

OneMain Holdings, Inc.  
Form 10-K  
February 15, 2019

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

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-36129

ONEMAIN HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware 27-3379612

(State of incorporation) (I.R.S. Employer Identification No.)

601 N.W. Second Street, Evansville, IN 47708

(Address of principal executive offices) (Zip Code)

(812) 424-8031

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input type="checkbox"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common equity of OneMain Holdings, Inc. held by non-affiliates as of the close of business on June 30, 2018 was \$2,534,246,125.

At January 31, 2019, there were 135,989,760 shares of the registrant's common stock, \$.01 par value, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information required by Part III (Items 10, 11, 12, 13, and 14) is incorporated by reference from the registrant's Definitive Proxy Statement for its 2019 Annual Meeting to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

TABLE OF CONTENTS

<u>Forward-Looking Statements</u>	<u>7</u>
 <b><u>PART I</u></b>	
<u>Item 1. Business</u>	<u>10</u>
<u>Item 1A. Risk Factors</u>	<u>19</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>40</u>
<u>Item 2. Properties</u>	<u>40</u>
<u>Item 3. Legal Proceedings</u>	<u>40</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>40</u>
 <b><u>PART II</u></b>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>41</u>
<u>Item 6. Selected Financial Data</u>	<u>43</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>44</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>70</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>71</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>72</u>
<u>Consolidated Balance Sheets</u>	<u>74</u>
<u>Consolidated Statements of Operations</u>	<u>75</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>76</u>
<u>Consolidated Statements of Shareholders’ Equity</u>	<u>77</u>
<u>Consolidated Statements of Cash Flows</u>	<u>78</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>79</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>144</u>
<u>Item 9A. Controls and Procedures</u>	<u>144</u>
<u>Item 9B. Other Information</u>	<u>144</u>
 <b><u>PART III</u></b>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>145</u>
<u>Item 11. Executive Compensation</u>	<u>145</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>145</u>

Item 13. Certain Relationships and Related Transactions, and Director Independence 145

Item 14. Principal Accounting Fees and Services 145

PART IV

Item 15. Exhibits and Financial Statement Schedules 146

Item 16. Form 10-K Summary 146

2

---

Table of Contents

GLOSSARY

Terms and abbreviations used in this report are defined below.

Term or Abbreviation Definition

2013 Omnibus Incentive Plan	incentive plan under which equity-based awards are granted to selected management employees, non-employee directors, independent contractors, and consultants
2017 Annual Report on Form 10-K	Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 21, 2018
30-89 Delinquency ratio	net finance receivables 30-89 days past due as a percentage of net finance receivables
401(k) Plan	Springleaf Financial Services 401(k) Plan
5.25% SFC Notes	\$700 million of 5.25% Senior Notes due 2019 issued by SFC on December 3, 2014 and guaranteed by OMH
5.625% SFC Notes	\$875 million of 5.625% Senior Notes due 2023 issued by SFC on December 8, 2017 and guaranteed by OMH
6.125% SFC Notes	\$500 million of 6.125% Senior Notes due 2022 issued by SFC on May 15, 2017 and \$500 million of 6.125% Senior Notes due 2022 issued by SFC on May 30, 2017 and, in each case, guaranteed by OMH
6.875% SFC Notes	\$1.25 billion aggregate principal amount of 6.875% Senior Notes due 2025 issued by SFC on March 12, 2018 and guaranteed by OMH
7.125% SFC Notes	\$900 million of 7.125% Senior Notes due 2026 issued by SFC on May 11, 2018 and \$700 million of 7.125% Senior Notes due 2026 issued by SFC on August 10, 2018 and, in each case, guaranteed by OMH
8.25% SFC Notes	\$1.0 billion of 8.25% Senior Notes due 2020 issued by SFC on April 11, 2016 and guaranteed by OMH
ABO	accumulated benefit obligation
ABS	asset-backed securities
Accretible yield	the excess of the cash flows expected to be collected on the purchased credit impaired finance receivables over the discounted cash flows
Adjusted pretax income (loss)	a non-GAAP financial measure used by management as a key performance measure of our segments
AHL	American Health and Life Insurance Company, an insurance subsidiary of OMFH
AIG	AIG Capital Corporation, a subsidiary of American International Group, Inc.
AIG Share Sale Transaction	sale by SFH of 4,179,678 shares of OMH common stock pursuant to an Underwriting Agreement entered into February 21, 2018 among OMH, SFH and Morgan Stanley & Co. LLC
AOCI	Accumulated other comprehensive income (loss)
Apollo	Apollo Global Management, LLC and its consolidated subsidiaries
Apollo-Värde Group	an investor group led by funds managed by Apollo and Värde
Apollo-Värde Transaction	the purchase by the Apollo-Värde Group of 54,937,500 shares of OMH common stock from SFH pursuant to the Share Purchase Agreement for an aggregate purchase price of approximately \$1.4 billion in cash on June 25, 2018
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
August 2016 Real Estate Loan Sale	SFC and certain of its subsidiaries sold a portfolio of second lien real estate loans for aggregate cash proceeds of \$246 million on August 3, 2016
Average daily debt balance	average of debt for each day in the period

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Average net receivables	average of monthly average net finance receivables (net finance receivables at the beginning and end of each month divided by two) in the period
Blackstone	collectively, BTO Willow Holdings II, L.P. and Blackstone Family Tactical Opportunities Investment Partnership—NQ—ESC L.P.
BPS	basis points
CDO	collateralized debt obligations
CFPB	Consumer Financial Protection Bureau
Citigroup	CitiFinancial Credit Company
CMBS	commercial mortgage-backed securities
Contribution	On June 22, 2018, SFC entered into a Contribution Agreement with SFI, a wholly-owned subsidiary of OMH. Pursuant to the Contribution Agreement, Independence was contributed by SFI to SFC.
December 2016 Real Estate Loan Sale	SFC and certain of its subsidiaries sold a portfolio of first and second lien real estate loans for aggregate cash proceeds of \$58 million on December 19, 2016

Table of Contents

Term or Abbreviation	Definition
December 2018 Real Estate Loan Sale	SFC and certain of its subsidiaries sold a portfolio of real estate, classified in finance receivables held for sale, for aggregate cash proceeds of \$100 million on December 21, 2018.
Dodd-Frank Act	the Dodd-Frank Wall Street Reform and Consumer Protection Act
DOJ	U.S. Department of Justice
ERISA	Employee Retirement Income Security Act of 1974
Exchange Act	Securities Exchange Act of 1934, as amended
Excess Retirement Income Plan	Springleaf Financial Services Excess Retirement Income Plan
FA Loans	purchased credit impaired finance receivables related to the Fortress Acquisition
FASB	Financial Accounting Standards Board
FHLB	Federal Home Loan Bank
FICO score	a credit score created by Fair Isaac Corporation
Fixed charge ratio	earnings less income taxes, interest expense, extraordinary items, goodwill impairment, and any amounts related to discontinued operations, divided by the sum of interest expense and any preferred dividends
Fortress	Fortress Investment Group LLC
Fortress Acquisition	transaction by which FCFI Acquisition LLC, an affiliate of Fortress, acquired an 80% economic interest of the sole stockholder of SFC for a cash purchase price of \$119 million, effective November 30, 2010
GAAP	generally accepted accounting principles in the United States of America
GAP	guaranteed asset protection
Gross charge-off ratio	annualized gross charge-offs as a percentage of average net receivables
HAMP	Home Affordable Modification Program
Indenture	the SFC Base Indenture, together with all subsequent Supplemental Indentures
Independence	Independence Holdings, LLC
Indiana DOI	Indiana Department of Insurance
Investment Company Act	Investment Company Act of 1940
IRS	Internal Revenue Service
Junior Subordinated Debenture	\$350 million aggregate principal amount of 60-year junior subordinated debt issued by SFC under an indenture dated January 22, 2007, by and between SFC and Deutsche Bank Trust Company, as trustee, and guaranteed by OMH
KBRA	Kroll Bond Rating Agency, Inc.
Lendmark Sale	the sale of 127 Springleaf branches to Lendmark Financial Service, LLC, effective April 30, 2016
LIBOR	London Interbank Offered Rate
Loss ratio	annualized net charge-offs, net writedowns on real estate owned, net gain (loss) on sales or real estate owned, and operating expenses related to real estate owned as a percentage of average real estate loans
Merit	Merit Life Insurance Co., an insurance subsidiary of SFC
Military Lending Act	governs certain consumer lending to active-duty service members and covered dependents and limits, among other things, the interest rate that may be charged
Moody's	Moody's Investors Service, Inc.
Nationstar	Nationstar Mortgage LLC, dba "Mr. Cooper"
Net charge-off ratio	annualized net charge-offs as a percentage of average net receivables
Net interest income	interest income less interest expense
NRZ	New Residential Investment Corp.

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ODART	OneMain Direct Auto Receivables Trust
OM Loans	purchased credit impaired personal loans acquired in the OneMain Acquisition
OMFG	OneMain Financial Group, LLC
OMFH	OneMain Financial Holdings, LLC
OMFH Indenture	Indenture entered into on December 11, 2014, as amended or supplemented from time to time, by OMFH and certain of its subsidiaries in connection with the issuance of the OMFH Notes collectively, \$700 million aggregate principal amount of 6.75% Senior Notes due 2019 and \$800 million in aggregate principal amount of 7.25% Senior Notes due 2021
OMFH Notes	

4

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Table of Contents

Term or Abbreviation	Definition
OMFH	
Supplemental Indenture	Second Supplemental Indenture dated as of November 8, 2016, to the OMFH Indenture
OMFIT	OneMain Financial Issuance Trust
OMH	OneMain Holdings, Inc.
OneMain	OMFH, collectively with its subsidiaries
OneMain Acquisition	Acquisition of OneMain from CitiFinancial Credit Company, effective November 1, 2015
Other securities	securities for which the fair value option was elected and equity securities. Other Securities recognize unrealized gains and losses in investment revenues
Other SFC Notes	collectively, SFC's 8.25% Senior Notes due 2023, 7.75% Senior Notes due 2021, and 6.00% Senior Notes due 2020, on a senior unsecured basis, and the Junior Subordinated Debenture, on a junior subordinated basis, issued by SFC and guaranteed by OMH
PBO	projected benefit obligation
PRSUs	performance-based RSUs
PVFP	present value of future profits
Recovery ratio	annualized recoveries on net charge-offs as a percentage of average net receivables
Retail sales finance portfolio	collectively, retail sales finance contracts and revolving retail accounts
Retirement Plan	Springleaf Financial Services Retirement Plan
RMBS	residential mortgage-backed securities
RSAs	restricted stock awards
RSUs	restricted stock units
SCP Loans	purchased credit impaired loans acquired through the SpringCastle Joint Venture
SEC	U.S. Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Segment	a basis used to report the operating results of our segments, which reflects our allocation methodologies for certain costs and excludes the impact of applying purchase accounting
Accounting Basis	
SERP	Supplemental Executive Retirement Plan
Settlement Agreement	a Settlement Agreement with the U.S. Department of Justice entered into by OMH and certain of its subsidiaries on November 13, 2015, in connection with the OneMain Acquisition
SFC	Springleaf Finance Corporation
SFC Base Indenture	Indenture dated as of December 3, 2014
SFC First Supplemental Indenture	First Supplemental Indenture dated as of December 3, 2014, to the SFC Base Indenture
SFC Fifth Supplemental Indenture	Fifth Supplemental Indenture dated as of March 12, 2018, to the SFC Base Indenture
SFC Fourth Supplemental Indenture	Fourth Supplemental Indenture dated as of December 8, 2017, to the SFC Base Indenture
SFC Guaranty Agreements	agreements entered into on December 30, 2013 by OMH whereby it agreed to fully and unconditionally guarantee the payments of principal, premium (if any) and interest on the Other SFC Notes
	Second Supplemental Indenture dated as of April 11, 2016, to the SFC Base Indenture

SFC Second Supplemental Indenture	
SFC Senior Notes Indentures	the SFC Base Indenture as supplemented by the SFC First Supplemental Indenture, the SFC Second Supplemental Indenture, the SFC Third Supplemental Indenture, the SFC Fourth Supplemental Indenture, the SFC Fifth Supplemental Indenture and the SFC Sixth Supplemental Indenture
SFC Sixth Supplemental Indenture	Sixth Supplemental Indenture dated as of May 11, 2018, to the SFC Base Indenture
SFC Third Supplemental Indenture	Third Supplemental Indenture dated as of May 15, 2017, to the SFC Base Indenture
SFC Trust Guaranty Agreement	agreement entered into on December 30, 2013 by OMH whereby it agreed to fully and unconditionally guarantee the related payment obligations under the trust preferred securities in connection with the Junior Subordinated Debenture
SFH	Springleaf Financial Holdings, LLC, an entity owned primarily by a private equity fund managed by an affiliate of Fortress that sold 54,937,500 shares of OMH's common stock to the Apollo-Värde Group in the Apollo-Värde Transaction
SFI	Springleaf Finance, Inc.
Share Purchase Agreement	a share purchase agreement entered into on January 3, 2018, among the Apollo-Värde Group, SFH and the Company to acquire from SFH 54,937,500 shares of our common stock that was issued and outstanding as of such date, representing the entire holdings of our stock beneficially owned by Fortress

Table of Contents

Term or Abbreviation	Definition
SLFT	Springleaf Funding Trust
SpringCastle Interests Sale	the March 31, 2016 sale by SpringCastle Holdings, LLC and Springleaf Acquisition Corporation of the equity interest in the SpringCastle Joint Venture
SpringCastle Joint Venture	joint venture among SpringCastle America, LLC, SpringCastle Credit, LLC, SpringCastle Finance, LLC, and SpringCastle Acquisition LLC in which SpringCastle Holdings, LLC previously owned a 47% equity interest in each of SpringCastle America, LLC, SpringCastle Credit, LLC and SpringCastle Finance, LLC and Springleaf Acquisition Corporation previously owned a 47% equity interest in SpringCastle Acquisition LLC
SpringCastle Portfolio	loans acquired through the SpringCastle Joint Venture
Springleaf S&P	OMH and its subsidiaries (other than OneMain) Standard & Poor's Rating Services
Tangible equity	total equity less accumulated other comprehensive income or loss
Tangible managed assets	total assets less goodwill and other intangible assets
Tax Act	Public Law 115-97 amending the Internal Revenue Code of 1986
TDR finance receivables	troubled debt restructured finance receivables. Debt restructuring in which a concession is granted to the borrower as a result of economic or legal reasons related to the borrower's financial difficulties.
Texas DOI	Texas Department of Insurance
TILA	Truth In Lending Act
Triton	Triton Insurance Company, an insurance subsidiary of OMFH
Trust preferred securities	capital securities classified as debt for accounting purposes but due to their terms are afforded, at least in part, equity capital treatment in the calculation of effective leverage by rating agencies
Unearned finance charges	the amount of interest that is capitalized at time of origination on a precompute loan that will be earned over the remaining contractual life of the loan
UPB	unpaid principal balance for interest bearing accounts and the gross remaining contractual payments less the unaccrued balance of unearned finance charges for precompute accounts
Värde	Värde Partners, Inc.
VOBA	value of business acquired
VIEs	variable interest entities
Weighted average interest rate	annualized interest expense as a percentage of average debt
Yield	annualized finance charges as a percentage of average net receivables
Yosemite	Yosemite Insurance Company, a former insurance subsidiary of SFC. In the third quarter of 2018, the Company sold all of the issued and outstanding shares in Yosemite to a third party.

Table of Contents

Forward-Looking Statements

This report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical fact but instead represent only management’s current beliefs regarding future events. By their nature, forward-looking statements are subject to risks, uncertainties, assumptions and other important factors that may cause actual results, performance or achievements to differ materially from those expressed in or implied by such forward-looking statements. We caution you not to place undue reliance on these forward-looking statements that speak only as of the date they were made. We do not undertake any obligation to update or revise these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events or the non-occurrence of anticipated events.

Forward-looking statements include, without limitation, statements concerning future plans, objectives, goals, projections, strategies, events or performance, and underlying assumptions and other statements related thereto. Statements preceded by, followed by or that otherwise include the words “anticipates,” “appears,” “are likely,” “believes,” “estimates,” “expects,” “foresees,” “intends,” “plans,” “projects” and similar expressions or future or conditional verbs such as “would,” “should,” “could,” “may,” or “will,” are intended to identify forward-looking statements. Important factors that could cause actual results, performance or achievements to differ materially from those expressed in or implied by forward-looking statements include, without limitation, the following:

- adverse changes in general economic conditions, including the interest rate environment and the financial markets;

- risks related to the acquisition or sale of assets or businesses or the formation, termination or operation of joint ventures or other strategic alliances, including increased loan delinquencies or net charge-offs, integration or migration issues, increased costs of servicing, incomplete records, and retention of customers;

- our estimates of the allowance for finance receivable losses may not be adequate to absorb actual losses, causing our provision for finance receivable losses to increase, which would adversely affect our results of operations;

- increased levels of unemployment and personal bankruptcies;

- our strategy of increasing the proportion of secured loans may lead to declines in or slower growth in our personal loan receivables and portfolio yield;

- adverse changes in the rate at which we can collect or potentially sell our finance receivables portfolio;

- our decentralized branch loan approval process could expose us to greater than historical delinquencies and charge-offs;

- natural or accidental events such as earthquakes, hurricanes, tornadoes, fires, or floods affecting our customers, collateral, or branches or other operating facilities;

- war, acts of terrorism, riots, civil disruption, pandemics, disruptions in the operation of our information systems, or other events disrupting business or commerce;

- a failure in or breach of our operational or security systems or infrastructure or those of third parties, including as a result of cyber-attacks; or other cyber-related incidents involving the loss, theft or unauthorized disclosure of personally identifiable information, or “PII,” of our present or former customers;

- our credit risk scoring models may be inadequate to properly assess the risk of customer unwillingness or lack of capacity to repay;

adverse changes in our ability to attract and retain employees or key executives to support our businesses;

increased competition, lack of customer responsiveness to our distribution channels, an inability to make technological improvements, and the ability of our competitors to offer a more attractive range of personal loan products than we offer;

7

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Table of Contents

changes in federal, state or local laws, regulations, or regulatory policies and practices that adversely affect our ability to conduct business or the manner in which we are permitted to conduct business, such as licensing requirements, pricing limitations or restrictions on the method of offering products, as well as changes that may result from increased regulatory scrutiny of the sub-prime lending industry, our use of third party vendors and real estate loan servicing, or changes in corporate or individual income tax laws or regulations, including effects of the Tax Act;

risks associated with our insurance operations, including insurance claims that exceed our expectations or insurance losses that exceed our reserves;

we may be unable to successfully implement our growth strategy for our consumer lending business or successfully acquire portfolios of personal loans;

declines in collateral values or increases in actual or projected delinquencies or net charge-offs;

potential liability relating to finance receivables which we have sold or securitized or may sell or securitize in the future if it is determined that there was a non-curable breach of a representation or warranty made in connection with such transactions;

the costs and effects of any actual or alleged violations of any federal, state or local laws, rules or regulations, including any litigation associated therewith;

the costs and effects of any fines, penalties, judgments, decrees, orders, inquiries, investigations, subpoenas, or enforcement or other proceedings of any governmental or quasi-governmental agency or authority and any litigation associated therewith;

our continued ability to access the capital markets or the sufficiency of our current sources of funds to satisfy our cash flow requirements;

our ability to comply with our debt covenants;

our ability to generate sufficient cash to service all of our indebtedness;

any material impairment or write-down of the value of our assets;

the ownership of our common stock continues to be highly concentrated, which may prevent other minority stockholders from influencing significant corporate decisions and may result in conflicts of interest;

the effects of any downgrade of our debt ratings by credit rating agencies, which could have a negative impact on our cost of and/or access to capital;

our substantial indebtedness, which could prevent us from meeting our obligations under our debt instruments and limit our ability to react to changes in the economy or our industry or our ability to incur additional borrowings;

our ability to maintain sufficient capital levels in our regulated and unregulated subsidiaries;

changes in accounting standards or tax policies and practices and the application of such new standards, policies and practices;

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management estimates and assumptions, including estimates and assumptions about future events, may prove to be incorrect;

any failure to achieve the SpringCastle Portfolio performance requirements, which could, among other things, cause us to lose our loan servicing rights over the SpringCastle Portfolio; and

various risks relating to continued compliance with the Settlement Agreement with the U.S. Department of Justice.

