affect the amount of our total equity. It will increase our accumulated deficit with an offsetting increase to common stock and paid-in capital, and the value of the non-cash dividend will reduce our net income attributable to common shareholders and therefore will substantially affect the calculation of earnings per share in the quarter in which this offering closes and the full year.

Assuming that the public offering price of our common stock in this offering will be \$ per share (the midpoint of the range set forth on the cover of this prospectus), net income attributable to common stock will be reduced by \$ in the quarter in which this offering closes and earnings per share will be reduced by \$ per share due to this one time, non-cash transaction.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial data of Ally should be read in conjunction with, and are qualified by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this prospectus. The consolidated statement of income data for the years ended December 31, 2012, 2011 and 2010 and the consolidated balance sheet data at December 31, 2012 and 2011 are derived from, and qualified by reference to, our audited consolidated financial statements included elsewhere in this prospectus and should be read in conjunction with those consolidated financial statements and notes thereto. The consolidated statement of income data for the years ended December 31, 2009 and 2008 and the consolidated balance sheet data at December 31, 2010, 2009 and 2008 are derived from our audited consolidated financial statements not included in this prospectus. The condensed consolidated statement of income data for the three months ended March 31, 2013 and 2012 and the condensed consolidated balance sheet data at March 31, 2013 and 2012 are derived from, and qualified by reference to, our unaudited condensed consolidated financial statements included elsewhere in this prospectus and should be read in conjunction with those condensed consolidated financial statements and notes thereto. In our opinion, the unaudited financial statements provided herein have been prepared on substantially the same basis as the audited historical consolidated financial statements and reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our financial position and results of operations for the periods presented. Our results for the three months ended March 31, 2013 are not necessarily indicative of those to be expected for the fiscal year.

	At and for three months ended March 31,			At and for the year ended December 31,			
	2013	2012	2012	2011	2010	2009	2008
	(\$ in millions)						
<b>Financial statement data</b>							
<i>Statement of income data:</i>							
Total financing revenue and other interest income	\$ 1,956	\$ 1,716	\$ 7,342	\$ 6,671	\$ 7,156	\$ 8,069	\$ 10,465
Interest expense	881	1,060	4,052	4,606	4,832	4,876	5,858
Depreciation expense on operating lease assets	435	305	1,399	941	1,251	2,256	3,159
Impairment of investment in operating leases							1,082
Net financing revenue	640	351	1,891	1,124	1,073	937	366
Total other revenue (a)	386	605	2,574	2,288	2,672	3,226	10,996
Total net revenue	1,026	956	4,465	3,412	3,745	4,163	11,362
Provision for loan losses	131	98	329	161	361	3,584	1,701
Total noninterest expense	958	855	3,622	3,428	3,621	3,937	4,213
(Loss) income from continuing operations before income tax (benefit) expense	(63)	3	514	(177)	(237)	(3,358)	5,448
Income tax (benefit) expense from continuing operations (b)	(123)	1	(856)	42	97	12	(87)
Net income (loss) from continuing operations	60	2	1,370	(219)	(334)	(3,370)	5,535
Income (loss) from discontinued operations, net of tax	1,033	308	(174)	62	1,363	(6,973)	(3,667)
Net income (loss)	\$ 1,093	\$ 310	\$ 1,196	\$ (157)	\$ 1,029	\$ (10,343)	\$ 1,868
(in millions, except per share data)							
<i>Net income (loss) attributable to common shareholders</i>							
Net income (loss) from continuing operations	\$ 60	\$ 2	\$ 1,370	\$ (219)	\$ (334)	\$ (3,370)	\$ 5,535
Less: Preferred stock dividends U.S. Department of Treasury	133	134	535	534	963	855	
Less: Preferred stock dividends	67	67	267	260	282	370	
Less: Impact of preferred stock conversion or amendment				(32)	616		
Net (loss) income from continuing operations attributable to common shareholders (c)	(140)	(199)	568	(981)	(2,195)	(4,595)	5,535

## Edgar Filing: Ally Financial Inc. - Form S-1/A

Income (loss) from discontinued operations, net of tax	<b>1,033</b>	308	<b>(174)</b>	62	1,363	(6,973)	(3,667)
Net income (loss) attributable to common shareholders	<b>\$ 893</b>	\$ 109	<b>\$ 394</b>	\$ (919)	\$ (832)	\$ (11,568)	\$ 1,868
Basic and diluted weighted-average common shares outstanding (c)	<b>1,330,970</b>	1,330,970	<b>1,330,970</b>	1,330,970	800,597	529,392	108,884



**Table of Contents**

	At and for three months ended March 31,		2012	At and for the year ended December 31,				2008
	2013	2012		2011	2010	2009		
(per share data in whole dollars)								
<b>Basic and diluted earnings per common share (d)</b>								
Net (loss) income from continuing operations	\$ (105)	\$ (149)	\$ 427	\$ (738)	\$ (2,742)	\$ (8,677)	\$ 50,827	
Income (loss) from discontinued operations, net of tax	776	231	(131)	47	1,703	(13,173)	(33,675)	
Net income (loss)	\$ 671	\$ 82	\$ 296	\$ (691)	\$ (1,039)	\$ (21,850)	\$ 17,152	

(\$ in millions)

**Pro forma data (e)****Basic and diluted earnings per common share**

Net (loss) income from continuing operations  
Income (loss) from discontinued operations, net of tax

Net (loss) income  
Basic and diluted weighted-average common shares outstanding

**Non-GAAP financial measures (f):**

Net income (loss)	\$ 1,093	\$ 310	\$ 1,196	\$ (157)	\$ 1,029	\$ (10,343)	\$ 1,868
Add: Original issue discount amortization expense (g)	57	108	336	962	1,300	1,143	70
Add: Income tax (benefit) expense from continuing operations	(123)	1	(856)	42	97	12	(87)
Less: Gain on extinguishment of debt related to the 2008 bond exchange							11,460
Less: Income (loss) from discontinued operations, net of tax	1,033	308	(174)	62	1,363	(6,973)	(3,667)
Core pretax (loss) income (f)	\$ (6)	\$ 111	\$ 850	\$ 785	\$ 1,063	\$ (2,215)	\$ (5,942)

**Selected period-end balance sheet data:**

Total assets	\$ 166,199	\$ 186,350	\$ 182,347	\$ 184,059	\$ 172,008	\$ 172,306	\$ 189,476
Long-term debt	\$ 67,621	\$ 93,990	\$ 74,561	\$ 92,885	\$ 86,703	\$ 88,066	\$ 115,935
Preferred stock/interests (d)	\$ 6,940	\$ 6,940	\$ 6,940	\$ 6,940	\$ 6,972	\$ 12,180	\$ 6,287
Total equity	\$ 20,474	\$ 19,576	\$ 19,898	\$ 19,280	\$ 20,398	\$ 20,794	\$ 21,854

**Financial ratios**

Efficiency ratio (h)	93.37%	89.44%	81.12%	100.47%	96.69%	94.57%	37.08%
Core efficiency ratio (h)	88.46%	80.36%	75.44%	78.37%	71.77%	74.20%	n/m
Return on assets (i)							
Net income (loss) from continuing operations	0.14%	%	0.75%	(0.12)%	(0.19)%	(1.89)%	2.92%
Net income (loss)	2.54%	0.68%	0.65%	(0.09)%	0.58%	(5.81)%	0.99%
Core pretax (loss) income	(0.01)%	0.24%	0.46%	0.43%	0.60%	(1.25)%	(3.14)%
Return on equity (i)							
Net income (loss) from continuing operations	1.20%	0.04%	7.24%	(1.09)%	(1.62)%	(13.90)%	25.33%
Net income (loss)	21.98%	6.40%	6.32%	(0.78)%	4.98%	(42.65)%	8.55%
Core pretax (loss) income	(0.12)%	2.29%	4.49%	3.91%	5.14%	(9.13)%	(27.19)%
Equity to assets (i)	11.57%	10.56%	10.30%	11.10%	11.69%	13.63%	11.53%
Net interest spread (i)(j)	1.67%	0.86%	1.18%	0.69%	0.81%	0.31%	(k)
	1.89%	1.29%	1.49%	1.57%	2.16%	1.84%	(k)

Edgar Filing: Ally Financial Inc. - Form S-1/A

Net interest spread excluding original issue discount (i)(j)							
Net yield on interest-earning assets (i)(l)	<b>1.90%</b>	1.11%	<b>1.40%</b>	0.92%	1.02%	0.94%	(k)
Net yield on interest-earning assets excluding original issue discount (i)(l)	<b>2.07%</b>	1.45%	<b>1.66%</b>	1.68%	2.18%	2.10%	(k)
<b>Regulatory capital ratios</b>							
Tier 1 capital (to risk-weighted assets) (m)	<b>14.59%</b>	13.45%	<b>13.13%</b>	13.65%	14.93%	14.12%	(k)
Total risk-based capital (to risk-weighted assets) (n)	<b>15.59%</b>	14.47%	<b>14.07%</b>	14.69%	16.30%	15.52%	(k)
Tier 1 leverage (to adjusted quarterly average assets) (o)	<b>12.01%</b>	11.60%	<b>11.16%</b>	11.45%	12.99%	12.68%	(k)
Total equity	<b>\$ 20,474</b>	\$ 19,576	<b>\$ 19,898</b>	\$ 19,280	\$ 20,398	\$ 20,794	(k)
Goodwill and certain other intangibles	<b>(489)</b>	(494)	<b>(494)</b>	(493)	(532)	(534)	(k)
Unrealized gains and other adjustments	<b>(1,865)</b>	(317)	<b>(1,715)</b>	(262)	(309)	(447)	(k)
Trust preferred securities	<b>2,543</b>	2,542	<b>2,543</b>	2,542	2,541	2,540	(k)
Tier 1 capital (m)	<b>20,663</b>	21,307	<b>20,232</b>	21,067	22,098	22,353	(k)
Preferred equity	<b>(6,940)</b>	(6,940)	<b>(6,940)</b>	(6,940)	(6,972)	(12,180)	(k)
Trust preferred securities	<b>(2,543)</b>	(2,542)	<b>(2,543)</b>	(2,542)	(2,541)	(2,540)	(k)
Tier 1 common capital (non-GAAP) (p)	<b>\$ 11,180</b>	\$ 11,825	<b>\$ 10,749</b>	\$ 11,585	\$ 12,585	\$ 7,633	(k)
Risk-weighted assets (q)	<b>\$ 141,623</b>	\$ 158,468	<b>\$ 154,038</b>	\$ 154,319	\$ 147,979	\$ 158,326	(k)
Tier 1 common (to risk-weighted assets) (p)	<b>7.89%</b>	7.46%	<b>6.98%</b>	7.51%	8.50%	4.82%	(k)

- (a) Total other revenue for 2008 includes \$12.6 billion of gains on the extinguishment of debt, primarily related to private exchange and cash tender offers settled during the fourth quarter.

**Table of Contents**

- (b) Effective June 30, 2009, we converted from a limited liability company into a corporation and, as a result, became subject to corporate U.S. federal, state, and local taxes. Our conversion to a corporation resulted in a change in tax status and a net deferred tax liability of \$1.2 billion was established through income tax expense.
- (c) Due to the antidilutive effect of converting the Fixed Rate Cumulative Mandatorily Convertible Preferred Stock into common shares and the net loss from continuing operations attributable to common shareholders for the three months ended March 31, 2013 and 2012, and the years ended December 31, 2011, 2010, and 2009, respectively, net income (loss) from continuing operations attributable to common shareholders and basic weighted-average common shares outstanding were used to calculate basic and diluted earnings per share.
- (d) Effective June 30, 2009, we converted from a Delaware limited liability company into a Delaware corporation. Each unit of each class of common membership interest issued and outstanding immediately prior to the conversion was converted into an equivalent number of shares of common stock with substantially the same rights and preferences as the common membership interests. Upon conversion, holders of our preferred membership interests also received an equivalent number of shares of preferred stock with substantially the same rights and preferences as the former preferred membership interests.
- (e) The pro forma financial information gives effect to this offering as if it has closed on \_\_\_\_\_, and reflects (i) the receipt by Treasury of additional shares of common stock in connection with this offering, (ii) increased interest expense on the amortizing notes at an assumed interest rate of \_\_\_\_\_% (tax affected at the historical rates reflected in the financial statements for the three months ended March 31, 2013 and the year ended December 31, 2012) and (iii) the elimination of dividends of \$ \_\_\_\_\_ on the Series F-2 preferred stock being converted into common stock and exchanged for Units in this offering. The pro forma financial information does not reflect the value of the additional shares received by Treasury that will be treated as a one-time, non-cash dividend of \$ \_\_\_\_\_ in the quarter in which this offering closes and the related reduction of \$ \_\_\_\_\_ per share in earnings per share.
- (f) Core pretax income (loss) is not a financial measure defined by generally accepted accounting principles in the United States of America (GAAP). We define core pretax income as earnings from continuing operations before income taxes, original issue discount amortization expense primarily associated with our 2008 bond exchange, and the gain on extinguishment of debt related to the 2008 bond exchange. We believe that the presentation of core pretax income (loss) is useful information for the users of our financial statements in understanding the earnings from our core businesses. In addition, core pretax income (loss) is the primary measure that management uses to assess the performance of our operations. We believe that core pretax income (loss) is a useful alternative measure of our ongoing profitability and performance, when viewed in conjunction with GAAP measures. The presentation of this additional information is not a substitute for net income (loss) determined in accordance with GAAP.
- (g) Primarily represents original issue discount amortization expense associated with the 2008 bond exchange that was reported as a loss on extinguishment of debt in Consolidated Statement of Income.
- (h) The efficiency ratio equals total other noninterest expense divided by total net revenue. The core efficiency ratio equals total other noninterest expense divided by total net revenue excluding original issue discount amortization expense and gain on extinguishment of debt related to the 2008 bond exchange.
- (i) The 2013, 2012, 2011, 2010 and 2009 ratios were computed based on average assets and average equity using a combination of monthly and daily average methodologies. The 2008 ratios have been computed based on period-end total assets and period-end total equity at December 31, 2008.
- (j) Net interest spread represents the difference between the rate on total interest earning assets and the rate on total interest-bearing liabilities, excluding discontinued operations for the periods shown.



**Table of Contents**

- (k) Not applicable at December 31, 2008, as we did not become a bank holding company until December 24, 2008.
- (l) Net yield on interest-earning assets represents net financing revenue as a percentage of total interest-earning assets.
- (m) Tier 1 capital generally consists of common equity, minority interests, qualifying noncumulative preferred stock, and the fixed rate cumulative preferred stock sold to Treasury under TARP and purchase contracts (including the purchase contracts that are components of the Units being offered in the concurrent offering) less goodwill and other adjustments.
- (n) Total risk-based capital is the sum of Tier 1 and Tier 2 capital. Tier 2 capital generally consists of preferred stock not qualifying as Tier 1 capital, limited amounts of subordinated debt and the allowance for loan losses, and other adjustments. The amount of Tier 2 capital may not exceed the amount of Tier 1 capital.
- (o) Tier 1 leverage equals Tier 1 capital divided by adjusted quarterly average total assets (which reflects adjustments for disallowed goodwill and certain intangible assets). The minimum Tier 1 leverage ratio is 3% or 4% depending on factors specified in the regulations.
- (p) We define Tier 1 common as Tier 1 capital less noncommon elements, including qualifying perpetual preferred stock, minority interest in subsidiaries, trust preferred securities, and mandatorily convertible preferred securities. However, the purchase contracts that are components of the Units being offered in the concurrent offering are not subtracted from Tier 1 capital to determine Tier 1 common. Ally considers various measures when evaluating capital utilization and adequacy, including the Tier 1 common equity ratio, in addition to capital ratios defined by banking regulators. This calculation is intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes. Because GAAP does not include capital ratio measures, Ally believes there are no comparable GAAP financial measures to these ratios. Tier 1 common equity is not formally defined by GAAP or codified in the federal banking regulations and, therefore, is considered to be a non-GAAP financial measure. Ally believes the Tier 1 common equity ratio is important because we believe analysts and banking regulators may assess our capital adequacy using this ratio. Additionally, presentation of this measure allows readers to compare certain aspects of our capital adequacy on the same basis to other companies in the industry.
- (q) Risk-weighted assets are defined by regulation and are determined by allocating assets and specified off-balance sheet financial instruments into several broad risk categories.

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

Ally Financial Inc. (formerly GMAC Inc.) is a leading, independent, financial services firm. Founded in 1919, we are a leading automotive financial services company with over 90 years experience providing a broad array of financial products and services to automotive dealers and their customers. We became a bank holding company on December 24, 2008, under the Bank Holding Company Act of 1956, as amended. Our banking subsidiary, Ally Bank, is an indirect wholly owned subsidiary of Ally Financial Inc. and a leading franchise in the growing direct (internet, telephone, mobile, and mail) banking market.

**Our Business**

***Dealer Financial Services***

Our Dealer Financial Services operations offer a wide range of financial services and insurance products to approximately 16,000 automotive dealerships and approximately 4 million of their retail customers. We have deep dealer relationships that have been built over our greater-than 90-year history and our dealer-focused business model makes us a preferred automotive finance company for many automotive dealers. Our broad set of product offerings and customer-focused marketing programs differentiate Ally in the marketplace and help drive higher product penetration in our dealer relationships. Our ability to generate attractive automotive assets is driven by our platform and scale, strong relationships with automotive dealers, a full suite of dealer financial products, automotive loan-servicing capabilities, dealer-based incentive programs, and superior customer service.

Our automotive financial services include providing retail installment sales financing, loans, and leases, offering term loans to dealers, financing dealer floorplans and other lines of credit to dealers, fleet leasing, and vehicle remarketing services. We also offer vehicle service contracts and commercial insurance, primarily covering dealers' wholesale vehicle inventories. We are a leading provider of vehicle service contracts, and maintenance coverages.

We have a longstanding relationship with General Motors Company (GM) and have developed strong relationships directly with GM-franchised dealers. We are a preferred financing provider to GM for incentivized retail loans. Our agreement with GM expires on December 31, 2013. Ally currently competes in the marketplace for all other parts of the business with GM dealers including wholesale financing, standard rate consumer financing, and leasing. In addition, through April 30, 2013, Ally acted as preferred financing provider to Chrysler Group LLC (Chrysler) (including Fiat) for incentivized retail loans. Ally expects to continue to play a significant role with GM and Chrysler dealers in the future as the dealer is Ally's direct customer for the majority of business that is conducted.

We have further diversified our customer base by establishing agreements to become preferred financing providers with other vehicle manufacturers including, Thor Industries, Maserati, The Vehicle Production Group LLC, Forest River, and Mitsubishi Motors.

On June 9, 2013, Maserati provided us with notification of nonrenewal related to its agreement with us and as a result, the agreement will expire on June 8, 2014.

During 2010 our primary emphasis was on originating loans of higher credit tier borrowers. For this reason, our current operating results continue to reflect higher credit quality, lower yielding loans with lower credit loss experience. Ally however seeks to be a meaningful lender to a wide spectrum of borrowers. In 2010 we enhanced our risk management practices and efforts on risk-based pricing. We have gradually increased volumes in lower credit tiers in 2011 and 2012. We plan to continue to increase the proportion of our non-GM and Chrysler business, as we focus on maintaining and growing our dealer-customer base through our full suite of products, our dealer relationships, the scale of our platform, and our dealer-based incentive programs.

## **Table of Contents**

Our Insurance operations offer both consumer finance and insurance products sold primarily through the automotive dealer channel, and commercial insurance products sold to dealers. As part of our focus on offering dealers a broad range of consumer finance and insurance products, we provide vehicle service contracts, maintenance coverage, and Guaranteed Automobile Protection (GAP) products. We also underwrite selected commercial insurance coverage, which primarily insures dealers' wholesale vehicle inventory in the United States.

### ***Mortgage***

Our ongoing Mortgage operations include the management of our held-for-investment mortgage portfolio. Our Mortgage operations also consist of noncore businesses that are winding down. On October 26, 2012, we announced that we had begun to explore strategic alternatives for our agency mortgage servicing rights (MSRs) portfolio and our business lending operations. On February 28, 2013, we sold our business lending operations to Walter Investment Management Corp. On April 16, 2013, we completed the sales of agency MSRs to Ocwen Financial Corp. and Quicken Loans, Inc. Refer to Note 27 to the Condensed Consolidated Financial Statements for further information. Also on April 17, 2013, we announced a decision to exit the correspondent lending channel and cease production of any new jumbo mortgage loans.

Residential Capital, LLC (ResCap) and certain of its wholly-owned subsidiaries (collectively, the Debtors), filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York on May 14, 2012. On May 14, 2013, AFI entered into the PSA with the Debtors, the Creditors' Committee and certain creditors. See Prospectus Summary Recent Developments.

Subsequent to the bankruptcy filing, ResCap announced the sale of certain assets to third parties. Upon the closing of those sales, we do not expect ResCap to continue to broker loans to us. This will primarily impact the production of loans within the Direct Lending channel, which are currently sourced exclusively from ResCap.

As the actions discussed continue to progress, we expect the level of loan production and mortgage-related assets (with the exception of mortgage loans held for investment), as well as the income before income tax expense from Mortgage operations, to decline.

