SANTANDER CONSUMER USA HOLDINGS, INC

Moderator: Evan Black
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8:00 a.m. CT

Operator: Good morning and welcome to the Santander Consumer USA Holdings third quarter 2014 earnings conference call. At this time all parties have been placed into listen-only mode. Following today's presentation the floor will be open for your questions.

Please dial star one to enter the Q and A queue.

It is now my pleasure to introduce your host, Kristina Carbonneau from the SC USA investor relations team. Kristina, the floor is yours.

Kristina Carbonneau: Good morning and thank you for joining the call. On the call today, we have Thomas Dundon, Chairman and Chief Executive Officer, and Jason Kulas, President and Chief Financial Officer.

Before we begin, as you are aware, certain statements today such as projections for SC USA's future performance are forward-looking statements. Actual results can be materially different from those projected. SC USA has no obligation to update the information presented on the call.

For further information concerning factors that could cause these results to differ please refer to our public SEC filing. Also on today's call, our speakers will reference certain non-GAAP financial measures which we believe will provide useful information for investors. A reconciliation of those measures to U.S. GAAP is included in the earnings release issued today, November 4, 2014.

For those of you listening to the webcast, there are a few user-controlled slides to review, as well as the full investor presentation on the investor relations Web site. I'll turn the call over to Tom Dundon.

Thomas Dundon: Good morning. Thank you for joining the call. I will discuss our third quarter highlights and ongoing strategic initiatives. Afterward, I will turn the discussion over to Jason for a detailed review of the quarter's results. We will then open up the call for any questions you may have.

Third quarter results are highlighted by strong profitability. During the quarter, SC USA earned net income of $191 million or $0.54 per diluted common share compared to net income attributable to SC USA shareholders for the third quarter of 2013 of $111 million or $0.32 per diluted common share. This represents net income growth of 72 percent for the prior year, driving a return on average equity of 23.9 percent and a return on assets of 2.5 percent. This performance keeps us ahead of our EPS objective for the year.

As expected, credit performance has continued to normalize as 2009 to 2012 vintages have become a smaller portion of our portfolio, but we are currently being compensated for the risk. In the third quarter, total originations were $7.4 billion, including $604 million in facilitated originations. This compares to total originations of $6.7 billion in the second quarter, including $595 million in facilitated originations.

Last quarter we made a strategic decision to avoid certain loans in a highly competitive environment by tightening structure, resulting in a reduced capture rate. This quarter, total originations increased nearly 10 percent over the previous quarter.

Volumes came in higher this quarter after implementing underwriting model changes, mostly on the Chrysler portion of the business, allowing us to better identify attractive loan structures. We continue to look for opportunities to diversify our auto business, highlighted by an increase in Nissan originations to $97 million from $58 million during the prior quarter.

We also remain focused on our unsecured lending platform. Unsecured portfolio balances as of September 30 totaled $1.3 billion, up from $1.2

billion in the previous quarter. Total originations of $249 million were driven primarily by installment lending volumes increasing to $242 million, up from $193 million last quarter.

We continue to see competition across the entire credit spectrum. Pressure in used car prices and regulatory developments in our industry, compared to a more favorable lending environment in previous years, competition has driven margin compression, but we remain confident in our ability to originate loans with appropriate risk adjusted returns.

We are maintaining our disciplined underwriting practices, including underwriting to strict ROA hurdles as this approach is critical to our long-term profitability. Used car prices continue to decline as they normalize from higher levels. In anticipation of the impact on recovery values, we are using lower recovery assumptions in our models than the current actuals. However, we believe that as used car prices decline, cars become more affordable for consumers, which is a positive for our new originations.

Moving onto regulatory developments during the quarter. We remain committed to the CCAR process in preparation of our parent company's capital plan submission in January 2015. We are focused on enhancing processes related to risk management, governance, and internal control. We believe it is critical to continue to integrate these processes into our DNA.

We are also focused on leveraging feedback from various regulators, our external advisors, and auditors, to be more proactive in the way we think about regulatory issues that we have identified and how they may impact other areas of our business.

Finally the CFPB remains focused on dealer participation and fair lending, and has recently proposed its larger participant rule. Regarding participation, we have procedures to monitor and impose controls over dealer participation, and we perform analytics on dealer markup.

With respect to fair lending, SC USA implemented a fair lending program in 2009, well before the issuance of the larger participant proposal, and we have been regulated by the CFPB since early 2012. We have a robust compliance

and regulatory framework and remain committed to working with the CFPB to ensure we are treating our customers in a fair and equitable manner.

I would like to turn the call over to Jason for financial results. Jason?

Jason Kulas: Thank you Tom, and good morning everyone.

Let's go through the third quarter results in more detail. As Tom mentioned, net income for the quarter was strong, coming in at $191 million which represents growth of 72 percent from last year. This was driven by net finance and other interest income growth of 24 percent to $1.1 billion, up from $901 million during the same period last year.