We also direct readers to the other risks and uncertainties discussed in “Risk Factors” in Part I - Item 1A of this report and in other documents we file with the SEC.

Table of Contents

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from what we may have expressed or implied by these forward-looking statements. You should specifically consider the factors identified in this report that could cause actual results to differ before making an investment decision to purchase our common stock and should not place undue reliance on any of our forward-looking statements. Furthermore, new risks and uncertainties arise from time to time, and it is impossible for us to predict those events or how they may affect us.



Table of Contents

PART I

Item 1. Business.

BUSINESS OVERVIEW

OneMain Holdings, Inc. is referred to in this report as “OMH” or, collectively with its subsidiaries, whether directly or indirectly owned, “the Company,” “we,” “us,” or “our.”

As one of the nation’s largest consumer finance companies, we:

- provide responsible personal loan products;
- offer optional credit and non-credit insurance products;
- service loans owned by us and service loans owned by third-parties;
- pursue strategic acquisitions and dispositions of assets and businesses, including loan portfolios or other financial assets; and
- may establish joint ventures or enter into other strategic alliances.

We provide origination, underwriting and servicing of personal loans, primarily to non-prime customers. We believe we are well positioned for future growth, with an experienced management team, proven access to the capital markets, and strong demand for consumer credit. At December 31, 2018, we had \$16.2 billion of personal loans due from approximately 2.4 million customer accounts across 44 states.

Our network of over 1,600 branches and expert personnel is complemented by our online personal loan origination capabilities and centralized operations, which allows us to reach customers located outside our branch network. Our digital platform provides our current and prospective customers the option of obtaining a personal loan via our website, [www.omf.com](http://www.omf.com).

We also pursue strategic acquisitions and dispositions of assets and businesses, including loan portfolios and other financial assets, as well as fee-based opportunities in servicing loans for others in connection with potential strategic portfolio acquisitions through our centralized operations. See “Centralized Operations” below for further information on our centralized servicing centers. We service loans acquired through a joint venture in which we previously owned a 47% equity interest in the SpringCastle Portfolio. On March 31, 2016, the SpringCastle Portfolio was sold in connection with the SpringCastle Interests Sale.

Prior to June 25, 2018, Springleaf Financial Holdings, LLC (“SFH”), owned approximately 44% of OMH’s common stock. SFH was owned primarily by a private equity fund managed by an affiliate of Fortress.

On June 25, 2018, an investor group led by funds managed by affiliates of Apollo and Vårde (the “Apollo-Vårde Group”) completed its purchase from SFH of 54,937,500 shares of our common stock at a purchase price per share of \$26.00 for an aggregate purchase price of approximately \$1.4 billion in cash (the “Apollo-Vårde Transaction”). Upon closing of the Apollo-Vårde Transaction, we entered into an Amended and Restated Stockholders’ Agreement, the terms of which are described in our Current Report on Form 8-K filed with the SEC on June 25, 2018. As provided for in the Amended and Restated Stockholders’ Agreement, the Apollo-Vårde Group has designated six of our nine directors.

At December 31, 2018, the Apollo-Vårde Group owned approximately 40.5% of OMH’s common stock and is OMH’s largest stockholder.

On June 22, 2018, Springleaf Finance, Inc. (“SFI”), a separate wholly owned direct subsidiary of OMH, entered into a contribution agreement with Springleaf Finance Corporation (“SFC”), a wholly owned direct subsidiary of SFI and a wholly owned indirect subsidiary of OMH, pursuant to which all of the common interests of Independence Holdings, LLC (“Independence”) were contributed to SFC (the “Contribution”). As a result of the Contribution and effective as of June 22, 2018, (i) Independence became a wholly owned direct subsidiary of SFC and (ii) Independence’s direct and indirect subsidiaries, including OMFH, became indirect subsidiaries of SFC. Independence, through its principal subsidiary OMFH, engages in the consumer finance and insurance businesses.

Table of Contents

The following chart summarizes our organization structure. The chart is provided for illustrative purposes only and does not represent all of OMH's subsidiaries or obligations.

INDUSTRY AND MARKET OVERVIEW

We operate in the consumer finance industry serving consumers who have limited access to credit from banks, credit card companies and other traditional lenders. Using November 2018 data from Experian, we estimated that there are approximately 100 million U.S. borrowers in our target market, who collectively have approximately \$1.2 trillion of outstanding borrowings in the form of personal installment loans, vehicle loans and leases, and credit cards. We believe this large market provides for an attractive market opportunity.

We are one of the few national participants in the consumer installment lending industry. Our national branch network, combined with the capabilities resident in our centralized operations, provide a platform to efficiently and responsibly serve this market of consumers. We believe we are well-positioned to capitalize on the significant growth and expansion opportunity within our industry. See also "Competition" included in this report.

SEGMENTS

Our segments coincide with how our businesses are managed. At December 31, 2018, our two segments include:

- Consumer and Insurance; and
- Acquisitions and Servicing.

The remaining components (which we refer to as "Other") consist of our non-originating legacy operations, which include our liquidating real estate loans and our liquidating retail sales finance portfolios. See Note 22 of the Notes to the Consolidated Financial Statements included in this report for more information.

On September 30, 2018, our real estate loans previously classified as Other Receivables were transferred from held for investment to held for sale. Subsequent to the transfer, we sold a portfolio of real estate loans with a carrying value of \$82 million (the "December 2018 Real Estate Loan Sale"). See Notes 2, 5, 6 and 7 of the Notes to the Consolidated Financial Statements included in this report for more information.

Table of Contents

Consumer and Insurance

We originate and service secured and unsecured personal loans and offer optional credit and non-credit insurance and related products through our combined branch network, our digital platform, and our centralized operations. Personal loan origination and servicing, along with our insurance products, forms the core of our operations. Our branch operations included over 1,600 branch offices in 44 states as of December 31, 2018. In addition, our centralized support operations provide underwriting and servicing support to branch operations.

Our insurance business is conducted through our insurance subsidiaries, AHL, Merit, and Triton, which are wholly owned subsidiaries. As of September 30, 2018, the Company sold all of the issued and outstanding shares of its former insurance subsidiary, Yosemite, to a third party. Merit and AHL are life and health insurance companies licensed to write credit life, credit disability, and non-credit insurance products. Merit is licensed in 46 states, the District of Columbia, and the U.S. Virgin Islands, and AHL is licensed in 49 states, the District of Columbia, and Canada. Triton is a property and casualty insurance company licensed to write credit involuntary unemployment and collateral protection insurance. Triton is licensed in 50 states, the District of Columbia, and Canada. See Note 14 of the Notes to the Consolidated Financial Statements included in this report for further information.

**Products and Services.** Our personal loan portfolio is comprised of assets that have performed through various market conditions. Our personal loans are non-revolving, with a fixed-rate, a fixed term of three to six years, and are secured by automobiles, other titled collateral, or are unsecured. Our secured personal loans include direct auto loans which are typically larger in size based on the collateral of newer cars with higher values. Our loans have no pre-payment penalties.

We offer the following optional credit insurance products to our customers:

• **Credit life insurance** — Insures the life of the borrower in an amount typically equal to the unpaid balance of the finance receivable and provides for payment to the lender of the finance receivable in the event of the borrower's death.

• **Credit disability insurance** — Provides scheduled monthly loan payments to the lender during borrower's disability due to illness or injury.

• **Credit involuntary unemployment insurance** — Provides scheduled monthly loan payments to the lender during borrower's involuntary unemployment.

We offer optional non-credit insurance policies, which are primarily traditional level-term life policies with very limited underwriting.

We offer optional membership plans for home and auto from an unaffiliated company. We have no risk of loss on these membership plans, and these plans are not considered insurance products. We recognize income from this product in other revenues — other. The unaffiliated company providing these membership plans is responsible for any required reimbursement to the customer.

We also offer a Guaranteed Asset Protection ("GAP") waiver product. GAP waiver is a non-insurance product for coverage in an event of a total loss to the auto, all or part of the difference between what the customer owes on their auto loan and the payment amount made by the customer's primary auto insurance.

Should a customer fail to maintain required insurance on property pledged as collateral for the finance receivable, we obtain collateral protection insurance, at the customer's expense, that protects the value of that collateral.

Customer Development. We staff each of our branch offices with local, well-trained personnel who have significant experience in the industry. Our business model revolves around an origination, underwriting, and servicing process that leverages our local community presence. Our customers often develop a relationship with their local office representatives, which we believe not only improves the credit performance of our personal loans but also leads to additional lending opportunities.

We solicit prospective customers, as well as current and former customers, through a variety of direct mail offers, targeted online advertising, and local marketing. We use proprietary modeling, along with data purchased from credit bureaus, alternative data providers, and our existing data/experience to acquire and develop new and profitable customer relationships.

## Table of Contents

Our digital platform allows current and prospective customers the ability to apply for a personal loan online, at omf.com. Many of our new customer applications are sourced online, delivered via targeted marketing, search engine tools, banner advertisements, e-mail, and internet loan aggregators. Most online applications are closed in a branch; however, we do close a small portion of our loans remotely outside the branch.

**Credit Risk.** Credit quality is driven by our long-standing underwriting philosophy, which considers each prospective customer's household budget, and his or her willingness and capacity to repay the loan. We use credit risk scoring models at the time of the credit application to assess the applicant's expected willingness and capacity to repay. We develop these models using numerous factors, including past customer credit repayment experience and application data, and periodically revalidate these models based on recent portfolio performance. Our underwriting process in the branches and for loan applications received through our website that are not automatically declined includes the development of a budget (net of taxes and monthly expenses) for the applicant. We obtain a security interest in titled property for our secured personal loans.

Our customers are primarily considered non-prime and often require significantly higher levels of servicing than prime customers. As a result, we tend to charge these customers higher interest rates to compensate us for the related credit risks and servicing costs.

**Account Servicing.** Account servicing and collections for personal loans are handled at the branch office where the personal loans were originated, or in our centralized service centers. All servicing and collection activity is conducted and documented on proprietary systems which log and maintain, within our centralized information systems, a permanent record of all transactions and notations made with respect to the servicing and/or collection of a personal loan and may be also be used to assess a personal loan application. The proprietary systems permit all levels of branch office management to review on a daily basis the individual and collective performance of all branch offices for which they are responsible.

### Acquisitions and Servicing

We service the SpringCastle Portfolio that was acquired through a joint venture in which we previously owned a 47% equity interest. On March 31, 2016, we sold our interest in the SpringCastle Portfolio in connection with the SpringCastle Interests Sale. These loans consisted of unsecured loans and loans secured by subordinate residential real estate mortgages and included both closed-end accounts and open-end lines of credit. Unless we are terminated, we will continue to provide the servicing for these loans pursuant to a servicing agreement, which we service as unsecured loans due to the fact that the liens are subordinated to superior ranking security interests.

### CENTRALIZED OPERATIONS

We continually seek to identify functions that could be more effective if centralized to achieve reduced costs or free our lending specialists to service our customers and market our products. Our centralized operational functions support the following:

- mail and telephone solicitations;
- payment processing;
- originating "out of network" loans;
- servicing of delinquent real estate loans and certain personal loans;
- bankruptcy process for loans in Chapter 7, 11, 12 and 13 proceedings;
- litigation requests for wage garnishments and other actions against borrowers;
-

- collateral protection insurance tracking;
- repossessing and re-marketing of titled collateral;
- sales and retention of customers; and
- charge-off recovery operations.

We currently have servicing facilities in Mendota Heights, Minnesota; Tempe, Arizona; London, Kentucky; Evansville, Indiana; Fort Mill, South Carolina; and Fort Worth, Texas. We believe these facilities position us for additional portfolio purchases or fee-based servicing, as well as additional flexibility in the servicing of our lending products.

## Table of Contents

### OPERATIONAL CONTROLS

We continuously strive to strengthen our system of internal controls to ensure compliance with laws, rules, and regulations, and to improve the oversight of our operations. We evaluate internal systems, processes and controls to mitigate operational risk and control and monitor our businesses through a variety of methods including the following:

• Our operational policies and procedures standardize various aspects of lending and collections.

Our branch finance receivable systems control amounts, rates, terms, and fees of our customers' accounts; create loan documents specific to the state in which the branch office operates or to the customer's location if the loan is made electronically through our centralized operations; and control cash receipts and disbursements.

• Our accounting personnel reconcile bank accounts, investigate discrepancies, and resolve differences.

• Our credit risk management system reports allow us to track individual branch office performance and to monitor lending and collection activities.

Our privacy and information security incident response plan establishes a privacy and information security response team that responds to information security incidents by identifying, evaluating, responding to, investigating, and resolving information security incidents impacting our information systems.

• Our executive information system is available to headquarters and field operations management to review the status of activity through the close of business of the prior day.

Our branch operations management structure, Regional Quality Coordinators and Compliance Field Examination team are designed to control a large, decentralized organization with succeeding levels of supervision staffed with more experienced personnel.

• Our branch operations compensation plan aligns with corporate strategies and is based on profitability, credit quality, and compliance.

Our compliance department assesses our compliance with federal and state laws and regulations, as well as our compliance with our internal policies and procedures; oversees training to ensure team members have a sufficient level of understanding of the laws and regulations that impact their job responsibilities; and manages our regulatory examination process.

• Our Executive Office of Customer Care maintains our consumer complaint resolution and reporting process.

• Our internal audit department audits our business for adherence to operational policy and procedure and compliance with federal and state laws and regulations.

### PRIVACY, DATA PROTECTION, INFORMATION AND CYBER SECURITY

Regulatory and legislative activity in the areas of privacy, data protection and information and cyber security continues to increase worldwide. We have established and continue to maintain policies that provide a framework for compliance with applicable privacy, data protection and information and cyber security laws and meet evolving customer privacy expectations.

Our regulators, including the CFPB, are increasingly focused on ensuring that our privacy, data protection and information and cyber security-related policies and practices are adequate to inform customers of our data collection, use, sharing and/or security practices, to provide them with choices, if required, about how we use and share their information, and to appropriately safeguard their personal information and account access.

Our consumer loan business is subject to the privacy, disclosure and safeguarding provisions of the Gramm-Leach-Bliley Act (GLBA) and the CFPB's Regulation P, which implements the statute. Among other things, the GLBA imposes certain limitations on our ability to share consumers' nonpublic personal information with nonaffiliated third parties and requires us to develop, implement and maintain a written comprehensive information security program containing safeguards that are appropriate to the size and complexity of our business, the nature and



scope of our activities and the sensitivity of customer information that we process. Various states also have adopted laws, rules and regulations pertaining to privacy and/or information and cyber security that may be more stringent and/or expansive than federal requirements. Certain of these requirements may apply to the personal information of our employees and contractors as well as to our customers. Various U.S. federal regulators and U.S. states and territories have also enacted data security breach notification requirements that are applicable to us.

## Table of Contents

### REGULATION

#### Federal Laws

Various federal laws and regulations govern loan origination, servicing and collections, including:

- the Dodd-Frank Act (which, among other things, created the CFPB);
- the Equal Credit Opportunity Act (which, among other things, prohibits discrimination against creditworthy applicants) and the CFPB's Regulation B, which implements this statute;
- the Fair Credit Reporting Act (which, among other things, governs the use of credit bureau reports and reporting information to credit bureaus);
- the Truth in Lending Act (which, among other things, governs disclosure of applicable charges and other terms of consumer credit) and the CFPB's Regulation Z, which implements this statute;
- the Fair Debt Collection Practices Act (which, among other things, governs practices in collecting certain debts);
- the Gramm-Leach-Bliley Act (which, among other things, governs the handling of personal financial information) and the CFPB's Regulation P, which implements this statute;
- the Military Lending Act (which, among other things, governs certain consumer lending to active-duty military servicemembers and their spouses and covered dependents and limits, the interest rate and certain fees, charges and premium they may be charged on certain loans);
- the Servicemembers Civil Relief Act, which, among other things, can impose limitations on the interest rate and the servicer's ability to collect on a loan originated with an obligor who is on active duty status and up to nine months thereafter;
- the Real Estate Settlement Procedures Act and the CFPB's Regulation X (both of which regulate the making and servicing of closed end residential mortgage loans);
- the Federal Trade Commission's Consumer Claims and Defenses Rule, also known as the "Holder in Due Course" Rule (which, among other things, allows a consumer to assert, against the assignees of certain credit contracts, certain claims that the consumer may have against the originator of the credit contracts); and
- the Federal Trade Commission Act (which, among other things, prohibits unfair and deceptive acts and practices).

The Dodd-Frank Act and the regulations promulgated thereunder have affected and are likely in the future to affect our operations in terms of increased oversight of financial services products by the CFPB and the imposition of restrictions on the terms of certain loans. Among regulations the CFPB has promulgated are mortgage servicing regulations that became effective January 10, 2014 and are applicable to the remaining real estate loan portfolio serviced by or for Springleaf. Amendments to some sections of these mortgage servicing regulations became effective on October 19, 2017 and some became effective on April 19, 2018. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the new protections established in the Dodd-Frank Act, as well as the authority to identify and prohibit unfair, deceptive, and abusive acts and practices. In addition, under the Dodd-Frank Act, securitizations of loan portfolios are subject to certain restrictions and additional requirements, including requirements that the originator retain a portion of the credit risk of the securities sold and the reporting of buyback requests from investors. We also utilize third party debt collectors and will continue to be responsible for oversight of their procedures and controls.

The CFPB has supervisory, examination and enforcement authority with respect to various federal consumer protection laws for some providers of consumer financial products and services, such as any nonbank that it has reasonable cause to determine has engaged or is engaging in conduct that poses risks to consumers with regard to consumer financial products or services. In addition to the authority to bring nonbanks under the CFPB's supervisory authority based on risk determinations, the CFPB also has authority under the Dodd-Frank Act to supervise nonbanks, regardless of size, in certain specific markets, such as mortgage companies (including mortgage originators, brokers and servicers) and payday lenders. Currently, the CFPB has supervisory authority over the Company with respect to

mortgage servicing and mortgage origination, which allows the CFPB to conduct an examination of our mortgage servicing practices and our prior mortgage origination practices.

The Dodd-Frank Act also gives the CFPB supervisory authority over entities that are designated as “larger participants” in certain financial services markets, including the auto financing market and the consumer installment lending market. On June 30, 2015, the CFPB published its final rule for designating “larger participants” in the auto financing market. With the adoption of this regulation, we are considered a larger participant in the auto financing market and are subject to supervision and examination by the CFPB for our direct auto loan business, including loans that are secured by autos and refinances of loans secured by autos that were for the purchase of autos. In its Spring 2018 rulemaking agenda, the CFPB stated that it had decided

## Table of Contents

to classify as “inactive” certain rulemakings previously identified in the expectation that the final decisions on proceeding will be made by the next permanent director. The larger-participant rule for consumer installment loans was one of the rulemaking initiatives designated as inactive. It is not known if or when the CFPB may consider reactivating the rulemaking process for the larger participant rule for consumer installment loans.