### ***Corporate and Other***

Corporate and Other primarily consists of our centralized corporate treasury activities, such as management of the cash and corporate investment securities portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, the amortization of the discount associated with new debt issuances and bond exchanges, most notably from the December 2008 bond exchange, and the residual impacts of our corporate funds-transfer pricing (FTP) and treasury asset liability management (ALM) activities. Corporate and Other also includes our Commercial Finance Group, certain equity investments, overhead that was previously allocated to operations that have since been sold or classified as discontinued operations, and reclassifications and eliminations between the reportable operating segments. Our Commercial Finance Group provides senior secured commercial-lending products to primarily U.S.-based middle market companies.

The net financing revenue of our Automotive Finance and Mortgage operations includes the results of an FTP process that insulates these operations from interest rate volatility by matching assets and liabilities with similar interest rate sensitivity and maturity characteristics. The FTP process assigns charge rates to the assets and credit rates to the liabilities within our Automotive Finance and Mortgage operations, respectively, based on anticipated maturity and a benchmark index plus an assumed credit spread. The assumed credit spread represents the cost of funds for each asset class based on a blend of funding channels available to the enterprise, including unsecured and secured capital markets, private funding facilities, and deposits. In addition, a risk-based methodology, which incorporates each operations credit, market, and operational risk components is used to allocate equity to these operations.

---

**Table of Contents**

***Ally Bank***

Ally Bank, our direct banking platform, provides us with a stable and diversified low-cost funding source. Our focus is on building a stable deposit base driven by our compelling brand and strong value proposition. Ally Bank raises deposits directly from customers through direct banking via the internet, telephone, mobile, and mail channels. Ally Bank has established a strong and growing retail banking franchise which is based on a promise of being straightforward, easy to use, and offering high-quality customer service. Ally Bank's products and services are designed to develop long-term customer relationships and capitalize on the shift in consumer preference for direct banking.

Ally Bank offers a full spectrum of deposit product offerings, such as checking, savings, and certificates of deposit (CDs), as well as 48-month raise your rate CDs, IRA deposit products, Popmoney person-to-person transfer service, eCheck remote deposit capture, Ally Perks debit rewards program, and Mobile Banking. In addition, brokered deposits are obtained through third-party intermediaries. At March 31, 2013, Ally Bank had \$49.5 billion of deposits, including \$38.8 billion of retail deposits. The growth of our retail base from \$7.2 billion at the end of 2008 to \$38.8 billion at March 31, 2013, has enabled us to reduce our cost of funds during that period. The growth in deposits is primarily attributable to our retail deposits while our brokered deposits have remained at historical levels. Strong retention rates, reflecting the strength of the franchise, have materially contributed to our growth in retail deposits.

***Funding and Liquidity***

Our funding strategy largely focuses on the development of diversified funding sources which we manage across products, programs, markets, and investor groups. We fund our assets primarily with a mix of retail and brokered deposits, public and private asset-backed securitizations, asset sales, committed and uncommitted credit facilities and public unsecured debt.

The diversity of our funding sources enhances funding flexibility, limits dependence on any one source and results in a more cost-effective funding strategy over the long term. Throughout 2008 and 2009, the global credit markets experienced extraordinary levels of volatility and stress. As a result, access by market participants, including Ally, to the capital markets was significantly constrained and borrowing costs increased. In response, numerous government programs were established aimed at improving the liquidity position of U.S. financial services firms. After converting to a bank holding company in late 2008, we participated in several of the programs, including Temporary Liquidity Guaranty Program (TLGP), Term Auction Facility, and Term Asset-Backed Securities Loan Facility. Our diversification strategy and participation in these programs helped us to maintain sufficient liquidity during this period of financial distress to meet all maturing unsecured debt obligations and to continue our lending and operating activities. During 2012, we repaid the TLGP debt and the other programs were discontinued prior to 2012.

As part of our overall transformation from an independent financial services company to a bank holding company, we took actions to further diversify and develop more stable funding sources and, in particular, embarked upon initiatives to grow our consumer deposit-taking capabilities within Ally Bank. In addition, we began distinguishing our liquidity management strategies between bank funding and nonbank funding.

Maximizing bank funding continues to be the cornerstone of our long-term liquidity strategy. We have made significant progress in migrating assets to Ally Bank and growing our retail deposit base since becoming a bank holding company. Retail deposits provide a low-cost source of funds that are less sensitive to interest rate changes, market volatility or changes in our credit ratings than other funding sources. At March 31, 2013, deposit liabilities totaled \$50.3 billion, which constituted 40% of our total funding. This compares to just 14% at December 31, 2008.

In addition to building a larger deposit base, we continue to remain active in the securitization markets to finance Ally Bank's automotive loan portfolios. During 2012, we issued \$11.8 billion in secured funding backed



## **Table of Contents**

by retail automotive loans and leases as well as dealer floorplan automotive loans of Ally Bank. Continued structural efficiencies in securitizations combined with improving capital market conditions have resulted in a reduction in the cost of funds achieved through secured funding transactions, making them a very attractive source of funding. Additionally, for retail loans and leases, the term structure of the transaction locks in funding for a specified pool of loans and leases for the life of the underlying asset. Once a pool of retail automobile loans are selected and placed into a securitization, the underlying assets and corresponding debt amortize simultaneously resulting in committed and matched funding for the life of the asset. We manage the execution risk arising from secured funding by maintaining a diverse investor base and maintaining committed secured facilities.

As we have shifted our focus to migrating assets to Ally Bank and growing our bank funding capabilities, our reliance on parent company liquidity has consequently been reduced. Funding sources at the parent company generally consist of longer-term unsecured debt, private credit facilities, and asset-backed securitizations. In 2012, we issued over \$3.6 billion of unsecured debt globally through several issuances. At December 31, 2012, we had \$1.3 billion and \$5.6 billion of outstanding unsecured long-term debt with maturities in 2013 and 2014, respectively. To fund these maturities, we expect to use existing pre-issued liquidity combined with maintaining an opportunistic approach to new issuance.

The strategies outlined above have allowed us to build and maintain a conservative liquidity position. Total available liquidity at the parent company was \$15.6 billion and Ally Bank had \$13.2 billion of available liquidity at December 31, 2012. Parent company liquidity is defined as our consolidated operations less Ally Bank and the subsidiaries of Ally Insurance's holding company. At the same time, these strategies have also resulted in a cost of funds improvement of approximately 95 basis points since the first quarter of 2011. Looking forward, given our enhanced liquidity and capital position and generally improved credit ratings, we expect that our cost of funds will continue to improve over time.

### ***Credit Strategy***

We are a full spectrum automotive finance lender with most of our automotive loan originations underwritten within the prime-lending markets as we continue to prudently expand in nonprime markets.

During 2012, we continued to recognize improvement in our credit risk profile as a result of proactive credit risk initiatives that were taken in 2009 and 2010 and modest improvement in the overall economic environment. Additionally, we discontinued certain nonstrategic operations, mainly in our international businesses. Within our Automotive Finance operations, we exited certain underperforming dealer relationships. Within our Mortgage operations, we have taken action with the intent to significantly reduce or eliminate our mortgage-related activities with respect to the origination of conforming mortgage loans with the intent to sell into GSE-sponsored securitizations, the retention of mortgage servicing rights, and the extension of credit to third-party mortgage originators (warehouse lending).

During the year ended December 31, 2012, the credit performance of our portfolios remained strong overall as our asset quality trends within our automotive and mortgage portfolios were stable. Nonperforming loans continued to decline, benefiting from the deconsolidation of ResCap. Charge-offs also declined primarily due to recoveries in the commercial portfolio. Our provision for loan losses increased to \$329 million in 2012 from \$161 million in 2011 due to higher asset levels in the consumer and commercial automotive portfolios and our prudent expansion of underwriting strategy to originate volumes across a broader credit spectrum, which was significantly narrowed during the recession.

We continue to see signs of economic stabilization in the housing and vehicle markets, although our total credit portfolio will continue to be affected by sustained levels of high unemployment and continued uncertainty in the housing market.

---

**Table of Contents*****Bank Holding Company and Treasury's Investments***

During 2008, and continuing into 2009, the credit, capital, and mortgage markets became increasingly disrupted. This disruption led to severe reductions in liquidity and adversely affected our capital position. As a result, Ally sought approval to become a bank holding company to obtain access to capital at a lower cost to remain competitive in our markets. On December 24, 2008, Ally and IB Finance Holding Company, LLC, the holding company of Ally Bank, were each approved as bank holding companies under the Bank Holding Company Act of 1956. At the same time, Ally Bank converted from a Utah-chartered industrial bank into a Utah-chartered commercial nonmember bank. Ally Bank as an FDIC-insured depository institution, is subject to the supervision and examination of the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI). Ally Financial Inc. is subject to the supervision and examination of the Board of Governors of the Federal Reserve System (FRB). We are required to comply with regulatory risk-based and leverage capital requirements, as well as various safety and soundness standards established by the FRB, and are subject to certain statutory restrictions concerning the types of assets or securities that we may own and the activities in which we may engage.

As one of the conditions to becoming a bank holding company, the FRB required several actions of Ally, including meeting a minimum amount of regulatory capital. In order to meet this requirement, Ally took several actions, the most significant of which were the execution of private debt exchanges and cash tender offers to purchase and/or exchange certain of our and our subsidiaries outstanding notes held by eligible holders for a combination of cash, newly issued notes of Ally, and in the case of certain of the offers, preferred stock. The transactions resulted in an extinguishment of all notes tendered or exchanged into the offers and the new notes and stock were recorded at fair value on the issue date. This resulted in a pretax gain on extinguishment of debt of \$11.5 billion in 2008 and a corresponding increase to our capital levels. The gain included a \$5.4 billion original issue discount representing the difference between the face value and the fair value of the new notes and is being amortized as interest expense over the term of the new notes. In addition, the U.S. Department of Treasury (Treasury) made an initial investment in Ally on December 29, 2008, pursuant to the Troubled Asset Relief Program (TARP) with a \$5.0 billion purchase of Ally perpetual preferred stock with a total liquidation preference of \$5.25 billion (Perpetual Preferred Stock).

On May 21, 2009, Treasury made a second investment of \$7.5 billion in exchange for Ally's mandatorily convertible preferred stock with a total liquidation preference of approximately \$7.9 billion (Old MCP), which included a \$4 billion investment to support our agreement with Chrysler to provide automotive financing to Chrysler dealers and customers and a \$3.5 billion investment related to the FRB's Supervisory Capital Assessment Program requirements. Shortly after this second investment, on May 29, 2009, Treasury acquired 35.36% of Ally common stock when it exercised its right to acquire 190,921 shares of Ally common stock from GM as repayment for an \$884 million loan that Treasury had previously provided to GM.

On December 30, 2009, we entered into another series of transactions with Treasury under TARP, pursuant to which Treasury (i) converted 60 million shares of Old MCP (with a total liquidation preference of \$3.0 billion) into 259,200 shares of additional Ally common stock; (ii) invested \$1.25 billion in new Ally mandatorily convertible preferred stock with a total liquidation preference of approximately \$1.3 billion (the New MCP); and (iii) invested \$2.54 billion in new trust preferred securities with a total liquidation preference of approximately \$2.7 billion (Trust Preferred Securities). At this time, Treasury also exchanged all of its Perpetual Preferred Stock and remaining Old MCP (following the conversion of Old MCP described above) into additional New MCP.

On December 30, 2010, Treasury converted 110 million shares of New MCP (with a total liquidation preference of approximately \$5.5 billion) into 531,850 shares of additional Ally common stock. The conversion reduces dividends by approximately \$500 million per year, assists with capital preservation, and is expected to improve profitability with a lower cost of funds.

On March 1, 2011, the Declaration of Trust and certain other documents related to the Trust Preferred Securities were amended, and all of the outstanding Trust Preferred Securities held by Treasury were designated

**Table of Contents**

8.125% Fixed Rate / Floating Rate Trust Preferred Securities, Series 2. On March 7, 2011, Treasury sold 100% of the Series 2 Trust Preferred Securities in an offering registered with the SEC. Ally did not receive any proceeds from the sale.

Following the transactions described above, Treasury currently holds 73.78% of Ally common stock and approximately \$5.9 billion in New MCP. As a result of its current common stock investment, Treasury is entitled to appoint six of the eleven total members of the Ally Board of Directors.

The following table summarizes the investments in Ally made by Treasury in 2008 and 2009.

	Investment type	Date	Cash investment	Warrants (\$ in millions)	Total
TARP	Preferred equity	December 29, 2008	\$ 5,000	\$ 250	\$ 5,250
GM Loan Conversion (a)	Common equity	May 21, 2009	884		884
SCAP 1	Preferred equity (MCP)	May 21, 2009	7,500	375	7,875
SCAP 2	Preferred equity (MCP)	December 30, 2009	1,250	63	1,313
SCAP 2	Trust preferred securities	December 30, 2009	2,540	127	2,667
Total cash investments			\$ 17,174	\$ 815	\$ 17,989

(a) In January 2009, Treasury loaned \$884 million to General Motors. In connection with that loan, Treasury acquired rights to exchange that loan for 190,921 shares. In May 2009, Treasury exercised that right.

The following table summarizes Treasury's investment in Ally at December 31, 2012.

	December 31, 2012	
	Book Value	Face Value
	(\$ in millions)	
MCP (a)	\$ 5,685	\$ 5,938
Common equity (b)		73.78%

(a) Reflects the exchange of face value of \$5.25 billion of Perpetual Preferred Stock to MCP in December 2009 and the conversion of face value of \$3.0 billion and \$5.5 billion of MCP to common equity in December 2009 and December 2010, respectively.

(b) Represents the current common equity ownership position by Treasury.

**Discontinued Operations**

During the three months ended March 31, 2013 and the years ended December 31, 2012, 2011, and 2010, we committed to dispose of certain operations of our Automotive Finance operations, Insurance operations, Mortgage operations, and Commercial Finance Group, and have classified these operations as discontinued. For all periods presented, all of the operating results for these operations have been removed from continuing operations. Refer to Prospectus Summary Recent Developments and Note 2 to the Consolidated Financial Statements for more details. The MD&A has been adjusted to exclude discontinued operations unless otherwise noted.

Sales transactions for our Automotive Finance operations are expected to close in stages throughout 2013 and possibly 2014. It is anticipated that there could be significant gains or losses occurring during interim periods of 2013 as the various stages close. We believe that when all of the various stages are closed, we will realize a cumulative net gain on the sale of our Automotive Finance discontinued operations.



**Table of Contents****Primary Lines of Business**

Dealer Financial Services, which includes our Automotive Finance and Insurance operations, and Mortgage are our primary lines of business. The following table summarizes the operating results excluding discontinued operations of each line of business. Operating results for each of the lines of business are more fully described in the sections of this Management's Discussion and Analysis of Financial Condition and Results of Operations that follow.

(\$ in millions)	Three months ended March 31,		
	2013	2012	Favorable/ (unfavorable) % change
Total net revenue (loss)			
Dealer Financial Services			
Automotive Finance operations	\$ 855	\$ 707	21
Insurance operations	320	350	(9)
Mortgage operations	15	174	(91)
Corporate and Other	(164)	(275)	40
Total	\$ 1,026	\$ 956	7
Income (loss) from continuing operations before income tax (benefit) expense			
Dealer Financial Services			
Automotive Finance operations	\$ 343	\$ 241	42
Insurance operations	61	100	(39)
Mortgage operations	(204)	63	n/m
Corporate and Other	(263)	(401)	34
Total	\$ (63)	\$ 3	n/m

n/m = not meaningful

(\$ in millions)	Year ended December 31				
	2012	2011	2010	Favorable/ (unfavorable) 2012-2011 % change	Favorable/ (unfavorable) 2011-2010 % change
Total net revenue (loss)					
Dealer Financial Services					
Automotive Finance operations	\$ 3,149	\$ 2,952	\$ 3,421	7	(14)
Insurance operations	1,214	1,398	1,801	(13)	(22)
Mortgage operations	1,308	559	565	134	(1)
Corporate and Other	(1,206)	(1,497)	(2,042)	19	27
Total	\$ 4,465	\$ 3,412	\$ 3,745	31	(9)

Income (loss) from continuing operations before income tax (benefit) expense

Dealer Financial Services

Edgar Filing: Ally Financial Inc. - Form S-1/A

Automotive Finance operations	\$ 1,389	\$ 1,333	\$ 1,757	4	(24)
Insurance operations	160	316	557	(49)	(43)
Mortgage operations	595	92	77	n/m	19
Corporate and Other	(1,630)	(1,918)	(2,628)	15	27
Total	\$ 514	\$ (177)	\$(237)	n/m	25

n/m = not meaningful

**Table of Contents****Consolidated Results of Operations**

The following table summarizes our consolidated operating results excluding discontinued operations for the periods shown. Refer to the operating segment sections of this prospectus for a more complete discussion of operating results by line of business.

(\$ in millions)	Three months ended March 31,		
	2013	2012	Favorable/ (unfavorable) % change
<b>Net financing revenue</b>			
Total financing revenue and other interest income	\$ 1,956	\$ 1,716	14
Interest expense	881	1,060	17
Depreciation expense on operating lease assets	435	305	(43)
<b>Net financing revenue</b>	<b>640</b>	<b>351</b>	<b>82</b>
<b>Other revenue</b>			
Net servicing (loss) income	(119)	16	n/m
Insurance premiums and service revenue earned	259	270	(4)
Gain on mortgage and automotive loans, net	38	20	90
Other gain on investments, net	51	89	(43)
Other income, net of losses	157	210	(25)
<b>Total other revenue</b>	<b>386</b>	<b>605</b>	<b>(36)</b>
<b>Total net revenue</b>	<b>1,026</b>	<b>956</b>	<b>7</b>
<b>Provision for loan losses</b>	<b>131</b>	<b>98</b>	<b>(34)</b>
<b>Noninterest expense</b>			
Compensation and benefits expense	285	303	6
Insurance losses and loss adjustment expenses	115	98	(17)
Other operating expenses	558	454	(23)
<b>Total noninterest expense</b>	<b>958</b>	<b>855</b>	<b>(12)</b>
<b>(Loss) income from continuing operations before income tax (benefit) expense</b>	<b>(63)</b>	<b>3</b>	<b>n/m</b>
Income tax (benefit) expense from continuing operations	(123)	1	n/m
<b>Net income from continuing operations</b>	<b>\$ 60</b>	<b>\$ 2</b>	<b>n/m</b>

n/m = not meaningful

**First Quarter 2013 Compared to First Quarter 2012**

We earned net income from continuing operations of \$60 million for the three months ended March 31, 2013, compared to \$2 million for the three months ended March 31, 2012. Net income from continuing operations for the three months ended March 31, 2013, was favorably impacted by our Automotive Finance operations, primarily due to an increase in consumer automotive financing revenue related to growth in the retail loan and operating lease portfolios. Additional favorability for the three months ended March 31, 2013 was primarily the result of lower original issue discount (OID) amortization expense related to bond maturities and normal monthly amortization, and lower funding costs. The increase was partially offset by higher depreciation expense related to higher lease asset balances as a result of strong lease origination volume, higher representation and warranty expense driven by the terms of our MSR portfolio sales agreements, and an increase in the provision for loan losses primarily resulting from the prudent expansion of our underwriting strategy to originate consumer automotive assets across a broader credit spectrum, which was significantly narrowed during the most recent economic recession.





## **Table of Contents**

Total financing revenue and other interest income increased \$240 million for the three months ended March 31, 2013, compared to the same period in 2012. The increase resulted primarily from an increase in operating lease revenue and consumer financing revenue for our Automotive Finance operations driven primarily by an increase in consumer asset levels as a result of increased used vehicle automotive financing and higher automotive industry sales, as well as limited use of whole-loan sales as a funding source in recent periods. Additionally, we continue to maintain our nonprime origination volume across a broad credit spectrum. This increase was partially offset by lower mortgage loan production as a result of the shutdown of our warehouse lending operations and the wind-down of the consumer held-for-sale portfolio.

Interest expense decreased 17% for the three months ended March 31, 2013, compared to the same periods in 2012, primarily due to lower funding costs and a decrease in OID amortization expense. OID amortization expense decreased \$51 million for the three months ended March 31, 2013, compared to the same period in 2012, due to bond maturities and normal monthly amortization.

Depreciation expense on operating lease assets increased 43% for the three months ended March 31, 2013, compared to the same period in 2012, primarily due to higher lease asset balances as a result of strong lease origination volume, partially offset by higher lease remarketing gains.

We incurred a net servicing loss of \$119 million for the three months ended March 31, 2013, compared to net servicing income of \$16 million for the same period in 2012. The decrease was primarily due to the valuation of our MSR portfolio in conjunction with our agreement to sell the portfolio.

Insurance premiums and service revenue earned decreased 4% for the three months ended March 31, 2013, compared to the same period in 2012, primarily due to declining U.S. vehicle service contracts written in prior years when the automotive market was depressed.

Gain on mortgage and automotive loans increased \$18 million for the three months ended March 31, 2013, compared to the same period in 2012. Due to the deconsolidation of ResCap following its bankruptcy filing, we began managing the execution of capital markets transactions, which resulted in us recording gains related to these transactions during the three months ended March 31, 2013.