Interest income from individually acquired retail installment contracts increased 19 percent to $1 billion up from $880 million during the same period last year, due to significant growth in the portfolio.

Net leased vehicle income increased to $63 million this quarter, up from $9 million in the third quarter 2013, and up from $40 million last quarter. This represents an increase of 58 percent quarter over quarter as we continue to originate more lease volume as Chrysler's preferred lender. Interest income from unsecured consumer loans grew to $86 million this quarter, up from $42 million during the same period last year.

Moving to originations, as Tom mentioned, we originated $7.4 billion in loans and leases this quarter. These originations include $465 million of leases and $139 million of dealer loans originated for an affiliate. During the quarter, we originated more than $3 billion in Chrysler retail loans, $1.7 billion of which were prime loans and the remaining $1.3 billion nonprime.

We also originated $1.7 billion in Chrysler leases, which includes $465 million in leases originated for an affiliate. The Chrysler penetration rate for the third quarter was 29 percent, slightly below the prior quarter despite stronger volumes this quarter as Chrysler group experienced strong sales. We continue to remain confident about the ongoing success of our agreement with Chrysler.

The (technical difficulty) loan losses increased to $3.3 billion from $3.1 billion last quarter. It's important to note that because we carry approximately 17 months coverage on our vehicle loan portfolio, reserve levels are impacted by the forward-looking provision model. As an example, versus only 12 months coverage, the model captures the seasonally worst full fourth quarter of loan performance twice, as of the third quarter end.

The allowance to loans ratio increased to 12.3 percent this quarter from 11.6 percent last quarter. Consistent with our strategy to increase our service for others portfolio, our loan sale volume totaled 33 percent of our originations this quarter, up from 26 percent last quarter. Much of the allowance to loans ratio increase is related to the credit profile of retained loans, as this quarter we sold $1 billion in higher credit profile assets via our Chrysler capital securitization platform.

During the quarter as we sold these higher credit profile loans, the mix of lower credit profile loans remaining on the balance sheet required more upfront provision. The provision for loan losses increased to $770 million this quarter, up from $598 million in the third quarter 2013, and up from $589 million last quarter.

The quarter over quarter provision increase was mainly driven by the profile of retained loans, additional provision for the maturing unsecured lending portfolio, and normal seasonal performance deterioration in the back half of the year. The year-over-year increase was also driven by these factors as well as having a much larger balance sheet overall versus the prior period last year, requiring additional provision.

Looking at credit performance for the quarter, SC USA's net charge-off ratio increased to 8.4 percent, from 5.8 percent last quarter and from 6.4 percent during the same quarter last year. The third quarter delinquency ratio increased to 4.1 percent from 3.8 percent last quarter and from 4 percent at the same time last year. The increase in both ratios quarter over quarter follows normal seasonal patterns, and we expect this trend to continue in the fourth quarter as consumers divert resources toward holiday and vacation spending.

Net charge-offs year-over-year also increased as prior vintages from 2009 to 2012 continue to run off. These 2009 to 2012 vintages outperformed expectations with favorable, yet unsustainable yields. Current net charge-off levels are in line with our expectations. Recovery rates are also lower both year-over-year and in the seasonally lower second half of the year, however, as Tom mentioned, we used lower recovery assumptions in our models.

Moving onto expenses, during the third quarter, operating expenses increased 15 percent to $202 million from $176 million during the third quarter 2013 as we continue to grow our asset base from the prior year. However, we continue to demonstrate industry-leading efficiency as our efficiency ratio improved to 16 percent from 18 percent during the same period last year and from 17.4 percent last quarter. This is further evidenced by our revenue versus expense growth for the nine months ended 2014 versus 2013.

On a GAAP basis, revenue growth lagged expense growth due to one-time IPO costs, however excluding these costs, revenue growth outpaced expense growth. During the quarter and since our IPO in January, expenses have come in lower than expected and this is translated into a lower efficiency ratio. Given the costs associated with going public, the significant origination growth related to Chrysler and recent regulatory expenses, we expected higher costs. However, our efficiency and scalability are evident in our expense base leading to a better than expected ratio.

Turning now to liquidity, SC USA demonstrated strong access to liquidity via the execution of a $1.35 billion securitization from our core nonprime securitization platform, SDART. Our fourth SDART transaction of the year was well-received and over-subscribed in September, allowing the transaction to be upsized.

Additionally, we executed our second deal of the year from our Chrysler capital prime retail platform, CCART, a $1 billion securitization. We also received $1.5 billion of additional liquidity from private term amortizing facilities and warehouses.

Aggregate loan sales for the quarter totaled $2.4 billion, including $1 billion sold in our CCART securitization, with the remainder driven by our flow agreements with Bank of America and Citizens Bank. We also sold $18 million in dealer loans to an affiliate.