On October 5, 2017, the CFPB issued its final rule for Payday, Vehicle Title, and Certain High-Cost Installment Loans (the “small-dollar rule”). The final small-dollar rule does not apply to any loan made by the Company because our loans have a term of 46+ days, no balloon payment, and an APR limit of 36%. The proposed rule, published in 2016, had covered a relatively small segment of our loans because it calculated the 36% high-cost coverage threshold as an “all-in” APR, a term that included the cost of insurance and other ancillary products purchased within 3 days of the loan closing date. The final rule calculates the 36% figure under the traditional method prescribed by the Truth-In-Lending Act (TILA). Because the final rule replaced the proposed rule’s “all-in” APR calculation with a TILA APR calculation - a change that the Company advocated in the public comment letter it submitted to the CFPB - the final rule covers no loan made by the Company, even if the loan is both sold with insurance and secured by a vehicle or recurring ACH authorization.

The investigation and enforcement provisions of Title X of the Dodd Frank Act may adversely affect our business if the CFPB or one or more state attorneys general or state regulators believe that we have violated any federal consumer financial protection laws, including the prohibition in Title X against unfair, deceptive or abusive acts or practices. The CFPB is authorized to conduct investigations to determine whether any person is engaging in, or has engaged in, conduct that violates federal consumer financial protection laws, and to initiate enforcement actions for such violations, regardless of its direct supervisory authority. Investigations may be conducted jointly with other regulators. The CFPB has the authority to impose monetary penalties for violations of federal consumer financial laws, require remediation of practices and pursue administrative proceedings or litigation for violations of federal consumer financial laws (including the CFPB’s own rules). In these proceedings, the CFPB can obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief) and monetary penalties for minor, reckless and knowing violations of federal consumer financial laws (including the CFPB’s own rules). Also, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions against state-chartered companies, among others, for enforcement of the provisions of Title X of the Dodd-Frank Act, including CFPB regulations issued under Title X, and to secure remedies provided under Title X or other law.

The Dodd-Frank Act also requires that a securitizer generally retain not less than 5% of the credit risk for certain types of securitized assets that are created, transferred, sold, or conveyed through issuance of asset-backed securities with an exception for securitizations that are wholly composed of “qualified residential mortgages.” The risk retention requirement has reduced the amount of financing typically obtained from our securitization transactions and has imposed compliance costs on our securitizations and costs with respect to certain of our financing transactions, as we describe in Note 13 of the Notes to the Consolidated Financial Statements included in this report. In addition, the SEC adopted significant revisions to Regulation AB, imposing new requirements for asset-level disclosures for asset-backed securities backed by real estate related assets, auto related assets, or backed by debt securities. This could result in sweeping changes to the commercial and residential mortgage loan securitization markets, as well as to the market for the re-securitization of mortgage-backed securities.

## State Laws

Various state laws and regulations also govern personal loans and real estate secured loans. Many states have laws and regulations that are similar to the federal laws referred to above, but the degree and nature of such laws and regulations vary from state to state. While federal laws preempt similar state laws in some instances, many times compliance with state laws and regulations is still required.



Table of Contents

In general, these additional state laws and regulations, under which we conduct a substantial amount of our lending business:

- provide for state licensing and periodic examination of lenders and loan originators, including state laws adopted or amended to comply with licensing requirements of the federal Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (which, in some states, requires licensing of individuals who perform real estate loan modifications);
- require the filing of reports with regulators and compliance with state regulatory capital requirements;
- impose maximum term, amount, interest rate, and limit other charges;
- impose consumer privacy rights and other obligations that may require us to notify customers, employees, state attorneys general, regulators and others in the event of a security breach;
- regulate whether and under what circumstances we may offer insurance and other ancillary products in connection with a lending transaction; and
- provide for additional consumer protections.

There is a clear trend of increased state regulation on loan origination, servicing and collection, as well as more detailed reporting, more detailed examinations, and coordination of examinations among the states.

State authorities also regulate and supervise our insurance business. The extent of such regulation varies by product and by state, but relates primarily to the following:

- licensing;
- conduct of business, including marketing and sales practices;
- periodic financial and market conduct examination of the affairs of insurers;
- form and content of required financial reports;
- standards of solvency;
- limitations on the payment of dividends and other affiliate transactions;
- types of products offered;
- approval of policy forms and premium rates;
- formulas used to calculate any unearned premium refund due to an insured customer;
- permissible investments;
- deposits of securities for the benefit of policyholders;
- reserve requirements for unearned premiums, losses, and other purposes; and
- claims processing.

The Canadian federal and provincial insurance regulators regulate and supervise the insurance made available to borrowers through a third party Canadian lender. Its regulation and supervision relate primarily to the following:

- licensing;
- conduct of business, including marketing and sales practices;
- periodic financial and market conduct examination of the affairs of insurers;
- form and content of required financial reports;
- standards of solvency;
- limitations on the payment of dividends and other affiliate transactions;
- types of products offered; and
- reserve requirements for unearned premiums, losses, and other purposes.

## Table of Contents

### COMPETITION

We operate primarily in the consumer installment lending industry, focusing on the non-prime customer. As of December 31, 2018, we maintained a national network of brick and mortar branches.

There are a number of local, regional and internet competitors in the consumer installment lending industry serving the large population of non-prime customers. We also compete with other types of financial institutions within our geographic network and over the Internet, including community banks and credit unions, that offer similar products and services. We believe that competition between consumer installment lenders occurs primarily on the basis of price, speed of service, flexibility of loan terms offered, and the quality of customer service provided.

We believe that we possess several competitive strengths that position us to capitalize on the significant growth and expansion opportunity within our industry, and to compete effectively with other lenders in our industry. The capabilities resident in our national branch system provide us with a proven distribution channel for our personal loan and optional insurance products, allowing us to provide same-day fulfillment to approved customers and giving us a distinct competitive advantage over many industry participants who do not have—and cannot replicate without significant investment—a similar network. Our digital platform and our centralized operations also enhance our nationwide network by allowing us to serve customers who reside outside of our branch network. We believe our deep understanding of local markets and customers, together with our proprietary underwriting process, data analytics, and decisioning tools allow us to price, manage and monitor risk effectively through changing economic conditions. In addition, our high-touch relationship-based servicing model is a major contributor to our superior loan performance and distinguishes us from our competitors.

### SEASONALITY

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Seasonality” included in this report for discussion of our seasonal trends.

### EMPLOYEES

As of December 31, 2018, we had approximately 10,200 employees.

### AVAILABLE INFORMATION

OMH files annual, quarterly, and current reports, proxy statements, and other information with the SEC. The SEC’s website, [www.sec.gov](http://www.sec.gov), contains these reports and other information that registrants (including OMH) file electronically with the SEC.

These reports are also available free of charge through our website, [www.omf.com](http://www.omf.com) under “Investor Relations,” as soon as reasonably practicable after we file them with, or furnish them to, the SEC.

In addition, our Code of Business Conduct and Ethics (the “Code of Ethics”), our Code of Ethics for Principal Executive and Senior Financial Officers (the “Financial Officers’ Code of Ethics”), our Corporate Governance Guidelines and the charters of the committees of our Board of Directors are posted on our website at [www.omf.com](http://www.omf.com) under “Investor Relations” and printed copies are available upon request. We intend to disclose any material amendments to or waivers of our Code of Ethics and Financial Officers’ Code of Ethics requiring disclosure under applicable SEC or NYSE rules on our website within four business days of the date of any such amendment or waiver in lieu of filing a Form 8-K pursuant to Item 5.05 thereof.

The information on our website is not incorporated by reference into this report. The website addresses listed above are provided for the information of the reader and are not intended to be active links.



Table of Contents

Item 1A. Risk Factors.

We face a variety of risks that are inherent in our business. Accordingly, you should carefully consider the following discussion of risks of which we are currently aware that could affect our businesses, results of operations and financial condition. In addition to the factors discussed in this report and in other documents we file with the SEC that could adversely affect our businesses, results of operations and financial condition, new risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect our business or financial performance. Therefore, the risk factors below should not be considered a complete list of potential risks that we may face.

Any risk factor described in this Annual Report on Form 10-K or in any of our other SEC filings could by itself, or together with other factors, materially adversely affect our liquidity, competitive position, business, reputation, results of operations or financial condition, including by materially increasing our expenses or decreasing our revenues, which could result in material losses.

**RISKS RELATED TO OUR BUSINESS**

Our consolidated results of operations and financial condition and our borrowers' ability to make payments on their loans have been, and may in the future be, adversely affected by economic conditions and other factors that we cannot control.

Uncertainty and negative trends in general economic conditions in the United States and abroad, including significant tightening of credit markets and a general decline in the value of real property, historically have created a difficult operating environment for our businesses and other companies in our industries. Many factors, including factors that are beyond our control, may impact our consolidated results of operations or financial condition and/or affect our borrowers' willingness or capacity to make payments on their loans. These factors include: unemployment levels, housing markets, energy costs and interest rates; events such as natural disasters, acts of war, terrorism, catastrophes; events that affect our borrowers, such as major medical expenses, divorce or death; and the quality of any collateral underlying our receivables. If we experience an economic downturn or if the U.S. economy is unable to continue or sustain its recovery from the most recent economic downturn, or if we become affected by other events beyond our control, we may experience a significant reduction in revenues, earnings and cash flows, difficulties accessing capital and a deterioration in the value of our investments. We may also become exposed to increased credit risk from our customers and third parties who have obligations to us.

Moreover, our customers are primarily non-prime borrowers. Non-prime borrowers have historically been, and may in the future become, more likely to be affected, or more severely affected, by adverse macroeconomic conditions than prime borrowers. If a borrower defaults under a finance receivable held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral, if any, and the outstanding principal and accrued but unpaid interest on the finance receivable, which could adversely affect our cash flows from operations. In addition, foreclosure of a real estate loan (part of our legacy real estate loan portfolio) is an expensive and lengthy process that can negatively affect our anticipated return on the foreclosed loan. The cost to service our loans may also increase without a corresponding increase in our finance charge income.

Also, certain geographic concentrations of our loan portfolio may occur or increase as we adjust our risk and loss tolerance and strategy to achieve our profitability goals. Any geographic concentration may expose us to an increased risk of loss if that geographic region experiences higher unemployment rates than average, natural disasters, weak economic conditions, or other adverse economic factors that disproportionately affect that region. See Note 5 of the Notes to the Consolidated Financial Statements included in this report for quantification of our largest concentrations of net finance receivables.

If aspects of our business, including the quality of our finance receivables portfolio or our borrowers, are significantly affected by economic changes or any other conditions in the future, we cannot be certain that our policies and procedures for underwriting, processing and servicing loans will adequately adapt to such changes. If we fail to adapt to changing economic conditions or other factors, or if such changes adversely affect our borrowers' willingness or capacity to repay their loans, our results of operations, financial condition and liquidity would be materially adversely affected.

## Table of Contents

There are risks associated with the acquisition or sale of assets or businesses and the formation, termination or operation of joint ventures or other strategic alliances, including the possibility of increased delinquencies and losses, difficulties with integrating loans into our servicing platform and disruption to our ongoing business, which could have a material adverse effect on our results of operations, financial condition and liquidity.

We have previously acquired, and in the future may acquire, assets or businesses, including large portfolios of finance receivables, either through the direct purchase of such assets or the purchase of the equity of a company with such a portfolio. Since we will not have originated or serviced the loans we acquire, we may not be aware of legal or other deficiencies related to origination or servicing, and our review of the portfolio prior to purchase may not uncover those deficiencies. Further, we may have limited recourse against the seller of the portfolio.

The ability to integrate and successfully service newly acquired loan portfolios will depend in large part on the success of our development and integration of expanded servicing capabilities, including additional personnel. We may fail to realize some or all of the anticipated benefits of the transaction if the integration process takes longer, or is costlier, than expected. Our failure to meet the challenges involved in successfully integrating the acquired portfolios with our current business or otherwise to realize any of the anticipated benefits of the transaction could impair our operations. In addition, the integration of future large portfolio or other asset or business acquisitions and the formation, termination or operation of joint ventures or other strategic alliances are complex, time-consuming and expensive processes that, without proper planning and effective and timely implementation, could significantly disrupt our business.

Potential difficulties we may encounter in connection with these transactions and arrangements include, but are not limited to, the following:

- the integration of the assets or business into our information technology platforms and servicing systems;
- the quality of servicing during any interim servicing period after we purchase a portfolio but before we assume servicing obligations from the seller or its agents;
- the disruption to our ongoing businesses and distraction of our management teams from ongoing business concerns;
- incomplete or inaccurate files and records;
- the retention of existing customers;
- the creation of uniform standards, controls, procedures, policies and information systems;
- the occurrence of unanticipated expenses; and
- potential unknown liabilities associated with the transactions, including legal liability related to origination and servicing prior to the acquisition.

For example, in some cases loan files and other information (including servicing records) may be incomplete or inaccurate. If our employees are unable to access customer information easily, or if we are unable to produce originals or copies of documents or accurate information about the loans, collections could be affected significantly, and we may not be able to enforce our right to collect in some cases. Similarly, collections could be affected by any changes to our collection practices, the restructuring of any key servicing functions, transfer of files and other changes that would result from our assumption of the servicing of the acquired portfolios.

The anticipated benefits and synergies of our future acquisitions will assume a successful integration, and will be based on projections, which are inherently uncertain, as well as other assumptions. Even if integration is successful, anticipated benefits and synergies may not be achieved.

Our strategy of increasing the proportion of secured loan originations within our loan portfolio may lead to declines in, or slower growth than anticipated, of our personal loan net finance receivables and yield, which could have a material adverse effect on our business, results of operations and growth prospects.

Secured loans typically carry lower yields relative to unsecured personal loans. If we are unable to successfully convert lower credit tier customers to our secured loan products or otherwise increase new originations of secured personal loans, this will adversely affect our ability to grow personal loan net finance receivables. In addition, as secured loans continue to represent a larger proportion of our loan portfolio, our yields may be lower than our yields in prior periods.

## Table of Contents

If our estimates of allowance for finance receivable losses are not adequate to absorb actual losses, our provision for finance receivable losses would increase, which would adversely affect our results of operations.

We maintain an allowance for finance receivable losses. To estimate the appropriate level of allowance for finance receivable losses, we consider known and relevant internal and external factors that affect finance receivable collectability, including the total amount of finance receivables outstanding, historical finance receivable charge-offs, our current collection patterns, and economic trends. Our methodology for establishing our allowance for finance receivable losses is based on the guidance in Accounting Standards Codification (“ASC”) 450, Contingencies, and, in part, on our historic loss experience. If customer behavior changes as a result of economic conditions and if we are unable to predict how the unemployment rate, housing foreclosures, and general economic uncertainty may affect our allowance for finance receivable losses, our allowance for finance receivable losses may be inadequate. Our allowance for finance receivable losses is an estimate, and if actual finance receivable losses are materially greater than our allowance for finance receivable losses, our results of operations could be adversely affected. Neither state regulators nor federal regulators regulate our allowance for finance receivable losses.

In June of 2016, the Financial Accounting Standards Board issued Accounting Standard Update ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU significantly changes the way that entities will be required to measure credit losses. The new standard requires that the estimated credit loss be based upon an “expected credit loss” approach rather than the “incurred loss” approach currently required. The new approach will require entities to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable forecasts of collectability. It is anticipated that the expected credit loss model may require earlier recognition of credit losses than the incurred loss approach. This ASU will become effective for the Company for fiscal years beginning January 1, 2020. We believe the adoption of this ASU will have a material effect on our consolidated financial statements through an increase to the allowance for finance receivable losses, an increase to deferred tax assets and a corresponding one-time cumulative reduction to retained earnings, net of tax, in the consolidated balance sheet as of the beginning of the year of adoption. See Note 4 of the Notes to the Consolidated Financial Statements included in this report for more information on this new accounting standard.

Our risk management efforts may not be effective.

We could incur substantial losses and our business operations could be disrupted if we are unable to effectively identify, manage, monitor, and mitigate financial risks, such as credit risk, interest rate risk, prepayment risk, liquidity risk, and other market-related risks, as well as operational risks related to our business, assets and liabilities. To the extent our models used to assess the creditworthiness of potential borrowers do not adequately identify potential risks, the valuations produced would not adequately represent the risk profile of the borrowers and could result in a riskier finance receivables profile than originally identified. Our risk management policies, procedures, and techniques, including our scoring technology, may not be sufficient to identify all of the risks we are exposed to, mitigate the risks we have identified or identify concentrations of risk or additional risks to which we may become subject in the future.

Our branch loan approval process is decentralized, which may result in variability of loan structures, and could adversely affect our results of operations, financial condition and liquidity.

Our branch finance receivable origination process is decentralized. We train our employees to make loans that conform to our underwriting standards. Such training includes critical aspects of state and federal regulatory compliance, cash handling, account management and customer relations. In certain circumstances, subject to approval by district managers and/or directors of operations in certain cases, our branch officers have some authority to approve and structure loans within broadly written underwriting guidelines rather than having all loan terms approved centrally. As a result, there may be variability in finance receivable structure (e.g., whether or not collateral is taken

for the loan) and loan portfolios among branch offices or regions, even when underwriting policies are followed. Moreover, we cannot be certain that every loan is made in accordance with our underwriting standards and rules, and we have in the past experienced some instances of loans extended that varied from our underwriting standards. The nature of our approval process could adversely affect our operating results and variances in underwriting standards and lack of supervision could expose us to greater delinquencies and charge-offs than we have historically experienced, which could adversely affect our results of operations, financial condition and liquidity.

Table of Contents

Changes in market conditions, including rising interest rates, could adversely affect the rate at which our borrowers prepay their loans and the value of our finance receivables portfolio, as well as increase our financing cost, which could negatively affect our results of operations, financial condition and liquidity.

Changing market conditions, including but not limited to, changes in interest rates, the availability of credit, the relative economic vitality of the area in which our borrowers and their assets are located, changes in tax laws, other opportunities for investment available to our customers, homeowner mobility, and other economic, social, geographic, demographic, and legal factors beyond our control, may affect the rates at which our borrowers prepay their loans. Generally, in situations where prepayment rates have slowed, the weighted-average life of our finance receivables has increased. Any increase in interest rates may further slow the rate of prepayment for our finance receivables, which could adversely affect our liquidity by reducing the cash flows from, and the value of, the finance receivables we hold for sale or utilize as collateral in our secured funding transactions.

Moreover, the vast majority of our finance receivables are fixed-rate finance receivables, which generally decline in value if interest rates increase. As such, if changing market conditions cause interest rates to increase substantially, the value of our fixed-rate finance receivables could decline. Recent increases in market interest rates could negatively impact our net interest income and further increases in market interest rates could continue to negatively impact such net interest income, as well as our cash flow from operations and results of operations. We are generally unable to increase the interest rate on our loans to offset any increases in our cost of funds as market interest rates increase. Additionally, because we are subject to applicable legal and regulatory restrictions in certain jurisdictions that limit the maximum interest rate that we may charge on certain of our loans, our yield, as well as our cash flows from operations and results of operations, could be materially and adversely affected if we are unable to increase the interest rates charged on newly originated loans to offset any increases in our cost of funds as market interest rates increase. Accordingly, any increase in interest rates could negatively affect our results of operations, financial condition and liquidity.

