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Santander Consumer USA Holdings Inc.
Form 10-Q
November 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2014

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-36270

SANTANDER CONSUMER USA HOLDINGS INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	32-0414408
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1601 Elm Street, Suite 800, Dallas, Texas	75201
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code (214) 634-1110	
Not Applicable	
(Former name, former address, and formal fiscal year, if changed since last report)	

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2014
Common Stock (\$0.01 par value)	348,982,438 shares

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

Cautionary Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions, or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “anticipates,” “believes,” “can,” “could,” “may,” “predicts,” “potential,” “should,” “will,” “estimate,” “plans,” “projects,” “continuing,” “ongoing,” “expects,” “similar words or phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements are not guarantees of future performance and involve risks and uncertainties which are subject to change based on various important factors, some of which are beyond our control. For more information regarding these risks and uncertainties as well as certain additional risks that we face, refer to the Risk Factors detailed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013, as supplemented by the risks discussed below in this report in Part II, Item 1A, “Risk Factors,” as well as factors more fully described in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report, including the exhibits hereto, and subsequent reports and registration statements filed from time to time with the U.S. Securities and Exchange Commission. Among the factors that could cause our financial performance to differ materially from that suggested by the forward-looking statements are:

- we operate in a highly regulated industry and continually changing federal, state, and local laws and regulations could materially adversely affect our business;
- adverse economic conditions in the United States and worldwide may negatively impact our results;
- our business could suffer if our access to funding is reduced;
- we face significant risks implementing our growth strategy, some of which are outside our control;
- our agreement with Chrysler Group LLC (“Chrysler”) may not result in currently anticipated levels of growth and is subject to certain performance conditions that could result in termination of the agreement;
- our business could suffer if we are unsuccessful in developing and maintaining relationships with automobile dealerships;
- our financial condition, liquidity, and results of operations depend on the credit performance of our loans;
- loss of our key management or other personnel, or an inability to attract such management and personnel, could negatively impact our business;
- we are subject to certain bank regulations, including oversight by the Office of the Comptroller of the Currency (the “OCC”), the Consumer Financial Protection Bureau (“CFPB”), the Bank of Spain, and the Federal Reserve, which oversight and regulation may limit certain of our activities, including the timing and amount of dividends and other limitations on our business; and
- future changes in our relationship with Banco Santander, S.A. (“Santander”) could adversely affect our operations.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, its actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements. Therefore, we caution not to place undue reliance on any forward-looking information or statements. The effect of these factors is difficult to predict. Factors other than these also could adversely affect our results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. New factors emerge from time to time, and management cannot assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Any forward-looking statements only speak as of the date of this document, and we undertake no obligation to update any forward-looking information or statements, whether written or oral, to reflect any change, except as required by law. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

PART I: FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

(Unaudited)

	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$43,889	\$10,531
Receivables held for sale	91,153	82,503
Retail installment contracts held for investment, net	21,319,080	20,219,609
Unsecured consumer loans, net	1,340,283	954,189
Restricted cash	1,989,434	1,563,613
Receivables from dealers, held for investment, net	97,178	94,745
Accrued interest receivable	352,473	319,157
Leased vehicles, net	4,414,008	2,023,433
Furniture and equipment, net of accumulated depreciation of \$54,772 and \$58,117, respectively	29,274	25,712
Federal, state and other income taxes receivable	119,397	372,338
Deferred tax asset	143,524	197,041
Goodwill	74,056	74,056
Intangible assets	53,935	54,664
Capital lease receivables, net	45,588	—
Other assets — \$20,573 and \$817 due from affiliates, respectively	528,020	410,305
Total assets	\$30,641,292	\$26,401,896
Liabilities and Equity		
Liabilities:		
Notes payable — credit facilities, \$3,350,000 and \$3,650,000 to affiliates, respectively	\$8,390,080	\$8,099,773
Notes payable — secured structured financings	18,444,397	15,195,887
Accrued interest payable — \$7,425 and \$11,563 to affiliates, respectively	25,777	26,512
Accounts payable and accrued expenses — \$39,529 and \$39,772 to affiliates, respectively	304,578	283,106
Federal, state and other income taxes payable	91,460	7,623
Other liabilities — zero and \$3,163 to affiliates, respectively	81,787	102,163
Total liabilities	27,338,079	23,715,064
Commitments and contingencies (Notes 5 and 10)		
Equity:		
Common stock, \$0.01 par value — 1,100,000,000 shares authorized; 348,984,592 and 346,763,261 shares issued and 348,981,438 and 346,760,107 shares outstanding, respectively	3,490	3,468
Additional paid-in capital	1,551,413	1,409,463
Accumulated other comprehensive income (loss)	4,556	(2,853)
Retained earnings	1,743,754	1,276,754
Total stockholders' equity	3,303,213	2,686,832
Total liabilities and equity	\$30,641,292	\$26,401,896

See notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Interest on finance receivables and loans	\$1,177,828	\$1,011,492	\$3,481,605	\$2,723,774
Leased vehicle income	263,148	50,099	629,209	60,129
Other finance and interest income	2,512	1,029	3,636	5,870
Total finance and other interest income	1,443,488	1,062,620	4,114,450	2,789,773
Interest expense — Including \$30,877, \$38,935, \$101,956 and \$64,479 to affiliates, respectively	129,135	120,589	381,895	291,062
Leased vehicle expense	200,397	41,485	499,601	48,513
Net finance and other interest income	1,113,956	900,546	3,232,954	2,450,198
Provision for credit losses	769,689	598,201	2,057,419	1,223,805
Net finance and other interest income after provision for credit losses	344,267	302,345	1,175,535	1,226,393
Profit sharing	10,556	27,238	66,773	34,802
Net finance and other interest income after provision for credit losses and profit sharing	333,711	275,107	1,108,762	1,191,591
Investment gains, net	38,015	7,678	95,431	8,950
Servicing fee income	20,547	7,384	53,051	21,010
Fees, commissions, and other	91,399	63,278	275,733	178,918
Total other income	149,961	78,340	424,215	208,878
Salary and benefits expense	88,940	79,293	384,544	217,172
Repossession expense	50,738	36,091	144,817	103,231
Other operating costs	62,228	60,756	202,219	175,909
Total operating expenses	201,906	176,140	731,580	496,312
Income before income taxes	281,766	177,307	801,397	904,157
Income tax expense	90,397	65,486	282,081	322,413
Net income	191,369	111,821	519,316	581,744
Noncontrolling interests	—	(576)	—	1,821
Net income attributable to Santander Consumer USA Holdings Inc. shareholders	\$191,369	\$111,245	\$519,316	\$583,565
Net income	\$191,369	\$111,821	\$519,316	\$581,744
Other comprehensive income (loss):				
Change in unrealized gains (losses) on cash flow hedges, net of tax of \$5,044, \$779, \$4,324 and \$3,723	8,685	986	7,409	5,821
Change in unrealized gains on investments available for sale, net of tax of zero, \$368, zero and \$1,993	—	(629)	—	(3,252)
Other comprehensive income, net	8,685	357	7,409	2,569
Comprehensive income	\$200,054	\$112,178	\$526,725	\$584,313
Comprehensive (income) loss attributable to noncontrolling interests	—	(624)	—	953
Comprehensive income attributable to Santander Consumer USA Holdings Inc. shareholders	\$200,054	\$111,554	\$526,725	\$585,266
Net income per common share (basic)	\$0.55	\$0.32	\$1.49	\$1.69
Net income per common share (diluted)	\$0.54	\$0.32	\$1.46	\$1.69
Dividends declared per common share	\$—	\$—	\$0.15	\$0.84

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Weighted average common shares (basic)	348,955,505	346,172,443	348,630,740	346,169,595
Weighted average common shares (diluted)	355,921,570	346,172,443	355,809,576	346,169,595