Other gain on investments, net, was \$51 million for the three months ended March 31, 2013, compared to \$89 million for the same period in 2012. The decrease was primarily due to lower realized investment gains and the recognition of \$8 million of other-than-temporary impairment on certain equity securities.

Other income, net of losses, decreased 25% for the three months ended March 31, 2013, compared to the same period in 2012. The decrease was primarily due to lower fee income and net origination revenue related to decreased consumer mortgage-lending production associated with government-sponsored refinancing programs.

The provision for loan losses was \$131 million for the three months ended March 31, 2013, compared to \$98 million for the same period in 2012. The increase was primarily due to the prudent expansion of our underwriting strategy to originate consumer automotive assets across a broader credit spectrum, which was significantly narrowed during the most recent economic recession.

Total noninterest expense increased 12% for the three months ended March 31, 2013, compared to the same period in 2012. The increase was primarily due to higher representation and warranty expense driven by the terms of our MSR portfolio sales agreements and unseasonably high early spring hailstorms losses on our dealer inventory insurance products, partially offset by lower compensation and benefits expense primarily related to a decrease in headcount.

We recognized consolidated income tax benefit from continuing operations of \$123 million for the three months ended March 31, 2013, compared to income tax expense of \$1 million for the same period in 2012. The increase in income tax benefit was driven by the retroactive reinstatement of the active financing exception by the American Taxpayer Relief Act of 2012, and the release of valuation allowance related to the measurement of foreign tax credit carryforwards anticipated to be utilized in the future.

**Table of Contents**

In calculating the continuing operations provision for income taxes, we apply an estimated annual effective tax rate to year-to-date ordinary income on an interim basis. Refer to *Critical Accounting Estimates* within MD&A and Note 1 to the Condensed Consolidated Financial Statements for further details.

(\$ in millions)	Year ended December 31,			Favorable/ (unfavorable)	Favorable/ (unfavorable)
	2012	2011	2010	2012-2011 % change	2011-2010 % change
<b>Net financing revenue</b>					
Total financing revenue and other interest income	\$ 7,342	\$ 6,671	\$ 7,156	10	(7)
Interest expense	4,052	4,606	4,832	12	5
Depreciation expense on operating lease assets	1,399	941	1,251	(49)	25
<b>Net financing revenue</b>	<b>1,891</b>	<b>1,124</b>	<b>1,073</b>	<b>68</b>	<b>5</b>
<b>Other revenue</b>					
Net servicing income (loss)	405	91	(95)	n/m	196
Insurance premiums and service revenue earned	1,055	1,153	1,342	(8)	(14)
Gain on mortgage and automotive loans, net	379	229	587	66	(61)
Loss on extinguishment of debt	(148)	(64)	(124)	(131)	48
Other gain on investments, net	146	258	501	(43)	(49)
Other income, net of losses	737	621	461	19	35
<b>Total other revenue</b>	<b>2,574</b>	<b>2,288</b>	<b>2,672</b>	<b>13</b>	<b>(14)</b>
<b>Total net revenue</b>	<b>4,465</b>	<b>3,412</b>	<b>3,745</b>	<b>31</b>	<b>(9)</b>
<b>Provision for loan losses</b>	<b>329</b>	<b>161</b>	<b>361</b>	<b>(104)</b>	<b>55</b>
<b>Noninterest expense</b>					
Compensation and benefits expense	1,106	993	1,087	(11)	9
Insurance losses and loss adjustment expenses	454	452	511		12
Other operating expenses	2,062	1,983	2,023	(4)	2
<b>Total noninterest expense</b>	<b>3,622</b>	<b>3,428</b>	<b>3,621</b>	<b>(6)</b>	<b>5</b>
<b>Income (loss) from continuing operations before income tax (benefit) expense</b>	<b>514</b>	<b>(177)</b>	<b>(237)</b>	<b>n/m</b>	<b>25</b>
Income tax (benefit) expense from continuing operations	(856)	42	97	n/m	57
<b>Net income (loss) from continuing operations</b>	<b>\$ 1,370</b>	<b>\$ (219)</b>	<b>\$ (334)</b>	<b>n/m</b>	<b>34</b>

n/m = not meaningful

**2012 Compared to 2011**

We earned net income from continuing operations of \$1.4 billion for the year ended December 31, 2012, compared to a net loss from continuing operations of \$219 million for the year ended December 31, 2011. Net income from continuing operations for the year ended December 31, 2012, was favorably impacted by our Automotive Finance operations, primarily due to an increase in consumer automotive financing revenue related to growth in the retail loan and operating lease portfolios. Additional favorability for the year ended December 31, 2012 was primarily the result of a more favorable servicing asset valuation, net of hedge, compared to the same period in 2011, higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs, higher net gains on the sale of mortgage loans, and lower original issue discount (OID) amortization expense related to bond maturities and normal monthly amortization. The increase was partially offset by higher provision for loan losses and lower investment income due to impairment related to certain investment securities that we do not plan on holding to recovery.



**Table of Contents**

Total financing revenue and other interest income increased \$671 million for the year ended December 31, 2012, compared to 2011. The increase resulted primarily from an increase in operating lease revenue and consumer financing revenue at our Automotive Finance operations driven primarily by an increase in consumer asset levels as a result of increased used vehicle automotive financing and higher automotive industry sales, as well as limited use of whole-loan sales as a funding source in recent periods. Additionally, we continue to prudently expand our nonprime origination volume. The increase was partially offset by a lower average yield mix as higher-rate Ally Bank mortgage loans run off.

Interest expense decreased 12% for the year ended December 31, 2012, compared to 2011. OID amortization expense decreased \$576 million for the year ended December 31, 2012, compared to 2011, due to bond maturities and normal monthly amortization, as well as lower funding costs at our Mortgage operations.

Depreciation expense on operating lease assets increased 49% for the year ended December 31, 2012, compared to 2011, primarily due to higher lease asset balances as a result of strong lease origination volume and lower lease remarketing gains primarily due to lower lease remarketing volume. During the latter half of 2009, we re-entered the U.S. leasing market with targeted lease product offerings and have continued to expand lease volume since that time.

Net servicing income was \$405 million for the year ended December 31, 2012, compared to \$91 million in 2011. The increase was primarily due to the performance of the derivative servicing hedge as compared to a less favorable hedge performance in 2011, partially offset by lower servicing fees resulting from a lower unpaid principal balance of our MSR portfolio.

Insurance premiums and service revenue earned decreased 8% for the year ended December 31, 2012, compared to 2011, primarily due to declining U.S. vehicle service contracts written between 2007 and 2009 as a result of lower domestic vehicle sales volume.

Gain on mortgage and automotive loans increased 66% for the year ended December 31, 2012, compared to 2011. The increase was primarily due to higher consumer mortgage-lending production through our direct lending channel and margins associated with government-sponsored refinancing programs, higher margins on warehouse and correspondent lending due to decreased competition and more selective originations from these channels, and improved market gains on specified pooled loans.

Loss on extinguishment of debt increased \$84 million for the year ended December 31, 2012, compared to the same period in 2011, primarily due to fees incurred related to the early termination of FHLB debt as a result of replacing our higher-cost long-term debt structure in favor of a lower-cost short-term FHLB debt structure.

Other gain on investments, net, was \$146 million for the year ended December 31, 2012, compared to \$258 million in 2011. The decrease was primarily due to the recognition of \$61 million other-than-temporary impairment on certain equity securities in 2012 and lower realized investment gains.

Other income, net of losses, increased 19% for the year ended December 31, 2012, compared to 2011. The increase was primarily due to higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs, partially offset by lower remarketing fee income from our Automotive Finance operations driven by lower remarketing volumes through our proprietary SmartAuction platform.

The provision for loan losses was \$329 million for the year ended December 31, 2012, compared to \$161 million in 2011. The increase was driven primarily by higher asset levels in the consumer automotive portfolio and our prudent expansion of underwriting strategy to originate volumes across a broader credit spectrum, which was significantly narrowed during the recession.

---

**Table of Contents**

Total noninterest expense increased 6% for the year ended December 31, 2012, compared to 2011. The increase was primarily driven by higher representation and warranty expense resulting from the transfer of liability relating to Ally Bank's sold and serviced loans that had previously been recorded at ResCap, and higher compensation and benefits expense due to an increase in functional services provided by ResCap through a Shared Services Agreement (SSA). Refer to Note 1 to the Consolidated Financial Statements for further details on the SSA.

We recognized consolidated income tax benefit from continuing operations of \$856 million for the year ended December 31, 2012, compared to income tax expense of \$42 million in 2011. In 2011, we had a full valuation allowance against our domestic net deferred tax assets and certain international net deferred tax assets. For the year ended December 31, 2012, our results from operations benefited from the release of U.S. federal and state valuation allowances and related effects on the basis of management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized. Refer to Note 23 to the Consolidated Financial Statements for further information.

**2011 Compared to 2010**

We incurred a net loss from continuing operations of \$219 million for the year ended December 31, 2011, compared to a net loss from continuing operations of \$334 million for the year ended December 31, 2010. Continuing operations for the year ended December 31, 2011, were favorably impacted by improvement in the servicing asset valuation, net of hedge, when compared to the year ended December 31, 2010, and lower provision for loan losses, partially offset by lower gains on the sale of loans and lower financing revenue related to a decrease in asset levels.

Total financing revenue and other interest income decreased by 7% for the year ended December 31, 2011, compared to 2010. Operating lease revenue and the related depreciation expense at our Automotive Finance operations declined due to a lower average operating lease portfolio balance as a result of our decision in late 2008 to significantly curtail leasing. Depreciation expense was also impacted by lower lease remarketing gains resulting from lower lease termination volumes. The decrease in our Mortgage operations resulted from a decline in average asset levels related to held-for-sale assets as well as lower held-for-investment portfolio balances. Partially offsetting the decrease was an increase in consumer financing revenue at our Automotive Finance operations driven primarily by an increase in consumer asset levels related to strong loan origination volume during 2010 and 2011 resulting primarily from higher automotive industry sales, increased used vehicle financing volume, and higher on-balance sheet retention.

Interest expense decreased 5% for the year ended December 31, 2011, compared to 2010, primarily as a result of a change in our funding mix with an increased amount of funding coming from deposit liabilities as well as favorable trends in the securitization markets.

Insurance premiums and service revenue earned decreased 14% for the year ended December 31, 2011, compared to 2010. The decrease was primarily driven by the sale of certain international insurance operations during the fourth quarter of 2010 and lower earnings from our U.S. vehicle service contracts written between 2007 and 2009 due to lower domestic vehicle sales volume.

Gain on mortgage and automotive loans decreased 61% for the year ended December 31, 2011, compared to 2010. The decrease was primarily due to lower margins on mortgage loan sales, a decrease in mortgage loan production, and the expiration of our automotive forward flow agreements during the fourth quarter of 2010. Favorability in net servicing income as a result of swap activity offset this decrease. Net servicing income was \$91 million for the year ended December 31, 2011, compared to a net servicing loss of \$95 million in 2010.

We incurred a loss on extinguishment of debt of \$64 million for the year ended December 31, 2011, compared to a loss of \$124 million for the year ended December 31, 2010. The activity in all periods related to

## **Table of Contents**

the extinguishment of certain Ally debt, which included \$50 million of accelerated amortization of original issue discount for 2011, compared to \$101 million in 2010.

Other gain on investments was \$258 million for the year ended December 31, 2011, compared to \$501 million in 2010. The decrease was primarily due to lower realized investment gains on our Insurance operations investment portfolio.

Other income, net of losses, increased 35% for the year ended December 31, 2011, compared to 2010. The increase during 2011 was primarily due to the positive impact of a \$121 million gain on the early settlement of a loss holdback provision related to certain historical automotive whole-loan forward flow agreements and a favorable change in the fair value option election adjustment.

The provision for loan losses was \$161 million for the year ended December 31, 2011, compared to \$361 million in 2010. The decrease during 2011 reflected improved credit quality of the overall portfolio as a result of the decision to curtail nonprime lending in 2009 and the continued runoff and improved loss performance of our Nuvel nonprime automotive financing portfolio.

Insurance losses and loss adjustment expenses decreased 12% for the year ended December 31, 2011, compared to 2010. The decrease was primarily due to lower frequency and severity experienced in our U.S. vehicle service contract business and the sale of certain international insurance operations during the fourth quarter of 2010, which was partially offset by higher weather-related losses in the United States on our dealer inventory insurance products.

Other operating expenses decreased 2% for the year ended December 31, 2011, compared to 2010, primarily as a result of lower insurance commissions expense and lower vehicle remarketing and repossession expense.

We recognized consolidated income tax expense of \$42 million for the year ended December 31, 2011, compared to \$97 million in 2010. For those respective periods, we had a full valuation allowance against our domestic net deferred tax assets and certain international net deferred tax assets. Accordingly, tax expense was driven by U.S. state income taxes in states where profitable subsidiaries are required to file separately from other loss companies in the group or where the use of prior losses is restricted, and foreign income taxes on pretax profits within foreign jurisdictions. The decrease in income tax expense for 2011, compared to 2010, was driven by increased foreign pretax losses.

## **Dealer Financial Services**

Results for Dealer Financial Services are presented by reportable segment, which includes our Automotive Finance and Insurance operations.

**Table of Contents****Automotive Finance Operations****Results of Operations**

The following table summarizes the operating results of our Automotive Finance operations excluding discontinued operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

(\$ in millions)	Three months ended March 31,		Favorable/ (unfavorable) % change
	2013	2012	
<b>Net financing revenue</b>			
Consumer	\$ 729	\$ 661	10
Commercial	281	285	(1)
Loans held-for-sale		5	(100)
Operating leases	734	507	45
Other interest income	7	15	(53)
Total financing revenue and other interest income	1,751	1,473	19
Interest expense	543	538	(1)
Depreciation expense on operating lease assets	435	305	(43)
Net financing revenue	773	630	23
<b>Other revenue</b>			
Servicing fees	19	30	(37)
Other income	63	47	34
Total other revenue	82	77	6
<b>Total net revenue</b>	<b>855</b>	<b>707</b>	<b>21</b>
<b>Provision for loan losses</b>	<b>112</b>	<b>78</b>	<b>(44)</b>
<b>Noninterest expense</b>			
Compensation and benefits expense	113	108	(5)
Other operating expenses	287	280	(3)
Total noninterest expense	400	388	(3)
<b>Income from continuing operations before income tax (benefit) expense</b>	<b>\$ 343</b>	<b>\$ 241</b>	<b>42</b>
<b>Total assets</b>	<b>\$ 118,882</b>	<b>\$ 119,081</b>	

**First Quarter 2013 Compared to First Quarter 2012**

Our Automotive Finance operations earned income before income tax expense of \$343 million for the three months ended March 31, 2013, compared to \$241 million for the three months ended March 31, 2012. Results for the three months ended March 31, 2013 were favorably impacted by higher consumer and operating lease revenues driven by growth in the retail loan and operating lease portfolios. These items were partially offset by higher provision for loan losses driven by the prudent expansion of our underwriting strategy to originate assets across a broader credit spectrum, which was significantly narrowed during the most recent economic recession.

Consumer financing revenue increased 10% for the three months ended March 31, 2013, compared to the same period in 2012, due to an increase in U.S. consumer asset levels driven by growth in the used vehicle portfolio as well as limited use of whole-loan sales as a funding source in recent periods; however, our GM and Chrysler penetration levels for new retail automotive loans were lower than those in 2012. The increase in consumer revenue from volume was partially offset by lower yields as a result of the competitive market environment for automotive financing.





**Table of Contents**

Operating lease revenue increased 45% for the three months ended March 31, 2013, compared to the same period in 2012, primarily due to higher lease asset balances as a result of strong origination volume.

Depreciation expense on operating lease assets increased 43% for the three months ended March 31, 2013, compared to the same period in 2012, primarily due to higher lease asset balances as a result of strong lease origination volume, partially offset by higher lease remarketing gains.

Servicing fee income decreased 37% for the three months ended March 31, 2013, compared to the same period in 2012, due to lower levels of off-balance sheet retail serviced assets.

Other income increased 34% for the three months ended March 31, 2013, compared to the same period in 2012, primarily due to a one-time fee earned from a vendor that did not occur during the three months ended March 31, 2012.

The provision for loan losses was \$112 million for the three months ended March 31, 2013, compared to \$78 million for the same period in 2012. The increase was primarily due to the prudent expansion of our underwriting strategy to originate consumer automotive assets across a broader credit spectrum, which was significantly narrowed during the most recent economic recession.

(\$ in millions)	Year ended December 31,			Favorable/ (unfavorable)	Favorable/ (unfavorable)
	2012	2011	2010	2012-2011 % change	2011-2010 % change
<b>Net financing revenue</b>					
Consumer	\$ 2,827	\$ 2,411	\$ 1,953	17	23
Commercial	1,152	1,134	1,210	2	(6)
Loans held-for-sale	15	5	112	n/m	(96)
Operating leases	2,379	1,929	2,579	23	(25)
Other interest income	52	92	109	(43)	(16)
Total financing revenue and other interest income	6,425	5,571	5,963	15	(7)
Interest expense	2,199	2,100	2,011	(5)	(4)
Depreciation expense on operating lease assets	1,399	941	1,255	(49)	25
Net financing revenue	2,827	2,530	2,697	12	(6)
<b>Other revenue</b>					
Servicing fees	109	161	227	(32)	(29)
Gain on automotive loans, net	41	48	248	(15)	(81)
Other income	172	213	249	(19)	(14)
Total other revenue	322	422	724	(24)	(42)
<b>Total net revenue</b>	<b>3,149</b>	<b>2,952</b>	<b>3,421</b>	<b>7</b>	<b>(14)</b>
<b>Provision for loan losses</b>	<b>253</b>	<b>89</b>	<b>260</b>	<b>(184)</b>	<b>66</b>
<b>Noninterest expense</b>					
Compensation and benefits expense	416	395	352	(5)	(12)
Other operating expenses	1,091	1,135	1,052	4	(8)
Total noninterest expense	1,507	1,530	1,404	2	(9)
<b>Income before income tax expense</b>	<b>\$ 1,389</b>	<b>\$ 1,333</b>	<b>\$ 1,757</b>	<b>4</b>	<b>(24)</b>
<b>Total assets</b>	<b>\$ 128,411</b>	<b>\$ 112,591</b>	<b>\$ 97,961</b>	<b>14</b>	<b>15</b>

n/m = not meaningful



**Table of Contents**

***2012 compared to 2011***

Our Automotive Finance operations earned income before income tax expense of \$1.4 billion for the year ended December 31, 2012, compared to \$1.3 billion for the year ended December 31, 2011. Results for the year ended December 31, 2012 were favorably impacted by higher consumer and operating lease revenues driven by growth in the retail loan and operating lease portfolios. These items were partially offset by higher provision for loan losses, lower operating lease remarketing gains due primarily to lower remarketing volume, lower servicing fees, and lower income generated from lease remarketing.

Consumer financing revenue increased 17% for the year ended December 31, 2012, compared to 2011, due to an increase in consumer asset levels driven by limited use of whole-loan sales as a funding source in recent periods, increased volumes of used vehicle automotive financing, and higher automotive industry sales; however, our GM and Chrysler penetration levels for new retail automotive loans were lower than those in 2011. Additionally, we continue to prudently expand our nonprime origination volume. The increase in consumer revenue from volume was partially offset by lower yields as a result of the competitive market environment for automotive financing.

Commercial financing revenue increased \$18 million for the year ended December 31, 2012, compared to 2011. The increase was primarily driven by higher commercial loan balances due to growth in our wholesale dealer floorplan lending and dealer loan portfolio, partially offset by lower yields as a result of competitive markets for automotive commercial financing.

Operating lease revenue increased 23% for the year ended December 31, 2012, compared to 2011, primarily due to higher lease asset balances as a result of strong origination volume.

Interest expense increased \$99 million for the year ended December 31, 2012, compared to 2011. The increase was primarily due to higher levels of earning assets, primarily as a result of growth in the retail loan and lease portfolios.

Depreciation expense on operating lease assets increased 49% for the year ended December 31, 2012, compared to 2011, primarily due to higher lease asset balances as a result of strong lease origination volume and lower lease remarketing gains primarily due to lower lease remarketing volume.

Servicing fee income decreased 32% for the year ended December 31, 2012, compared to 2011, due to lower levels of off-balance sheet retail serviced assets.

Gains on the sale of automotive loans were \$41 million for the year ended December 31, 2012, compared to \$48 million for 2011. We sold approximately \$2.5 billion of retail automotive loans during 2012 compared to approximately \$2.8 billion during 2011. While we continue to opportunistically utilize whole-loan sales as a source of funding, we have primarily focused on securitization and deposit-based funding sources.

Other income decreased 19% for the year ended December 31, 2012, compared to 2011, primarily due to lower remarketing fee income driven by lower remarketing volumes through our proprietary SmartAuction platform.

The provision for loan losses was \$253 million for the year ended December 31, 2012, compared to \$89 million in 2011. The increase was primarily due to continued growth in the consumer portfolio and our prudent expansion of underwriting strategy to originate volumes across a broader credit spectrum, which was significantly narrowed during the recession.