We may be required to indemnify, or repurchase finance receivables from, purchasers of finance receivables that we have sold or securitized, or which we will sell or securitize in the future, if our finance receivables fail to meet certain criteria or characteristics or under other circumstances, which could adversely affect our results of operations, financial condition and liquidity.

We sold a portfolio of real estate loans for aggregate cash proceeds of \$100 million with a carrying value of \$82 million in December 2018. In 2016, we sold: (i) our interests in the SpringCastle Portfolio in the SpringCastle Interests Sale; (ii) \$602 million of personal loans in the Lendmark Sale; and (iii) \$308 million of our legacy real estate loan portfolio. In addition, we sold \$6.4 billion of our legacy real estate loan portfolio in 2014. As of December 31, 2018, we have securitized \$8.5 billion of our personal loan portfolio. The documents governing our finance receivable sales and securitizations contain provisions that require us to indemnify the purchasers of securitized finance receivables, or to repurchase the affected finance receivables, under certain circumstances. While our sale and securitization documents vary, they generally contain customary provisions that may require us to repurchase finance receivables if:

- our representations and warranties concerning the quality and characteristics of the finance receivable are inaccurate;
- there is borrower fraud; or
- we fail to comply, at the individual finance receivable level or otherwise, with regulatory requirements in connection with the origination and servicing of the finance receivables.

As a result of the current market environment, we believe that many purchasers or investors in finance receivables (including through securitizations) are particularly aware of the conditions under which originators must indemnify

purchasers or repurchase finance receivables and would benefit from enforcing any repurchase remedies that they may have. At its extreme, our exposure to repurchases or our indemnification obligations under our representations and warranties could include the current unpaid balance of all finance receivables that we have sold or securitized, and which are not subject to settlement agreements with purchasers.

The risk of loss on the finance receivables that we have securitized is recognized in our allowance for finance receivable losses since all of our loan securitizations are recorded on our balance sheet. If we are required to indemnify purchasers or repurchase finance receivables that we sell or have sold that result in losses that exceed our reserve for sales recourse or recognize losses on securitized finance receivables that exceed our recorded allowance for finance receivable losses associated with our securitizations, this could adversely affect our results of operations, financial condition and liquidity.



Table of Contents

Our business and reputation may be materially impacted by information system failures or network disruptions.

Our business relies heavily on information systems to deliver products and services to our customers, and to manage our ongoing operations. These systems may encounter service disruptions due to system, network or software failure, security breaches, computer viruses, accidents, power disruptions, telecommunications failures, acts of terrorism or war, physical or electronic break-ins, or other events or disruptions. In addition, denial-of-service attacks could overwhelm our internet sites and prevent us from adequately serving customers. Cyberthreats are constantly evolving, increasing the difficulty of detecting and successfully defending against them. We may have no current capability to detect certain vulnerabilities, which may allow them to persist in our system environment over long periods of time. Cyberthreats can have cascading impacts that unfold with increasing speed across our computer systems and networks and those of our third party vendors. System redundancy and other continuity measures may be ineffective or inadequate, and our business continuity and disaster recovery planning may not be sufficient to adequately address the disruption. A disruption could impair our ability to offer and process our loans, provide customer service, perform collections or other necessary business activities, which could result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, or otherwise materially adversely affect our financial condition and operating results.

There may be losses or unauthorized access to or releases of confidential information, including personally identifiable information, that could subject us to significant reputational, financial, legal and operational consequences.

Our operations rely heavily on the secure processing, storage and transmission of confidential customer and other information including, among other things, personally identifiable information (“PII”), in our computer systems and networks, as well as those of third parties. Our branch offices and centralized servicing centers, as well as our administrative and executive offices, are part of an electronic information network that is designed to permit us to originate and track finance receivables and collections and perform other tasks that are part of our everyday operations. We devote significant resources to network and data security, including through the use of encryption and other security measures intended to protect our computer systems and data. These security measures may not be sufficient and may be vulnerable to hacking, employee error, malfeasance, system error, faulty password management or other irregularities. For example, third parties may attempt to fraudulently induce employees or customers into disclosing user names, passwords or other sensitive information, which may in turn be used to access our computer systems. Any failure, interruption, or breach in our cyber security could result in reputational harm, disruption of our customer relationships, or our inability to originate, process and service our finance receivable products. Further, any of these cyber security and operational risks could expose us to lawsuits by customers for identity theft or other damages resulting from the misuse of their PII and possible financial liability, any of which could have a material adverse effect on our results of operations, financial condition and liquidity. In addition, regulators may impose penalties or require remedial action if they identify weaknesses in our security systems, and we may be required to incur significant costs to increase our cyber security to address any vulnerabilities that may be discovered or to remediate the harm caused by any security breaches. As part of our business, we may share confidential customer information and proprietary information with customers, vendors, service providers, and business partners. The information systems of these third parties may be vulnerable to security breaches and, despite our best efforts, we may not be able to ensure that these third parties have appropriate security controls in place to protect the information we share with them. If our confidential information is intercepted, stolen, misused, or mishandled while in possession of a third party, it could result in reputational harm to us, loss of customer business, and additional regulatory scrutiny, and it could expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our results of operations, financial condition and liquidity. Although we have insurance that is intended to cover certain losses from such events, there can be no assurance that such insurance will be adequate or available.

We are also subject to the theft or misuse of physical customer and employee records at our facilities.

Our branch offices and centralized servicing centers have physical customer records necessary for day-to-day operations that contain extensive confidential information about our customers, including financial and PII. We also retain physical records in various storage locations. The loss or theft of customer information and data from our branch offices, central servicing facilities, or other storage locations could subject us to additional regulatory scrutiny and penalties and could expose us to civil litigation and possible financial liability, which could have a material adverse effect on our results of operations, financial condition and liquidity. In addition, if we cannot locate original documents (or copies, in some cases) for certain finance receivables, we may not be able to collect on those finance receivables.

Table of Contents

Certain of our operations rely on external vendors.

We rely on third party vendors to provide products and services necessary to maintain day-to-day operations. For example, we outsource a portion of our information systems, communication, data management and transaction processing to third parties. Accordingly, we are exposed to the risk that these vendors might not perform in accordance with the contracted arrangements or service level agreements because of changes in the vendor's organizational structure, financial condition, support for existing products and services, or strategic focus. Such failure to perform could be disruptive to our operations, and have a materially adverse impact on our business, results of operations and financial condition. These third parties are also sources of risk associated with operational errors, system interruptions or breaches and unauthorized disclosure of confidential information. If the vendors encounter any of these issues, we could be exposed to disruption of service, damage to reputation and litigation.

Our insurance operations are subject to a number of risks and uncertainties, including claims, catastrophic events, underwriting risks and dependence on a primary distribution channel.

Insurance claims and policyholder liabilities are difficult to predict and may exceed the related reserves set aside for claims (losses) and associated expenses for claims adjudication (loss adjustment expenses). Additionally, events such as natural disasters, pandemic disease, cyber security breaches and other types of catastrophes, and prolonged economic downturns, could adversely affect our financial condition and results of operations. Other risks relating to our insurance operations include changes to laws and regulations applicable to us, as well as changes to the regulatory environment, such as: changes to laws or regulations affecting capital and reserve requirements; frequency and type of regulatory monitoring and reporting; consumer privacy, use of customer data and data security; benefits or loss ratio requirements; insurance producer licensing or appointment requirements; required disclosures to consumers; and collateral protection insurance (i.e., insurance some of our lender companies purchase, at the customer's expense, on that customer's loan collateral for the periods of time the customer fails to adequately, as required by his loan, insure his collateral). Because our customers do not directly agree to the amount charged for collateral protection at the time it is purchased, regulators may in the future prohibit our insurance companies from providing this insurance to our lending operations. Moreover, our insurance companies are predominately dependent on our lending operations as the primary source of business and product distribution. If our lending operations discontinue offering insurance products, including as a result of regulatory requirements, our insurance operations would need to find an alternate distribution partner for their products, of which there can be no assurance.

We are a party to various lawsuits and proceedings and may become a party to various lawsuits and proceedings in the future which, if resolved in a manner adverse to us, could materially adversely affect our results of operations, financial condition and liquidity.

In the normal course of business, from time to time, we have been named and may be named in the future as a defendant in various legal actions, including governmental investigations, examinations or other proceedings, arbitrations, class actions and other litigation, arising in connection with our business activities. Certain of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. Some of these proceedings are pending in jurisdictions that permit damage awards disproportionate to the actual economic damages alleged to have been incurred. The continued occurrences of large damage awards in general in the United States, including large punitive damage awards in certain jurisdictions that bear little or no relation to actual economic damages incurred by plaintiffs, create the potential for an unpredictable result in any given proceeding. A large judgment that is adverse to us could cause our reputation to suffer, encourage additional lawsuits against us and have a material adverse effect on our results of operations, financial condition and liquidity. For additional information regarding pending legal proceedings and other contingencies, see Note 19 of the Notes to the Consolidated Financial Statements included in this report.

Our use of derivatives exposes us to credit and market risks.

From time to time, we may enter into derivative financial instruments for economic hedging purposes, such as managing our exposure to interest rate risk. By using derivative instruments, we are exposed to credit and market risks, including the risk of loss associated with variations in the spread between the asset yield and the funding and/or hedge cost, default risk, and the risk of insolvency or other inability of the counterparty to a particular derivative financial instrument to perform its obligations.

If we lose the services of any of our key management personnel, our business could suffer.

Our future success significantly depends on the continued service and performance of our key management personnel. Competition for these employees is intense and we may not be able to attract and retain key personnel. We do not maintain any “key man” or other related insurance. The loss of the service of members of our senior management or key team members, or the inability to attract additional qualified personnel as needed, could materially harm our business.

24

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Table of Contents

Employee misconduct could harm us by subjecting us to monetary loss, significant legal liability, regulatory scrutiny and reputational harm.

Our reputation is critical to developing and maintaining relationships with our existing and potential customers and third parties with whom we do business. There is a risk that our employees could engage in misconduct that adversely affects our business. For example, if an employee were to engage—or be accused of engaging—in illegal or suspicious activities including fraud or theft, we could suffer direct losses from the activity, and in addition we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial condition, customer relationships, and ability to attract future customers or employees. Employee misconduct could prompt regulators to allege or to determine based upon such misconduct that we have not established adequate supervisory systems and procedures to inform employees of applicable rules or to detect and deter violations of such rules. It is not always possible to deter employee misconduct, and the precautions we take to detect and prevent misconduct may not be effective in all cases. Misconduct by our employees, or even unsubstantiated allegations of misconduct, could result in a material adverse effect on our reputation and our business.

We may not be able to make technological improvements as quickly as some of our competitors, which could harm our ability to compete with our competitors and adversely affect our results of operations, financial condition and liquidity.

The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial and lending institutions to better serve customers and reduce costs. Our future success and, in particular, the success of our centralized operations, will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services as quickly as some of our competitors or be successful in marketing these products and services to our existing and new customers. Failure to successfully keep pace with technological change affecting the financial services industry could harm our ability to compete with our competitors and adversely affect our results of operations, financial condition and liquidity.

As part of our growth strategy, we have committed to building our lending business. If we are unable to successfully implement our growth strategy, our results of operations, financial condition and liquidity may be materially adversely affected.

We believe that our future success depends on our ability to implement our growth strategy, the key feature of which has been to shift our primary focus to originating personal loans as well as acquiring portfolios of personal loans, pursuing acquisitions of companies, and/or establishing joint ventures or other strategic alliances. We have also expanded into internet lending through our centralized operations.

We may not be able to implement our new strategy successfully, and our success depends on a number of factors, including, but not limited to, our ability to:

- address the risks associated with our focus on personal loans (including direct auto loans), including, but not limited to consumer demand and changes in economic conditions and interest rates;
- address the risks associated with the new centralized method of originating and servicing our internet loans through our centralized operations, which represents a departure from our traditional high-touch branch-based servicing function and includes the potential for higher default and delinquency rates;
- integrate, and develop the expertise required to capitalize on, our centralized operations;
- obtain regulatory approval in connection with the acquisition of loan portfolios and/or companies in the business of selling loans or related products;

comply with regulations in connection with doing business and offering loan products over the Internet, including various state and federal e-signature rules mandating that certain disclosures be made, and certain steps be followed in order to obtain and authenticate e-signatures, with which we have limited experience;

finance future growth; and

successfully source, underwrite and integrate new acquisitions of loan portfolios and other businesses.

Table of Contents

In order for us to realize the benefits associated with our new focus on originating and servicing personal loans and growing our business, we must implement our strategic objectives in a timely and cost-effective manner as well as anticipate and address any risks to which we may become subject. In any event, we may not realize these benefits for many years, or our competitors may introduce more compelling products, services or enhancements. If we are not able to realize the benefits of our personal loan focus, or if we do not do so in a timely manner, our results of operations, financial condition and liquidity could be negatively affected which would have a material adverse effect on our business.

If goodwill and other intangible assets that we recorded in connection with the OneMain Acquisition become impaired, it could have a negative impact on our profitability.

Goodwill represents the amount of acquisition cost over the fair value of net assets we acquired in connection with the OneMain Acquisition. If the carrying amount of goodwill and other intangible assets exceeds the fair value, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which the impairments become known. During 2018, we recorded an \$8 million impairment on our other intangible assets related to indefinite-lived licenses in connection with the sale of our Yosemite insurance subsidiary. We did not record any impairment charges on our goodwill and other intangible assets during 2017 or 2016. There can be no assurance that our future evaluations of goodwill and other intangible assets will not result in findings of impairments and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

At December 31, 2018, our goodwill and other intangible assets totaled \$1.4 billion and \$388 million, respectively.

We ceased real estate lending and the purchase of retail sales finance contracts in 2012 and are in the process of liquidating these portfolios, which subjects us to certain risks which could adversely affect our results of operations, financial condition and liquidity if we do not effectively manage such risks.

In connection with our plan for strategic growth and new focus on consumer lending, we have engaged in a number of restructuring initiatives, including, but not limited to, ceasing real estate lending, ceasing purchasing retail sales finance contracts and revolving retail accounts from the sale of consumer goods and services by retail merchants, closing certain of our branches and reducing our workforce.

Since 2014, we entered into a series of transactions relating to the sales of our beneficial interests in our real estate loans, the related servicing of these loans, and the sales of certain performing and non-performing real estate loans, which substantially completed our plan to liquidate our real estate loans. Consequently, as of December 31, 2018, our real estate loans held for sale totaled \$103 million.

Moreover, if we fail to realize the anticipated benefits of the restructuring of our business and associated liquidation of our legacy portfolios or are subjected to litigation or claims for indemnification for breaches of representations or warranties made in connection with our previous real estate loan sales, we may experience a material adverse effect on our results of operations, financial condition and liquidity.

We could face environmental liability and costs for damage caused by hazardous waste (including the cost of cleaning up contaminated property) if we foreclose upon or otherwise take title to real estate pledged as collateral.

If a real estate loan goes into default, we may start foreclosure proceedings in appropriate circumstances, which could result in our taking title to the mortgaged real estate. We also consider alternatives to foreclosure, such as “short sales,” where we do not take title to mortgaged real estate. There is a risk that toxic or hazardous substances could be found on property after we take title. In addition, we own certain properties through which we operate our business, such as

the buildings at our headquarters and certain servicing facilities. As the owner of any property where hazardous waste is present, we could be held liable for clean-up and remediation costs, as well as damages for any personal injuries or property damage caused by the condition of the property. We may also be responsible for these costs if we are in the chain of title for the property, even if we were not responsible for the contamination and even if the contamination is not discovered until after we have sold the property. Costs related to these activities and damages could be substantial. Although we have policies and procedures in place to investigate properties for potential hazardous substances before taking title to properties, these reviews may not always uncover potential environmental hazards.



## Table of Contents

Our asset valuation may include methodologies, models, estimations and assumptions which are subject to differing interpretations and could result in changes to asset valuations that may materially adversely affect our results of operations and financial condition.

We use estimates, assumptions, and judgments when certain financial assets and liabilities are measured and reported at fair value. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices and/or other observable inputs provided by independent third party sources, when available. When such third party information is not available, fair value is estimated primarily by using cash flow and other financial modeling techniques utilizing assumptions such as credit quality, liquidity, interest rates and other relevant inputs. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact our future financial condition and results of operations.

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, certain asset valuations may require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of assets as reported within our consolidated financial statements, and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

The processes we use to estimate the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon the use of analytical and forecasting models. If these models are inadequate or inaccurate due to flaws in their design or implementation, the fair value of such financial instruments may not accurately reflect what we could realize upon sale or settlement of such financial instruments, or we may incur increased or unexpected losses upon changes in market interest rates or other market measures. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

## RISKS RELATED TO OUR INDUSTRY AND REGULATION

We operate in a highly competitive market, and we cannot ensure that the competitive pressures we face will not have a material adverse effect on our results of operations, financial condition and liquidity.

The consumer finance industry is highly competitive. Our profitability depends, in large part, on our ability to underwrite and originate finance receivables. We compete with other consumer finance companies as well as other types of financial institutions that offer similar consumer financial products and services. Some of these competitors may have greater financial, technical and marketing resources than we possess. Some competitors may also have a lower cost of funds and access to funding sources that may not be available to us. While banks and credit card companies have decreased their lending to non-prime customers in recent years, there is no assurance that such lenders will not resume those lending activities. Further, because of increased regulatory pressure on payday lenders, many of those lenders are starting to make more traditional installment consumer loans in order to reduce regulatory scrutiny of their practices, which could increase competition in markets in which we operate. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our results of operations, financial condition and liquidity.

Our businesses are subject to regulation in the jurisdictions in which we conduct our business and failure to comply with such regulations may have a material adverse impact on our results of operations, financial condition and liquidity.

Our businesses are subject to numerous federal, state and local laws and regulations, and various state authorities regulate and supervise our insurance operations. The laws under which a substantial amount of our consumer and real estate businesses are conducted generally: provide for state licensing of lenders and, in some cases, licensing of employees involved in real estate loan modifications; impose limits on the terms of consumer credit, including amounts, interest rates and charges; regulate whether and under what circumstances insurance and other ancillary products may be offered to consumers in connection with a consumer credit transaction; regulate the manner in which we use personal data; and provide for other consumer protections. We are also subject to extensive servicing regulations which we must comply with when servicing our legacy real estate loans and the SpringCastle Portfolio, and which we will have to comply with if we acquire loan portfolios in the future and assume the servicing obligations for the acquired loans or other financial assets. The extent of state regulation of our insurance business varies by product and by jurisdiction, but relates primarily to the following: licensing; conduct of business; periodic examination of the affairs of insurers; form and content of required financial reports; standards of solvency; limitations on

Table of Contents

dividend payments and other affiliate transactions; types of products offered; approval of policy forms and premium rates; formulas to calculate any unearned premium refund due to an insured customer; permissible investments; deposits of securities for the benefit of policyholders; reserve requirements for unearned premiums, losses and other purposes; and claims processing.

All of our operations are subject to regular examination by state and federal regulators, and as a whole, our entities are subject to several hundred regulatory examinations in a given year. These examinations may result in requirements to change our policies or practices, and in some cases, we are required to pay monetary fines or make reimbursements to customers. Many state regulators and some federal regulators have indicated an intention to pool their resources in order to conduct examinations of licensed entities, including us, at the same time (referred to as a “multi-state” examination). This could result in more in-depth examinations, which could be costlier and lead to more significant enforcement actions.