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests	Total Stockholders' Equity
	Shares	Amount					
Balance — January 1, 2013	346,165	\$3,462	\$1,335,572	\$ (9,164)	\$869,664	\$ 39,932	\$2,239,466
Repayment of employee loans—	—	—	1,563	—	—	—	1,563
Stock issued in connection with employee incentive compensation plans	4	—	23	—	—	—	23
Purchase of treasury stock	(4)	—	(23)	—	—	—	(23)
Capital contribution received from shareholder	—	—	48,275	—	—	—	48,275
Net income	—	—	—	—	583,565	(1,821)	581,744
Other comprehensive income, net of taxes	—	—	—	2,569	—	—	2,569
Abandonment of noncontrolling interest	—	—	24,053	—	—	(38,111)	(14,058)
Dividends	—	—	—	—	(290,401)	—	(290,401)
Balance — September 30, 2013	346,165	\$3,462	\$1,409,463	\$ (6,595)	\$1,162,828	\$ —	\$2,569,158
Balance — January 1, 2014	346,760	\$3,468	\$1,409,463	\$ (2,853)	\$1,276,754	\$ —	\$2,686,832
Stock issued in connection with employee incentive compensation plans	2,221	22	18,674	—	—	—	18,696
Stock-based compensation expense	—	—	123,276	—	—	—	123,276
Net income	—	—	—	—	519,316	—	519,316
Other comprehensive income, net of taxes	—	—	—	7,409	—	—	7,409
Dividends	—	—	—	—	(52,316)	—	(52,316)
Balance — September 30, 2014	448,981	\$3,490	\$1,551,413	\$ 4,556	\$1,743,754	\$ —	\$3,303,213

See notes to unaudited condensed consolidated financial statements.

SANTANDER CONSUMER USA HOLDINGS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited) (Dollars in thousands)

	For the Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$519,316	\$581,744
Adjustments to reconcile net income to net cash provided by operating activities:		
Derivative mark to market	(15,868	) (16,235)
Provision for credit losses	2,057,419	1,223,805
Depreciation and amortization	561,432	89,743
Accretion of discount, net of amortization of capitalized origination costs	(636,604	) (321,187)
Originations and purchases of receivables held for sale	(3,248,055	) (1,179,109)
Proceeds from sales of and repayments on receivables held for sale	3,264,855	1,114,634
Investment gains, net	(95,431	) (8,950)
Stock-based compensation	123,276	187
Deferred tax expense	49,358	43,481
Changes in assets and liabilities:		
Accrued interest receivable	(83,597	) (74,277)
Accounts receivable	(30,297	) (4,504)
Federal income tax and other taxes	336,778	(181,754)
Other assets	(68,156	) (1,114)
Accrued interest payable	(735	) 6,304
Other liabilities	41,273	109,031
Net cash provided by operating activities	2,774,964	1,381,799
Cash flows from investing activities:		
Retail installment contracts originated or purchased from dealers	(11,927,733	) (12,256,669)
Collections on retail installment contracts	6,920,653	7,027,406
Proceeds from sale of loans held for investment	2,392,773	—
Leased vehicles purchased	(3,706,763	) (1,421,078)
Manufacturer incentives received	744,089	194,403
Proceeds from sale of leased vehicles	412,167	7,199
Change in revolving unsecured consumer loans	(177,478	) (524,578)
Unsecured consumer term loans purchased	(542,196	) (108,669)
Collections on unsecured consumer term loans	92,047	5,850
Disbursements for receivables from lenders held for investment	(34,673	) (228,938)
Collections on receivables from lenders held for investment	29,599	112,313
Collections on investments available for sale	—	91,563
Purchases of furniture and equipment	(13,862	) (17,789)
Sales of furniture and equipment	662	991
Upfront fee paid in accordance with private label financing agreement	—	(150,000)
Change in restricted cash	(425,821	) (322,482)
Other investing activities	(4,526	) (5,090)
Net cash used in investing activities	(6,241,062	) (7,595,568)
Cash flows from financing activities:		
Proceeds from notes payable related to secured structured financings — net of debt issuance costs	10,310,701	8,150,330
Payments on notes payable related to secured structured financings	(7,071,464) (5,740,669)

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Proceeds from unsecured notes payable	3,348,334	2,936,130
Payments on unsecured notes payable	(3,681,399)	(2,520,063)
Proceeds from notes payable	20,028,887	18,074,725
Payments on notes payable	(19,405,515)	(14,457,932)
Proceeds from stock option exercises, gross	24,529	—
Repurchase of stock - employee tax withholding	(5,999)	