## **Table of Contents**

### ***2011 Compared to 2010***

Our Automotive Finance operations earned income before income tax expense of \$1.3 billion for the year ended December 31, 2011, compared to \$1.8 billion for the year ended December 31, 2010. Results for the year ended December 31, 2011, were primarily driven by less favorable remarketing results in our operating lease portfolio due primarily to lower lease terminations and the absence of gains on the sale of automotive loans due to the expiration of our forward flow agreements during the fourth quarter of 2010. These declines were partially offset by increased consumer financing revenue driven by strong loan origination volume related primarily to improvement in automotive industry sales, the growth in used vehicle financing volume, and a lower loan loss provision due to an improved credit mix and improved consumer credit performance.

Consumer financing revenue increased 23% for the year ended December 31, 2011, compared to 2010, due to an increase in consumer asset levels primarily related to strong loan origination volume during 2010 and 2011 resulting primarily from higher automotive industry sales, increased used vehicle financing volume, and higher on-balance sheet retention. Additionally, we continue to prudently expand our nonprime origination volume and introduce innovative finance products to the marketplace. The increase in consumer revenue was partially offset by lower yields as a result of an increasingly competitive market environment and a change in the consumer asset mix, including the runoff of the higher-yielding Nuvell nonprime automotive financing portfolio.

Loans held-for-sale financing revenue decreased \$107 million for the year ended December 31, 2011, compared to 2010, due to the expiration of whole-loan forward flow agreements during the fourth quarter of 2010. Subsequent to the expiration of these agreements, consumer loan originations have largely been retained on-balance sheet utilizing deposit funding from Ally Bank and on-balance sheet securitization transactions.

Operating lease revenue decreased 25% for the year ended December 31, 2011, compared to 2010. Operating lease revenue and depreciation expense declined due to a lower average operating lease portfolio balance. Depreciation expense was also impacted by lower remarketing gains due primarily to a decline in lease termination volume. In 2008 and 2009, we significantly curtailed our lease product offering in the United States. During the latter half of 2009, we re-entered the U.S. leasing market with targeted lease product offerings and have continued to expand lease volume since that time.

Servicing fee income decreased \$66 million for the year ended December 31, 2011, compared to 2010, due to lower levels of off-balance sheet retail serviced assets driven by a reduction of new whole-loan sales subsequent to the expiration of our forward flow agreements in the fourth quarter of 2010.

Net gain on automotive loans decreased \$200 million for the year ended December 31, 2011, compared to 2010, primarily due to the expiration of whole-loan forward flow agreements during the fourth quarter of 2010.

The provision for loan losses was \$89 million for the year ended December 31, 2011, compared to \$260 million in 2010. The decrease was primarily due to improved credit quality that drove improved loss performance in the consumer loan portfolio and continued strength in the used vehicle market, partially offset by continued growth in the consumer loan portfolio.

### **Automotive Finance Operations**

Our Automotive Finance operations provide automotive financing services to consumers and automotive dealers. For consumers, we provide retail financing and leasing for new and used vehicles, and through our commercial automotive financing operations, we fund dealer purchases of new and used vehicles through wholesale or floorplan financing.

---

**Table of Contents**

***Consumer Automotive Financing***

Historically, we have provided two basic types of financing for new and used vehicles: retail installment sale contracts (retail contracts) and lease contracts. In most cases, we purchase retail contracts and leases for new and used vehicles from dealers when the vehicles are purchased or leased by consumers. Our consumer automotive financing operations generate revenue through finance charges or lease payments and fees paid by customers on the retail contracts and leases. In connection with lease contracts, we also recognize a gain or loss on the remarketing of the vehicle at the end of the lease.

The amount we pay a dealer for a retail contract is based on the negotiated purchase price of the vehicle and any other products, such as service contracts, less any vehicle trade-in value and any down payment from the consumer. Under the retail contract, the consumer is obligated to make payments in an amount equal to the purchase price of the vehicle (less any trade-in or down payment) plus finance charges at a rate negotiated between the consumer and the dealer. In addition, the consumer is also responsible for charges related to past-due payments. When we purchase the contract, it is normal business practice for the dealer to retain some portion of the finance charge as income for the dealership. Our agreements with dealers place a limit on the amount of the finance charges they are entitled to retain. Although we do not own the vehicles we finance through retail contracts, we hold a perfected security interest in those vehicles.

With respect to consumer leasing, we purchase leases (and the associated vehicles) from dealerships. The purchase price of consumer leases is based on the negotiated price for the vehicle less any vehicle trade-in and any down payment from the consumer. Under the lease, the consumer is obligated to make payments in amounts equal to the amount by which the negotiated purchase price of the vehicle (less any trade-in value or down payment) exceeds the contract residual value (including residual support) of the vehicle at lease termination, plus lease charges. The consumer is also generally responsible for charges related to past due payments, excess mileage, excessive wear and tear, and certain disposal fees where applicable. When the lease contract is entered into, we estimate the residual value of the leased vehicle at lease termination. At contract inception, we generally determine the projected residual values based on independent data, including independent guides of vehicle residual values, and analysis. These projected values may be upwardly adjusted as a marketing incentive if the manufacturer considers above-market residual support necessary to encourage consumers to lease vehicles. To the extent the actual residual value of the vehicle, as reflected in the sales proceeds received upon remarketing at lease termination, is less than the expected residual value for the vehicle at lease inception, we incur additional depreciation expense and/or a loss on the lease transaction.

Our standard U.S. leasing plan, SmartLease, requires a monthly payment by the consumer. We also offer an alternative leasing plan, SmartLease Plus, that requires one up-front payment of all lease amounts at the time the consumer takes possession of the vehicle.

During 2011, we introduced the Ally Buyer's Choice product on new GM and Chrysler vehicles to select states in the United States. The Ally Buyer's Choice financing product allows customers to own their vehicle with a fixed rate and payment with the option to sell it to us at a pre-determined point during the contract term and at a pre-determined price.

Consumer leases are operating leases; therefore, credit losses on the operating lease portfolio are not as significant as losses on retail contracts because lease credit losses are primarily limited to payments and assessed fees. Since some of these fees are not assessed until the vehicle is returned, these losses on the lease portfolio are correlated with lease termination volume. U.S. operating lease accounts past due over 30 days represented 0.73% and 0.66% of the total portfolio at December 31, 2012 and 2011, respectively.

With respect to all financed vehicles, whether subject to a retail contract or a lease contract, we require that property damage insurance be obtained by the consumer. In addition, for lease contracts, we require that bodily injury, collision, and comprehensive insurance be obtained by the consumer.

**Table of Contents**

Total consumer financing revenue of our Automotive Finance operations was \$2.8 billion, \$2.4 billion, and \$2.0 billion in 2012, 2011, and 2010, respectively.

*Consumer Automotive Financing Volume*

The following table summarizes our new and used vehicle consumer financing volume, including lease, and our share of consumer sales in the United States.

	Consumer automotive financing volume		% Share of consumer sales	
	2013	2012	2013	2012
<b>Three months ended March 31, (units in thousands)</b>				
GM new vehicles	151	141	31	31
Chrysler new vehicles	71	77	24	28
Other non-GM / Chrysler new vehicles	19	20		
Used vehicles	126	138		
<b>Total consumer automotive financing volume</b>	<b>367</b>	<b>376</b>		

Consumer automotive financing decreased slightly during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to lower used vehicle origination volume as a result of more competition within the automotive finance market due to the performance of automotive finance assets relative to other asset classes during the 2008 economic downturn. The decrease was partially offset by an increase in GM new vehicle originations resulting from stronger lease volume.

	Consumer automotive financing volume			% Share of consumer sales		
	2012	2011	2010	2012	2011	2010
<b>Year ended December 31, (units in thousands)</b>						
GM new vehicles	579	707	596	30	38	38
Chrysler new vehicles	315	304	302	26	32	45
Other non-GM / Chrysler new vehicles	81	68	33			
Used vehicles	485	466	255			
<b>Total consumer automotive financing volume</b>	<b>1,460</b>	<b>1,545</b>	<b>1,186</b>			

The decline in consumer automotive financing volume in 2012, compared to 2011, was primarily driven by lower retail penetration at both GM and Chrysler in the United States. Additionally, both used and non-GM/Chrysler originations were higher due to the continued strategic focus within these markets. We continue to increase our focus on used vehicle financing, primarily through franchised dealers. The decrease in GM and Chrysler penetration during the year ended December 31, 2012 was primarily due to the market for automotive financing growing more competitive as more consumers are financing their vehicle purchases and as more competitors continue to enter this market as a result of how well automotive finance assets generally performed relative to other asset classes during the 2008 economic downturn.

*Manufacturer Marketing Incentives*

Automotive manufacturers may elect to sponsor incentive programs (on both retail contracts and leases) by supporting finance rates below the standard market rates at which we purchase retail contracts. These marketing incentives are also referred to as rate support or subvention. When automotive manufacturers utilize these marketing incentives, we are compensated at contract inception for the present value of the difference between the customer rate and our standard rates. For retail loans, we defer and recognize this amount as a yield adjustment over the life of the contract. For lease contracts, this payment reduces our cost basis in the underlying lease asset.

**Table of Contents**

Automotive manufacturers may also provide incentives on leased vehicles by supporting an above-market residual value, referred to as residual support, to encourage consumers to lease vehicles. Residual support results in a lower monthly lease payment for the consumer. While we are compensated by the manufacturer at the time of lease origination to raise the contract residual, we may bear the risk of loss to the extent the value of the leased vehicle upon remarketing is below the contract residual value of the vehicle at the time the lease contract is signed. Under certain residual support programs, the automotive manufacturer may reimburse us to the extent remarketing sales proceeds are less than the residual value set forth in the lease contract and no greater than our standard residual rates that would have otherwise been applied. To the extent remarketing sales proceeds are more than the contract residual at termination, we may reimburse the automotive manufacturer for a portion of the higher residual value.

Under what we refer to as pull-ahead programs, consumers may be encouraged by the manufacturer to terminate leases early in conjunction with the acquisition of a new vehicle. As part of these programs, we waive all or a portion of the customer's remaining payment obligation. Under most programs, the automotive manufacturer compensates us for a portion of the foregone revenue from the waived payments that are offset partially to the extent that our remarketing sales proceeds are higher than otherwise would be realized if the vehicle had been remarketed at lease contract maturity.

We are currently party to an agreement with GM pursuant to which GM initially agreed to offer all vehicle financing incentives to customers through Ally. However, the agreement, which was originally entered into in November 2006, provides for annual reductions in the percentage of financing subvention programs that GM is required to provide through Ally, and currently applies to a limited percentage. The agreement expires on December 31, 2013.

Historically, we were also party to an agreement to make available automotive financing products and services to Chrysler dealers and customers. We provided dealer financing and services and retail financing to qualified Chrysler dealers and customers as we deemed appropriate according to our credit policies and in our sole discretion, and Chrysler was obligated to use Ally for a designated minimum threshold percentage of Chrysler retail financing subvention programs. On April 25, 2012, Chrysler provided us with notification of nonrenewal related to this agreement and as a result, the agreement expired on April 30, 2013.

The following table presents the total U.S. consumer origination dollars and percentage mix by product type.

Three months ended March 31, (\$ in millions)	Consumer automotive financing originations		% Share of originations	
	2013	2012	2013	2012
<b>GM new vehicles</b>				
New retail standard	\$ 1,496	\$ 1,597	15	16
New retail subvented	1,291	1,746	13	18
Lease	1,883	1,039	19	11
<b>Total GM new vehicle originations</b>	<b>4,670</b>	4,382		
<b>Chrysler new vehicles</b>				
New retail standard	1,046	1,078	11	11
New retail subvented	231	506	3	5
Lease	789	561	8	6
<b>Total Chrysler new vehicle originations</b>	<b>2,066</b>	2,145		
<b>Other new retail vehicles</b>	<b>508</b>	542	5	5
Other lease	38	20	1	1
Used vehicles	2,450	2,638	25	27
<b>Total consumer automotive financing originations</b>	<b>\$ 9,732</b>	\$ 9,727		





**Table of Contents**

During the three months ended March 31, 2013, total new GM vehicle originations increased, compared to the same period in 2012, due to stronger lease volume, partially offset by lower new retail volume. Chrysler new retail contracts decreased primarily as a result of lower retail penetration at Chrysler due to our shift in focus towards non-subservent business. Other lease originations were higher due to the continued strategic focus within the non-GM/non-Chrysler market, and used origination dollars decreased at a lower pace than used vehicle origination volume as a result of strong used vehicle values.

Year ended December 31, (\$ in billions)	Consumer automotive financing originations			% Share of consumer sales		
	2012	2011	2010	2012	2011	2010
<b>GM new vehicles</b>						
New retail standard	\$ 6,230	\$ 9,009	\$ 8,460	16	23	27
New retail subservent	5,960	6,734	6,532	15	17	21
Lease	5,919	5,075	2,954	15	13	9
<b>Total GM new vehicle originations</b>	<b>18,109</b>	<b>20,818</b>	<b>17,946</b>			
<b>Chrysler new vehicles</b>						
New retail standard	4,431	4,062	3,324	12	10	11
New retail subservent	1,971	2,454	3,893	5	6	12
Lease	2,380	2,165	891	6	5	3
<b>Total Chrysler new vehicle originations</b>	<b>8,782</b>	<b>8,681</b>	<b>8,108</b>			
<b>Other new retail vehicles</b>						
Other lease	93	76	43			
Used vehicles	9,581	8,990	4,736	25	22	15
<b>Total consumer automotive financing originations</b>	<b>\$ 38,743</b>	<b>\$ 40,249</b>	<b>\$ 31,569</b>			

At December 31, 2012, the percentage of U.S. new retail contracts acquired that included rate subservent from GM and Chrysler decreased as a percentage of total U.S. new retail contracts compared to 2011, primarily driven by lower retail penetration at both GM and Chrysler in the United States as a result of the continued evolution of our business model. Additionally, both used and non-GM/Chrysler originations were higher due to the continued strategic focus within these markets. We continue to increase our focus on used vehicle financing, primarily through franchised dealers. The fragmented used vehicle financing market provides an attractive opportunity that we believe will further expand and support our dealer relationships and increase our volume of retail loan originations.

*Servicing*

We have historically serviced all retail contracts and leases we retained on-balance sheet. We historically sold a portion of the retail contracts we originated and retained the right to service and earn a servicing fee for our servicing functions. Ally Servicing LLC, a wholly owned subsidiary, performs most servicing activities for U.S. retail contracts and consumer automobile leases.

Servicing activities consist largely of collecting and processing customer payments, responding to customer inquiries such as requests for payoff quotes, processing customer requests for account revisions (such as payment extensions and rewrites), maintaining a perfected security interest in the financed vehicle, monitoring vehicle insurance coverage, and disposing of off-lease vehicles. Servicing activities are generally consistent for our Automotive Finance operations; however, certain practices may be influenced by local laws and regulations.

Our U.S. customers have the option to receive monthly billing statements to remit payment by mail or through electronic fund transfers, or to establish online web-based account administration through the Ally Account Center. Customer payments are processed by regional third-party processing centers that electronically transfer payment data to customers' accounts.



---

**Table of Contents**

Servicing activities also include initiating contact with customers who fail to comply with the terms of the retail contract or lease, typically via telephone or sending a reminder notice, when an account becomes 3 to 15 days past due. Accounts that become 30 to 45 days past due are transferred to special collection teams that track accounts more closely. The nature and timing of these activities depend on the repayment risk of the account.

During the collection process, we may offer a payment extension to a customer experiencing temporary financial difficulty. A payment extension enables the customer to delay monthly payments for 30, 60, or 90 days, thereby deferring the maturity date of the contract by the period of delay. Extensions granted to a customer typically do not exceed 90 days in the aggregate during any 12-month period or 180 days in aggregate over the life of the contract. During the deferral period, we continue to accrue and collect interest on the contract as part of the deferral agreement. If the customer's financial difficulty is not temporary and management believes the customer could continue to make payments at a lower payment amount, we may offer to rewrite the remaining obligation, extending the term and lowering the monthly payment obligation. In those cases, the principal balance generally remains unchanged while the interest rate charged to the customer generally increases. Extension and rewrite collection techniques help mitigate financial loss in those cases where management believes the customer will recover from financial difficulty and resume regularly scheduled payments or can fulfill the obligation with lower payments over a longer period. Before offering an extension or rewrite, collection personnel evaluate and take into account the capacity of the customer to meet the revised payment terms. Generally, we do not consider extensions that fall within our policy guidelines to represent more than an insignificant delay in payment and, therefore, they are not considered Troubled Debt Restructurings (TDRs). Although the granting of an extension could delay the eventual charge-off of an account, typically we are able to repossess and sell the related collateral, thereby mitigating the loss. As an indication of the effectiveness of our consumer credit practices, of the total amount outstanding in the U. S. traditional retail portfolio at December 31, 2009, only 7.5% of the extended or rewritten balances were subsequently charged off through December 31, 2012. A three-year period was utilized for this analysis as this approximates the weighted average remaining term of the portfolio. At December 31, 2012, 7.6% of the total amount outstanding in the servicing portfolio had been granted an extension or was rewritten.

Subject to legal considerations, in the United States we normally begin repossession activity once an account becomes greater than 60-days past due. Repossession may occur earlier if management determines the customer is unwilling to pay, the vehicle is in danger of being damaged or hidden, or the customer voluntarily surrenders the vehicle. Approved third-party repossession firms handle repossessions. Normally the customer is given a period of time to redeem the vehicle by paying off the account or bringing the account current. If the vehicle is not redeemed, it is sold at auction. If the proceeds do not cover the unpaid balance, including unpaid earned finance charges and allowable expenses, the resulting deficiency is charged off. Asset recovery centers pursue collections on accounts that have been charged off, including those accounts where the vehicle was repossessed, and skip accounts where the vehicle cannot be located.

At December 31, 2012 and 2011, our total consumer automotive serviced portfolio was \$75.3 billion and \$85.5 billion, respectively, compared to our consumer automotive on-balance sheet portfolio of \$67.3 billion and \$73.2 billion at December 31, 2012 and 2011, respectively. Refer to Note 11 to the Consolidated Financial Statements for further information regarding servicing activities.

*Remarketing and Sales of Leased Vehicles*

When we acquire a consumer lease, we assume ownership of the vehicle from the dealer. Neither the consumer nor the dealer is responsible for the value of the vehicle at the time of lease termination. When vehicles are not purchased by customers or the receiving dealer at scheduled lease termination, the vehicle is returned to us for remarketing through an auction. We generally bear the risk of loss to the extent the value of a leased vehicle upon remarketing is below the contract residual value determined at the time the lease contract is signed. Automotive manufacturers may share this risk with us for certain leased vehicles, as described previously under *Manufacturer Marketing Incentives*.

---

## **Table of Contents**

Our methods of vehicle sales in the United States at lease termination primarily include the following:

***Sale to dealer*** After the lessee declines an option to purchase the off-lease vehicle, the dealer who accepts the returned off-lease vehicle has the opportunity to purchase the vehicle directly from us at a price we define.

***Internet auctions*** Once the lessee and dealer decline their option to purchase, we offer off-lease vehicles to dealers and certain other third parties in the United States through our proprietary internet site (SmartAuction). This internet sales program maximizes the net sales proceeds from off-lease vehicles by reducing the time between vehicle return and ultimate disposition, reducing holding costs, and broadening the number of prospective buyers. We maintain the internet auction site, set the pricing floors on vehicles, and administer the auction process. We earn a service fee for every vehicle sold through SmartAuction, which, in 2012, was 221,000 vehicles.

***Physical auctions*** We dispose of our off-lease vehicles not purchased at termination by the lease consumer or dealer or sold on an internet auction through traditional official manufacturer-sponsored auctions. We are responsible for handling decisions at the auction including arranging for inspections, authorizing repairs and reconditioning, and determining whether bids received at auction should be accepted.

### ***Commercial Automotive Financing***

#### ***Automotive Wholesale Dealer Financing***

One of the most important aspects of our dealer relationships is supporting the sale of vehicles through wholesale or floorplan financing. We primarily support automotive finance purchases by dealers of new and used vehicles manufactured or distributed before sale or lease to the retail customer. Wholesale automotive financing represents the largest portion of our commercial financing business and is the primary source of funding for dealers' purchases of new and used vehicles. During 2012, we financed an average commercial wholesale floorplan receivables balance of \$15.3 billion of new GM vehicles, representing a 71% share of GM's U.S. dealer inventory. We also financed an average of \$6.7 billion of new Chrysler vehicles representing a 58% share of Chrysler's U.S. dealer inventory. In addition, we financed an average of \$2.2 billion of new non-GM/Chrysler vehicles and \$3.0 billion of used vehicles.