We are also subject to potential enforcement, supervisions and other actions that may be brought by state attorneys general or other state enforcement authorities and other governmental agencies. Any such actions could subject us to civil money penalties, customer remediation and increased compliance costs, as well as damage our reputation and brand and could limit or prohibit our ability to offer certain products and services or engage in certain business practices.

State attorneys general have stated their intention to fill any void left by diminished CFPB enforcement and have a variety of tools at their disposal to enforce state and federal consumer financial laws. First, Section 1042 of the Dodd-Frank Act grants state attorneys general the ability to enforce the Dodd-Frank Act and regulations promulgated under the Dodd-Frank Act’s authority and to secure remedies provided in the Dodd-Frank Act against entities within their jurisdiction. State attorneys general also have enforcement authority under state law with respect to unfair or deceptive practices. Generally, under these statutes, state attorneys general may conduct investigations, bring actions, and recover civil penalties or obtain injunctive relief against entities engaging in unfair, deceptive, or fraudulent acts. Attorneys general may also coordinate among themselves to enter into multi-state actions or settlements. Finally, several consumer financial laws like the Truth in Lending Act and Fair Credit Reporting Act grant enforcement or litigation authority to state attorneys general. Should the CFPB decrease its enforcement activity under the Trump administration, we expect to see an increase in actions brought by state attorneys general.

The Department of Defense has made changes to the regulations that have been promulgated as a result of the Military Lending Act. Effective October 3, 2016, we are subject to the limitations of the Military Lending Act, which places a 36% “all-in” annual percentage rate limitation on certain fees, charges, interest, and credit and non-credit insurance premiums for non-purchase money loans made to active military service, their spouses, or covered dependents. We are also no longer able to make non-purchase money loans to those customers that are secured by motor vehicles.

We are also subject to potential changes in state law, which could lower the interest-rate limit that non-depository financial institutions may charge for consumer loans or could expand the definition of interest under state law to include the cost of ancillary products, such as insurance.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable federal, state and local regulations, but we may not be able to maintain all requisite licenses and permits, and the failure to satisfy those and other regulatory requirements could have a material adverse effect on our operations. In addition, changes in laws or regulations applicable to us could subject us to additional licensing, registration and other regulatory requirements in the future or could adversely affect our ability to operate or the manner in which we conduct business.

A material failure to comply with applicable laws and regulations could result in regulatory actions, including substantial fines or penalties, lawsuits and damage to our reputation, which could have a material adverse effect on our results of operations, financial condition and liquidity.

For more information with respect to the regulatory framework affecting our businesses, see “Business—Regulation” included in this report.

Requirements of the Dodd-Frank Act and oversight by the CFPB significantly increase our regulatory costs and burdens.

The Dodd-Frank Act was adopted in 2010. This law and the related regulations affect our operations in terms of increased oversight of financial services products by the CFPB, and the imposition of restrictions on the allowable terms for certain consumer credit transactions. The CFPB has significant authority to implement and enforce federal consumer finance laws, including the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Billing Act and new requirements for financial services products provided for in the Dodd-Frank Act, as well as the authority to identify and prohibit unfair,

Table of Contents

deceptive, or abusive acts and practices. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged legal violations, and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. Further, state attorneys general and state regulators are authorized to bring civil actions to enforce certain consumer protection provisions of the Dodd-Frank Act. The industry investigation and enforcement provisions of Title X of the Dodd Frank Act may adversely affect our business if the CFPB or one or more state attorneys general or state regulators believe that we have violated any federal consumer financial protection laws, including the prohibition in Title X against unfair, deceptive or abusive acts or practices.

The CFPB currently has supervisory authority over our real estate servicing activities, and may in the future have supervisory authority over at least portions of our consumer lending business. It also has the authority to bring enforcement actions for violations of laws over which it has jurisdiction regardless of whether it has supervisory authority for a given product or service. Effective in January 2014, the CFPB finalized mortgage servicing regulations, which makes it more difficult and expensive to service mortgages. The Dodd-Frank Act also gives the CFPB supervisory authority over entities that are designated as “larger participants” in certain financial services markets, including consumer installment loans and related products. The CFPB has published regulations for “larger participants” in the market of auto finance, and we have been designated as a larger participant in this market. The larger-participant rule for consumer installment loans was one of the rulemaking initiatives the CFPB designated as inactive in its Spring 2018 rulemaking agenda. It is not known if or when the CFPB may consider reactivating the rulemaking process for the larger participant rule for consumer installment loans. The CFPB’s broad supervisory and enforcement powers could affect our business and operations significantly in terms of increased operating and regulatory compliance costs, and limits on the types of products we offer and the manner in which they are offered, among other things. See “Business—Regulation” included in this report for further information on the CFPB.

The CFPB and certain state regulators have acted against some lenders regarding, for instance, debt collection and the marketing of ancillary products offered by the lenders in connection with their loans. The products included debt cancellation/suspension products and other types of payment protection insurance. We collect on delinquent debt. We also sell optional insurance and non-insurance products in connection with our loans. Our debt collection practices and sales of optional insurance and non-insurance products could be challenged in a similar manner by the CFPB or state consumer lending regulators.

Some of the rule-making under the Dodd-Frank Act remains to be done. As a result, the complete impact of the Dodd-Frank Act remains uncertain. The CFPB has indicated that it expects to issue a proposed rule addressing third party debt collection, including communication practices and consumer disclosures by March 2019. The CFPB also announced that it is considering rulemaking to further clarify the meaning of “abusive” under section 1031 of the Dodd Frank Act. It is not clear what form these and other remaining regulations will ultimately take, or how our business will be affected. No assurance can be given that the Dodd-Frank Act and related regulations or any other new legislative changes enacted will not have a significant impact on our business.

For more information with respect to the regulatory framework affecting our businesses, see “Business—Regulation” included in this report.

Current and proposed regulations relating to consumer privacy, data protection and information security could increase our costs.

We are subject to a number of federal and state consumer privacy, data protection, and information security laws and regulations. For example, we are subject to the federal Gramm-Leach-Bliley Act, which governs the use of PII by financial institutions. Moreover, various state laws and regulations may require us to notify customers, employees,

state attorneys general, regulators and others in the event of a security breach. Federal and state legislators and regulators are increasingly pursuing new guidance, laws, and regulations relating to consumer privacy, data protection and information security. Compliance with current or future customer privacy, data protection, and information security laws and regulations could result in higher compliance, technology or other operating costs. Any violations of these laws and regulations may require us to change our business practices or operational structure, and could subject us to material legal claims, monetary penalties, sanctions, and the obligation to compensate and/or notify customers, employees, state attorneys general, regulators and others or take other remedial actions.

Table of Contents

Our use of third party vendors is subject to regulatory review.

Recently, the CFPB and other regulators have issued regulatory guidance focusing on the need for financial institutions to perform due diligence and ongoing monitoring of third party vendor relationships which increases the scope of management involvement and decreases the benefit that we receive from using third party vendors. Moreover, if our regulators conclude that we have not met the standards for oversight of our third party vendors, we could be subject to enforcement actions, civil monetary penalties, supervisory orders to cease and desist or other remedial actions, which could have a materially adverse effect on our business, reputation, financial condition and operating results. Further, federal and state regulators have been scrutinizing the practices of lead aggregators and providers recently. If regulators place restrictions on certain practices by lead aggregators or providers, our ability to use them as a source for applicants could be affected.

Changes in federal, state or local tax laws could have a material adverse impact on our financial position, results of operations and cash flows.

The Tax Act was enacted in December 2017. The Tax Act, among other things, reduced the U.S. federal corporate tax rate from 35% to 21%. In addition, the Tax Act limits certain deductions and creates new taxes on certain foreign sourced earnings. In the long-term, we anticipate that we will realize an overall benefit from the reduction in the tax rate slightly offset by potential deductions disallowed under the current law. However, we recognized an \$81 million tax charge in 2017 primarily the result of the lower corporate tax rate, which required us to remeasure our net deferred tax asset to reflect the lower corporate tax rate. We cannot predict the long-term impact of the Tax Act on the overall economy and our customers at this time. Our customers are likely to experience varying effects from the provisions of the Tax Act both positive and negative. Consequently, there can be no assurance that the Tax Act will not negatively impact our operating results, financial condition, and business operations.

We purchase and sell finance receivables, including charged off receivables and receivables where the borrower is in default. This practice could subject us to heightened regulatory scrutiny, which may expose us to legal action, cause us to incur losses and/or limit or impede our collection activity.

As part of our business model, we purchase and sell finance receivables. Although the borrowers for some of these finance receivables are current on their payments, other borrowers may be in default (including in bankruptcy) or the debt may have been charged off as uncollectible. The CFPB and other regulators have recently significantly increased their scrutiny of the purchase and sale of debt, and collections practices undertaken by purchasers of debt, especially delinquent and charged off debt. The CFPB has scrutinized sellers of debt for not maintaining sufficient documentation to support and verify the validity or amount of the debt. It has also scrutinized debt collectors for, among other things, their collection tactics, attempting to collect debts that no longer are valid, misrepresenting the amount of the debt and not having sufficient documentation to verify the validity or amount of the debt. Our purchases or sales of receivables could expose us to lawsuits or fines by regulators if we do not have sufficient documentation to support and verify the validity and amount of the finance receivables underlying these transactions, or if we or purchasers of our finance receivables use collection methods that are viewed as unfair or abusive. In addition, our collections could suffer, and we may incur additional expenses if we are required to change collection practices or stop collecting on certain debts as a result of a lawsuit or action on the part of regulators.

Recent laws and developments could adversely affect securitizations

The Dodd-Frank Act also has led and will continue to lead us to incur additional compliance costs in connection with securitization transactions and because it requires, among other things, that a securitizer retain at least a 5% economic interest in the credit risk of the securitized assets, has reduced and will continue to reduce the amount of financing obtained from such transactions. Furthermore, sponsors are prohibited from diluting the required risk retention by

dividing the economic interest among multiple parties or hedging or transferring the credit risk the sponsor is required to maintain. Moreover, the SEC's significant changes to Regulation AB could result in sweeping changes to the commercial and residential mortgage loan securitization markets, as well as to the market for the re-securitization of mortgage-backed securities.

Rules relating to securitizations rated by nationally-recognized statistical rating agencies require that the findings of any third party due diligence service providers be made publicly available at least five (5) business days prior to the first sale of securities, which has led and will continue to lead us to incur additional costs in connection with each securitization.



Table of Contents

Investment Company Act considerations could affect our method of doing business.

We intend to continue conducting our business operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act of 1940 (the “Investment Company Act”). We are a holding company that conducts its businesses primarily through wholly owned subsidiaries and are not an investment company because our subsidiaries are primarily engaged in the non-investment company business of consumer finance. Certain of our subsidiaries rely on exemptions from registration as an investment company, including pursuant to Sections 3(c)(4) and 3(c)(5) of the Investment Company Act. We rely on guidance published by the SEC staff or on our analyses of such guidance to determine our subsidiaries’ qualification under these and other exemptions. To the extent that the SEC staff publishes new or different guidance with respect to these matters, we may be required to adjust our business operations accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could inhibit our ability to conduct our business operations. There can be no assurance that the laws and regulations governing the Investment Company Act status of real estate or real estate related assets or SEC guidance regarding Investment Company Act exemptions for real estate assets will not change in a manner that adversely affects our operations. If we fail to qualify for an exemption or exception from the Investment Company Act in the future, we could be required to restructure our activities or the activities of our subsidiaries, which could negatively affect us. In addition, if we or one or more of our subsidiaries fail to maintain compliance with the applicable exemptions or exceptions and we do not have another basis available to us on which we may avoid registration, and we were therefore required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure, management, operations, transactions with affiliated persons, holdings, and other matters, which could have an adverse effect on us.

Real estate loan servicing and loan modifications have come under increased scrutiny from government officials and others, which could make servicing our legacy real estate loan portfolio costlier and more difficult.

Real estate loan servicers are under increased scrutiny. In addition, some states and municipalities have passed laws that impose additional duties on foreclosing lenders and real estate loan servicers, such as mandatory mediation or extensive requirements for maintenance of vacant properties, which, in some cases, begin even before a lender has taken title to property. These additional requirements can delay foreclosures, make it uneconomical to foreclose on mortgaged real estate or result in significant additional costs, which could materially adversely affect the value of our portfolio. The CFPB finalized mortgage servicing regulations that became effective in January 2014, which makes it more difficult and expensive to service real estate loans.

The U.S. Government implemented a number of federal programs to assist homeowners, including the Home Affordable Modification Program (HAMP), which expired on December 31, 2017. Loans sub-serviced for us by Nationstar Mortgage LLC and Select Portfolio Servicing, Inc. were subject to HAMP and were eligible for modification pursuant to HAMP guidelines. We have also implemented proprietary real estate loan modification programs in order to help real estate secured customers remain current on their loans. HAMP, our proprietary loan modification programs and other existing or future legislative or regulatory actions which result in the modification of outstanding real estate loans, may adversely affect the value of, and the returns on, our existing portfolio.

Table of Contents

RISKS RELATED TO OUR INDEBTEDNESS

An inability to access adequate sources of liquidity may adversely affect our ability to fund operational requirements and satisfy financial obligations.

Our ability to access capital and credit may be significantly affected by disruption in the U.S. credit markets and the associated credit rating downgrades on our debt. In addition, the risk of volatility surrounding the global economic system and uncertainty surrounding regulatory reforms, such as the Dodd-Frank Act, continue to create uncertainty around access to the capital markets. Historically, we have funded our operations and repaid our debt and other obligations using funds collected from our finance receivable portfolio and new debt issuances. Our current corporate credit ratings are below investment grade and, as a result, our borrowing costs may further increase and our ability to borrow may be limited. Although market conditions have improved since the financial crisis, our traditional borrowing sources, including our ability to cost-effectively issue large amounts of unsecured debt in the capital markets, have been available to us only on a limited basis. In addition to issuing unsecured debt in the public and private markets, we have raised capital through securitization transactions and, although there can be no assurances that we will be able to complete additional securitizations or issue additional unsecured debt, we currently expect our near-term sources of capital markets funding to continue to derive from securitization transactions and unsecured debt offerings.

Any future capital markets transactions will be dependent on our financial performance as well as market conditions, which may result in receiving financing on terms less favorable to us than our existing financings. In addition, our access to future financing and our ability to refinance existing debt will depend on a variety of factors such as our financial performance, the general availability of credit, our credit ratings and credit capacity at the time we pursue such financing.

If we are unable to complete additional securitization transactions or unsecured debt offerings on a timely basis or upon terms acceptable to us or otherwise access adequate sources of liquidity, our ability to fund our own operational requirements and satisfy financial obligations may be adversely affected.

Our indebtedness is significant, which could affect our ability to meet our obligations under our debt instruments and could materially and adversely affect our business and ability to react to changes in the economy or our industry.

We currently have a significant amount of indebtedness. As of December 31, 2018, we had \$15.2 billion of indebtedness outstanding. Interest expense on our indebtedness totaled \$875 million in 2018.

The amount of indebtedness could have important consequences, including the following:

- it may require us to dedicate a significant portion of our cash flows from operations to the payment of the principal of, and interest on, our indebtedness, which reduces the funds available for other purposes, including finance receivable originations;
- it could limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing regulatory, business and economic conditions;
- it may limit our ability to incur additional borrowings or securitizations for working capital, capital expenditures, business development, debt service requirements, acquisitions or general corporate or other purposes, or to refinance our indebtedness;
- it may require us to seek to change the maturity, interest rate and other terms of our existing debt;
- it may place us at a competitive disadvantage to competitors that are not as highly leveraged;
- it may cause a downgrade of our debt and long-term corporate ratings; and
- it may cause us to be more vulnerable to periods of negative or slow growth in the general economy or in our business.

In addition, meeting our anticipated liquidity requirements is contingent upon our continued compliance with our existing debt agreements. An event of default or declaration of acceleration under one of our existing debt agreements could also result in an event of default and declaration of acceleration under certain of our other existing debt agreements. Such an acceleration of our debt would have a material adverse effect on our liquidity and our ability to continue as a going concern. If our debt obligations increase, whether due to the increased cost of existing indebtedness or the incurrence of additional indebtedness, the consequences described above could be magnified.

Table of Contents

There can be no assurance that we will be able to repay or refinance our debt in the future.

Certain of our outstanding notes contain covenants that restrict our operations and may inhibit our ability to grow our business and increase revenues.

SFC's indenture and certain of SFC's notes contain a covenant that limits SFC's and its subsidiaries' ability to create or incur liens. The restrictions may interfere with our ability to obtain new or additional financing or may affect the manner in which we structure such new or additional financing or engage in other business activities, which may significantly limit or harm our results of operations, financial condition and liquidity. A default and resulting acceleration of obligations could also result in an event of default and declaration of acceleration under certain of our other existing debt agreements. Such an acceleration of our debt would have a material adverse effect on our liquidity and our ability to continue as a going concern. A default could also significantly limit our alternatives to refinance the debt under which the default occurred as well as other indebtedness. This limitation may significantly restrict our financing options during times of either market distress or our financial distress, which are precisely the times when having financing options is most important.

The assessment of our liquidity is based upon significant judgments and estimates that could prove to be materially incorrect.

In assessing our current financial position and developing operating plans for the future, management has made significant judgments and estimates with respect to our liquidity, including but not limited to:

- our ability to generate sufficient cash to service all of our outstanding debt;
- our continued ability to access debt and securitization markets and other sources of funding on favorable terms;
- our ability to complete on favorable terms, as needed, additional borrowings, securitizations, finance receivable portfolio sales, or other transactions to support liquidity, and the costs associated with these funding sources, including sales at less than carrying value and limits on the types of assets that can be securitized or sold, which would affect profitability;
- the potential for downgrade of our debt by rating agencies, which would have a negative impact on our cost of, and access to, capital;
- our ability to comply with our debt covenants;
- the amount of cash expected to be received from our finance receivable portfolio through collections (including prepayments) and receipt of finance charges, which could be materially different than our estimates;
  - the potential for declining financial flexibility and reduced income should we use more of our assets for securitizations and finance receivable portfolio sales; and
- the potential for reduced income due to the possible deterioration of the credit quality of our finance receivable portfolios.

Additionally, there are numerous risks to our financial results, liquidity, and capital raising and debt refinancing plans that are not quantified in our current liquidity forecasts. These risks include, but are not limited, to the following:

- our inability to grow our personal loan portfolio with adequate profitability to fund operations, loan losses, and other expenses;
- our inability to monetize assets including, but not limited to, our access to debt and securitization markets;
- our inability to obtain the additional necessary funding to finance our operations;
- the effect of federal, state and local laws, regulations, or regulatory policies and practices, including the Dodd-Frank Act (which, among other things, established the CFPB with broad authority to regulate and examine financial institutions), on our ability to conduct business or the manner in which we conduct business, such as licensing requirements, pricing limitations or restrictions on the method of offering products, as well as changes that may result from increased regulatory scrutiny of the sub-prime lending industry;
- potential liability relating to real estate and personal loans which we have sold or may sell in the future, or relating to securitized loans, if it is determined that there was a non-curable breach of a warranty made in connection with the

transaction;

33

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Table of Contents

the potential for increasing costs and difficulty in servicing our loan portfolio as a result of heightened nationwide regulatory scrutiny of loan servicing and foreclosure practices in the industry generally, and related costs that could be passed on to us in connection with the subservicing of our real estate loans that were originated or acquired centrally;

reduced cash flows as a result of the liquidation of our real estate loan portfolio;

the potential for additional unforeseen cash demands or acceleration of obligations;

reduced income due to loan modifications where the borrower’s interest rate is reduced, principal payments are deferred, or other concessions are made;

the potential for declines or volatility in bond and equity markets; and

the potential effect on us if the capital levels of our regulated and unregulated subsidiaries prove inadequate to support our current business plans.