Loan sales were up 39 percent from last quarter's $1.8 billion, as we continue to focus on balance sheet management and growth in our service for others portfolio. The portfolio of loans and leases service for others totaled $10.2 billion at quarter end, up from $8 billion at the end of the second quarter. This portfolio has also more than doubled since the end of 2013.

Investment gains for the quarter, which are primarily comprised of gains on sale, totaled $38 million, up from $22 million in the second quarter as this quarter included a CCART securitization. Servicing fee income totaled $21 million for the quarter, down from $22 million in the second quarter. Excluding a one-time positive adjustment during the second quarter of about $3 million, servicing income also increased.

Finally, our effective tax rate decreased to 32.1 percent this quarter, from 36.8 percent last quarter due to several factors, including a release of reserves for uncertain tax positions. We expect this rate to revert to previous levels moving forward. Before we begin Q&A, I would like to turn the call back over to Tom. Tom?

Thomas Dundon: In summary, looking back over the third quarter, we were able to originate attractive assets, produce strong net income. Core net income for the first nine months of the year totaled $595 million, originations were up over the last quarter, and for the nine months ended September 30, originations totaled $21.4 billion.

We continue to achieve robust profitability despite competition, used car pricing declines, and recent regulatory developments. In response to these evolving industry dynamics, we continue to develop our business model remaining focused on our efficient core nonprime platform.

We also remain excited about our relationship with Chrysler, the growth of our service for others portfolio, and our unsecured lending platform. We're

determined to make the best use of our capital, allocating resources toward the greatest ROA opportunities, while generating recurring fee income via our service for others portfolio. With that, I'd like to open up for questions. Operator?

Operator: Hello. We will now open up the call for questions. Please limit yourself to one question and one follow-up question. Your first question is the line of Mark Devries at Barclays.

Mark Devries: Yes. Thanks. I'm trying to understand you know what's causing the reserve levels to continue to increase sequentially, particularly in an environment where it looks like, clearly, you're concerned about recoveries, delinquencies are fairly stable year-over-year.

And by my calculation, it looks like just on a sequential quarter basis, assuming kind of a 17 month coverage, like the implied charge-offs and your reserve levels went from about 8.2 percent to 8.7 percent. Can you just help me better understand – and I understand there is a little bit of seasonality to that, but why we continue to see the reserve levels going up and the implied charge-offs going up at the same time.

Thomas Dundon: Sure. So look we've been doing this for awhile, and when you get a book this size with different channels, we have lots of loans coming from lots of different places and they perform – there's nuances to all the loans, and I think just as an overall philosophy, more information makes us more confident, and the Chrysler relationship is less than two years old, and those loans are a bigger portion of our portfolio, and as we continue to dig in and understand what makes that book of business perform the way it does, along with the fact that we think competition in the access to liquidity created some difficult market conditions for us.

I think we just want to watch and so our judgment is, you hold the provision while you watch and you analyze, and over time, if the trends that we're seeing were to continue, than I think what you're saying could be true. But I don't know that we're 100 percent convinced of what the outcome is for the loans we have in the portfolio today.

I think we are feeling pretty good about it but at the same time, we're going into a tough part of the year. Used car prices are down. We've had a lot of changes in the regulatory environment, and we feel really good about the way we're integrating those into our business, but there's just a lot of variables, and this feels like the most prudent way to approach the information we have today.

Mark Devries: OK. It's just a follow-up on the consumer businesses, one of the things that's been a little surprising is when we look at the loss adjusted margin there, charge-offs almost equaled the yield, but I think you guys are excited about the business, talked to a 3 percent to 4 percent ROA business there.

Can you help us understand the dissonance between those types of returns you expect there and what we're seeing right now in the third quarter with very limited loss adjusted margin?

Thomas Dundon: Sure. It's just the income, so we'll think about how we show that because the margins are in line with our expectations, so it's interest income plus fee income will give you the margin that we've guided to and we expect, and that you're referencing.

Jason Kulas: So for this quarter about half of the fees, commissions, and other line is from the unsecured business and that's not included in the yield. If it were, the yield for that business would be in the low 30s for the quarter, so we still think it's a very profitable and lucrative business.

Mark Devries: Got it. That's helpful. Thank you.

Jason Kulas: Sure.

Operator: Your next question is the line of Cheryl Pate at Morgan Stanley.

Cheryl Pate: Good morning. I just wanted to follow up on the provisioning questions. Just wondering if you could break it down for us in terms of how much of the reserve build was related to retaining more autos, and more of the lower credit quality autos versus seasonality in the consumer business versus any additional reserves on your existing book?

Jason Kulas: It's hard to be – I don't think the unsecured consumer book is a big driver of variability because those margins, with the way we have some of our, the majority of our arrangement set up, the ROA is fairly predictable and consistent.