Wholesale credit is arranged through lines of credit extended to individual dealers. In general, each wholesale credit line is secured by all vehicles and typically by other assets owned by the dealer or the operator's or owner's personal guarantee. As part of our floorplan financing arrangement, we typically require repurchase agreements with the automotive manufacturer to repurchase new vehicle inventory under certain circumstances. The amount we advance to dealers is equal to 100% of the wholesale invoice price of new vehicles, which includes destination and other miscellaneous charges, and a price rebate, known as a holdback, from the manufacturer to the dealer in varying amounts stated as a percentage of the invoice price. Interest on wholesale automotive financing is generally payable monthly. Most wholesale automotive financing is structured to yield interest at a floating rate indexed to the Prime Rate. The rate for a particular dealer is based on, among other things, competitive factors, the amount and status of the dealer's creditworthiness, and various incentive programs.

Under the terms of the credit agreement with the dealer, we may demand payment of interest and principal on wholesale credit lines at any time; however, unless we terminate the credit line or the dealer defaults or the risk and exposure warrant, we generally require payment of the principal amount financed for a vehicle upon its sale or lease by the dealer to the customer.

Total commercial wholesale revenue of our Automotive Finance operations was \$999 million, \$976 million, and \$909 million in 2012, 2011, and 2010, respectively.

**Table of Contents****Commercial Wholesale Financing Volume**

The following table summarizes the average balances of our commercial wholesale floorplan finance receivables of new and used vehicles and share of dealer inventory in the United States.

Three months ended March 31, (\$ in millions)	Average balance		% Share of dealer inventory	
	2013	2012	2013	2012
GM new vehicles (a)	\$ 16,291	\$ 14,266	69	72
Chrysler new vehicles (a)	7,211	6,589	54	62
Other non-GM / Chrysler new vehicles	2,541	2,153		
Used vehicles	3,052	2,977		
<b>Total commercial wholesale finance receivables</b>	<b>\$ 29,095</b>	<b>\$ 25,985</b>		

(a) Share of dealer inventory based on a 4 month average of dealer inventory (excludes in-transit units).

Commercial wholesale financing average volume increased during the three months ended March 31, 2013, compared to the same period in 2012, primarily due to growing dealer inventories required to support increasing automobile sales. GM and Chrysler wholesale penetration decreased during the three months ended March 31, 2013, compared to the same period in 2012, as a result of increased competition in the wholesale marketplace.

Year ended December 31, (\$ in millions)	Average balance			% Share of dealer inventory		
	2012	2011	2010	2012	2011	2010
GM new vehicles (a)	\$ 15,331	\$ 13,407	\$ 10,941	71	78	82
Chrysler new vehicles (a)	6,693	6,228	4,665	58	67	72
Other non-GM / Chrysler new vehicles	2,230	1,844	1,704			
Used vehicles	2,985	2,920	2,727			
<b>Total commercial wholesale finance receivables</b>	<b>\$ 27,239</b>	<b>\$ 24,399</b>	<b>\$ 20,037</b>			

(a) Share of dealer inventory based on a 13 month average of dealer inventory (excludes in-transit units).

Commercial wholesale financing average volume increased during 2012, compared to 2011, primarily due to growing dealer inventories required to support increasing automobile sales. GM and Chrysler wholesale penetration decreased during 2012, compared to 2011, as a result of increased competition in the wholesale marketplace.

*Other Commercial Automotive Financing*

We also provide other forms of commercial financing for the automotive industry including automotive dealer term loans and automotive fleet financing. Automotive dealer term loans are loans that we make to dealers to finance other aspects of the dealership business. These loans are typically secured by real estate, other dealership assets, and are personally guaranteed by the individual owners of the dealership. Automotive fleet financing may be obtained by dealers, their affiliates, and other companies and be used to purchase vehicles, which they lease or rent to others.

*Servicing and Monitoring*

## Edgar Filing: Ally Financial Inc. - Form S-1/A

We service all of the wholesale credit lines in our portfolio and the wholesale automotive finance receivables that we have securitized. A statement setting forth billing and account information is distributed on a monthly basis to each dealer. Interest and other nonprincipal charges are billed in arrears and are required to be paid immediately upon receipt of the monthly billing statement. Generally, dealers remit payments to us through wire transfer transactions initiated by the dealer through a secure web application.

**Table of Contents**

Dealers are assigned a risk rating based on various factors, including capital sufficiency, operating performance, financial outlook, and credit and payment history. The risk rating affects the amount of the line of credit, the determination of further advances, and the management of the account. We monitor the level of borrowing under each dealer's account daily. When a dealer's balance exceeds the credit line, we may temporarily suspend the granting of additional credit or increase the dealer's credit line or take other actions following evaluation and analysis of the dealer's financial condition and the cause of the excess.

We periodically inspect and verify the existence of dealer vehicle inventories. The timing of the verifications varies, and ordinarily no advance notice is given to the dealer. Among other things, verifications are intended to determine dealer compliance with the financing agreement and confirm the status of our collateral.

**Insurance Operations****Results of Operations**

The following table summarizes the operating results of our Insurance operations excluding discontinued operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

(\$ in millions)	Three months ended March 31,		
	2013	2012	Favorable/ (unfavorable) % change
<b>Insurance premiums and other income</b>			
Insurance premiums and service revenue earned	\$ 259	\$ 270	(4)
Investment income	58	73	(21)
Other income	3	7	(57)
<b>Total insurance premiums and other income</b>	<b>320</b>	<b>350</b>	<b>(9)</b>
<b>Expense</b>			
Insurance losses and loss adjustment expenses	115	98	(17)
Acquisition and underwriting expense			
Compensation and benefits expense	15	17	12
Insurance commissions expense	92	99	7
Other expenses	37	36	(3)
<b>Total acquisition and underwriting expense</b>	<b>144</b>	<b>152</b>	<b>5</b>
<b>Total expense</b>	<b>259</b>	<b>250</b>	<b>(4)</b>
<b>Income from continuing operations before income tax (benefit) expense</b>	<b>\$ 61</b>	<b>\$ 100</b>	<b>(39)</b>
<b>Total assets</b>	<b>\$ 8,331</b>	<b>\$ 8,394</b>	<b>(1)</b>
<b>Insurance premiums and service revenue written</b>	<b>\$ 234</b>	<b>\$ 251</b>	<b>(7)</b>
<b>Combined ratio (a)</b>	<b>99.7%</b>	<b>91.4%</b>	

(a) Management uses a combined ratio as a primary measure of underwriting profitability with its components measured using accounting principles generally accepted in the United States of America. Underwriting profitability is indicated by a combined ratio under 100% and is calculated as the sum of all incurred losses and expenses (excluding interest and income tax expense) divided by the total of premiums and service revenues earned and other income.

*First Quarter 2013 Compared to First Quarter 2012*

## Edgar Filing: Ally Financial Inc. - Form S-1/A

Our Insurance operations earned income from continuing operations before income tax expense of \$61 million for the three months ended March 31, 2013, compared to \$100 million for the three months ended March 31, 2012. The decrease was primarily attributable to unseasonably high early spring hailstorms losses, lower investment income, and lower insurance premiums and service revenue earned from our U.S. vehicle service contracts.



**Table of Contents**

Insurance premiums and service revenue earned was \$259 million for the three months ended March 31, 2013, compared to \$270 million for the same period in 2012. The decrease was primarily due to declining U.S. vehicle service contracts written in prior years when the automotive market was depressed.

Investment income totaled \$58 million for the three months ended March 31, 2013, compared to \$73 million for the same period in 2012. The decrease was primarily due to lower realized investment gains and the recognition of other-than-temporary impairment on certain equity securities of \$8 million.

Insurance losses and loss adjustment expenses totaled \$115 million for the three months ended March 31, 2013, compared to \$98 million for the same period in 2012. The increase was driven primarily by unseasonably high early spring hailstorms losses on our dealer inventory insurance products.

Acquisition and underwriting expense decreased 5% for the three months ended March 31, 2013, compared to the same period in 2012. The decrease was primarily a result of lower commission expense for our U.S. dealership-related products matching our decrease in earned premiums.

The combined ratio increased from 91.4% for the three months ended March 31, 2012, to 99.7% for the three months ended March 31, 2013, primarily due to an increase in weather-related losses. Excluding the impact of the unseasonably higher weather-related losses, expenses decreased in line with the decline in earned premium as expected.

(\$ in millions)	Year ended December 31,			Favorable/ (unfavorable)	Favorable/ (unfavorable)
	2012	2011	2010	2012-2011 % change	2011-2010 % change
<b>Insurance premiums and other income</b>					
Insurance premiums and service revenue earned	\$ 1,055	\$ 1,153	\$ 1,342	(8)	(14)
Investment income	124	220	418	(44)	(47)
Other income	35	25	41	40	(39)
<b>Total insurance premiums and other income</b>	<b>1,214</b>	1,398	1,801	<b>(13)</b>	(22)
<b>Expense</b>					
Insurance losses and loss adjustment expenses	454	452	511		12
Acquisition and underwriting expense					
Compensation and benefits expense	61	61	64		5
Insurance commissions expense	382	431	510	11	15
Other expenses	157	138	159	(14)	13
<b>Total acquisition and underwriting expense</b>	<b>600</b>	630	733	<b>5</b>	14
<b>Total expense</b>	<b>1,054</b>	1,082	1,244	<b>3</b>	13
<b>Income from continuing operations before income tax expense</b>	<b>\$ 160</b>	\$ 316	\$ 557	<b>(49)</b>	(43)
<b>Total assets</b>	<b>\$ 8,439</b>	\$ 8,036	\$ 8,789	<b>5</b>	(9)
<b>Insurance premiums and service revenue written</b>	<b>\$ 1,061</b>	\$ 1,039	\$ 1,029	<b>2</b>	1
<b>Combined ratio (a)</b>	<b>98.3%</b>	93.1%	90.6%		

(a)

## Edgar Filing: Ally Financial Inc. - Form S-1/A

Management uses a combined ratio as a primary measure of underwriting profitability with its components measured using accounting principles generally accepted in the United States of America. Underwriting profitability is indicated by a combined ratio under 100% and is calculated as the sum of all incurred losses and expenses (excluding interest and income tax expense) divided by the total of premiums and service revenues earned and other income.

## **Table of Contents**

### ***2012 Compared to 2011***

Our Insurance operations earned income from continuing operations before income tax expense of \$160 million for the year ended December 31, 2012, compared to \$316 million for the year ended December 31, 2011. The decrease was primarily attributable to lower investment income, lower insurance premiums and service revenue earned from our U.S. vehicle service contracts, and higher weather-related losses, including the effects of Storm Sandy.

Insurance premiums and service revenue earned was \$1.1 billion for the year ended December 31, 2012, compared to \$1.2 billion in 2011. The decrease was primarily due to declining U.S. vehicle service contracts written between 2007 and 2009 as a result of lower domestic vehicle sales volume.

Investment income totaled \$124 million for the year ended December 31, 2012, compared to \$220 million in 2011. The decrease was primarily due to recognition of other-than-temporary impairment on certain equity securities of \$61 million and lower realized investment gains.

Other income totaled \$35 million for the year ended December 31, 2012, compared to \$25 million in 2011. The increase was primarily due to a gain of \$8 million on the sale of our Canadian personal lines business during the second quarter of 2012.

Insurance losses and loss adjustment expenses totaled \$454 million for the year ended December 31, 2012, compared to \$452 million for the year ended December 31, 2011. The slight increase was driven primarily by higher weather-related losses in the United States on our dealer inventory insurance products, including the effects of Storm Sandy, mostly offset by lower frequency experienced in our vehicle service contract business and lower losses matching our decrease in earned premium. Despite the decrease in insurance premiums and service revenue earned, insurance losses and loss adjusted expenses increased primarily due to the impacts of Storm Sandy, which further impacted the increase in the combined ratio.

Acquisition and underwriting expense decreased 5% for the year ended December 31, 2012, compared to 2011. The decrease was primarily a result of lower commission expense in our U.S. dealership-related products matching our decrease in earned premiums, partially offset by increased technology expense.

### ***2011 Compared to 2010***

Our Insurance operations earned income from continuing operations before income tax expense of \$316 million for the year ended December 31, 2011, compared to \$557 million for the year ended December 31, 2010. The decrease was primarily attributable to lower insurance premiums and service contract revenue earned from our U.S. vehicle service contracts and lower realized investment gains.

Insurance premiums and service revenue earned was \$1.2 billion for the year ended December 31, 2011, compared to \$1.3 billion in 2010. The decrease was primarily due to the sale of certain international insurance operations during the fourth quarter of 2010 and lower earnings from our U.S. vehicle service contracts written between 2007 and 2009 due to lower domestic vehicle sales volume.

Investment income totaled \$220 million for the year ended December 31, 2011, compared to \$418 million in 2010. The decrease was primarily due to lower realized investment gains.

Insurance losses and loss adjustment expenses totaled \$452 million for the year ended December 31, 2011, compared to \$511 million in 2010. The decrease was primarily due to lower frequency and severity experienced in our U.S. vehicle service contract business and the sale of certain international insurance operations during the fourth quarter of 2010, which was partially offset by higher weather-related losses in the United States on our dealer inventory insurance products.

**Table of Contents**

Acquisition and underwriting expense decreased 14% for the year ended December 31, 2011, compared to 2010. The decrease was primarily due to the sale of certain international insurance operations during the fourth quarter of 2010 and lower commission expense in our U.S. dealership-related products matching our decrease in earned premiums.

**Premium and Service Revenue Written**

The following table shows premium and service revenue written by insurance product.

(\$ in millions)	Three months ended March 31,	
	2013	2012
Vehicle service contracts		
New retail	\$ 98	\$ 94
Used retail	125	134
Reinsurance	(34)	(31)
<b>Total vehicle service contracts</b>	<b>189</b>	<b>197</b>
Wholesale	27	20
Other finance and insurance (a)	18	34
<b>Total</b>	<b>\$ 234</b>	<b>\$ 251</b>

(a) Other finance and insurance includes Guaranteed Automobile Protection (GAP) coverage, excess wear and tear, wind-down of Canadian personal lines, and other ancillary products.

Insurance premiums and service revenue written was \$234 million for the three months ended March 31, 2013, compared to \$251 million for the same period in 2012. Insurance premiums and service revenue written decreased due to the sale of the Canadian personal lines business, which stopped writing new business on November 1, 2012, and lower written premiums in our used retail vehicle service contract insurance products driven by lower used vehicle sales volume. Vehicle service contract revenue is earned over the life of the service contract on a basis proportionate to the anticipated cost pattern. Accordingly, the majority of earnings from vehicle service contracts written during 2013 will be recognized as income in future periods.

(\$ in millions)	Year ended December 31,		
	2012	2011	2010
Vehicle service contracts			
New retail	\$ 406	\$ 376	\$ 315
Used retail	509	514	517
Reinsurance	(119)	(103)	(91)
<b>Total vehicle service contracts</b>	<b>796</b>	<b>787</b>	<b>741</b>
Wholesale	132	115	103
Other finance and insurance (a)	129	133	113
North American operations	1,057	1,035	957
International and Corporate (b)	4	4	72
<b>Total</b>	<b>\$ 1,061</b>	<b>\$ 1,039</b>	<b>\$ 1,029</b>

## Edgar Filing: Ally Financial Inc. - Form S-1/A

- (a) Other finance and insurance includes Guaranteed Automobile Protection (GAP) coverage, excess wear and tear, wind-down of Canadian personal lines, and other ancillary products.
  
- (b) International and Corporate includes certain international operations that were sold during the fourth quarter of 2010 and other run-off products.

**Table of Contents**

Insurance premiums and service revenue written was \$1.1 billion for the year ended December 31, 2012, compared to \$1.0 billion in 2011 and 2010. Insurance premiums and service revenue written increased slightly due to higher written premiums in our new retail vehicle service contract and dealer inventory insurance products. Vehicle service contract revenue is earned over the life of the service contract on a basis proportionate to the anticipated cost pattern. Accordingly, the majority of earnings from vehicle service contracts written during 2012 will be recognized as income in future periods.

**Cash and Investments**

A significant aspect of our Insurance operations is the investment of proceeds from premiums and other revenue sources. We use these investments to satisfy our obligations related to future claims at the time these claims are settled. Our Insurance operations have an Investment Committee, which develops guidelines and strategies for these investments. The guidelines established by this committee reflect our risk tolerance, liquidity requirements, regulatory requirements, and rating agency considerations, among other factors.

The following table summarizes the composition of our Insurance operations cash and investment portfolio at fair value.

<i>(\$ in millions)</i>	<b>March 31, 2013</b>	<b>December 31, 2012</b>	<b>2011</b>
Cash			
Noninterest-bearing cash	\$ 163	\$ 129	\$ 211
Interest-bearing cash	664	488	629
Total cash	827	617	840
Available-for-sale securities			
Debt securities			
U.S. Treasury and federal agencies	1,176	1,090	496
Foreign government	306	303	678
Mortgage-backed	886	714	590
Asset-backed	8	8	95
Corporate debt	1,326	1,264	1,491
Other debt			23
Total debt securities	3,702	3,379	3,373
Equity securities	981	1,148	1,054
Total available-for-sale securities	4,683	4,527	4,427
Total cash and securities	\$ 5,510	\$ 5,144	\$ 5,267

**Table of Contents****Mortgage Operations****Results of Operations**

The following table summarizes the operating results for our Mortgage operations excluding discontinued operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

Three months ended March 31, (\$ in millions)	2013	2012	Favorable/ (unfavorable) % change
<b>Net financing revenue</b>			
Total financing revenue and other interest income	\$ 122	\$ 166	(27)
Interest expense	88	129	32
Net financing revenue	34	37	(8)
Servicing fees	63	92	(32)
Servicing asset valuation and hedge activities, net	(201)	(106)	(90)
Total servicing income, net	(138)	(14)	n/m
Gain on mortgage loans, net	38	25	52
Other income, net of losses	81	126	(36)
Total other revenue	(19)	137	(114)
<b>Total net revenue</b>	<b>15</b>	<b>174</b>	<b>(91)</b>
<b>Provision for loan losses</b>	<b>20</b>	<b>27</b>	<b>26</b>
<b>Noninterest expense</b>			
Compensation and benefits expense	25	19	(32)
Representation and warranty expense	83		n/m
Other operating expenses	91	65	(40)
Total noninterest expense	199	84	(137)
<b>(Loss) income from continuing operations before income tax (benefit) expense</b>	<b>\$ (204)</b>	<b>\$ 63</b>	<b>n/m</b>
<b>Total assets</b>	<b>\$ 11,284</b>	<b>\$ 30,079</b>	<b>(62)</b>

n/m = not meaningful

**First Quarter 2013 Compared to First Quarter 2012**

Our Mortgage operations incurred a loss from continuing operations before income tax expense of \$204 million for the three months ended March 31, 2013, compared to income from continuing operations before income tax expense of \$63 million for the three months ended March 31, 2012. The decrease was primarily driven by the valuation of our mortgage servicing rights portfolio, the shutdown of our warehouse lending operations, a decrease in consumer mortgage-lending production associated with government-sponsored refinancing programs, and higher representation and warranty expense driven by the terms of our MSR portfolio sales agreements.

Net financing revenue was \$34 million for the three months ended March 31, 2013, compared to \$37 million for the same period in 2012. The decrease in net financing revenue was primarily due to lower production as a result of the shutdown of our warehouse lending operations and the wind-down of consumer held-for-sale portfolio.

We incurred a net servicing loss of \$138 million for the three months ended March 31, 2013, compared to \$14 million for the same period in 2012, primarily resulting from the valuation of our MSR portfolio in conjunction with our agreement to sell the portfolio.





**Table of Contents**

The net gain on mortgage loans increased 52% for the three months ended March 31, 2013, compared to the same period in 2012. Due to the deconsolidation of ResCap following its bankruptcy filing, we began managing the execution of capital markets transactions, which resulted in us recording gains related to these transactions during the three months ended March 31, 2013.

Other income, net of losses, was \$81 million for the three months ended March 31, 2013, compared to \$126 million for the same period in 2012. The decrease was primarily due to lower fee income and net origination revenue related to decreased consumer mortgage-lending production associated with government-sponsored refinancing programs.

The provision for loan losses was \$20 million for the three months ended March 31, 2013, compared to \$27 million for the same period in 2012. The decrease for the three months ended March 31, 2013, was primarily due to lower net charge-offs in 2013 due to the continued runoff of legacy mortgage assets and improvements in home prices.

Total noninterest expense increased \$115 million for the three months ended March 31, 2013, compared to the same period in 2012. The increase was primarily due to higher representation and warranty expense driven by the terms of our MSR portfolio sales agreements, and increased expenses required to establish separate mortgage-related processes as a result of the ResCap separation.