We intend to repay indebtedness with one or more of the following sources, among others: finance receivable collections, cash on hand, proceeds of additional debt financings (particularly new securitizations and possible new issuances and/or debt refinancing transactions), finance receivable portfolio sales, or a combination of the foregoing. There can be no assurance that we will be successful in undertaking any of these activities to support our operations and repay our obligations.

The actual outcome of one or more of our plans could be materially different than expected or one or more of our significant judgments or estimates about the potential effects of these risks and uncertainties could prove to be materially incorrect. In the event of such an occurrence, if third party financing is not available, our liquidity could be materially adversely affected, and as a result, substantial doubt could exist about our ability to continue as a going concern.

Current ratings could adversely affect our ability to raise capital in the debt markets at attractive rates, which could negatively affect our results of operations, financial condition and liquidity.

Each of S&P, Moody’s, and KBRA rates SFC’s debt. Ratings reflect the rating agencies’ opinions of a company’s financial strength, operating performance, strategic position and ability to meet its obligations. 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.

The table below outlines SFC’s long-term corporate debt ratings and outlook by rating agencies:  
As of December 31, 2018

	Rating	Outlook
S&P	B+	Positive
Moody’s	B1	Positive
KBRA	BB+	Stable

Currently, no other SFC entity has a corporate debt rating, though they may be rated in the future.

If SFC’s current ratings continue in effect or our ratings are downgraded, it will likely increase the interest rate that we would have to pay to raise money in the capital markets, making it more expensive for us to borrow money and adversely impacting our access to capital. As a result, our ratings could negatively impact our results of operations, financial condition and liquidity.

## Table of Contents

Our securitizations may expose us to financing and other risks, and there can be no assurance that we will be able to access the securitization market in the future, which may require us to seek more costly financing.

We have securitized, and may in the future securitize, certain of our finance receivables to generate cash to originate or purchase new finance receivables or repay our outstanding indebtedness. In such transactions, we typically convey a pool of finance receivables to a special purpose entity, which, in turn, conveys the finance receivables to a trust (the issuing entity). Concurrently, the trust typically issues non-recourse notes or certificates pursuant to the terms of an indenture or pooling and servicing agreement, which then are transferred to the special purpose entity in exchange for the finance receivables. The securities issued by the trust are secured by the pool of finance receivables. In exchange for the transfer of finance receivables to the issuing entity, we typically receive the cash proceeds from the sale of the trust securities, all residual interests, if any, in the cash flows from the finance receivables after payment of the trust securities, and a 100% beneficial interest in the issuing entity.

Although we have successfully completed a number of securitizations since 2012, we can give no assurances that we will be able to complete additional securitizations if the securitization markets become constrained. In addition, the value of any subordinated securities that we may retain in our securitizations might be reduced or, in some cases, eliminated as a result of an adverse change in economic conditions or the financial markets.

SFC, OMFG, and OMFH currently act as the servicers with respect to the personal loan securitization trusts and related series of asset-backed securities. If SFC, OMFG, or OMFH defaults in its servicing obligations, an early amortization event could occur with respect to the relevant asset-backed securities and SFC, OMFG, or OMFH, as applicable, could be replaced as servicer. Servicer defaults include, for example, the failure of the servicer to make any payment, transfer or deposit in accordance with the securitization documents, a breach of representations, warranties or agreements made by the servicer under the securitization documents and the occurrence of certain insolvency events with respect to the servicer. Such an early amortization event could damage our reputation and have materially adverse consequences on our liquidity and cost of funds.

Rating agencies may also affect our ability to execute a securitization transaction or increase the costs we expect to incur from executing securitization transactions, not only by deciding not to issue ratings for our securitization transactions, but also by altering the criteria and process they follow in issuing ratings. Rating agencies could alter their ratings processes or criteria after we have accumulated finance receivables for securitization in a manner that effectively reduces the value of those finance receivables by increasing our financing costs or otherwise requiring that we incur additional costs to comply with those processes and criteria. We have no ability to control or predict what actions the rating agencies may take in this regard.

Further, other matters, such as (i) accounting standards applicable to securitization transactions and (ii) capital and leverage requirements applicable to banks and other regulated financial institutions holding residential mortgage-backed securities or other asset-backed securities, could result in decreased investor demand for securities issued through our securitization transactions, or increased competition from other institutions that undertake securitization transactions. In addition, compliance with certain regulatory requirements, including the Dodd-Frank Act and the Investment Company Act, may affect the type of securitizations that we are able to complete.

If it is not possible or economical for us to securitize our finance receivables in the future, we would need to seek alternative financing to support our operations and to meet our existing debt obligations, which may be less efficient and more expensive than raising capital via securitizations and may have a material adverse effect on our results of operations, financial condition and liquidity.

## RISKS RELATED TO OUR ORGANIZATION AND STRUCTURE

The Apollo-Värde Group is our largest stockholder, and the Apollo-Värde Group may exercise significant influence over us, including through its ability to designate a majority of the members of our board of directors, and its interests may conflict with the interests of our other stockholders

Effective June 25, 2018, OMH Holdings, L.P., a Delaware limited partnership (“Purchaser”), an entity formed by the Apollo-Värde Group, an investor group led by funds managed by Apollo and Värde, completed its purchase of 54,937,500 shares of OMH common stock formerly beneficially owned by Springleaf Financial Holdings, LLC, an entity owned primarily by a private equity fund managed by an affiliate of Fortress. The Apollo-Värde Group holdings represent approximately 40.5% of our outstanding common stock as of December 31, 2018. As a result, the Apollo-Värde Group is our largest stockholder and has a significant influence on all matters requiring a stockholder vote, including the election of our directors; mergers, consolidations and acquisitions; the sale of all or substantially all of our assets and other decisions affecting our capital structure; the amendment of our restated certificate of incorporation and our amended and restated bylaws; and our winding up

35

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Table of Contents

and dissolution. This concentration of ownership may delay, deter or prevent acts that would be favored by our other stockholders, including delaying, preventing or deterring a change in control of OMH or a merger, takeover or other business combination that may be otherwise favorable to us. As a result, the market price of our common stock could decline, or stockholders might not receive a premium over the then-current market price of our common stock upon a change in control. In addition, this concentration of share ownership may adversely affect the trading price of our common stock because investors may perceive disadvantages in owning shares in a company with a significant stockholder. See additional information under “Business Overview” in Item 1 of this report.

Upon closing of the Apollo-Värde Transaction, we entered into an Amended and Restated Stockholders Agreement, which provides the Apollo-Värde Group with the right to designate a majority of the members of our board of directors, plus one director, for so long as the Apollo-Värde Group and certain of its affiliates and permitted transferees continue to beneficially own, directly or indirectly, at least 33% of our issued and outstanding common stock. With such representation on our board of directors, the Apollo-Värde Group will be able to exercise significant influence over decisions affecting us, including our direction and policies, the appointment of management and any action requiring the vote of our board of directors, including significant corporate action such as mergers and sales of substantially all of our assets and decisions affecting our capital structure. The interests of the Apollo-Värde Group may not always coincide with our interests or the interests of our other stockholders. The Apollo-Värde Group may seek to cause us to take courses of action that, in its judgment, could enhance its investment in us, but which might involve risks to our other stockholders or adversely affect us or our other stockholders. The terms of the Amended and Restated Stockholders Agreement are further described in our Current Report on Form 8-K filed with the SEC on June 25, 2018. The Amended and Restated Stockholders Agreement is filed as Exhibit 10.1 to that Current Report on Form 8-K, and such Current Report on Form 8-K, including Exhibit 10.1 thereto, is incorporated by reference herein in its entirety.

Uncertainties regarding the effects of the Apollo-Värde Transaction could adversely affect our business and financial results.

The Apollo-Värde Transaction closed on June 25, 2018. Uncertainty about the effects of the Apollo-Värde Transaction on counterparties to contracts, employees and other parties may have an adverse effect on us. These uncertainties could cause contract counterparties and others who deal with us to seek to change existing business relationships with us, and may impair our ability to attract, retain and motivate key personnel for a period of time following the completion of the Apollo-Värde Transaction. In addition, the transition and integration process following the completion of the Apollo-Värde Transaction may place a significant burden on management and internal resources. Any significant diversion of management attention away from our ongoing business and any difficulties encountered during the transition and integration process could adversely affect our financial results following the completion of the Apollo-Värde Transaction.

We are a holding company with no operations and rely on our operating subsidiaries to provide us with funds necessary to meet our financial obligations and potentially to pay dividends.

We are a holding company with no material direct operations. Our principal assets are the equity interests we directly or indirectly hold in our operating subsidiaries, which own our operating assets. As a result, we are dependent on loans, dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations and potentially to pay dividends on our common stock. Our subsidiaries are legally distinct from us and certain of our subsidiaries are prohibited or restricted from paying dividends or otherwise making funds available to us under certain conditions. For example, our insurance subsidiaries are subject to regulations that limit their ability to pay dividends or make loans or advances to us, principally to protect policyholders, and certain of our debt agreements limit the ability of certain of our subsidiaries to pay dividends. If we are unable to obtain funds from our subsidiaries, or if our subsidiaries do not generate sufficient cash from operations, we may be unable to meet our

financial obligations or pay dividends, and our board may exercise its discretion not to, pay dividends.

We may not pay dividends on our common stock in the future, even if our liquidity and leverage targets are met.

On February 11, 2019, the Company declared an initial quarterly dividend of \$0.25 per share, payable on March 15, 2019 to record holders of our common stock as of the close of business on February 26, 2019. While we intend to pay regular quarterly dividends for the foreseeable future, all subsequent dividends will be reviewed quarterly and declared at the discretion of our board of directors and will depend on many factors. As a result, we cannot provide any assurance that we will continue to pay dividends on our common stock in future periods, even if our liquidity and target leverage objectives are met. See our "Dividend Policy" in Part II - Item 5 of this report for further information.

Table of Contents

Certain provisions of an amended and restated stockholders agreement with the Apollo-Värde Group, our restated certificate of incorporation and our amended and restated bylaws could hinder, delay or prevent a change in control of OMH, which could adversely affect the price of OMH common stock.

Certain provisions of the Stockholders Agreement, our restated certificate of incorporation and our amended and restated bylaws contain provisions that could make it more difficult for a third party to acquire us without the consent of our board of directors or the Apollo-Värde Group. These provisions provide for:

- a classified board of directors consisting of nine members with staggered three-year terms;
- certain rights to the Apollo-Värde Group and certain of its affiliates and permitted transferees with respect to the designation of directors for nomination and election to our board of directors, including the ability to appoint a majority of the members of our board of directors, plus one director, for so long as the Apollo-Värde Group and certain of its affiliates and permitted transferees continue to beneficially own, directly or indirectly at least 33% of our issued and outstanding common stock;
- removal of directors only for cause and only with the affirmative vote of at least 80% of the voting interest of stockholders entitled to vote (provided, however, that for so long as the Apollo-Värde Group and certain of its affiliates and permitted transferees beneficially own, directly or indirectly, at least 30% of our issued and outstanding common stock, directors may be removed with or without cause with the affirmative vote of a majority of the then issued and outstanding voting interest of stockholders entitled to vote);
- no ability for stockholders to call special meetings of our stockholders (provided, however, that for so long as the Apollo-Värde Group and certain of its affiliates and permitted transferees beneficially own, directly or indirectly, at least 20% of our issued and outstanding common stock, any stockholders that collectively beneficially own at least 20% of our issued and outstanding common stock may call special meetings of our stockholders);
- advance notice requirements by stockholders with respect to director nominations and actions to be taken at annual meetings;
- no cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of our common stock can elect all the directors standing for election;
- the ability for stockholders to act outside a meeting by written consent only if unanimous, provided, however, that for so long as the Apollo-Värde Group and certain of its affiliates and permitted transferees beneficially own, directly or indirectly, at least 20% of our issued and outstanding common stock, our stockholders may act without a meeting by written consent of a majority of our stockholders; and
- the issuance of blank check preferred stock by our board of directors from time to time in one or more series and to establish the terms, preferences and rights of any such series of preferred stock, all without approval of our stockholders. Nothing in our restated certificate of incorporation precludes future issuances without stockholder approval of the authorized but unissued shares of our common stock.

In addition, these provisions may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by the Apollo-Värde Group, our management or our board of directors. Public stockholders who might desire to participate in these types of transactions may not have an opportunity to do so, even if the transaction is favorable to stockholders. These anti-takeover provisions could substantially impede the ability of public stockholders to benefit from a change in control or change our management and board of directors and, as a result, may adversely affect the market price of our common stock and the ability of public stockholders to realize any potential change of control premium.

See additional information under “Business Overview” in Item 1 of this report. The terms of the Amended and Restated Stockholders’ Agreement are described in our Current Report on Form 8-K filed with the SEC on June 25, 2018, and such Current Report on Form 8-K is incorporated by reference herein in its entirety.



## Table of Contents

Certain of our stockholders have the right to engage or invest in the same or similar businesses as us.

The Apollo-Värde Group and its affiliates engage in other investments and business activities in addition to their ownership of us. Under our restated certificate of incorporation, the Apollo-Värde Group and its affiliates have the right, and have no duty to abstain from exercising such right, to engage or invest in the same or similar businesses as us, do business with any of our clients, customers or vendors or employ or otherwise engage any of our officers, directors or employees. If the Apollo-Värde Group and its affiliates, or any of their respective officers, directors or employees acquire knowledge of a potential transaction that could be a corporate opportunity, they have no duty, to the fullest extent permitted by law, to offer such corporate opportunity to us, our stockholders or our affiliates.

In the event that any of our directors and officers who is also a director, officer or employee of any of the Apollo-Värde Group or its affiliates acquires knowledge of a corporate opportunity or is offered a corporate opportunity, provided that this knowledge was not acquired solely in such person's capacity as our director or officer and such person acts in good faith, then even if the Apollo-Värde Group or its affiliates pursues or acquires the corporate opportunity or if the Apollo-Värde Group or its affiliates do not present the corporate opportunity to us, such person is deemed to have fully satisfied such person's fiduciary duties owed to us and is not liable to us.

Licensing and insurance laws and regulations may delay or impede purchases of our common stock.

Certain of the states in which we are licensed to originate loans and the states in which Springleaf and OneMain insurance subsidiaries are domiciled (Indiana and Texas) have laws or regulations which require regulatory approval for the acquisition of "control" of regulated entities. In addition, these Indiana and Texas insurance laws and regulations generally provide that no person may acquire control, directly or indirectly, of a domiciled insurer, unless the person has provided the required information to, and the acquisition is subsequently approved or not disapproved by, the Indiana Department of Insurance and also by the Texas Department of Insurance. Under state insurance laws or regulations, there exists a presumption of "control" when an acquiring party acquires as little as 10% of the voting securities of a regulated entity or of a company which itself controls (directly or indirectly) a regulated entity (the threshold is 10% under the insurance statutes of Indiana and Texas). Therefore, any person acquiring 10% or more of our common stock may need the prior approval of these two-state insurance and/or licensing regulators, or a determination from such regulators that "control" has not been acquired, which could significantly delay or otherwise impede their ability to complete such purchase. The Apollo-Värde Transaction may be deemed a change of control for purposes of certain of our state lending and insurance licenses pursuant to which we operate our lending and insurance businesses. Accordingly, we may be required to obtain approvals for the change of control from some state lending or insurance regulators.

## RISKS RELATED TO OUR COMMON STOCK

The market price and trading volume of our common stock may be volatile, which could result in rapid and substantial losses for our stockholders.

The market price of our common stock has been and may continue to be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, public stockholders may be unable to resell their shares at or above their purchase price, if at all. The market price of our common stock may fluctuate or decline significantly in the future. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- variations in our quarterly or annual operating results;
- changes in our earnings estimates (if provided) or differences between our actual financial and operating results and those expected by investors and analysts;

- the contents of published research reports about us or our industry or the failure of securities analysts to cover our common stock in the future;
- additions to, or departures of, key management personnel;
- any increased indebtedness we may incur in the future;
- announcements by us or others and developments affecting us;
- actions by institutional stockholders or the Apollo-Värde Group;
- litigation and governmental investigations;

38

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Table of Contents

• changes in market valuations of similar companies;  
• speculation or reports by the press or investment community with respect to us or our industry in general;  
• increases in market interest rates that may lead purchasers of our shares to demand a higher yield;  
• announcements by us or our competitors of significant contracts, acquisitions, dispositions, strategic relationships, joint ventures or capital commitments; and  
• general market, political and economic conditions, including any such conditions and local conditions in the markets in which our borrowers are located.

These broad company, market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. The stock market in general has from time to time experienced extreme price and volume fluctuations, including in recent months. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Future offerings of debt or equity securities by us may adversely affect the market price of our common stock.

In the future, we may attempt to obtain financing or to further increase our capital resources by issuing additional shares of our common stock or offering debt or other equity securities, including commercial paper, medium-term notes, senior or subordinated notes, debt securities convertible into equity or shares of preferred stock. In particular, we intend to continue to seek opportunities to acquire consumer finance portfolios and/or businesses that engage in consumer finance loan servicing and/or consumer finance loan originations. Future acquisitions could require substantial additional capital in excess of cash from operations. We would expect to finance the capital required for acquisitions through a combination of additional issuances of equity, corporate indebtedness, asset-backed acquisition financing and/or cash from operations.

Issuing additional shares of our common stock or other equity securities or securities convertible into equity may dilute the economic and voting rights of our stockholders at the time of such issuance or reduce the market price of our common stock or both. Upon liquidation, holders of debt securities and preferred shares, if issued, and lenders with respect to other borrowings would receive a distribution of our available assets prior to the holders of our common stock. Debt securities convertible into equity could be subject to adjustments in the conversion ratio pursuant to which certain events may increase the number of equity securities issuable upon conversion. Preferred shares, if issued, could have a preference with respect to liquidating distributions or a preference with respect to dividend payments that could limit our ability to pay dividends to the holders of our common stock. Our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, which may adversely affect the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk that our future offerings may reduce the market price of our common stock and dilute their stockholdings in us.

The market price of our common stock could be negatively affected by sales of substantial amounts of our common stock in the public markets.

As of December 31, 2018, approximately 40.5% of our outstanding common stock was held by the Apollo-Värde Group and, subject to certain restrictions set forth in an amended and restated stockholders agreement, can be resold into the public markets in the future in accordance with the requirements of the Securities Act of 1933, as amended (the Securities Act). A decline in the price of our common stock, whether as a result of sale of stock by the Apollo-Värde Group or otherwise, might impede our ability to raise capital through the issuance of additional common stock or other equity securities.

The future issuance of additional common stock in connection with our incentive plans, acquisitions or otherwise will dilute all other stockholdings.

We have an aggregate of 1,864,010,240 shares of common stock authorized but unissued as of January 31, 2019. We may issue all of these shares of common stock without any action or approval by our stockholders, subject to certain exceptions. We also intend to continue to evaluate acquisition opportunities and may issue common stock in connection with these acquisitions. Any common stock issued in connection with our incentive plans, acquisitions, the exercise of outstanding stock options or otherwise would dilute the percentage ownership held by our existing shareholders.



Table of Contents

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Effective internal control over financial reporting is necessary for us to provide reliable reports and prevent fraud.