In terms of holding more subprime assets, obviously a subprime asset holds a bigger provision upfront, and then you earn more interest income over time and the amount of provision that we are holding because we are taking a conservative view of the future can only be known when the future actually happens, so it will be hard to quantify each of those things.

I would say that the trends – and I think on the last question it's pointed out that our delinquency trends look OK, and therefore if that were to continue then you would expect to see loss trends improve or at least stabilize.

And the way we traditionally price loans is we look at history and make sure we have enough margin to justify putting our capital out and whenever the loss rates stabilize, as opposed to increase, you should ultimately see provisions stabilize or decrease. It's just a cycle, and we don't perfectly know when that happens, but it feels like we're closer to that point today than we were earlier this year.

Cheryl Pate: OK. And just a second from me. Just on the efficiency ratio, continues to, I think, come in better than we expect. And previously you had guided to full year efficiency in the range of 2013 levels.

Is that still the case or you know have you found places for better efficiencies to offset some of the regulatory costs and we can see levels below 2013?

Jason Kulas: I think there are probably two ways to look at it. One, a lot of – as we've matured in our understanding of regulatory expectations, there were many pieces of improving our risk management, our model validation, our compliance, and our governance that we have been able to integrate in our business and find actual improvements and risk controls that maybe we did in a different way, so the increase in those costs probably weren't as bad as they could have been, that you could have feared they were when you didn't quite

understand expectations, and then you know there's a trade-off. We can spend more money and in collections and get lower losses.

That doesn't necessarily mean that will all flow to the bottom line, and given how litigious and how much scrutiny there is around how you treat customers, we always have and continue to take – to be under the opinion that a dollar of an expense and a dollar of loss are the same thing, and we will lean towards lower expenses and less activity as it relates to collecting our customers when we believe that it's a zero-sum outcome. And that's part of how you can get some lower expenses where losses feel a little higher.

We can trade those dollars out, but we don't think that's the right decision, especially in this environment. And historically we have tended to believe that you should be strategic in how you collect your book, and hammering phone calls and you know the type of – sort of abuses that maybe the subprime industry has been known for, we take the opposite approach with less calls, but more strategic and a smarter approach, and therefore that's a place where you can continue to see efficiency as we get better at that.

Thomas Dundon: We do expect the efficiency ratio to get to where it was last year, and really through that and higher than that over time as the service for others business grows. For all the reasons Tom said, this year we won't see the level of last year.

Cheryl Pate: OK. Great. Thanks. That's very helpful.

Operator: Your next question is the line of Rick Shane at JPMorgan.

Rick Shane: Thanks, guys for taking my question. I think you're going to pick up on a theme here in terms of allowance and provision. I want to explore sort of where we were last quarter in some of the metrics that you provided on a more detailed basis and maybe we can get those this quarter.

The comment was made last quarter that the allowance to loss ratio outlook was stable. It increased. It sounds like a little bit of that – some of that is attributable to the mix shift.

To help us understand that better, last quarter you actually provided, by product, the coverage ratios for the retail installment for the purchase portfolios for dealer financing and for the unsecured. Can you do that again? That would be really helpful.

And actually that slide 21 last quarter has a lot of good data on it. But if you could just give us the ratios now, that would be helpful.

Jason Kulas: OK. Sure. So we will share this information because there's a lot of detail in it, but I think you're right on with the comment you made about just the general change in the allowance to loans ratio being partially driven by mix.

If you're going to narrow it down to two things, it is a combination of the way our model factors in seasonality, and the 17 month provision look, combined with mix on one side, and then on the other side it's the unsecured business as it's matured and we've added provisions there. So it's both, and it's probably equal parts those two things, but we'd be happy to share that information.

Rick Shane: Terrific. And then just to follow-up on that in terms of the 17 months, I took away last quarter that over time that 17 month forward look was going to compress modestly. Is that still the intention, and so that people think about this in the right way, we certainly I think had drew some wrong conclusions. How should we be thinking about that going forward?

Jason Kulas: I think as we see, as we look at backwards and see where we think we come to an inflection point, where we don't think losses could increase, but the problem with the way provision models work is you're looking at backwards. So you have to take history and compare your outcome for the same type credits compared to what you think the best and worst case scenarios have been.

And as we move towards an area where credit is performing in a way that capital will not be as attracted to our space and losses get to a point where, historically, we think that's as high as they go, then you think about months coverage in a different way than when you are at historically low losses, capital is attracted to your competitors come in, drive price down, drive losses up.

So I think there's – the best thing about this business is we've got a two-year average life asset, and we react daily in how we underwrite and price these assets, and we feel confident that we look at the return on asset assuming that things, when they're really, really good are going to get worse, and when they're really, really bad that are going to stay about – at historically high places.

