



J.G. Wentworth Company

First Quarter 2016 Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

John Hecht, *Jefferies*

Paul Niklason, *Credit Value Partners*

Justin Wohler, *Candlewood Investment Group*

Jerry Lvovich, *Waddell & Reed*

PRESENTATION

Operator:

Ladies and gentlemen, thank you for standing by. Welcome to The J.G. Wentworth Company's First Quarter 2016 Earnings Call. During the call, all participants will be in a listen-only mode. After the presentation, we will conduct a question-and-answer session. At that time, those with questions should lift their phone receiver and press star, followed by the number one on their telephone keypad. To cancel a question, please press the number sign. If at any time during the conference you need to reach an Operator, please press the star, followed by zero. Please note that this call is being recorded today, May 10, at 11:00 AM Eastern Time.

I would now like to turn the meeting over to your host for today's call, Erik Hartwell. Please go ahead.

Erik Hartwell:

Thank you Operator. Good morning everyone and thank you for joining The J.G. Wentworth Company's First Quarter 2016 Earnings Conference Call. This morning you will be hearing from Stewart Stockdale, our Chief Executive Officer; and Scott Stevens, our Chief Financial Officer. After their prepared remarks we will open the call for questions.

We have included a brief presentation to accompany our remarks and you will find a link to this webcast included in the earnings press release. The slides for today's presentations have been posted on the Investor Section of jgw.com along with our earnings press release.

Statements in this conference call and in our earnings press release other than historical facts are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. Factors that might cause the actual results to differ materially are discussed in our earnings press release. The Company disclaims any intent or obligation to publicly update or revise any forward-looking statements, regardless of whether new information becomes available, future developments occur or otherwise.

Two of the items we will speak about today are adjusted net income and Adjusted EBITDA which are non-GAAP measures. We define adjusted net income as our net income under US GAAP before the amounts related to the consolidation of securitizations and permanent financing trusts we use to finance our business, non-cash compensation expenses, provision for, or benefit from income taxes or certain other expenses. ANI takes out the financial impact of securitized assets and liabilities, but includes the impact of changing interest rates on assets that remain on the balance sheet. Certain other non-routine items are also excluded from ANI. In addition, the add-backs described above are consistent with adjustments permitted under our term loan agreement. Please refer to our earnings release for the reconciliation of our GAAP net income to adjusted net income.

Adjusted EBITDA is calculated by adding depreciation and amortization expense, debt issuance cost, legal broker fees associated with our asset sales and term loan interest expense to adjusted net income and is consistent with our term loan agreement. We use both Adjusted EBITDA and adjusted net income as measures of our overall financial performance because we believe they represent a better measure than GAAP of our operating results.

Now I will turn the call over to our Chief Executive Officer, Stewart A. Stockdale.

Stewart Stockdale:

Thank you, Eric. Good morning everyone and thank you for joining our call today. Looking back at the first quarter, we made measured progress against our key priorities for the enterprise, which include stabilizing Structured Settlement Payments, growing Home Lending and maintaining adequate liquidity, tight cash management, rigorous expense controls and diversifying and optimizing funding sources. The teams are executing with relentless focus and passion against these priorities. We're seeing progress on the bottom line. We've benefited from the strength of our Home Lending business, and the various actions taken in our Structured Settlement Payments business contributed to moderating the trends from the fourth quarter of last year.

On a consolidated basis, we generated adjusted revenues of \$57.1 million, which is an improvement of \$4.9 million from the prior quarter, and on an Adjusted EBITDA basis, we delivered \$8 million in the first quarter, an improvement from \$3 million in the fourth quarter of 2015. As we shared on our last earnings call, we have committed to an aggressive program to increase efficiency and productivity.

We are executing against our plans and remain confident that we will achieve our \$25 million to \$30 million in cost savings for the full year of 2016. In the first quarter, we reduced expenses by \$9 million compared to the first quarter of 2015, primarily from the Structured Settlement Payments business. We saw sequential monthly improvement in several key indicators in our Structured Settlement Payments business. The marketing and operational changes we implemented late last year have contributed to efficiencies and improvements in the quarter. On the Marketing front, we continue to optimize our spend levels across channels to drive response. We are seeing levels of efficiency in our channel spend that allow us to pull additional response from new and existing resources. The various digital technology platforms we are leveraging a combination of structured and unstructured data sources to improve our one-to-one marketing capabilities across traditional media, digital, direct mail, email and mobile activities.

We recently launched a series of improvements to our traditional television spots. We are adding 30 second spots to our traditional 60 second spots, which allow us to increase the frequency of our marketing activities as well as selectively introduce offers to qualifying customers who contact us to sell their structured or annuity payments.

As we look to achieve the desired level of marketing efficiencies in this business, it is equally important to attract, retain and satisfy customers in a highly competitive marketplace. To that end, we are seeing the operational improvements that we expected. The specialized functions supporting the customer and the transactional life cycle have allowed us to speed up the average transaction time for the customer by about three days compared to the first quarter of last year. Speed to funding is key to customer retention and customer satisfaction and we believe this will help us to further differentiate ourselves from the competition.