We believe that a control system, no matter how well designed and managed, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. We may not be able to identify all significant deficiencies and/or material weaknesses in our internal controls in the future, and our failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business, financial condition, results of operations and prospects.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our branch operations include over 1,600 branch offices in 44 states. We support our branch business by conducting branch office operations, branch office administration, and centralized operations, including our servicing facilities, in Mendota Heights, Minnesota; Tempe, Arizona; Fort Mill, South Carolina and Fort Worth, Texas, in leased premises. Our lease terms generally range from three to five years.

We lease administrative offices in Chicago, Illinois; Wilmington, Delaware and New York, New York, which have seven year leases that expire in 2021, 2023, and 2026, respectively, an administrative office in Irving, Texas under an eight year lease that expires in 2025, and an administrative office in Baltimore, Maryland, under an 11 year lease that expires in 2026, half of which has been sublet.

As of December 31, 2018, we have vacated a leased office space in Stamford, Connecticut, which had a six year lease that expires in 2022. On November 30, 2018, we entered into a new lease agreement for office space in New York, New York under a seven year lease that expires in 2026.

We have a vacant office in Old Greenwich, Connecticut, for which lease obligations terminate in March 2019.

Our investment in real estate and tangible property is not significant in relation to our total assets due to the nature of our business. At December 31, 2018, our subsidiaries owned a loan servicing facility in London, Kentucky, and six buildings in Evansville, Indiana. The Evansville buildings house our administrative offices and our centralized operations for our Consumer and Insurance, and Acquisitions and Servicing segments.

Item 3. Legal Proceedings.

See Note 19 of the Notes to the Consolidated Financial Statements included in this report.

Item 4. Mine Safety Disclosures.

None.



Table of Contents

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

MARKET INFORMATION AND STOCKHOLDERS

OMH’s common stock has been listed for trading on the New York Stock Exchange (“NYSE”) since October 16, 2013. On November 27, 2015, we changed the symbol from “LEAF” to “OMF” as a result of the OneMain Acquisition. Our initial public offering was priced at \$17.00 per share on October 15, 2013.

On January 31, 2019, there were eight record holders of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name. On January 31, 2019, the closing price for our common stock, as reported on the NYSE, was \$29.89.

DIVIDEND POLICY

Although we have not paid any dividends on our common stock since our initial public offering in 2013, on February 11, 2019, our board of directors approved an initial quarterly dividend of \$0.25 per share, payable on March 15, 2019 to record holders of our common stock as of the close of business on February 26, 2019. While we intend to pay regular quarterly dividends for the foreseeable future, all subsequent dividends will be reviewed quarterly and declared at the discretion of our board of directors and will depend on many factors, including our financial condition, earnings, cash flows, capital requirements, level of indebtedness, statutory and contractual restrictions applicable to the payment of dividends, and other considerations that our board of directors deems relevant. Our dividend payments may change from time to time, and we may not continue to declare dividends in the future.

Because we are a holding company and have no direct operations, we will only be able to pay dividends from our available cash on hand and any funds we receive from our subsidiaries. Our insurance subsidiaries are subject to regulations that limit their ability to pay dividends or make loans or advances to us, principally to protect policyholders. See Note 14 of the Notes to the Consolidated Financial Statements included in this report for further information on insurance subsidiary dividends.

Table of Contents

## STOCK PERFORMANCE

The following data and graph show a comparison of the cumulative total shareholder return for our common stock, the NYSE Financial Sector (Total Return) Index, and the NYSE Composite (Total Return) Index from December 31, 2013 through December 31, 2018. This data assumes simultaneous investments of \$100 on December 31, 2013 and reinvestment of any dividends. The information in this “Stock Performance” section shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act.

	At December 31,					
	2013	2014	2015	2016	2017	2018
OneMain Holdings, Inc.	\$100.00	\$143.08	\$164.32	\$87.58	\$102.81	\$96.08
NYSE Composite Index	100.00	106.75	102.38	114.61	136.07	123.89
NYSE Financial Sector Index	100.00	108.07	104.11	118.29	143.40	124.57

42

Table of Contents

## Item 6. Selected Financial Data.

The following table presents our selected historical consolidated financial data and other operating data. The consolidated statement of operations data for the years ended December 31, 2018, 2017, and 2016 and the consolidated balance sheet data as of December 31, 2018 and 2017 have been derived from our audited consolidated financial statements included elsewhere herein. The statement of operations data for the years ended December 31, 2015 and 2014 and the consolidated balance sheet data as of December 31, 2016, 2015, and 2014 have been derived from our consolidated financial statements not included elsewhere herein.

The following selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this report and our audited consolidated financial statements and related notes included in this report.

(dollars in millions, except per share amounts)	At or for the Years Ended December 31,				
	2018	2017	2016	2015 *	2014
<b>Consolidated Statements of Operations Data:</b>					
Interest income	\$3,658	\$3,196	\$3,110	\$1,930	\$1,973
Interest expense	875	816	856	715	734
Provision for finance receivable losses	1,048	955	932	716	423
Other revenues	574	560	773	262	746
Other expenses	1,685	1,554	1,739	987	701
Income (loss) before income tax expense (benefit)	624	431	356	(226 )	861
Net income (loss)	447	183	243	(93 )	589
Net income attributable to non-controlling interests	—	—	28	127	126
Net income (loss) attributable to OneMain Holdings, Inc.	447	183	215	(220 )	463
<b>Earnings (loss) per share:</b>					
Basic	\$3.29	\$1.35	\$1.60	\$(1.72 )	\$4.03
Diluted	3.29	1.35	1.59	(1.72 )	4.02
<b>Consolidated Balance Sheet Data:</b>					
Net finance receivables, less unearned insurance premium and claim reserves and allowance for finance receivable losses	\$14,771	\$13,670	\$12,457	\$14,305	\$6,210
Total assets	20,090	19,433	18,123	21,190	10,929
Long-term debt	15,178	15,050	13,959	17,300	8,356
Total liabilities	16,291	16,155	15,057	18,460	8,997
OneMain Holdings, Inc. shareholders’ equity	3,799	3,278	3,066	2,809	2,061
Non-controlling interests	—	—	—	(79 )	(129 )
Total shareholders’ equity	3,799	3,278	3,066	2,730	1,932

On November 15, 2015, as part of our acquisition strategy, we completed the OneMain Acquisition. The selected \*financial data for 2015 includes OneMain’s results effective from November 1, 2015, pursuant to our contractual agreements with Citigroup.

Table of Contents

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read together with the audited consolidated financial statements and related notes included of this report. This discussion and analysis contains forward-looking statements that involve risk, uncertainties, and assumptions. See “Forward-Looking Statements” included in this report for more information. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including those discussed in “Risk Factors” included in this report.

An index to our management’s discussion and analysis follows:

Topic	Page
<u>Overview</u>	<u>44</u>
<u>Recent Developments and Outlook</u>	<u>46</u>
<u>Results of Operations</u>	<u>48</u>
<u>Segment Results</u>	<u>54</u>
<u>Credit Quality</u>	<u>58</u>
<u>Liquidity and Capital Resources</u>	<u>63</u>
<u>Off-Balance Sheet Arrangements</u>	<u>67</u>
<u>Critical Accounting Policies and Estimates</u>	<u>68</u>
<u>Recent Accounting Pronouncements</u>	<u>69</u>
<u>Seasonality</u>	<u>69</u>

Overview

We are a leading provider of responsible personal loan products, primarily to non-prime customers. Our network of over 1,600 branch offices in 44 states is staffed with expert personnel and is complemented by our online origination capabilities and centralized operations, which allows us to reach customers located outside our branch network. Our digital platform provides current and prospective customers the option of obtaining a personal loan via our website, www.omf.com. The information on our website is not incorporated by reference into this report. In connection with our personal loan business, our insurance subsidiaries offer our customers optional credit and non-credit insurance products.

In addition to our loan originations and insurance sales activities, we service loans owned by us and service loans owned by third parties; pursue strategic acquisitions and dispositions of assets and businesses, including loan portfolios or other financial assets; and may establish joint ventures or enter into other strategic alliances.

OUR PRODUCTS

Our product offerings include:

- Personal Loans — We offer personal loans through our branch network, centralized operations, and our website, www.omf.com, to customers who generally need timely access to cash. Our personal loans are non-revolving, with a fixed-rate, a fixed term of three to six years, and are secured by automobiles, other titled collateral or are unsecured. At December 31, 2018, we had approximately 2.4 million personal loans, representing \$16.2 billion of net finance receivables, compared to approximately 2.4 million personal loans totaling \$14.8 billion at December 31, 2017.

Insurance Products — We offer our customers optional credit insurance products (life insurance, disability insurance, and involuntary unemployment insurance) and optional non-credit insurance products through both our branch network and our centralized operations. Credit insurance and non-credit insurance products are provided by our affiliated insurance companies. We also offer optional home and auto membership plans of an unaffiliated company.

## Table of Contents

Our non-originating legacy products include:

Other Receivables — We ceased originating real estate loans in 2012 and purchasing retail sales finance contracts and revolving retail accounts in 2013. We continue to service or sub-service liquidating real estate loans and retail sales finance contracts. Effective September 30, 2018, our real estate loans previously classified as Other Receivables were transferred from held for investment to held for sale due to management's intent to no longer hold these finance receivables for the foreseeable future. See Notes 5, 6 and 7 of the Notes to the Consolidated Financial Statements included in this report for more information about Other Receivables.

## OUR SEGMENTS

At December 31, 2018, we had two operating segments:

Consumer and Insurance; and  
Acquisitions and Servicing.

The remaining components (which we refer to as "Other") consist of our non-originating legacy operations, which primarily include our liquidating real estate loan portfolio and our liquidating retail sales finance portfolio.

See Note 22 of the Notes to the Consolidated Financial Statements included in this report for more information about our segments.

## HOW WE ASSESS OUR BUSINESS PERFORMANCE

We closely monitor the primary drivers of pretax operating income, which consist of the following:

### Net Interest Income

We track the spread between the interest income earned on our finance receivables and the interest expense incurred on our debt, and continually monitor the components of our yield and our cost of funds.

### Net Credit Losses

The credit quality of our loans is driven by our underwriting philosophy, which considers the prospective customer's household budget, his or her willingness and capacity to repay, and the underlying collateral on the loan. We closely analyze credit performance because the profitability of our loan portfolio is directly connected to net credit losses. We define net credit losses as gross charge-offs minus recoveries in the portfolio. Additionally, because delinquencies are an early indicator of future net credit losses, we analyze delinquency trends, adjusting for seasonality, to determine whether or not our loans are performing in line with our original estimates. We also monitor recovery rates because of their contribution to the reduction in the severity of our charge-offs.

### Operating Expenses

We assess our operational efficiency using various metrics and conduct extensive analysis to determine whether fluctuations in cost and expense levels indicate operational trends that need to be addressed. Our operating expense analysis also includes a review of origination and servicing costs to assist us in managing overall profitability.

Because loan volume and portfolio size determine the magnitude of the impact of each of the above factors on our earnings, we also closely monitor origination volume and annual percentage rate.





Table of Contents

Recent Developments and Outlook

RECENT DEVELOPMENTS

Apollo-Värde Transaction

On January 3, 2018, the Apollo-Värde Group entered into a Share Purchase Agreement with SFH and the Company to acquire from SFH 54,937,500 shares of our common stock representing the entire holdings of our stock beneficially owned by Fortress. The Apollo-Värde Transaction closed on June 25, 2018 for an aggregate purchase price of approximately \$1.4 billion in cash.

As disclosed in Note 21 of the Notes to the Consolidated Financial Statements in this report, certain executives of the Company had previously been granted incentive units that only provide benefits (in the form of distributions) if SFH were to make distributions to one or more of its common members that exceed specified amounts. In connection with the Apollo-Värde Transaction, certain executive officers who were holders of SFH incentive units received a distribution of approximately \$106 million in the aggregate from SFH as a result of their ownership interests in SFH. Although the distribution was not made by the Company or its subsidiaries, in accordance with ASC Topic 710, Compensation-General, we recorded non-cash incentive compensation expense of approximately \$106 million, with an equal and offsetting increase to additional paid-in-capital. The impact to the Company was non-cash, equity neutral and not tax deductible.

AIG Share Sale Transaction

On February 21, 2018, OMH entered into an underwriting agreement among OMH, SFH and Morgan Stanley & Co. LLC as underwriter in connection with the sale by SFH of 4,179,678 shares of its common stock. These shares were beneficially owned by AIG and represented the entire holdings of our common stock beneficially owned by AIG. In connection with this sale of our common stock by SFH, certain executive officers who are holders of SFH incentive units, as described above, received a distribution of approximately \$4 million in the first quarter of 2018. Consistent with the accounting for distribution from the Apollo-Värde Transaction described above, the Company recognized non-cash incentive compensation expense of approximately \$4 million, with an equal and offsetting increase to additional paid-in-capital. The impact to the Company was non-cash, equity neutral and not tax deductible.

Appointment of New Member of the Board of Directors, President, and Chief Executive Officer at OMH

On July 13, 2018, we announced that our Company's Board of Directors had appointed Douglas H. Shulman as the Company's President and Chief Executive Officer. Mr. Shulman succeeds Jay N. Levine who remains Chairman of the Board. On September 8, 2018, Mr. Shulman began his first day of employment and was also appointed to the Company's Board of Directors.

Cost Synergies from the OneMain Acquisition and the Lendmark Sale

As of December 31, 2018, we had incurred approximately \$293 million of total acquisition-related transaction and integration expenses (\$54 million incurred during 2018) from the OneMain Acquisition and the Lendmark Sale.

As part of our integration efforts in connection with the OneMain Acquisition, on May 29, 2018, the Company entered into a share purchase agreement to sell all of the issued and outstanding shares of its former insurance subsidiary, Yosemite. The transaction closed in the third quarter of 2018. We recorded an impairment of \$14 million on the transfer to held for sale in acquisition-related transaction and integration expenses in the second quarter of 2018.

SFC's Medium-Term Note Issuances

During 2018, SFC completed the following medium-term note issuances:

On March 12, 2018, SFC issued \$1.25 billion aggregate principal amount of 6.875% Senior Notes due 2025 (the "6.875% SFC Notes").

On May 11, 2018 and August 10, 2018 SFC issued \$900 million and \$700 million, respectively, aggregate principal amount of 7.125% Senior Notes due 2026 (the "7.125% SFC Notes"). SFC used a portion of the net proceeds to redeem the remaining \$400 million in aggregate principal amount of the OMFH 7.25% Senior Notes due 2021.

Table of Contents

See Note 12 of the Notes to the Consolidated Financial Statements included in this report for further information regarding these issuances.

Redemption of the OMFH Notes

During 2018, through two separate redemptions, OMFH redeemed all \$700 million outstanding principal amount of OMFH Notes due 2019 and all \$800 million outstanding principal amount of OMFH Notes due 2021 at a redemption price equal to 103.375% for the OMFH Notes due 2019 and 103.625% for the OMFH Notes due 2021, plus accrued and unpaid interest to the redemption date. In connection with these redemptions, we recognized \$8 million of net loss on repurchases and repayments of debt for the year ended December 31, 2018.

OUTLOOK

With our experienced management team, long track record of successfully accessing the capital markets, and strong demand for consumer credit, we believe we are well positioned to execute on our strategic priorities to strengthen our capital base through the following key initiatives:

- Continuing growth in receivables through enhanced marketing strategies and customer product options;
- Growing secured lending originations with a goal of enhancing credit performance;
- Leveraging our scale and cost discipline across the Company to deliver improved operating leverage;
- Increasing tangible equity and reducing leverage; and
- Maintaining a strong liquidity level with diversified funding sources.

We continue to execute our strategy to increase the proportion of our loan originations secured by titled collateral (which typically have lower yields and credit losses relative to unsecured personal loans). Our yields have stabilized in the portfolio; and we expect an improvement in net credit losses over time as the portion of our secured portfolio continues to increase.

Assuming the U.S. economy continues to experience moderate growth, we expect to continue our long history of strong credit performance. We believe the strong credit quality of our loan portfolio will continue as the result of our disciplined underwriting practices and ongoing collection efforts. We have continued to see some migration of customer activity away from traditional channels, such as direct mail, to online channels (primarily serviced through our branch network), where we believe we are well suited to capture volume due to our scale, technology, and deployment of advanced analytics.

Table of Contents

## Results of Operations

## CONSOLIDATED RESULTS

See the table below for our consolidated operating results and selected financial statistics. A further discussion of our operating results for each of our operating segments is provided under “Segment Results” below.

(dollars in millions, except per share amounts)

Years Ended December 31,	2018	2017	2016
Interest income	\$3,658	\$3,196	\$3,110
Interest expense	875	816	856
Provision for finance receivable losses	1,048	955	932
Net interest income after provision for finance receivable losses	1,735	1,425	1,322
Net gain on sale of SpringCastle interests	—	—	167
Other revenues	574	560	606
Acquisition-related transaction and integration expenses	54	69	108
Other expenses	1,631	1,485	1,631
Income before income taxes	624	431	356
Income taxes	177	248	113
Net income	447	183	243
Net income attributable to non-controlling interests	—	—	28
Net income attributable to OMH	\$447	\$183	\$215
Share Data:			
Weighted average number of shares outstanding:			
Basic	135,702,989	135,249,314	134,718,588
Diluted	136,034,143	135,678,991	135,135,860
Earnings per share:			
Basic	\$3.29	\$1.35	\$1.60
Diluted	\$3.29	\$1.35	\$1.59
Selected Financial Statistics (a)			
Finance receivables held for investment:			
Net finance receivables	\$16,164	\$14,957	\$13,732
Number of accounts	2,373,330	2,360,604	2,208,894
Finance receivables held for sale:			
Net finance receivables	\$103	\$132	\$153
Number of accounts	2,827	2,460	2,800
Finance receivables held for investment and held for sale: (b)			
Average net receivables	\$15,471	\$14,057	\$14,463
Average daily debt balance	\$15,444	\$14,224	\$15,138
Yield	23.56	% 22.64	% 21.37
Gross charge-off ratio	7.13	% 7.50	% 6.05
Recovery ratio	(0.73)	)% (0.76	)% (0.51
Net charge-off ratio	6.40	% 6.74	% 5.54
30-89 Delinquency ratio	2.42	% 2.49	% 2.31
Origination volume	\$11,923	\$10,537	\$9,475
Number of accounts originated	1,436,029	1,442,895	1,326,574

- (a) See “Glossary” at the beginning of this report for formulas and definitions of our key performance ratios.
- (b) Includes personal loans held for sale, but excludes real estate loans held for sale in order to be comparable with our segment statistics disclosed in “Segment Results.”

48

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Table of Contents

Comparison of Consolidated Results for 2018 and 2017

Interest income increased \$462 million or 14% in 2018 when compared to 2017 primarily due to continued growth in our loan portfolio and higher yield, which was primarily driven by lower amortization of purchase premium on non-credit impaired finance receivables. The yield in 2017 was negatively impacted by hurricanes Harvey and Irma.

Interest expense increased \$59 million or 7% in 2018 when compared to 2017 primarily due to the increase in average debt balances consistent with the growth in our loan portfolio and our strategic shifting of our funding to a more proportional mix of secured and unsecured debt.

See Notes 12 and 13 of the Notes to the Consolidated Financial Statements included in this report for further information on our long-term debt, securitization transactions and our conduit facilities.