So if the world – in a scenario where loss rates were to stabilize and then with the things we do to tweak credit in a stable environment, you would expect to see some improvement and that's kind of what we are paid to do. T

hen you can envision provisions as months coverage coming down as you believe some of the volatility is taken out of the market. And I think that's just a philosophy of how we go about the business.

Rick Shane: So, I apologize to my peers who are listening to this call, I'm going to try to drill in this a little bit deeper, but is that to say that this will be an evolution not over quarters but over years as that portfolio of the vintages really shift and you move away from those 2009, 2012 vintages with very low loss rates and potentially high-coverage ratios or high months coverage ratios to a more normal mix, and it really could take a 18 more months?

Jason Kulas: I mean you know I know me. I'm not being smart about this at all, it's just, we can't really predict the future or how competitors are going to act. What we think we're seeing is more rational behavior in the market, that all the attention on the securitization market, I think, is going to lead people to be more careful in deploying capital in this space and recognizing that the servicer and the originator matters.

And as investors we're – rating agencies and investors we're willing to back lenders that maybe didn't have the ability to deal as well with higher loss rates in a more volatile environment and if we were to continue to see the trends we see now, then it could happen faster. And if it were to take longer you know it could take longer.

But it feels like the loss rates this year, based on competition, deteriorated in the last couple of years quickly to a historically high place and now things seem to have settled down, and every month we feel better about that position, but there's no way to really know.

So I wouldn't want to give you time other than, I think we can originate assets to the risk adjusted margin that we've always thought we needed, and that hasn't changed. It got a little tougher there for a little while and we gave up some volume, and now we're starting to gain some of that share back and we like the prices.

But what it means for the back book as it rolls off, those loans are already booked and the price is the price and we can't do anything about it, and it feels like we are adequately reserved for the back book, and the prices that we've reserved for on a new loan is going to be based on history. And as history gets better, those numbers will come down.

Rick Shane: Got it. Thank you for the time, guys.

Jason Kulas: Sure.

Operator: Your next question is the line of Moshe Orenbuch at Credit Suisse.

Moshe Orenbuch: Great. Thanks. I'm just wondering if you can kind of just help us understand maybe the trajectory of the loss rates (inaudible) in the auto business over the next couple of quarters, your thoughts, given that there's been a fair amount of volatility, maybe a little more than normal.

And yet you were talking about the newer assets being booked, kind of being of kind of a better quality than you have seen you know (inaudible) were expected?

Jason Kulas: Sure. So you know we are indifferent about loss rates. We don't – there's not a better or lower quality car loan. It is simply the loan that we get the reserve, or the yield for the risk, and we think the loans we are booking today, we are able to price for the risk.

So the fact that a certain credit customer today is going to have losses that are some multiple higher than it would have had in 2009 or 2011 doesn't make it a worse loan, it just means you have to understand the right price and the right structure that this market can support and I think the way we would look at it is when there is very low competition, things perform better.

When there is too much competition things perform worse, relative to your expectations, and we once again seem to be in an environment that we understand pretty well.

The rate of change from – over the last six years where you went to no liquidity in the market to liquidity flooding the market and new entrance that maybe didn't – they had built their models off of a time when there was no liquidity and therefore might have gotten fooled a little in terms of credit risk, and now it feels like everybody's got data that you can rely on and if you can execute your plan, you can make a reasonable return on originations today.

It's easier to originate when no one else has liquidity then you do, but that is not actually a real long-term business strategy for us, so we think we perform really well when there's a little more volatility and a little more competition, and I think we've gotten through the majority of that and now things seem to be a little more normalized. Although at a higher loss level, performance is more in line in our recent vintages with our expectations.

Thomas Dundon: So as we look into the fourth quarter we'll see seasonally higher losses, and as we look into next year we will continue to see an uptick in losses but just at a more controlled and measured rate, and so we do expect to see that lift.

I think the point we're trying to make here is if that results – if the combination of that and the mix we have on the books results in higher provisions, it's something we will have priced for and something we will be comfortable with.

We did see – and there's an impact I want to make sure is clear. We did see a shift in this quarter too, because we saw – what we ended up doing is retaining more lease and selling more near prime auto, and so the result on the

allowance to loans ratio which does not include lease is that the mix of what we are provisioning for was lower in the credit spectrum.

Still a place we are very comfortable, but resulted in a higher ratio of coverage. So again, hopefully you're getting the point that we're sort of agnostic to the level of that reserve, because whatever it is, it's right for what we've originated.

Moshe Orenbuch: Right. I've got that. Just to follow-up, what you said about going into 2015. Is it fair to assume that the kind of normal seasonal patterns would be maintained in terms of kind of the first half versus the second half even though (inaudible) higher level than a year ago?

Jason Kulas: Yes. I think seasonality has never changed. Ever.