There is still work to be done as we bring more stabilization to the Structured Settlement Payments business. The efforts to date are helping but there continues to be external challenges that we are battling every day in the form of competitive pressures and heightened judicial scrutiny which are having a negative impact on unit volumes and an interest rate and spread environment that ultimately impacts profitability.

As we strive for greater profitability, the key metrics we monitor on a daily basis include the number of contacts we receive, conversion rates and unit economics of each deal. Collectively, as we compare these metrics to the fourth quarter of 2015, we are seeing stable trends. These signs are important as they provide a foundation for improving profitability and the framework to increase unit volumes over time, which is a top priority.

Turnarounds take time and the full impact of the changes we have made, may take several quarters to be fully realized. I am confident we have the right team in place in stabilizing this business will be our continued focus.

Turning to the Home Lending business, we were pleased with the strong performance delivered in the first quarter. The results exceeded expectations for the quarter. Home Lending generated \$6.3 million of Adjusted EBITDA compared to \$700,000 in the fourth quarter. Lock loan volume was \$1.1 billion and closed loan volume was \$568.3 million. In February, we achieved record lock loan volume for the unit followed by a record closed loan volume in March. The quarter ended on the fabulous note and was a company record for lock loan volume in a quarter. We are seeing continued momentum and strong production levels as we progress through the second quarter.

Importantly, we scaled Home Lending in a quarter with no tradeoffs from a profitability perspective. We continued to serve a prime customer segment and maintain a consistent FICO score on our profile. We saw a modest increase in average loan size, an increased mix of government originated product, and maintain gross loan margin compared to the fourth quarter of 2015. As expected with the increased volume over a similar fixed base, the profitability improved overall. In addition, we were able to grow our servicing portfolio from \$3 billion to over \$3.2 billion.

The J.G. Wentworth brand is helping across all Home Lending distribution channels. The affiliate channel makes up approximately 80% of closed loan volume. Through this channel, we are a strong originator of both government and conventional product and we have the flexibility in our business model to acquire both refinance and purchase leads through various affiliate sources. A key priority is to continue to grow this channel and we are making investments in people, processes and technology to attract customers originate quality product and provide for an exceptional customer experience.

The second channel of production for the Home Lending group is distributed retail. This channel has seen positive results in leveraging the brand, which is enabling us to build stronger relationships in the communities that we serve.

Our newest channel is direct-to-consumer. While still early, we believe this channel will be additive to existing channels and perform at comparable levels at scale. We have been particularly encouraged to see a strong level of consumer increase regarding purchased loan products with an even mix of consumers interested in both conventional and government-backed products through this channel. We will be leveraging the existing talent, infrastructure and capabilities from J.G. Wentworth to support the growth and scale we are expecting. The direct-to-consumer channel will complement the talented teams currently working across the country in our Home Lending business today.

Taken together, we believe we are uniquely positioned in the industry compared to existing players who have yet to successfully make the transition from mono-line distribution to a multi-channel enterprise. With the J.G. Wentworth Home Lending brand and distribution across three channels, we believe we are well-positioned to be able to pivot the changing dynamics of the mortgage market. As we look to build a leading mortgage enterprise, we have a keen eye on improving the customer experience throughout the mortgage process. We believe that making it easier for customers to do business with us will be a key differentiator as we scale.

We also recognize that as we make it easier for customers, we have the opportunity to improve our own internal operating processes and capacity to generate additional profitability throughout the mortgage process. We are very pleased with a momentum and progress underway at Home Lending.

Now, I would like to turn the call over to Scott to walk through the financial results. Scott?

Scott Stevens:

Thanks Stewart, and good morning everyone. I also wanted to thank you for participating in our call this morning. We believe the sequential improvement in first quarter results are showing the beginning signs of progress on our strategic initiatives. The sequential improvement was primarily due to strong performance in our Home Lending business and execution against our transformational plans including significant cost reduction actions for the Structured Settlements segment.

Volume challenges continued in the first quarter for the Structured Settlements segment. We are encouraged by this quarter's progress and we are continuing our disciplined and measured plans. For the first quarter of 2016, we reported consolidated adjusted revenues of \$57.1 million, which is an improvement of \$4.9 million from the prior quarter and Adjusted EBITDA of \$8 million, an increase of \$5 million sequentially from the fourth quarter of 2015. ANI for the first quarter is a loss of \$4.1 million and improved from Quarter 4 2015 by \$6.4 million.

On a segment basis, Structured Settlements results were relatively flat with the fourth quarter with positive Adjusted EBITDA of \$1.7 million and an ANI loss of \$10 million. TRB was \$204 million in the quarter compared to \$224 million in the fourth quarter of 2015. In the quarter, we did see an improvement in spread margin per transaction primarily due to better buy rates.