Year ended December 31, (\$ in millions)	2012	2011	2010	Favorable/ (unfavorable) 2012-2011 % change	Favorable/ (unfavorable) 2011-2010 % change
<b>Net financing revenue</b>					
Total financing revenue and other interest income	\$ 617	\$ 758	\$ 846	(19)	(10)
Interest expense	468	553	538	15	(3)
Net financing revenue	149	205	308	(27)	(33)
Servicing fees	300	365	295	(18)	24
Servicing asset valuation and hedge activities, net	(4)	(434)	(617)	99	30
Total servicing income (loss), net	296	(69)	(322)	n/m	79
Gain on mortgage loans, net	375	172	339	118	(49)
Other income, net of losses	488	251	240	94	5
Total other revenue	1,159	354	257	n/m	38
<b>Total net revenue</b>	<b>1,308</b>	<b>559</b>	<b>565</b>	<b>134</b>	<b>(1)</b>
<b>Provision for loan losses</b>	<b>86</b>	<b>123</b>	<b>148</b>	<b>30</b>	<b>17</b>
<b>Noninterest expense</b>					
Compensation and benefits expense	96	74	61	(30)	(21)
Representation and warranty expense	171			n/m	
Other operating expenses	360	270	279	(33)	3
Total noninterest expense	627	344	340	(82)	(1)
<b>Income from continuing operations before income tax expense</b>	<b>\$ 595</b>	<b>\$ 92</b>	<b>\$ 77</b>	<b>n/m</b>	<b>19</b>
<b>Total assets</b>	<b>\$ 14,744</b>	<b>\$ 33,906</b>	<b>\$ 36,786</b>	<b>(57)</b>	<b>(8)</b>

n/m = not meaningful

2012 Compared to 2011

## Edgar Filing: Ally Financial Inc. - Form S-1/A

Our Mortgage operations earned income from continuing operations before income tax expense of \$595 million for the year ended December 31, 2012, compared to \$92 million for the year ended December 31, 2011.

## **Table of Contents**

During 2011, we experienced an unfavorable servicing asset valuation, net of hedge, that did not recur in 2012. Additionally, during 2012, we earned higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs, and higher net gains on the sale of mortgage loans. The increase was partially offset by higher representation and warranty expense due to the transfer of liability relating to Ally Bank's sold and serviced loans that had previously been recorded at ResCap, and higher other operating expenses required to establish separate Mortgage processes as a result of the ResCap separation.

Net financing revenue was \$149 million for the year ended December 31, 2012, compared to \$205 million in 2011. The decrease in net financing revenue was primarily due to lower average yield mix as higher-rate Ally Bank mortgage loans continued to run off. Partially offsetting the decrease was lower interest expense related to lower funding costs.

We earned net servicing income of \$296 million for the year ended December 31, 2012, compared to a net servicing loss of \$69 million in 2011. The increase was primarily due to the performance of the derivative servicing hedge as compared to a less favorable hedge performance in 2011. The increase was partially offset by lower servicing fees resulting from a lower unpaid principal balance of our MSR portfolio.

The net gain on mortgage loans increased \$203 million for the year ended December 31, 2012, compared to 2011. The increase was primarily due to higher consumer mortgage-lending production through our direct lending channel and margins associated with government-sponsored refinancing programs, higher margins on warehouse and correspondent lending due to decreased competition and more selective originations from these channels, and improved market gains on specified pooled loans.

Other income, net of losses, was \$488 million for the year ended December 31, 2012, compared to \$251 million in 2011. The increase was primarily due to higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs.

The provision for loan losses was \$86 million for the year ended December 31, 2012, compared to \$123 million in 2011. The decrease for the year ended December 31, 2012, was primarily due to lower net charge-offs in 2012 due to the continued runoff of legacy mortgage assets and improvements in home prices.

Total noninterest expense increased 82% for the year ended December 31, 2012, compared to 2011. The increase was primarily driven by higher representation and warranty expense resulting from the transfer of liability relating to Ally Bank's sold and serviced loans that had previously been recorded at ResCap, and higher compensation and benefits expense due to an increase in functional services provided by ResCap through the Shared Services Agreement (SSA). Refer to Note 1 to the Consolidated Financial Statements for further details on the SSA.

### ***2011 Compared to 2010***

Our Mortgage operations earned income before income tax expense of \$92 million for the year ended December 31, 2011, compared to \$77 million for the year ended December 31, 2010. The increase was primarily driven by improvement in the servicing asset valuation, net of hedge, when compared to the year ended December 31, 2010, partially offset by lower net gains on the sale of mortgage loans and lower financing revenue related to a decrease in asset levels.

Net financing revenue was \$205 million for the year ended December 31, 2011, compared to \$308 million in 2010. The decrease was primarily driven by lower financing revenue and other interest income due primarily to a decline in average asset levels related to held-for-sale assets as well as lower held-for-investment portfolio balances.

## **Table of Contents**

The net gain on mortgage loans was \$172 million for the year ended December 31, 2011, compared to \$339 million in 2010. The decrease during 2011 was primarily due to lower margins and production, lower whole-loan sales, and lower gains on mortgage loan resolutions. Favorability in net servicing income as a result of swap activity offset this decrease. We incurred a net servicing loss of \$69 million for the year ended December 31, 2011, compared to \$322 million in 2010.

The provision for loan losses was \$123 million for the year ended December 31, 2011, compared to \$148 million in 2010. The decrease for the year ended December 31, 2011, was primarily due to lower net charge-offs in 2011 due to the continued runoff of legacy mortgage assets.

Total noninterest expense increased \$4 million for the year ended December 31, 2011, compared to 2010. The increase was primarily driven by an increase in compensation and benefits expense due to an increase in Ally Bank headcount related to supporting our broker, retail, and servicing operations.

## **Loan Production**

### ***U.S. Mortgage Loan Production Channels***

Ally Bank continues to perform certain mortgage activities as a result of the ResCap bankruptcy process. Subsequent to the bankruptcy filing, ResCap announced the sale of certain assets to third parties. Upon the closing of those sales, we do not expect ResCap to continue to broker loans to us. This will primarily impact the production of loans within the direct lending channel, which are currently sourced exclusively from ResCap. We expect the level of loan production to continue to decline.

We have three primary channels for residential mortgage loan production: the purchase of loans in the secondary market (primarily from Ally Bank correspondent lenders), the origination of loans through our direct-lending network, and the origination of loans through our mortgage brokerage network.

***Correspondent lender and secondary market purchases*** Loans purchased from correspondent lenders are originated or purchased by the correspondent lenders and subsequently sold to us. All of the purchases from correspondent lenders are conducted through Ally Bank. We qualify and approve any correspondent lenders who participate in the loan purchase programs. On April 17, 2013, we announced a decision to exit the correspondent lending channel and close production of any new jumbo mortgage loans.

***Direct-lending network*** Our direct-lending network consists of internet and telephone-based call center operations as well as our retail network. Virtually all of the residential mortgage loans of this channel are brokered to Ally Bank.

***Mortgage brokerage network*** Residential mortgage loans originated through mortgage brokers. We review and underwrite the application submitted by the mortgage broker, approve or deny the application, set the interest rate and other terms of the loan, and, upon acceptance by the borrower and the satisfaction of all conditions required by us, fund the loan through Ally Bank. We qualify and approve all mortgage brokers who generate mortgage loans and continually monitor their performance.

**Table of Contents**

The following table summarizes U.S. consumer mortgage loan production by channel.

	2013		2012	
	Number of loans	Dollar amount of loans	Number of loans	Dollar amount of loans
<b>Three months ended March 31, (\$ in millions)</b>				
Direct lending	13,344	\$ 2,424	17,228	\$ 3,586
Correspondent lender and secondary market purchases	12,780	2,948	17,286	3,996
Mortgage brokers	2,602	744	3,609	953
Total U.S. production	28,726	\$ 6,116	38,123	\$ 8,535

	2012		2011		2010	
	Number of loans	Dollar amount of loans	Number of loans	Dollar amount of loans	Number of loans	Dollar amount of loans
<b>Year ended December 31, (\$ in millions)</b>						
Correspondent lender and secondary market purchases	59,197	\$ 14,296	197,153	\$ 45,376	264,544	\$ 61,560
Direct lending	74,312	14,499	36,867	7,286	34,740	7,364
Mortgage brokers	12,996	3,601	12,018	3,495	2,035	491
Total U.S. production	146,505	\$ 32,396	246,038	\$ 56,157	301,319	\$ 69,415

**Mortgage Loan Production by Type**

On April 17, 2013, we announced a decision to exit the correspondent lending channel and close production of any new jumbo mortgage loans. During 2012, 2011, and 2010, we primarily originated prime conforming and government-insured residential mortgage loans. We define prime as mortgage loans with a FICO score of 660 and above. Our mortgage loans are categorized as follows.

**Prime conforming mortgage loans** Prime credit quality first-lien mortgage loans secured by 1-4 family residential properties that meet or conform to the underwriting standards established by the GSEs for inclusion in their guaranteed mortgage securities programs.

**Prime nonconforming mortgage loans** Prime credit quality first-lien mortgage loans secured by 1-4 family residential properties that either (1) do not conform to the underwriting standards established by the GSEs because they had original principal amounts exceeding GSE limits, which are commonly referred to as jumbo mortgage loans, or (2) have alternative documentation requirements and property or credit-related features (e.g., higher loan-to-value or debt-to-income ratios) but are otherwise considered prime credit quality due to other compensating factors.

**Prime second-lien mortgage loans** Open- and closed-end mortgage loans secured by a second or more junior-lien on single-family residences, which include home equity mortgage loans and lines of credit. We ceased originating prime second-lien mortgage loans during 2008.

**Government mortgage loans** First-lien mortgage loans secured by 1-4 family residential properties that are insured by the Federal Housing Administration or guaranteed by the Veterans Administration.

## Edgar Filing: Ally Financial Inc. - Form S-1/A

***Nonprime mortgage loans*** First-lien and certain junior-lien mortgage loans secured by single-family residences made to individuals with credit profiles that do not qualify for a prime loan, have credit-related features that fall outside the parameters of traditional prime mortgage products, or have performance characteristics that otherwise exposes us to comparatively higher risk of loss.  
Nonprime

**Table of Contents**

includes mortgage loans the industry characterizes as subprime, as well as high combined loan-to-value second-lien loans that fell out of our standard loan programs due to noncompliance with one or more criteria. We ceased originating nonprime mortgage loans during 2007.

The following table summarizes our U.S. consumer mortgage loan production by type.

	2013		2012	
	Number of loans	Dollar amount of loans	Number of loans	Dollar amount of loans
<b>Three months ended March 31, (\$ in millions)</b>				
Prime conforming	27,872	\$ 5,565	30,750	\$ 6,587
Prime nonconforming	634	508	578	464
Government	220	43	6,795	1,484
Total U.S. production	28,726	\$ 6,116	38,123	\$ 8,535

	2012		2011		2010	
	Number of loans	Dollar amount of loans	Number of loans	Dollar amount of loans	Number of loans	Dollar amount of loans
<b>Year ended December 31, (\$ in millions)</b>						
Prime conforming	133,034	\$ 27,856	208,442	\$ 47,425	228,289	\$ 53,609
Prime nonconforming	2,706	2,211	2,008	1,679	1,837	1,548
Government	10,765	2,329	35,588	7,053	71,193	14,258
Total U.S. production	146,505	\$ 32,396	246,038	\$ 56,157	301,319	\$ 69,415

The majority of our serviced mortgage assets are subserviced by GMAC Mortgage, LLC, a subsidiary of ResCap, pursuant to a servicing agreement. During April 2013, we completed the sale of our portfolio of agency mortgage servicing rights to Ocwen Financial Corporation and Quicken Loans Inc. The sale was completed in two stages—loans guaranteed by Fannie Mae were sold on April 1, 2013, and loans guaranteed by Freddie Mac were sold on April 16, 2013. Refer to Note 27 to the Condensed Consolidated Financial Statements for further information.

**U.S. Warehouse Lending**

Historically, we provided warehouse-lending facilities to correspondent lenders and other mortgage originators in the United States. These facilities enabled lenders and originators to finance residential mortgage loans until they were sold in the secondary mortgage loan market. In July 2012, we announced our intention to shut down this business and, as of December 31, 2012, we successfully managed receivables down to \$0 with no commitments outstanding. At December 31, 2011, we had total warehouse line of credit commitments of \$2.8 billion, against which we had \$1.9 billion of advances outstanding.

**Loans Outstanding**

Consumer mortgage loans held-for-sale and consumer mortgage loans held-for-investment as of March 31, 2013 and December 31, 2012, represent loans held by Ally Bank. ResCap was deconsolidated from Ally Financial as of May 14, 2012. Refer to Note 1 to the Consolidated Financial Statements for further details on ResCap.

**Table of Contents**

Consumer mortgage loans held-for-sale were as follows.

(\$ in millions)	March	December 31,	
	31, 2013	2012	2011
Prime conforming	\$ 730	\$ 2,407	\$ 3,345
Prime nonconforming			571
Prime second-lien			545
Government (a)	1	8	3,294
Nonprime			561
International			17
<b>Total (b)</b>	<b>731</b>	<b>2,415</b>	<b>8,333</b>
Net premiums (discounts)	(34)	26	(221)
Fair value option election adjustment	4	49	60
Lower-of-cost or fair value adjustment			(60)
<b>Total, net (c)</b>	<b>\$ 701</b>	<b>\$ 2,490</b>	<b>\$ 8,112</b>

- (a) Includes loans subject to conditional repurchase options of \$0 million and \$2.3 billion sold to Ginnie Mae-guaranteed securitizations at December 31, 2012, and December 31, 2011, respectively. The corresponding liability is recorded in accrued expenses and other liabilities on the Consolidated Balance Sheet.
- (b) Includes unpaid principal write-down of \$0 million and \$1.5 billion at December 31, 2012, and December 31, 2011, respectively. The amounts are write-downs taken upon the transfer of mortgage loans from held-for-investment to held-for-sale during the fourth quarter of 2009 and charge-offs taken in accordance with our charge-off policy.
- (c) Includes loans subject to conditional repurchase options of \$0 million and \$106 million sold to off-balance sheet private-label securitizations at December 31, 2012, and December 31, 2011, respectively. The corresponding liability is recorded in accrued expenses and other liabilities on the Consolidated Balance Sheet.



**Table of Contents**

Consumer mortgage loans held-for-investment were as follows.

<i>(\$ in millions)</i>	March 31, 2013	December 31, 2012
Prime conforming	\$ 248	\$ 245
Prime nonconforming	8,225	8,322
Prime second-lien	1,083	1,137
Government	1	
<b>Total</b>	<b>9,557</b>	<b>9,704</b>
Net premiums	44	43
Allowance for loan losses	(430)	(432)
Other	5	8
<b>Total, net</b>	<b>\$ 9,176</b>	<b>\$ 9,323</b>

<b>December 31, (\$ in millions)</b>	<b>2012</b>	<b>2011</b>
Prime conforming	\$ 245	\$ 278
Prime nonconforming	8,322	8,069
Prime second-lien	1,137	2,200
Government		
Nonprime		1,349
International		422
<b>Total</b>	<b>9,704</b>	<b>12,318</b>
Net premiums	43	38
Fair value option election adjustment		(1,601)
Allowance for loan losses	(432)	(495)
Other	8	
<b>Total, net (a)</b>	<b>\$ 9,323</b>	<b>\$ 10,260</b>

- (a) At December 31, 2012, and December 31, 2011, the carrying value of mortgage loans held-for-investment relating to securitization transactions accounted for as on-balance sheet securitizations and pledged as collateral totaled \$0 million and \$837 million, respectively. The investors in these on-balance sheet securitizations have no recourse to our other assets beyond the loans pledged as collateral other than market customary representation and warranty provisions.

**Mortgage Loan Servicing**

Our retained mortgage servicing rights consist of primary servicing rights. When we act as primary servicer, we collect and remit mortgage loan payments, respond to borrower inquiries, account for principal and interest, hold custodial and escrow funds for payment of property taxes and insurance premiums, counsel or otherwise work with delinquent borrowers, supervise foreclosures and property dispositions, and generally administer the loans. The majority of our serviced mortgage assets are subserviced by GMAC Mortgage, LLC, a subsidiary of ResCap, pursuant to a servicing agreement. Historically, we acted as a master servicer. When we acted as master servicer, we collected mortgage loan payments from primary servicers and distributed those funds to investors in mortgage-backed and mortgage-related asset-backed securities and whole-loan packages. Key services in this regard include loan accounting, claims administration, oversight of primary servicers, loss mitigation, bond administration, cash flow waterfall calculations, investor reporting, and tax-reporting compliance. In return for performing these functions, we receive servicing fees equal to a specified percentage of the outstanding principal balance of the loans being serviced and may also be entitled to other forms of servicing compensation, such as late payment fees or prepayment penalties. Servicing compensation also includes interest income or the float earned on collections that are deposited in various custodial accounts between their receipt and the scheduled/



**Table of Contents**

contractual distribution of the funds to investors. Refer to Note 11 to the Consolidated Financial Statements for additional information.

The value of mortgage servicing rights is sensitive to changes in interest rates and other factors. We have developed and implemented an economic hedge program to, among other things, mitigate the overall risk of loss due to a change in the fair value of our mortgage servicing rights. Accordingly, we hedge the change in the total fair value of our mortgage servicing rights. The effectiveness of this economic hedging program may have a material effect on the results of operations. Refer to the Critical Accounting Estimates section of this MD&A and Note 22 to the Consolidated Financial Statements for further discussion. On October 26, 2012, we announced that Ally Bank began to explore strategic alternatives for its agency mortgage servicing rights portfolio, including a potential sale of the asset. On April 16, 2013, we completed substantially all of the sales of agency MSR to Ocwen Financial Corp. and Quicken Loans, Inc.

The following table summarizes our primary consumer mortgage loan-servicing portfolio by product category.

<i>(\$ in millions)</i>	March 31, 2013	December 31, 2012
U.S. primary servicing portfolio		
Prime conforming	\$ 114,751	\$ 117,544
Prime nonconforming	11,042	11,628
Prime second-lien	1,082	1,136
Government	10	16
Total primary servicing portfolio	\$ 126,885	\$ 130,324

<b>December 31, (\$ in millions)</b>	2012	2011
U.S. primary servicing portfolio		
Prime conforming	\$ 117,544	\$ 226,239
Prime nonconforming	11,628	47,767
Prime second-lien	1,136	6,871
Government	16	49,027
Nonprime		20,753
International primary servicing portfolio		5,773
Total primary servicing portfolio (a)	\$ 130,324	\$ 356,430

- (a) Excludes loans for which we acted as a servicer. Serviced loans totaled \$0 billion and \$26.4 billion at December 31, 2012 and 2011, respectively.

**Table of Contents****Corporate and Other**

The following table summarizes the activities of Corporate and Other excluding discontinued operations for the periods shown. Corporate and Other primarily consists of our centralized corporate treasury activities, such as management of the cash and corporate investment securities portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, the amortization of the discount associated with new debt issuances and bond exchanges, most notably from the December 2008 bond exchange, and the residual impacts of our corporate funds-transfer pricing (FTP) and treasury asset liability management (ALM) activities. Corporate and Other also includes our Commercial Finance Group, certain equity investments, overhead that was previously allocated to operations that have since been sold or classified as discontinued operations, and reclassifications and eliminations between the reportable operating segments. Our Commercial Finance Group provides senior secured commercial-lending products to primarily U.S.-based middle market companies.

(\$ in millions)	Three months ended March 31,		Favorable/ (unfavorable) % change
	2013	2012	
<b>Net financing loss</b>			
Total financing revenue and other interest income	\$ 53	\$ 44	20
Interest expense			
Original issue discount amortization	60	111	46
Other interest expense	172	261	34
Total interest expense	232	372	38
Net financing loss (a)	(179)	(328)	45
<b>Other revenue</b>			
Other gain on investments, net	3	24	(88)
Other income, net of losses	12	29	(59)
Total other revenue	15	53	(72)
<b>Total net loss</b>	<b>(164)</b>	<b>(275)</b>	<b>40</b>
<b>Provision for loan losses</b>	<b>(1)</b>	<b>(7)</b>	<b>(86)</b>
<b>Noninterest expense</b>			
Compensation and benefits expense	132	159	17
Other operating expense (b)	(32)	(26)	23
Total noninterest expense	100	133	25
<b>Loss from continuing operations before income tax (benefit) expense</b>	<b>\$ (263)</b>	<b>\$ (401)</b>	<b>34</b>
Total assets	\$ 27,702	\$ 28,796	(4)

(a) Refer to the table that follows for further details on the components of net financing loss.

(b) Includes a reduction of \$193 million for the three months ended March 31, 2013, and \$207 million for the three months ended March 31, 2012, related to the allocation of corporate overhead expenses to other segments. The receiving segments record their allocation of corporate overhead expense within other operating expense.

**Table of Contents**

The following table summarizes the components of net financing losses for Corporate and Other.

(\$ in millions)	Three months ended March 31,	
	2013	2012
Original issue discount amortization		
2008 bond exchange amortization	\$ (56)	\$ (103)
Other debt issuance discount amortization	(4)	(8)
Total original issue discount amortization (a)	(60)	(111)
Net impact of the funds transfer pricing methodology		
Unallocated liquidity costs (b)	(84)	(154)
Funds-transfer pricing / cost of funds mismatch (c)	61	5
Unassigned equity costs (d)	(109)	(86)
Total net impact of the funds transfer pricing methodology	(132)	(235)
Other (including Commercial Finance Group net financing revenue)	13	18
Total net financing losses for Corporate and Other	\$ (179)	\$ (328)
Outstanding original issue discount balance	\$ 1,780	\$ 2,093

(a) Amortization is included as interest on long-term debt in the Condensed Consolidated Statement of Comprehensive Income.

(b) Represents the unallocated cost of funding our cash and investment portfolio.