Moshe Orenbuch: Thanks.

Operator: Your next question is the line of Eric Beardsley at Goldman Sachs.

Eric Beardsley: Thank you. Just could you tell us what the provision dollar amount was for unsecured loans in the quarter?

Jason Kulas: Yes. It was – of the $770 million total provision, unsecured was $167 million.

Eric Beardsley: Thank you. You also mentioned lower recovery assumptions versus the current actual experience. Did you change the recovery rate in the quarter, and if so, what is your assumption now?

Thomas Dundon: We didn't change it. It's still in the mid-40 percents range we talked about previously, for provisioning purposes.

Eric Beardsley: Got it. And lastly, what would it take for you to actually release reserves in a given quarter? I mean, could we see seasonality of provisions such that you have these reserves and these quarters where your methodology dictates higher because you're capturing two, three quarters and in the fourth quarter we actually get a release, or is that something where we should expect the dollar amount to be stable and growing over time?

Jason Kulas: I think we just have to watch each month and see what the losses, and the delinquency, and the yields do. So we try not to get too far out there, and as a general rule, we tend to want to be 100 percent sure before we go the other way on provisions, especially when we are maintaining our earnings targets and the yields are stable. So it would be hard to guide to that.

I think everybody, in the first year, is figuring out sort of where we lean in terms of how we look at provisions. But, part of it is this has been a year where, because of the increased competition there's been loss pressure as loss rates go higher.

I don't think any of it's unexpected, but no one really knows where these things level out, and you don't really know how competition's going to react or what's going to happen in the economy, but I think we will study the book, we'll study our ability to price, we'll look at the market, and probably always be leaning a little more conservative.

But it's definitely possible that we get to a point where we feel like we're on the other side of where we've been the last couple of years so we're – we expect that to happen some day but it's not based on anything other than you know history and looking at some information. Were not 100 percent sure about anything other than what we just put out today.

Eric Beardsley: Got it. Thank you.

Operator: Your next question is the line of Don Fandetti at Citigroup.

Don Fandetti: Yes, I have a question around the Chrysler agreement, the penetration rate obviously looks like it's going to come in below agreed-upon levels. Can you just remind us about what the implications of that might be over the next you know 12 months or 24 months.

Let's say there's a scenario where there's no relief of the parent company on CCAR is that something we should be watching?

Jason Kulas: I don't think it has anything to do with CCAR, but the Chrysler agreement, it's pretty clear that our penetration rates were targeted to other captives and that

the relationship between Chrysler and us would have to be reflective of the relationship between OEMs and captives even though we are technically not a captive.

I think at this moment the amount of the subvention that we have access to is not very similar to some of the other OEM captives and therefore, these penetration rates per the contract would not be something we would be held to. So I don't think there's any problem, if we have the same subvention available to us that other captives do, those penetration rates that we've agreed to, we feel very confident that we would hit them.

And that's just a business decision each OEM makes, and so if other OEMs were to put less subvention in the market, then you know the amount of business captive we get goes down, but we targeted our penetration rates to being treated like other captives, and I think at this moment, we haven't quite got there with Chrysler yet, but we are making progress.

They've been great partners. Their cars are improving, their market share is improving, and we're just trying to support them where it's helpful and then over time we think you know they'll continue to see the value in what we do and maybe increase the amount of subvention which will get our capture rates up and our penetration up.

Don Fandetti: OK. Because I thought the next target was around 44 percent so are you saying you think you can hit that level or –?

Jason Kulas: Yes. I think as a simple example, if you see like a 72 months at 0 percent interest and you are buying a vehicle, today, to get 0 percent for 72 months on a lot of the products we offer, you would have to give up a large rebate, where for a lot of the other captive finance companies, the amount of rebate you would have to trade to get that 0 percent interest is smaller.

And so consumers are rational, and when they do their analysis in buying a car, they tend to take the right offer and we don't always have a subvented offer as competitive as what some others have, and that changes the penetration rates quite a bit. So depending on what happens with the amount of subvention – and we go through it today.

We have some times where Chrysler supports us in a way that creates really high capture on certain vehicles because the offer is an offer that is favorable to the customer to take the financing offer relative to the rebate, and we see penetration rates that are really high. And when there is no subvention, and you're kind of fighting with the market, we will get penetration rates like what you're seeing.

I think overall, we're pretty happy with where we are given the level of support.

And Chrysler has to do what's best for them, and as we mature and we understand that segment of the market better and they understand were we can help and what we can do together, it feels like we're moving in the right direction, but the actual penetration rates per the contract are tied to us being treated like other captives, and I think today it's clear that we're not – that we're not quite there.

Don Fandetti: Thanks.

Operator: Your next question is the line of John Hecht at Jefferies.