Provision for finance receivable losses increased \$93 million in 2018 when compared to 2017 primarily driven by the growth in our loan portfolio and the proportional growth in loans classified as TDRs. This increase was partially offset by \$17 million in the 2017 provision attributable to hurricanes Harvey, Irma and Maria. The level of allowance for finance receivable losses as a percentage of net finance receivables has decreased from 2017 due to the continued change in portfolio mix to more secured personal loans, and improvement in the effectiveness of our collections.

Other revenues increased \$14 million or 3% in 2018 when compared to 2017 primarily due to an increase of \$18 million related to the gain on the December 2018 Real Estate Loan Sale and \$20 million of lower net losses on repurchases and repayments of debt. The increase was partially offset by \$16 million of the impairment loss recorded on the loans in finance receivables held for sale remaining after from the December 2018 Real Estate Loan Sale and a decrease of \$7 million of investment revenue primarily driven by lower realized gains due to the sale of investment securities.

See Notes 2 and 7 of the Notes to the Consolidated Financial Statements included in this report for further information on the December 2018 Real Estate Loan Sale.

Acquisition-related transaction and integration costs decreased \$15 million in 2018 when compared to 2017 primarily due to branch and office consolidation expenses that were incurred in 2017. See “Non-GAAP Financial Measures” below for further information regarding these costs.

Other expenses increased \$146 million or 10% in 2018 when compared to 2017 primarily due to \$106 million in non-cash incentive compensation expense relating to the rights of certain executives to receive a portion of the cash proceeds from the sale of OMH’s common stock that were beneficially owned by Fortress. The remaining increase reflects our 2018 strategic initiative to reinvest in the business and growth in our operations.

See Notes 2 and 21 of the Notes to the Consolidated Financial Statements included in this report for further information on the distribution of cash proceeds related to the Apollo-Värde and AIG Share Sale Transactions.

Income taxes totaled \$177 million for 2018 compared to \$248 million for 2017. The decrease is primarily due to the recognition of the impact of the Tax Act in 2017 and the reduced federal statutory rate in 2018. The effective tax rate for 2018 was 28.4% compared to 57.5% for 2017. The effective tax rate for 2018 differed from the federal statutory rate of 21% primarily due to the effect of discrete expense for non-deductible compensation expense and state income taxes. The effective tax rate for 2017 differed from the then-applicable federal statutory rate of 35% primarily due to the recognition of the impact of the Tax Act and the effects of state income taxes. As a result of the Tax Act we recognized an \$81 million tax charge in 2017.

See Note 18 of the Notes to the Consolidated Financial Statements included in this report for further information on the effective tax rates.

49

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Table of Contents

Comparison of Consolidated Results for 2017 and 2016

Interest income increased \$86 million in 2017 when compared to 2016 due to the net of the following:

Finance charges increased \$147 million primarily due to the net of the following:

Yield on finance receivables held for investment increased primarily due to lower amortization of purchase premium on non-credit impaired finance receivables. This increase was partially offset by the continued shift of the portfolio towards secured personal loans and direct auto customers who tend to have loans with lower yields and lower charge-offs relative to our unsecured personal loans.

Average net receivables held for investment decreased primarily due to (i) the SpringCastle Interests Sale and (ii) our liquidating real estate loan portfolio, including transfers of \$307 million of real estate loans to finance receivables held for sale during 2016. This decrease was partially offset by the continued growth in our personal loan portfolio.

Interest income on finance receivables held for sale decreased \$61 million primarily due to (i) personal loans sold in the Lendmark Sale in May 2016, and (ii) the real estate loans in finance receivables held for sale during 2016, which were sold in the fourth quarter of 2016.

Interest expense decreased \$40 million in 2017 when compared to 2016 due to the net of the following:

Average debt decreased primarily due to debt elimination associated with the SpringCastle Interests Sale and net debt issuance and repayment activity in 2017. This decrease was partially offset by net debt issuances during the past 12 months relating to SFC's offerings of the 6.125% SFC Notes in May of 2017 and our securitization transactions. See Notes 12 and 13 of the Notes to the Consolidated Financial Statements included in this report for further information on our long-term debt, securitization transactions and our conduit facilities.

Weighted average interest rate on our debt increased primarily due to (i) SFC's offering of the 8.25% SFC Notes in April of 2016, (ii) the debt elimination associated with the SpringCastle Interests Sale, and (iii) the pay down of securitizations, which had a lower interest rate relative to our other indebtedness. This increase was partially offset by the repurchase of \$600 million of unsecured notes, which had a higher interest rate relative to our other indebtedness.

Provision for finance receivable losses increased \$23 million in 2017 when compared to 2016 primarily due to (i) the growth in our personal loan portfolio during the past 12 months, (ii) continued alignment and enhancement of our collection practices which resulted in higher provision from an increase in the loans now classified as TDR, (iii) a greater proportion of charge-offs from our purchased credit impaired finance receivables in 2016, which were not recorded as charge-offs through the allowance for finance receivable losses and (iv) the estimated impacts of hurricanes Harvey, Irma and Maria. Based on information available at the time, we estimated the impact to net charge-offs attributable to these hurricanes to be \$17 million and increased our provision for finance receivable losses accordingly. This increase was partially offset by \$22 million reduction in the impairment in the purchased credit impaired loans due to the increase in expected cash flows in that portfolio.

Net gain on sale of SpringCastle interests of \$167 million in 2016 reflected the net gain associated with the sale of our equity interests in the SpringCastle Joint Venture on March 31, 2016.

Other revenues decreased \$46 million in 2017 when compared to 2016 primarily due to (i) a decrease in insurance revenues of \$29 million during 2017 primarily due to lower volume of loans with insurance products sold and a decrease in revenues from runoff business, (ii) a decrease of \$18 million in 2017 due to net gain on sales of personal and real estate loans in 2016, (iii) a decrease in investment revenue of \$13 million primarily due to lower realized

gains on securities sold in 2017, and (iv) a decrease of \$12 million driven by higher net loss on repurchases and repayments of debt in 2017. This decrease was partially offset by (i) a \$13 million increase in fee revenues from home and auto membership plans sold in 2017, (ii) a \$9 million lower market adjustment on finance receivables held for sale in 2017 compared to 2016 and (iii) an increase of \$5 million of servicing fee income for the full year 2017 versus partial year 2016 related to the SpringCastle Portfolio.

Acquisition-related transaction and integration costs decreased \$39 million in 2017 when compared to 2016 primarily due to (i) \$32 million of lower compensation costs associated with severance and stock compensation costs in 2017, (ii) a \$13 million claim reserve adjustment for pre-acquisition non-credit insurance policies, and (iii) \$9 million of lower system conversions and project management servicing fees. These decreases were partially offset by \$17 million in expenses associated with branch and administrative office consolidations. See “Non-GAAP Financial Measures” below for further information regarding these costs.

50

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Table of Contents

Other expenses decreased \$146 million in 2017 when compared to 2016 due to the following:

Other operating expenses decreased \$132 million primarily due to (i) a decrease in Citigroup transition expenses of \$55 million, (ii) lower professional and audit expenses of \$33 million during 2017, (iii) an increase in the deferral of origination costs of \$22 million due to the increase in the number of loans originated in 2017 compared to prior year, and (iv) a decrease in amortization of other intangible assets of \$18 million during 2017.

- Salaries and benefits decreased \$31 million primarily due to a decrease in average staffing as a result of our integration of the two legacy companies.

Insurance policy benefits and claims increased \$17 million primarily due to the prior year favorable variances of \$12 million in credit claim and benefit reserves and a \$5 million increase in reserve for non-credit insurance products due to higher growth in sales.

Income taxes totaled \$248 million for 2017 compared to \$113 million for 2016. The increase is primarily due to the impact of the Tax Act and higher pretax earnings in 2017. The effective tax rate for 2017 was 57.5% compared to 31.8% for 2016. The effective tax rate for 2017 differed from the federal statutory rate primarily due to the recognition of the impact of the Tax Act and the effects of state income taxes. As a result of the Tax Act we recognized an \$81 million tax charge in 2017. This charge is primarily the result of the lower corporate tax rate, which required us to remeasure our net deferred tax asset to reflect the lower corporate tax rate. The effective tax rate for 2016 differed from the federal statutory rate primarily due to the effects of the non-controlling interest in the previously owned SpringCastle Portfolio and the effects of state income taxes. See Note 18 of the Notes to the Consolidated Financial Statements included in this report for further information on the effective tax rates.

Table of Contents

## NON-GAAP FINANCIAL MEASURES

## Adjusted Pretax Income (Loss)

Management uses adjusted pretax income (loss), a non-GAAP financial measure, as a key performance measure of our segments. Adjusted pretax income (loss) represents income (loss) before income taxes on a Segment Accounting Basis and excludes acquisition-related transaction and integration expenses, net gain (loss) on sales of personal and real estate loans, restructuring charges, losses resulting from repurchases and repayments of debt, non-cash incentive compensation expense, net gain on sale of SpringCastle interests, SpringCastle transaction costs, debt refinance costs, net loss on liquidation of our United Kingdom subsidiary, and income attributable to non-controlling interests. Management believes adjusted pretax income (loss) is useful in assessing the profitability of our segments and uses adjusted pretax income (loss) in evaluating our operating performance and as a performance goal under the company's executive compensation programs. Adjusted pretax income (loss) is a non-GAAP financial measure and should be considered supplemental to, but not as a substitute for or superior to, income (loss) before income taxes, net income, or other measures of financial performance prepared in accordance with GAAP.

The reconciliations of income (loss) before income tax expense (benefit) on a Segment Accounting Basis to adjusted pretax income (loss) (non-GAAP) by segment were as follows:

(dollars in millions)

Years Ended December 31,	2018	2017	2016
<b>Consumer and Insurance</b>			
Income before income taxes - Segment Accounting Basis	\$787	\$676	\$688
Adjustments:			
Net loss on repurchases and repayments of debt	63	18	14
Acquisition-related transaction and integration expenses	47	66	100
Restructuring charges	8	—	—
Net gain on sale of personal loans	—	—	(22 )
Debt refinance costs	—	—	4
Adjusted pretax income (non-GAAP)	\$905	\$760	\$784
<b>Acquisitions and Servicing</b>			
Income before income taxes - Segment Accounting Basis	\$1	\$1	\$225
Adjustments:			
Net gain on sale of SpringCastle interests	—	—	(167 )
Acquisition-related transaction and integration expenses	—	—	1
SpringCastle transaction costs	—	—	1
Income attributable to non-controlling interests	—	—	(28 )
Adjusted pretax income (non-GAAP)	\$1	\$1	\$32
<b>Other</b>			
Loss before income tax benefit - Segment Accounting Basis	\$(132)	\$(41 )	\$(90 )
Adjustments:			
Non-cash incentive compensation expense	106	—	—
Net loss on sale of real estate loans *	6	—	12
Acquisition-related transaction and integration expenses	—	6	27
Net loss on liquidation of United Kingdom subsidiary	—	—	6
Net loss on repurchases and repayments of debt	—	—	1
Debt refinance costs	—	—	1

Adjusted pretax loss (non-GAAP)

\$(20 ) \$(35 ) \$(43 )

In 2018, the resulting impairment on finance receivables held for sale remaining after the December 2018 Real Estate Loan Sale has been combined with the gain on the sale. See Notes 2 and 7 of the Notes to the Consolidated Financial Statements included in this report for more information regarding the real estate loan sales.

52

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Table of Contents

Acquisition-related transaction and integration expenses incurred as a result of the OneMain Acquisition and the Lendmark Sale include (i) compensation and employee benefit costs, such as retention awards and severance costs, (ii) accelerated amortization of acquired software assets, (iii) rebranding to the OneMain brand, (iv) branch infrastructure and other fixed asset integration costs, (v) information technology costs, such as internal platform development, software upgrades and licenses, and technology termination costs, (vi) legal fees and project management costs, (vii) system conversions, including human capital management, marketing, risk, and finance functions, and (viii) other costs and fees directly related to the OneMain Acquisition and integration.

Table of Contents

## Segment Results

See Note 22 of the Notes to the Consolidated Financial Statements included in this report for (i) a description of our segments, (ii) reconciliations of segment totals to consolidated financial statement amounts and (iii) methodologies used to allocate revenues and expenses to each segment.

## CONSUMER AND INSURANCE

Adjusted pretax income and selected financial statistics for Consumer and Insurance (which are reported on an adjusted Segment Accounting Basis) were as follows:

(dollars in millions)

At or for the Years Ended December 31,	2018	2017	2016
Interest income	\$3,677	\$3,305	\$3,328
Interest expense	844	765	738
Provision for finance receivable losses	1,047	963	911
Net interest income after provision for finance receivable losses	1,786	1,577	1,679
Other revenues	558	565	604
Other expenses	1,439	1,382	1,499
Adjusted pretax income (non-GAAP)	\$905	\$760	\$784

## Selected Financial Statistics (a)

Finance receivables held for investment:

Net finance receivables	\$16,195	\$14,820	\$13,455
Number of accounts	2,373,330	2,355,682	2,200,584
Finance receivables held for investment and held for sale: (b)			
Average net receivables	\$15,401	\$13,860	\$13,445
Yield	23.88 %	23.84 %	24.75 %
Gross charge-off ratio	7.32 %	7.94 %	7.82 %
Recovery ratio	(0.84 )%	(0.93 )%	(0.77 )%
Net charge-off ratio	6.48 %	7.01 %	7.05 %
30-89 Delinquency ratio	2.43 %	2.44 %	2.26 %
Origination volume	\$11,923	\$10,537	\$9,455
Number of accounts originated	1,436,029	1,442,895	1,326,574

(a) See "Glossary" at the beginning of this report for formulas and definitions of our key performance ratios.

(b) Includes personal loans held for sale in 2016 in connection with the Lendmark Sale.

Table of Contents

Comparison of Adjusted Pretax Income for 2018 and 2017

Interest income increased \$372 million or 11% in 2018 when compared to 2017 primarily due to continued growth in our loan portfolio.

Interest expense increased \$79 million or 10% in 2018 when compared to 2017 primarily due to the increase in average debt balances consistent with the growth in our loan portfolio and our strategic shifting of our funding to a more proportional mix of secured and unsecured debt.

See Notes 12 and 13 of the Notes to the Consolidated Financial Statements included in this report for further information on our long-term debt, securitization transactions and our conduit facilities.

Provision for finance receivable losses increased \$84 million in 2018 when compared to 2017 primarily driven by the growth in our loan portfolio and the proportional growth in loans classified as TDRs. This increase was partially offset by \$12 million in the 2017 provision attributable to the hurricanes Harvey and Irma. The level of allowance for finance receivable losses as a percentage of net finance receivables has decreased from 2017 due to the continued change in portfolio mix to more secured personal loans, and improvement in the effectiveness of our collections.

Other revenues decreased \$7 million or 1% in 2018 when compared to 2017 primarily due to a decrease in investment revenue of \$17 million primarily driven by lower realized gains on the sale of investment securities in 2018 offset by an increase in insurance revenues of \$9 million during 2018 from higher insurance productivity.

Other expenses increased \$57 million or 4% in 2018 when compared to 2017 primarily reflecting our initiatives to reinvest in the business and growth in our operations.

Comparison of Adjusted Pretax Income for 2017 and 2016

Interest income decreased \$23 million in 2017 when compared to 2016 due to the net of the following:

Interest income on finance receivables held for sale decreased \$56 million in 2017 due to the transfer of our personal loans to finance receivables held for sale in 2015 that were sold in the Lendmark Sale in May of 2016.

Finance charges increased \$33 million primarily due to the net of the following:

Average net receivables held for investment increased primarily due to the continued growth in our personal loan portfolio.

Yield on finance receivables held for investment decreased primarily due to the continued shift of the portfolio towards secured personal loans and direct auto customers who tend to have loans with lower yields and lower charge offs relative to our unsecured personal loans.

Interest expense increased \$27 million in 2017 when compared to 2016 primarily due to an increase in the utilization of financing from unsecured notes which generally have higher interest rates relative to our other indebtedness.

Provision for finance receivable losses increased \$52 million in 2017 when compared to 2016 primarily due to (i) the growth in our personal loan portfolio during the past 12 months, (ii) continued alignment and enhancement of our collection practices which resulted in an increase in the loans now classified as TDR and (iii) the estimated impacts of hurricanes Harvey and Irma. Based on information available at the time, we estimated the impact to net charge-offs attributable to these hurricanes to be \$12 million and increased our provision for finance receivable losses



accordingly.

Other revenues decreased \$39 million in 2017 when compared to 2016 primarily due to (i) a decrease in insurance revenues of \$29 million during 2017 primarily due to lower volume of loans with insurance products sold and a decrease in revenue from runoff business and (ii) a decrease in investment revenue of \$20 million primarily due to lower realized gains on securities sold and reinvestments into lower yielding assets. This decrease was offset by an increase in fee revenues of \$10 million from home and auto membership plans sold in 2017.

55

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Table of Contents

Other expenses decreased \$117 million in 2017 when compared to 2016 due to the net of the following:

Other operating expenses decreased \$120 million primarily due to (i) a decrease in Citigroup transition expense of \$55 million during 2017, (ii) lower professional, travel, and audit expenses of \$41 million during 2017, and (iii) an increase in deferral of origination costs of \$22 million related to higher loan originations.

Salaries and benefits decreased \$20 million primarily due to a decrease in average staffing as a result of our integration of the two legacy companies.

Insurance policy benefits and claims increased \$23 million primarily due to the unfavorable variances of \$18 million in credit claim and benefit reserves compared to the prior year and a \$5 million increase in reserves for non-credit insurance products due to higher growth in sales.

ACQUISITIONS AND SERVICING

Adjusted pretax income for Acquisition and Servicing (which is reported on an adjusted Segment Accounting Basis) was as follows:

(dollars in millions)

At or for the Years Ended December 31,	2018	2017	2016
Interest income	\$—	\$—	\$102
Interest expense	—	—	20
Provision for finance receivable losses	—	—	14
Net interest income after provision for finance receivable losses	—	—	68
Other revenues	33	42	49
Other expenses	32	41	57
Adjusted pretax income (non-GAAP)	1	1	60
Pretax earnings attributable to non-controlling interests	—	—	28
Adjusted pretax income attributable to OMH (non-GAAP)	\$1	\$1	\$32

Selected Financial Statistics \*

Finance receivables held for investment:

Average net receivables	\$—	\$—	\$414
Yield	—%	—%	24.56%
Net charge-off ratio	—%	—%	3.48%

\* See “Glossary” at the beginning of this report for formulas and definitions of our key performance ratios.

On March 31, 2016, we sold our equity interest in the SpringCastle Joint Venture, the primary component of our Acquisitions and Servicing segment.

Table of Contents

## OTHER

“Other” consists of our non-originating legacy operations which include other receivables consisting of our liquidating real estate loan and retail sales finance portfolios.

Adjusted pretax loss of the Other components (which is reported on an adjusted Segment Accounting Basis) was as follows:

(dollars in millions)

Years Ended December 31,	2018	2017	2016
Interest income	\$17	\$23	\$51
Interest expense	17	21	43
Provision for finance receivable losses (a)	(5 )	7	6
Net interest income (loss) after provision for finance receivable losses	5	(5 )	2
Other revenues (b)	—	3	(19 )
Other expenses	25	33	26
Adjusted pretax loss (non-GAAP)	\$(20)	\$(35)	\$(43)

(a) Provision for finance receivable losses for 2017 includes a \$5 million increase due to estimated net charge-offs attributable to the impact of hurricanes Harvey and Maria.

(b) Other revenues for purposes of our segment reporting presentation in Note 22 of the Notes to the Consolidated Financial Statements i