(c) Represents our methodology to assign funding costs to classes of assets and liabilities based on expected duration and the London interbank offer rate (LIBOR) swap curve plus an assumed credit spread. Matching duration allocates interest income and interest expense to the reportable segments so the respective reportable segments results are insulated from interest rate risk. The balance above is the resulting benefit (loss) due to holding interest rate risk at Corporate and Other.

(d) Primarily represents the unassigned cost of maintaining required capital positions for certain of our regulated entities, primarily Ally Bank and Ally Insurance.

The following table presents the scheduled remaining amortization of original issue discount at March 31, 2013.

Year ended December 31, (\$ in millions)	2013 (a)	2014	2015	2016	2017	2018 and thereafter	Total
Original issue discount							
Outstanding balance	\$ 1,579	\$ 1,391	\$ 1,335	\$ 1,272	\$ 1,197	\$	
Total amortization (b)	201	188	56	63	75	1,197	\$ 1,780
2008 bond exchange amortization (c)	186	166	43	53	66	1,059	1,573

(a)

## Edgar Filing: Ally Financial Inc. - Form S-1/A

The maximum annual scheduled amortization for any individual year is \$158 million in 2030 of which \$152 million is related to 2008 bond exchange amortization.

- (b) The amortization is included as interest on long-term debt on the Condensed Consolidated Statement of Comprehensive Income.
- (c) 2008 bond exchange amortization is included in total amortization.

**Table of Contents****First Quarter 2013 Compared to First Quarter 2012**

Loss from continuing operations before income tax expense for Corporate and Other was \$263 million for the three months ended March 31, 2013, compared to \$401 million for the three months ended March 31, 2012. Corporate and Other's loss from continuing operations before income tax expense was driven by net financing losses, which primarily represents original issue discount amortization expense and the net impact of our FTP methodology, which includes the unallocated cost of maintaining our liquidity and investment portfolios.

The improvement in the loss from continuing operations before income tax expense for the three months ended March 31, 2013 was primarily due to decreases in OID amortization expense related to bond maturities and normal monthly amortization, and lower funding costs as a result of the early repayment of certain Federal Home Loan Bank debt during the fourth quarter of 2012, and lower compensation and benefits expense primarily related to a decrease in headcount. The improvement was partially offset by a decrease in other income primarily driven by derivative losses and the sale of servicer advance assets during the first quarter of 2013.

Corporate and Other also includes the results of our Commercial Finance Group. Our Commercial Finance Group earned income from continuing operations before income tax expense of \$18 million for the three months ended March 31, 2013, compared to \$25 million for the three months ended March 31, 2012. The decrease was primarily related to less favorable provision expense due to higher recoveries on nonperforming exposures in 2012.

Year ended December 31, (\$ in millions)	2012	2011	2010	Favorable/ (unfavorable) 2012-2011 % change	Favorable/ (unfavorable) 2011-2010 % change
<b>Net financing loss</b>					
Total financing revenue and other interest income	\$ 157	\$ 195	\$ 210	(19)	(7)
Interest expense					
Original issue discount amortization	349	925	1,204	62	23
Other interest expense	957	943	1,011	(1)	7
Total interest expense	1,306	1,868	2,215	30	16
Net financing loss (a)	(1,149)	(1,673)	(2,005)	31	17
<b>Other (expense) revenue</b>					
Loss on extinguishment of debt	(148)	(64)	(124)	(131)	48
Other gain on investments, net	69	84	146	(18)	(42)
Other income, net of losses	22	156	(59)	(86)	n/m
Total other (expense) revenue	(57)	176	(37)	(132)	n/m
<b>Total net loss</b>	<b>(1,206)</b>	<b>(1,497)</b>	<b>(2,042)</b>	<b>19</b>	<b>27</b>
<b>Provision for loan losses</b>	<b>(10)</b>	<b>(51)</b>	<b>(47)</b>	<b>(80)</b>	<b>9</b>
<b>Noninterest expense</b>					
Compensation and benefits expense	533	463	610	(15)	24
Other operating expense (b)	(99)	9	23	n/m	61
Total noninterest expense	434	472	633	8	25
<b>Loss from continuing operations before income tax expense</b>	<b>\$ (1,630)</b>	<b>\$ (1,918)</b>	<b>\$ (2,628)</b>	<b>15</b>	<b>27</b>
Total assets	\$ 30,753	\$ 29,526	\$ 28,472	4	4

n/m = not meaningful

## Edgar Filing: Ally Financial Inc. - Form S-1/A

- (a) Refer to the table that follows for further details on the components of net financing loss.
  
- (b) Includes a reduction of \$814 million for the year ended December 31, 2012, and \$757 million for each of the years ended December 31, 2011, and 2010, related to the allocation of corporate overhead expenses to other segments. The receiving segments record their allocation of corporate overhead expense within other operating expense.



**Table of Contents**

The following table summarizes the components of net financing losses for Corporate and Other.

At and for the year ended December 31, (\$ in millions)	2012	2011	2010
Original issue discount amortization			
2008 bond exchange amortization	\$ (320)	\$ (886)	\$ (1,158)
Other debt issuance discount amortization	(29)	(39)	(46)
Total original issue discount amortization (a)	(349)	(925)	(1,204)
Net impact of the funds transfer pricing methodology			
Unallocated liquidity costs (b)	(586)	(564)	(495)
Funds-transfer pricing / cost of funds mismatch (c)	170	42	(364)
Unassigned equity costs (d)	(443)	(315)	(29)
Total net impact of the funds transfer pricing methodology	(859)	(837)	(888)
Other (including Commercial Finance Group net financing revenue)	59	89	87
Total net financing losses for Corporate and Other	\$ (1,149)	\$ (1,673)	\$ (2,005)
Outstanding original issue discount balance	\$ 1,840	\$ 2,194	\$ 3,169

(a) Amortization is included as interest on long-term debt in the Consolidated Statement of Income.

(b) Represents the unallocated cost of funding our cash and investment portfolio.

(c) Represents our methodology to assign funding costs to classes of assets and liabilities based on expected duration and the London interbank offer rate (LIBOR) swap curve plus an assumed credit spread. Matching duration allocates interest income and interest expense to the reportable segments so the respective reportable segments results are insulated from interest rate risk. The balance above is the resulting benefit (loss) due to holding interest rate risk at Corporate and Other.

(d) Primarily represents the unassigned cost of maintaining required capital positions for certain of our regulated entities, primarily Ally Bank and Ally Insurance.

The following table presents the scheduled remaining amortization of the original issue discount at December 31, 2012.

Year ended December 31, (\$ in millions)	2013	2014	2015	2016	2017	2018 and thereafter (a)	Total
Original issue discount							
Outstanding balance	\$ 1,579	\$ 1,391	\$ 1,335	\$ 1,272	\$ 1,197	\$	
Total amortization (b)	261	188	56	63	75	1,197	\$ 1,840
2008 bond exchange amortization (c)	241	166	43	53	66	1,059	1,628

(a) The maximum annual scheduled amortization for any individual year is \$158 million in 2030 of which \$152 million is related to 2008 bond exchange amortization.

## Edgar Filing: Ally Financial Inc. - Form S-1/A

(b) The amortization is included as interest on long-term debt on the Consolidated Statement of Income.

(c) 2008 bond exchange amortization is included in total amortization.

### ***2012 Compared to 2011***

Loss from continuing operations before income tax expense for Corporate and Other was \$1.6 billion for the year ended December 31, 2012, compared to \$1.9 billion for the year ended December 31, 2011. Corporate and Other's loss from continuing operations before income tax expense was driven by net financing losses, which primarily represents original issue discount amortization expense and the net impact of our FTP methodology, which includes the unallocated cost of maintaining our liquidity and investment portfolios.

**Table of Contents**

The improvement in the loss from continuing operations before income tax expense for the year ended December 31, 2012 was primarily due to a decrease in OID amortization expense related to bond maturities and normal monthly amortization. Additionally, we incurred no accelerated amortization of OID for the year ended December 31, 2012, compared to \$50 million for the year ended December 31, 2011. The improvement was partially offset by the early repayment of certain Federal Home Loan Bank debt to further reduce funding costs, the absence of a \$121 million gain on the early settlement of a loss holdback provision related to certain historical automotive whole-loan forward flow agreements recognized during 2011, and an increase in compensation and benefits expense as a result of increased incentive compensation and pension-related expenses. The pension-related expenses resulted from our decision to de-risk our long-term pension liability through lump-sum buyouts and annuity placements for former subsidiaries. Refer to Note 24 to the Consolidated Financial Statements for further detail on these certain pension actions.

Corporate and Other also includes the results of our Commercial Finance Group. Our Commercial Finance Group earned income from continuing operations before income tax expense of \$48 million for the year ended December 31, 2012, compared to \$141 million for the year ended December 31, 2011. The decrease was primarily related to lower net revenue resulting from a decline in income from servicer advance collections, lower accelerated fee income due to fewer early loan payoffs during 2012, compared to 2011. Additionally, provision expense was less favorable in 2012 due to greater decline in portfolio-level reserves in 2011 associated with higher recoveries on nonperforming exposures, combined with the runoff of the majority of our higher-risk non-core portfolio.

***2011 Compared to 2010***

Loss from continuing operations before income tax expense for Corporate and Other was \$1.9 billion for the year ended December 31, 2011, compared to \$2.6 billion for the year ended December 31, 2010. Corporate and Other's loss from continuing operations before income tax expense for both periods was driven by net financing losses, which primarily represents original issue discount amortization expense and the net impact of our FTP methodology, which includes the unallocated cost of maintaining our liquidity and investment portfolios.

The improvement in the loss from continuing operations before income tax expense for the year ended December 31, 2011, was primarily due to a decrease in original issue discount amortization expense related to bond maturities and normal monthly amortization and favorable net impact of the FTP methodology. The net FTP methodology improvement was primarily the result of favorable unallocated interest costs due to lower non-earning assets and unamortized original issue discount balance. Additionally, 2011 was favorably impacted by a \$121 million gain on the early settlement of a loss holdback provision related to certain historical automotive whole-loan forward flow agreements, a reduction in debt fees driven by the restructuring of our secured facilities and the termination of our automotive forward flow agreements, and by a lower loss on the extinguishment of certain Ally debt (which included accelerated amortization of original issue discount of \$50 million for the year ended December 31, 2011, compared to \$101 million in 2010).

Corporate and Other also includes the results of our Commercial Finance Group. Our Commercial Finance Group earned income from continuing operations before income tax expense of \$141 million for the year ended December 31, 2011, compared to \$182 million for the year ended December 31, 2010. The decrease was primarily due to lower asset levels partially offset by lower expenses and favorable loss provisions.

**Table of Contents****Cash and Securities**

The following table summarizes the composition of the cash and securities portfolio held at fair value by Corporate and Other.

(\$ in millions)	March 31, 2013	December 31, 2012	2011
Cash			
Noninterest-bearing cash	\$ 880	\$ 944	\$ 1,768
Interest-bearing cash	5,720	5,942	9,781
Total cash	6,600	6,886	11,549
Trading Securities			
Mortgage-backed			589
Total trading Securities			589
Available-for-sale securities			
Debt securities			
U.S. Treasury and federal agencies	923	1,124	1,051
U.S states and political subdivisions			1
Foreign government			106
Mortgage-backed	7,930	6,191	6,722
Asset-backed	2,212	2,332	2,520
Other debt (a)			305
Total debt securities	11,065	9,647	10,705
Equity securities	4	4	4
Total available-for-sale securities	11,069	9,651	10,709
Total cash and securities	\$ 17,669	\$ 16,537	\$ 22,847

(a) Includes intersegment eliminations.

**Risk Management**

Managing the risk/reward trade-off is a fundamental component of operating our businesses. Our risk management program is overseen by the Ally Board of Directors (the Board), various risk committees, and the executive leadership team. The Board sets the risk appetite across our company while the risk committees and executive leadership team identify and monitor potential risks and manage the risk to be within our risk appetite. Ally's primary risks include credit, lease residual, market, operational, insurance/underwriting, country, and liquidity.

**Credit risk** The risk of loss arising from a creditor not meeting its financial obligations to our firm.

**Lease Residual risk** The risk of loss arising from the possibility that the actual proceeds realized upon the sale of returned vehicles will be lower than the projection of the values used in establishing the pricing at lease inception.

**Market risk** The risk of loss arising from changes in the fair value of our assets or liabilities (including derivatives) caused by movements in market variables, such as interest rates, foreign-exchange rates, and equity and commodity prices.

**Operational risk** The risk of loss arising from inadequate or failed processes or systems, human factors, or external events.

**Table of Contents**

***Insurance/Underwriting risk*** The risk of loss associated with either (i) fortuitous occurrences (e.g., fires, hurricanes, tortuous conduct) and/or (ii) the failure to consider the frequency of losses, severity of losses or the correlation of losses with multiple events.

***Country risk*** The risk that economic, social and political conditions, and events in foreign countries will adversely affect our financial interests.

***Liquidity risk*** The risk that our financial condition or overall safety and soundness is adversely affected by an inability, or perceived inability, to meet our financial obligations, and to withstand unforeseen liquidity stress events (see Liquidity Management, Funding, and Regulatory Capital discussion within this MD&A).

While risk oversight is ultimately the responsibility of the Board, our governance structure starts within each line of business, including committees established to oversee risk in their respective areas. The lines of business are responsible for executing on risk strategies, policies, and controls that are fundamentally sound and compliant with global risk management policies and with applicable laws and regulations. The line of business risk committees, which report up to the Risk and Compliance Committee of the Board, monitor the performance within each portfolio and determine whether to amend any risk practices based upon portfolio trends.

In addition, the Global Risk Management and Compliance organizations are accountable for independently monitoring, measuring, and reporting on our various risks. They are also responsible for monitoring that our risks remain within the tolerances established by the Board, developing and maintaining policies, and implementing risk management methodologies.

All lines of business and global functions are subject to full and unrestricted audits by Audit Services. Audit Services reports to the Audit Committee of the Board, and is primarily responsible for assisting the Audit Committee in fulfilling its governance and oversight responsibilities. Audit Services is granted free and unrestricted access to any and all of our records, physical properties, technologies, management, and employees.

In addition, our Global Loan Review Group provides an independent assessment of the quality of Ally's credit risk portfolios and credit risk management practices. This group reports its findings directly to the Risk and Compliance Committee. The findings of this group help to strengthen our risk management practices and processes throughout the organization.

**Table of Contents****Loan and Lease Exposure**

The following table summarizes the exposures from our loan and lease activities.

<i>(\$ in millions)</i>	March 31, 2013	December 31, 2012	2011
Finance receivables and loans			
Dealer Financial Services	\$ 86,894	\$ 86,542	\$ 100,734
Mortgage operations	9,672	9,821	12,753
Corporate and Other	2,557	2,692	1,268
<b>Total finance receivables and loans</b>	<b>99,123</b>	99,055	114,755
Held-for-sale loans			
Dealer Financial Services			425
Mortgage operations	701	2,490	8,112
Corporate and Other	17	86	20
<b>Total held-for-sale loans</b>	<b>718</b>	2,576	8,557
<b>Total on-balance sheet loans</b>	<b>\$ 99,841</b>	\$ 101,631	\$ 123,312
Off-balance sheet securitized loans			
Dealer Financial Services	\$ 1,336	\$ 1,495	\$
Mortgage operations	117,342	119,384	326,975
Corporate and Other			
<b>Total off-balance sheet securitized loans</b>	<b>\$ 118,678</b>	\$ 120,879	\$ 326,975
Operating lease assets			
Dealer Financial Services	\$ 14,828	\$ 13,550	\$ 9,275
Mortgage operations			
Corporate and Other			
<b>Total operating lease assets</b>	<b>\$ 14,828</b>	\$ 13,550	\$ 9,275
Serviced loans and leases			
Dealer Financial Services	\$ 132,817	\$ 134,122	\$ 122,881
Mortgage operations (a)	126,885	130,324	356,430
Corporate and Other	1,383	1,344	1,762
<b>Total serviced loans and leases</b>	<b>\$ 261,085</b>	\$ 265,790	\$ 481,073

(a) Includes primary mortgage loan-servicing portfolio only.

The risks inherent in our loan and lease exposures are largely driven by changes in the overall economy, used vehicle and housing price levels, unemployment levels, and their impact to our borrowers. The potential financial statement impact of these exposures varies depending on the accounting classification and future expected disposition strategy. We retain the majority of our automobile loans as they complement our core business model, but we do sell loans from time to time on an opportunistic basis. Historically, we primarily originated mortgage loans with the intent to sell and, as such, retained only a small percentage of the loans that we originated or purchased. Mortgage loans that we did not intend to retain were sold to investors, primarily through securitizations guaranteed by GSEs. However, we may have retained an interest or right to service these loans. We ultimately manage the associated risks based on the underlying economics of the exposure. Due to our recent strategic actions, we are exiting the mortgage correspondent lending channel and ceasing origination of any new jumbo loans.

***Finance receivables and loans*** Loans that we have the intent and ability to hold for the foreseeable future or until maturity or loans associated with an on-balance sheet securitization classified as secured financing. These loans are recorded at the principal amount outstanding, net of unearned income and



**Table of Contents**

premiums and discounts. Probable credit-related losses inherent in our finance receivables and loans carried at historical cost are reflected in our allowance for loan losses and recognized in current period earnings. We manage the economic risks of these exposures, including credit risk, by adjusting underwriting standards and risk limits, augmenting our servicing and collection activities (including loan modifications and restructurings), and optimizing our product and geographic concentrations. Additionally, we had historically elected to carry certain mortgage loans of ResCap at fair value. Changes in the fair value of these loans are recognized in a valuation allowance separate from the allowance for loan losses and were reflected in current period earnings. We used market-based instruments, such as derivatives, to hedge changes in the fair value of these loans. Refer to the Critical Accounting Estimates discussion within this MD&A and Note 1 to the Consolidated Financial Statements for further information.

***Held-for-sale loans*** Loans that we have the intent to sell. These loans are recorded on our balance sheet at the lower of cost or estimated fair value and are evaluated by portfolio and product type. Changes in the recorded value are recognized in a valuation allowance and reflected in current period earnings. We manage the economic risks of these exposures, including market and credit risks, in various ways including the use of market-based instruments such as derivatives. Refer to the Critical Accounting Estimates discussion within this MD&A and Note 1 to the Consolidated Financial Statements for further information.

***Off-balance sheet securitized loans*** Loans that we transfer off-balance sheet to nonconsolidated variable interest entities. We primarily report this exposure as cash, servicing rights, or retained interests (if applicable). Similar to finance receivables and loans, we manage the economic risks of these exposures, including credit risk, through activities including servicing and collections. Refer to the Critical Accounting Estimates discussion within this MD&A and Note 1 to the Consolidated Financial Statements for further information.

***Operating lease assets*** The net book value of the automobile assets we lease are based on the expected residual values upon remarketing the vehicles at the end of the lease. We are exposed to fluctuations in the expected residual value upon remarketing the vehicle at the end of the lease, and as such at contract inception, we generally determine the projected residual values based on independent data, including independent guides of vehicle residual values, and analysis. A valuation allowance related to lease credit losses is recorded directly against the lease rent receivable balance which is a component of Other Assets. An impairment to the carrying value of the assets may be deemed necessary if there is an unfavorable and unrecoverable change in the value of the recorded asset. Refer to the Critical Accounting Estimates discussion within this MD&A and Note 1 to the Consolidated Financial Statements for further information.

***Serviced loans and leases*** Loans that we service on behalf of our customers or another financial institution. As such, these loans can be on or off our balance sheet. For our mortgage servicing rights, we record an asset or liability (at fair value) based on whether the expected servicing benefits will exceed the expected servicing costs. Changes in the fair value of the mortgage servicing rights are recognized in current period earnings. We also service consumer automobile loans. We do not record servicing rights assets or liabilities for these loans because we receive a fee that adequately compensates us for the servicing costs. We manage the economic risks of these exposures, including market and credit risks, in part through market-based instruments such as derivatives and securities. Refer to the Critical Accounting Estimates discussion within this MD&A and Note 1 to the Consolidated Financial Statements for further information.

**Credit Risk Management**

Credit risk is defined as the potential failure to receive payments when due from a creditor in accordance with contractual obligations. Therefore, credit risk is a major source of potential economic loss to us. Credit risk

---

**Table of Contents**

is monitored by global and line of business committees and the Global Risk Management organization. Together they oversee the credit decisioning and management processes, and monitor credit risk exposures to ensure they are in a safe-and-sound manner and are within our risk appetite. In addition, our Loan Review Group provides an independent assessment of the quality of our credit portfolios and credit risk management practices, and directly reports its findings to the Risk and Compliance Committee of the Board on a regular basis.

To mitigate risk we have implemented specific policies and processes across all lines of business, utilizing both qualitative and quantitative analyses, that reflect our commitment to maintaining an independent and ongoing assessment of credit risk and credit quality. Our policies require an objective and timely assessment of the overall quality of the consumer and commercial loan and lease portfolios. This includes the identification of relevant trends that affect the collectability of the portfolios, segments of the portfolios that are potential problem areas, loans and leases with potential credit weaknesses, and assessment of the adequacy of internal credit risk policies and procedures to monitor compliance with relevant laws and regulations. In addition, we maintain limits and underwriting guidelines that reflect our risk appetite.