John Hecht: Good morning. Just looking for a little bit more commentary on the competitive market. It sounds like you guys discussed, maybe, it's less – it's tightening up, I guess, in the competitive market. Are you able to increase pricing to the extent you're expecting losses to rise?

Jason Kulas: Yes. We – I would say margins are on the lower end of where we are not – we would not be willing to do a deal, which is part of the reason our penetration rates, for example, for Chrysler are down from their peaks because there are just some trades we won't make.

What we've seen is it's coming back our way a little bit, so where we're able to do a little more than maybe we could in the middle of the year because the competition had – I think it took a little longer for some of the newer entrants or smaller players to realize sort of the environment that we're in, and we probably move a little quicker, but maybe not quicker than everybody, but just

in general it seems like we tend to lose share earlier when losses go up and maybe take it back earlier when we think they're stabilizing.

We think losses are at a point now that you can price for it, but you have to be really good at this and really efficient. And if you're not efficient, which – that's probably our biggest advantage, and you're not good at the credit risk side, this is a really tough environment for those competitors.

Two years ago I think anybody could do it, and now I would say it's harder, but at the price that we are doing loans today, I think there are many people that couldn't make any kind of return based just on cost structure and their analytics and their depth. So it feels pretty good right now, but you can't do as many loans as you could do in other environments because there is just some credit that we can't price for.

John Hecht: OK. That's helpful, and just going back to some of the questions about allowances, I'm just curious, can you tell us maybe a year ago what your cum. loss expectations were, say in maybe the 2013 vintages, and has that cum. loss expectation shifted in the past six months?

Jason Kulas: It's hard to do vintages because obviously – so we go kind of loan by loan and the actual vintages will shift. I would say in 2013, we were buying more – we were probably more aggressive than we are today in terms of structure and price, because we think, as we've mentioned, as you come away from the 2009, 2010, 2011 vintages and start having loss rates go back up to kind of the higher end of the historical vintages, that it would be hard to call vintages because if you tighten credit a little bit in the face of rising competition, you're kind of offsetting two variables there.

But in general it feels like we are now seeing our vintages on a score by score basis stabilize. So we're not seeing significant deterioration like we felt you know from that 2009, 2010, 2011 to today, loan for loan, score for score, the loans performed worse today than they did then, but I would say over the last year we started to see some stabilization.

John Hecht: OK. Thanks very much.

Operator: Your next question is the line of J.R. Bizzell at Stephens Inc.

J.R. Bizzell: Thanks guys for taking my question. I know most of them have been asked, but I wanted to dig in a little more deeply you know fairly meaningful uptick there on the 31 to 60 day delinquencies.

Just wondering if you could kind of point to what you're attributing that to? I'm guessing a little bit to do with portfolio mix.

Jason Kulas: Yes. Portfolio's a tough delinquency measure to talk about because, as you just said, mix changes, and as that older stuff rolls off, it had lower delinquencies, and the newer stuff has higher delinquencies. But, once again, I think the loans we're originating are giving us the performance we're expecting and the yield we are expecting.

And so it's less, I think, about the delinquency and loss than it is about the net margin for us, and so because the loans are short and they turn where we are constantly readjusting our price every day, every day, every day, and we're – there's less price adjustments today and less volatility today than maybe there was in the last year. And we hope that continues because it gets a little easier when things aren't changing as fast.

J.R. Bizzell: Great. Thanks. In switching gears here, your servicing portfolio continues to show nice expansion and progression. I'm wondering if you can kind of update us around how you all are thinking about growth rates as we move forward in this portfolio and kind of your thoughts on where you are at in the progression stage as opposed to kind of what you were thinking before?

Jason Kulas: Sure. So without getting into actual specifics I would say, as a philosophy, most of the prime – almost all the prime we're going to do is for Chrysler and as a general rule, we believe that we should use our infrastructure and our efficiency to give the best deal we can to their customers so they can sell as many cars as possible and because our servicing platform's efficient we can do more volume and keep servicing fee income without regard as much to what margin we'd like to have.

So we look at that business more as we have to price that market to support our partner and, because we're not holding capital, it's more about the volume, how much volume can you take, because our servicing platform's infinitely scalable, we think.

So it's a little different decision than should you do a subprime loan where your decision is can you make the proper return on equity and do you have enough spread for the volatility that's inherent in subprime. On a prime loan that you're just going to service, that question is what does it take to get that loan because we think that's all about volume and scale.

J.R. Bizzell: Great. Thanks for taking my questions.

Jason Kulas: Sure.

Operator: Your next question is the line of Charles Nabhan at Wells Fargo.

Charles Nabhan: Good morning. I wanted to ask about credit within the unsecured consumer loan book. Now given the trajectory of growth within that book and the differences in credit profile relative to the retail book, which you indicated in slide 20, should we anticipate a similar pattern, seasonal pattern for losses and provision levels going into 2015?

Jason Kulas: For losses, yes. Provision levels, once again, it's harder to note until you get – until it happens, but …

Thomas Dundon: Although in that business, it's a 12-month revision, which takes some of the impact out. You still have seasonal impact, but not the double seasonal impact.

Charles Nabhan: OK. And as a follow-up, we've seen a modest widening in spreads over the past couple of months along with some rate volatility, and I was wondering if you could talk about the impact, if any, that that's had on the market and perhaps specifically on funding costs?

Jason Kulas: Sure. Funding costs went up for a little while there. We think they go up less for us than they do for maybe the less established smaller competitors, but

we're pricing to a return, so funding costs or credit losses go up, then our price goes up. And so we probably would prefer funding to be harder to get and more expensive for our industry.

We think part of the reason we've seen the deterioration in loss rates the last couple years is directly attributed to easy access to liquidity. But for us, we will always pass on that cost, up or down, so if our funding cost goes down then our cost to the end customer goes down and hopefully you get more loans. And then if it goes up, you pass it on, and eventually the market will do that too, and it shouldn't have a big impact.

But I really think the more volatile the capital markets, the higher the loss rates, the tougher it is for capital to be attracted to this space and we do really well in those environments. The toughest environment for us is when there's plenty of access and loss of capital, and people think no one's ever going to take a loss, and the fact of this business is the losses are inevitable. It's how you manage it and price it.

Charles Nabhan: OK. So in other words, it's fair to say that your ability to price, to pass on that pricing in a volatile environment is enhanced given some of the declines in competition that result from that volatility?

Jason Kulas: Yes. I think that's a much quicker, better way to say it than what I said.

Charles Nabhan: OK. Thank you. I appreciate the color.

Operator: Your next question is the line of David Ho at Deutsche Bank.

David Ho: Good morning. Thanks for squeezing me in. Just one last question on the various assumptions that maybe you guys are baking into your models. What kind of decline in used car pricing vis-à-vis the market expectations are you kind of implying going forward, and has that increased versus maybe a few months ago?

Jason Kulas: I would say the market is moving towards where we always sort of expected to be, and you can look at our take on used car prices similar to our take on

losses is we try to look at history and look at sort of a higher and lower bound of loss rates and used car prices, and we tend to underwrite to those.

And so when recoveries are higher, the difference between what we're projecting and where we are actually getting will be bigger, and as loss rates come down, the difference between where we project and where they are will be smaller and I think it's just sort of common sense, right?

The things tend to end up close to their averages over time, and we don't get too excited when they're really good. We don't get too excited when they're really bad.

We actually think lower used car prices is good for the market because the subprime customer – as cars have become you know this is a little bit of a tangent, but as cars have become safer and cars have become – better emissions and better gas mileage, they've become more expensive.

Wage growth clearly has not moved up along with the cost of a car and therefore the used car is a substitute for many consumers to be able to afford reliable, safe transportation and when that used car is more expensive, it prices a lot of people out of the market or stresses their budget and so used cars coming down, bad for recoveries, great for originations. Used cars being high, great for recoveries, bad for originations.

So I think we've said this lots of times, we think because of the short nature of these assets, we're perfectly hedged in a lot of ways and we won't tend to maybe analyze it as closely as most of you all do in terms of what's good or bad, because it's all got pros and cons and our job is to deal with those changes in the environment to make good risk return decisions.

I keep trying to put out the point that that's what we think we do really well, but in terms of exactly what's going to happen tomorrow, probably we're less likely to have a strong take on that than we are what's going to happen over a long period of time.

David Ho: OK. That's helpful. And one more question on the lower gas prices based on your mix, any impact there?

Jason Kulas: I think if customers have more dollars, it should be good. It's early to tell, but I can't see much downside to low gas prices for us.

As the lease book starts to mature, clearly there could be a difference in recovery rates based on where gas prices are, but I would say we wouldn't spend a lot of time trying to figure out gas prices.

We think it's just one of the issues within our business: wages, employment, gas prices, cost of funds, used car prices, competition – it's one of the things in there that we just have to deal with but I wouldn't expect to see major changes.

We – we'd have to be really, really careful thinking – I remember back, I think it was 2008, there was some period of time where this huge volatility in gas prices, and cars became super expensive, and you couldn't give a Suburban or a truck away and six months later that shifted. And so we're probably not going to be in the business of worrying about that a whole lot. On the margin, lower gas prices are good for subprime customers, though.

David Ho: OK. Great. Thanks.

Operator: There are no further questions at this time. I will now turn the call over to Tom Dundon for final comments.

Thomas Dundon: Great. Thanks for joining the call today and for your interest in SC USA. Our investor relations team will be available for follow-up questions, and we look forward to speaking with you again next quarter. Thanks a lot.

Operator: This concludes today's conference call. You may now disconnect at this time.

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