We manage credit risk based on the risk profile of the borrower, the source of repayment, the underlying collateral, and current market conditions. We monitor the credit risk profile of individual borrowers and the aggregate portfolio of borrowers either within a designated geographic region or a particular product or industry segment. To mitigate risk concentrations, we may take part in loan sales and syndications.

Additionally, we utilize numerous strategies in an effort to mitigate loss and provide ongoing support to customers in financial distress. For automobile loans, we offer several types of assistance to aid our customers. Loss mitigation includes changing the maturity date, extending payments, and rewriting the loan terms. These actions are provided with the intent to provide the borrower with additional options in lieu of repossessing their vehicle. For mortgage loans, as part of our participation in certain governmental programs, we offer mortgage loan modifications to qualified borrowers. Numerous initiatives, such as the Home Affordable Modification Program (HAMP) are in place to provide support to our mortgage customers in financial distress, including principal forgiveness, maturity extensions, delinquent interest capitalization, and changes to contractual interest rates.

Furthermore, we manage our counterparty credit exposure based on the risk profile of the counterparty. Within our policies, we have established minimum standards and requirements for managing counterparty risk exposures in a safe-and-sound manner. Counterparty credit risk is derived from multiple exposure types, including derivatives, securities trading, securities financing transactions, financial futures, cash balances (e.g. due from depository institutions, restricted accounts and cash equivalents), and investment in debt securities. For more information on Derivative Counterparty Credit Risk, refer to Note 22 to the Consolidated Financial Statements.

The U.S. economy accelerated in late 2012, and continued to expand during the three months ended March 31, 2013. The labor market recovered further during the quarter, with nonfarm payrolls increasing by more than 500,000 and the unemployment rate falling to a four year low of 7.6%. Within the U.S. automotive portfolio, encouraging trends include new light vehicle sales that averaged 15.3 million during the quarter, an 8% increase over the same period in 2012. Nonetheless, we continue to be cautious with the economic outlook due to uneven manufacturing activity, slow global economic growth and uncertainty regarding the effects of the sequester mandated cuts to U.S. federal government spending.

**On-balance Sheet Portfolio**

Our on-balance sheet portfolio includes both finance receivables and loans and held-for-sale loans. At March 31, 2013, this primarily included \$86.9 billion of automobile finance receivables and loans and \$10.4 billion of mortgage finance receivables and loans. Within our on-balance sheet portfolio, we had historically elected to account for certain

**Table of Contents**

mortgage loans of ResCap at fair value. The valuation allowance recorded on fair value-elected loans is separate from the allowance for loan losses. Changes in the fair value of loans are classified as gain on mortgage and automotive loans, net, in the Consolidated Statement of Income.

During 2012 and 2013, we further executed on our strategy of discontinuing and selling or liquidating nonstrategic operations. Refer to Note 2 to the Consolidated Financial Statements for additional information.

The following table presents our total on-balance sheet consumer and commercial finance receivables and loans reported at carrying value before allowance for loan losses.

(\$ in millions)	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
<b>Consumer</b>						
Finance receivables and loans						
Loans at historical cost	\$ 64,686	\$ 63,536	\$ 668	\$ 642	\$ 1	\$ 1
Loans at fair value						
<b>Total finance receivables and loans</b>	<b>64,686</b>	<b>63,536</b>	<b>668</b>	<b>642</b>	<b>1</b>	<b>1</b>
Loans held-for-sale	701	2,490	26	25		
<b>Total consumer loans</b>	<b>65,387</b>	<b>66,026</b>	<b>694</b>	<b>667</b>	<b>1</b>	<b>1</b>
<b>Commercial</b>						
Finance receivables and loans						
Loans at historical cost	34,437	35,519	270	216		
Loans at fair value						
<b>Total finance receivables and loans</b>	<b>34,437</b>	<b>35,519</b>	<b>270</b>	<b>216</b>		
Loans held-for-sale	17	86				
<b>Total commercial loans</b>	<b>34,454</b>	<b>35,605</b>	<b>270</b>	<b>216</b>		
<b>Total on-balance sheet loans</b>	<b>\$ 99,841</b>	<b>\$ 101,631</b>	<b>\$ 964</b>	<b>\$ 883</b>	<b>\$ 1</b>	<b>\$ 1</b>

(a) Includes nonaccrual troubled debt restructured loans (TDRs) of \$488 million and \$419 million at March 31, 2013, and December 31, 2012, respectively.

(b) Generally, loans that are 90 days past due and still accruing represent loans with government guarantees. There were no troubled debt restructured loans classified as 90 days past due and still accruing at March 31, 2013 and December 31, 2012.

Total on-balance sheet loans outstanding at March 31, 2013, decreased \$1.8 billion to \$99.8 billion from December 31, 2012 reflecting a decrease of \$1.2 billion in the commercial portfolio and a decrease of \$639 million in the consumer portfolio. The decrease in commercial on-balance sheet loans outstanding was primarily driven by the seasonality of dealer inventories and increased competition across the automotive lending market. The decrease in consumer on-balance sheet loans was primarily driven by the reduction of mortgage originations, partially offset by automobile originations, which outpaced portfolio runoff.

The total TDRs outstanding at March 31, 2013, increased \$97 million to \$1.3 billion from December 31, 2012, primarily due to our loss mitigation procedures and continued foreclosure prevention along with our participation in a variety of government-sponsored refinancing programs. Refer to Note 7 to the Condensed Consolidated Financial Statements for additional information.

## Edgar Filing: Ally Financial Inc. - Form S-1/A

Total nonperforming loans at March 31, 2013, increased \$81 million to \$964 million from December 31, 2012, reflecting an increase of \$54 million of commercial nonperforming loans and an increase of \$27 million of consumer nonperforming loans. The increase in total nonperforming loans from December 31, 2012, was due in part to the reclassification of a small number of commercial loans to nonperforming status within an overall

**Table of Contents**

stable commercial portfolio. Nonperforming loans include finance receivables and loans on nonaccrual status when the principal or interest has been delinquent for 90 days or when full collection is determined not to be probable. Refer to Note 1 to the Consolidated Financial Statements for additional information.

December 31, (\$ in millions)	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
	2012	2011	2012	2011	2012	2011
<b>Consumer</b>						
Finance receivables and loans						
Loans at historical cost	\$ 63,536	\$ 73,452	\$ 642	\$ 567	\$ 1	\$ 4
Loans at fair value		835		210		
<b>Total finance receivables and loans</b>	<b>63,536</b>	<b>74,287</b>	<b>642</b>	<b>777</b>	<b>1</b>	<b>4</b>
Loans held-for-sale	2,490	8,537	25	2,820		73
<b>Total consumer loans</b>	<b>66,026</b>	<b>82,824</b>	<b>667</b>	<b>3,597</b>	<b>1</b>	<b>77</b>
<b>Commercial</b>						
Finance receivables and loans						
Loans at historical cost	35,519	40,468	216	339		
Loans at fair value						
<b>Total finance receivables and loans</b>	<b>35,519</b>	<b>40,468</b>	<b>216</b>	<b>339</b>		
Loans held-for-sale	86	20				
<b>Total commercial loans</b>	<b>35,605</b>	<b>40,488</b>	<b>216</b>	<b>339</b>		
<b>Total on-balance sheet loans</b>	<b>\$ 101,631</b>	<b>\$ 123,312</b>	<b>\$ 883</b>	<b>\$ 3,936</b>	<b>\$ 1</b>	<b>\$ 77</b>

(a) Includes nonaccrual troubled debt restructured loans of \$419 million and \$934 million at December 31, 2012, and December 31, 2011, respectively.

(b) Generally, loans that are 90 days past due and still accruing represent loans with government guarantees. This includes no troubled debt restructured loans classified as 90 days past due and still accruing at December 31, 2012, and \$42 million at December 31, 2011. Total on-balance sheet loans outstanding at December 31, 2012, decreased \$21.7 billion to \$101.6 billion from December 31, 2011 reflecting a decrease of \$16.8 billion in the consumer portfolio and a decrease of \$4.9 billion in the commercial portfolio. The decrease in total on-balance sheet loans outstanding was primarily driven by the reclassification of foreign Automotive Finance operations to discontinued operations and the deconsolidation of ResCap, partially offset by domestic automobile originations which outpaced portfolio runoff. Refer to Note 1 and Note 2 to the Consolidated Financial Statements for additional information related to ResCap and discontinued operations, respectively.

The total TDRs outstanding at December 31, 2012, decreased \$744 million to \$1.2 billion from December 31, 2011, due to the deconsolidation of ResCap.

During the third quarter of 2012, the Office of the Comptroller of the Currency (OCC) advised the banks for which they serve as the primary bank regulatory agency that certain loans that are current, have been discharged in a Chapter 7 Bankruptcy and have not been reaffirmed by the borrower should be accounted for as TDRs and written down to collateral value regardless of their current payment history and expected continued performance. The OCC is not our primary regulator, and our primary regulator has not provided definitive guidance. It is accepted that all of the banking regulators will be evaluating this issue in the first quarter of 2013; however, due to industry practice, we have determined that these loans should be accounted for as TDRs on a prospective basis. The write down based on the discounted expected cash flows of these assets has already been considered in our allowance for loan and lease losses recorded at December 31, 2012. The impact of any change will not be

material.

**Table of Contents**

Total nonperforming loans at December 31, 2012, decreased \$3.1 billion to \$883 million from December 31, 2011, reflecting a decrease of \$2.9 billion of consumer nonperforming loans and a decrease of \$123 million of commercial nonperforming loans. The decrease in total nonperforming loans from December 31, 2011, was primarily due to the deconsolidation of ResCap. Nonperforming loans include finance receivables and loans on nonaccrual status when the principal or interest has been delinquent for 90 days or when full collection is determined not to be probable. Refer to Note 1 to the Consolidated Financial Statements for additional information.

The following table includes consumer and commercial net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

Three months ended March 31, (\$ in millions)	Net charge-offs (recoveries)		Net charge-off ratios (a)	
	2013	2012	2013	2012
<b>Consumer</b>				
Finance receivables and loans at historical cost	\$ 114	\$ 117	0.7%	0.6%
<b>Commercial</b>				
Finance receivables and loans at historical cost		(10)		(0.1)
<b>Total finance receivables and loans at historical cost</b>	<b>\$ 114</b>	<b>\$ 107</b>	<b>0.5</b>	<b>0.4</b>

(a) Net charge-off ratios are calculated as net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the period for each loan category.

Net charge-offs were \$114 million for the three months ended March 31, 2013, compared to \$107 million for the three months ended March 31, 2012. The increase was largely due to recoveries in the commercial portfolio in 2012 that did not repeat in 2013. Loans held-for-sale are accounted for at the lower-of-cost or fair value, and therefore we do not record charge-offs.

Year ended December 31, (\$ in millions)	Net charge-offs (recoveries)		Net charge-off ratios (a)	
	2012	2011	2012	2011
<b>Consumer</b>				
Finance receivables and loans at historical cost	\$ 507	\$ 514	0.7%	0.7%
<b>Commercial</b>				
Finance receivables and loans at historical cost	(33)	39	(0.1)	0.1
<b>Total finance receivables and loans at historical cost</b>	<b>\$ 474</b>	<b>\$ 553</b>	<b>0.4</b>	<b>0.5</b>

(a) Net charge-off ratios are calculated as net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the year for each loan category.

Net charge-offs were \$474 million for the year ended December 31, 2012, compared to \$553 million for the year ended December 31, 2011. The decrease in net charge-offs for the year ended December 31, 2012, was largely due to recoveries in the commercial portfolio. Loans held-for-sale are accounted for at the lower-of-cost or fair value, and therefore we do not record charge-offs.

The *Consumer Credit Portfolio* and *Commercial Credit Portfolio* discussions that follow relate to consumer and commercial finance receivables and loans recorded at historical cost. Finance receivables and loans recorded at historical cost have an associated allowance for loan losses. Finance receivables and loans measured at fair value were excluded from these discussions since those exposures are not accounted for within our allowance for loan losses.

**Table of Contents****Consumer Credit Portfolio**

Our consumer portfolio primarily consists of automobile loans, first mortgages, and home equity loans (we ceased originating home equity loans in 2009). Loan losses in our consumer portfolio are influenced by general business and economic conditions including unemployment rates, bankruptcy filings, and home and used vehicle prices. Additionally, our consumer credit exposure is significantly concentrated in automobile lending (largely through GM and Chrysler dealerships). Due to our subvention relationships, we are able to mitigate some interest income exposure to certain consumer defaults by receiving a rate support payment directly from the automotive manufacturers at origination.

Credit risk management for the consumer portfolio begins with the initial underwriting and continues throughout a borrower's credit cycle. We manage consumer credit risk through our loan origination and underwriting policies, credit approval process, and servicing capabilities. We use proprietary credit-scoring models to differentiate the expected default rates of credit applicants enabling us to better evaluate credit applications for approval and to tailor the pricing and financing structure according to this assessment of credit risk. We regularly review the performance of the credit scoring models and update them for historical information and current trends. These and other actions mitigate but do not eliminate credit risk. Improper evaluations of a borrower's creditworthiness, fraud, and changes in the applicant's financial condition after approval could negatively affect the quality of our receivables portfolio, resulting in loan losses.

Our servicing activities are another key factor in managing consumer credit risk. Servicing activities consist largely of collecting and processing customer payments, responding to customer inquiries such as requests for payoff quotes, and processing customer requests for account revisions (such as payment extensions and refinancings). Servicing activities are generally consistent across our operations; however, certain practices may be influenced by local laws and regulations.

During the three months ended March 31, 2013 and year ended December 31, 2012, the credit performance of the consumer portfolio remained strong as our charge-off rate was relatively stable. For information on our consumer credit risk practices and policies regarding delinquencies, nonperforming status, and charge-offs, refer to Note 1 to the Consolidated Financial Statements.

The following table includes consumer finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses.

(\$ in millions)	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Consumer automobile (c)	\$ 55,014	\$ 53,715	\$ 266	\$ 260	\$	\$
Consumer mortgage						
1st Mortgage	7,095	7,173	372	342	1	1
Home equity	2,577	2,648	30	40		
<b>Total consumer finance receivables and loans</b>	<b>\$ 64,686</b>	<b>\$ 63,536</b>	<b>\$ 668</b>	<b>\$ 642</b>	<b>\$ 1</b>	<b>\$ 1</b>

(a) Includes nonaccrual troubled debt restructured loans of \$403 million and \$373 million at March 31, 2013, and December 31, 2012, respectively.

(b) There were no troubled debt restructured loans classified as 90 days past due and still accruing at March 31, 2013, and December 31, 2012.



**Table of Contents**

(c) Includes \$1 million and \$2 million of foreign consumer automobile loans at March 31, 2013, and December 31, 2012, respectively. Total consumer outstanding finance receivables and loans increased \$1.2 billion at March 31, 2013 compared with December 31, 2012. This increase was related to growth in our U.S. automobile consumer loan originations largely due to higher industry sales, which outpaced portfolio runoff. Additionally, we continued to prudently expand our nonprime and used originations as a percent of our total originations.

Total consumer nonperforming finance receivables and loans at March 31, 2013 increased \$26 million to \$668 million from December 31, 2012, reflecting an increase of \$20 million of consumer mortgage nonperforming finance receivables and loans and an increase of \$6 million of consumer automobile nonperforming finance receivables and loans. Nonperforming consumer mortgage finance receivables and loans increased primarily due to increased TDRs as we continue foreclosure prevention and loss mitigation procedures along with our participation in a variety of government-sponsored refinancing programs. Refer to Note 7 to the Condensed Consolidated Financial Statements for additional information. Nonperforming consumer finance receivables and loans as a percentage of total outstanding consumer finance receivables and loans remained flat at 1.0% at March 31, 2013 and December 31, 2012.

Consumer automotive loans accruing and past due 30 days or more decreased \$215 million to \$930 million at March 31, 2013, compared with December 31, 2012. The decrease is primarily related to seasonality.

December 31, (\$ in millions)	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
	2012	2011	2012	2011	2012	2011
<b>Domestic</b>						
Consumer automobile	\$ 53,713	\$ 46,576	\$ 260	\$ 139	\$	\$
Consumer mortgage						
1st Mortgage	7,173	6,867	342	258	1	1
Home equity	2,648	3,102	40	58		
<b>Total domestic</b>	<b>63,534</b>	<b>56,545</b>	<b>642</b>	<b>455</b>	<b>1</b>	<b>1</b>
<b>Foreign</b>						
Consumer automobile	2	16,883		89		3
Consumer mortgage						
1st Mortgage		24		23		
Home equity						
<b>Total foreign</b>	<b>2</b>	<b>16,907</b>		<b>112</b>		<b>3</b>
<b>Total consumer finance receivables and loans</b>	<b>\$ 63,536</b>	<b>\$ 73,452</b>	<b>\$ 642</b>	<b>\$ 567</b>	<b>\$ 1</b>	<b>\$ 4</b>

(a) Includes nonaccrual troubled debt restructured loans of \$373 million and \$180 million at December 31, 2012, and December 31, 2011, respectively.

(b) There were no troubled debt restructured loans classified as 90 days past due and still accruing at December 31, 2012, and December 31, 2011.

Total consumer outstanding finance receivables and loans decreased \$9.9 billion at December 31, 2012 compared with December 31, 2011. This decrease was related to the reclassification of foreign Automotive Finance operations to discontinued operations. This was partially offset by an increase in our core domestic business driven by automobile consumer loan originations, which outpaced portfolio runoff, primarily due to increased industry sales and growth in used and non-GM/Chrysler originations. Additionally, we continued to prudently expand our nonprime originations.



**Table of Contents**

Total consumer nonperforming finance receivables and loans at December 31, 2012, increased \$75 million to \$642 million from December 31, 2011, reflecting an increase of \$32 million of consumer automobile nonperforming finance receivables and loans and an increase of \$43 million of consumer mortgage nonperforming finance receivables and loans. Nonperforming consumer domestic automotive finance receivables and loans increased due in part to seasoning of the domestic portfolio as well as increased TDRs as we continue to provide additional options in lieu of repossessing vehicles. Nonperforming consumer domestic mortgage finance receivables and loans increased primarily due to increased TDRs as we continue foreclosure prevention and loss mitigation procedures along with our participation in a variety of government-sponsored refinancing programs. Refer to Note 8 to the Consolidated Financial Statements for additional information. Nonperforming consumer finance receivables and loans as a percentage of total outstanding consumer finance receivables and loans were 1.0% and 0.8% at December 31, 2012 and December 31, 2011, respectively.

Consumer domestic automotive loans accruing and past due 30 days or more increased \$290 million to \$1.1 billion at December 31, 2012, compared with December 31, 2011. The increase is primarily due to asset growth, prudent expansion of underwriting strategy, which was significantly narrowed during the recession, and seasoning of the portfolio.

The following table includes consumer net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

(\$ in millions)	Three months ended March 31,			
	Net charge-offs		Net charge-off ratios (a)	
	2013	2012	2013	2012
Consumer automobile (b)	\$ 93	\$ 74	0.7%	0.4%
Consumer mortgage				
1st Mortgage	10	23	0.6	1.4
Home equity	11	20	1.6	2.6
Total consumer finance receivables and loans	\$ 114	\$ 117	0.7	0.6

(a) Net charge-off ratios are calculated as net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the period for each loan category.

(b) Includes no foreign consumer automobile net charge-offs for the three months ended March 31, 2013 and \$20 million for the three months ended March 31, 2012.

Our net charge-offs from total consumer automobile finance receivables and loans were \$93 million for the three months ended March 31, 2013, compared to \$74 million for the three months ended March 31, 2012. The \$19 million increase was driven primarily by higher U.S. outstandings, change in our U.S. portfolio mix as we prudently expand our nonprime and used originations, and seasoning of the U.S. portfolio. This increase was partially offset by the inclusion of foreign net charge-offs in the three months ended March 31, 2012 prior to the reclassification of the foreign automotive business.

**Table of Contents**

Our net charge-offs from total consumer mortgage receivables and loans were \$21 million for the three months ended March 31, 2013, compared to \$43 million for the same period in 2012. The decrease was driven by the improved mix of remaining loans as lower quality legacy loans continued to runoff.

Year ended December 31, (\$ in millions)	Net charge-offs		Net charge-off ratios (a)	
	2012	2011	2012	2011
<b>Domestic</b>				
Consumer automobile	<b>\$ 267</b>	\$ 249	<b>0.5%</b>	0.6%
Consumer mortgage				
1st Mortgage	<b>82</b>	115	<b>1.2</b>	1.7
Home equity	<b>56</b>	74	<b>2.0</b>	2.3
Total domestic	<b>405</b>	438	<b>0.7</b>	0.8
<b>Foreign</b>				
Consumer automobile	<b>102</b>	72	<b>0.6</b>	0.4
Consumer mortgage				
1st Mortgage		4	<b>4.4</b>	1.2
Home equity				
Total foreign	<b>102</b>	76	<b>0.6</b>	0.4
Total consumer finance receivables and loans	<b>\$ 507</b>	\$ 514	<b>0.7</b>	0.7