Our productivity and efficiency initiatives can be seen in the steady decrease in total Structured Settlements segment expenses. Sequentially, ANI expenses were down \$2.9 million from the fourth quarter, and compared to the first quarter a year-ago, ANI expenses were down \$9 million. We remain on pace to achieve our targeted \$25 million to \$30 million of expense reductions by the end of 2016 compared to 2015 levels.

Home Lending had a very good quarter with Adjusted EBITDA of \$6.3 million and \$5.9 million of ANI, both up nearly \$6 million sequentially from \$0.7 million and breakeven, respectively, in the fourth quarter of 2015.

The segment's strong volume gains are powering Home Lending's revenue growth. Our locked loan volume increased by nearly 50% from the fourth quarter, Home Lending's operating expenses increased just \$1.4 million driven by volume related variable costs tied directly to originations. The strong operating leverage drove an increase in bottom line profitability.

The first quarter also included a \$1 million negative valuation adjustment for our MSR asset as a result of decrease in market interest rates. At the end of the quarter, our MSR asset had 13,181 loans with an unpaid principal balance of \$3.2 billion, up from 12,504 loans with an unpaid principal balance of \$3 billion at the end of the year.

At the end of the first quarter, we had cash and cash equivalents of \$26.5 million and \$18.2 million of Structured Settlement assets to be financed. During April, we received another \$21.6 million of cash from the sale of our second pool of our receivables as part of the \$161 million February private placement transaction.

We have diversified our funding sources and have recently accessed the markets through an alternative channel. Going forward, we believe having multiple funding options is beneficial. As such, we believe we have adequate liquidity to fund both our business as well as meet our term loans cash interest obligations. The term loan is our only significant corporate debt and does not mature until February of 2019.

We're in the early innings of our transformational plans. This quarter we experienced both some progress and some headwinds. Headwinds included soft unit volumes in Structured Settlements. On the positive side, Home Lending had a strong quarter. Enterprise expenses were well managed, funding sources have been diversified and the Structured Settlements factory has been specialized. We believe we have a strong plan and we are committed to remaining disciplined and steadfast in seeing it through.

Thank you. Operator, at this time, we are now ready to open the call to questions.

Operator:

Thank you. As a reminder, that's star, one on your telephone keypad in order to ask a question. Your first question today comes from the line of John Hecht from Jefferies. Your line is open.

John Hecht:

Good morning guys. Thanks very much. And just sort of a broad question that I'm wondering if you could talk about – you talked about a little bit of the composition in the pipeline and the mortgage book, and I know your purchase and refi had different seasonality effects. I'm wondering if you can kind of take us through the next few quarters, how we should think about volume, seasonality and composition, and then given that, what we should think about the gain on sale margins within that construct.

Stewart Stockdale:

Yes. Let me talk about the business. Obviously we went into the fourth quarter of last year and typically a slower quarter for the mortgage industry and that was compounded by us adapting to new TRID regulatory requirements. So we ended the quarter with softer volume and \$700,000 of EBITDA for the quarter, which was disappointing, to be honest with you. As we started the first quarter, usually also a relatively soft quarter for the mortgage industry, we wore the expectations that it was kind of going to be softer as we got in to the higher peak period which is the spring and going into the summer and early fall. So that tends to be the higher mortgage market. Obviously, a lot depends on rates and what the market is currently doing. But we went into January and we started look seeing a pretty good pick-up in our lock volume, which led to February being a really, really good month relative to the industry at large, in our opinion, based on what we've seen so far from people that have reported in the mortgage industry. And of course that followed through to a good March as far as closings.

Going into the second quarter, we are seeing that same momentum build into the second quarter. We don't give guidance into the current quarter and the second quarter—the second quarter and the third quarter, but a lot will depend—all I could tell you right now is that we are going into the better mortgage months for the industry as it relates to people buying homes. The refinance market has been strong for us. So we have a combination of both. It was buoyed more by refi than purchase in the quarter. But we do like as we have a mix of government as well as conventional that kind of leads us to good positive mix on the margin perspective. Government typically carries a higher margin for us than conventional product as a rule of thumb.

Other than that, that's kind of the way I see the year. We were expecting the markets to stay relatively flat, but I'm not an economist and I can't predict how the rates are going to move quarter-to-quarter.

John Hecht:

Okay. The second question...

Stewart Stockdale:

Let me just to add, we also have a mix of channels as we described. The retail channel typically is more of a purchase market for us, also pretty good mix between government and conventional loans. The affiliate channel, which is where we buy leads from third parties, that ebbs and flows, refi versus our purchase. We can pivot back and forth through that but we tend to go where we see the volume and the profitability in the mix. And of course, we are launching our new direct-to-consumer and in that what we are trying to do is become more self-reliant on our own leads and build that awareness at J.G. Wentworth brand. We are conducting TV tests and we have quite a bit of work being done on search, so that we can prove that model out and then we are hopeful that that channel will yield the same level of economics as the other channels over time.

John Hecht:

Okay, thanks. I just wanted to move onto the expenses. I know you talked about a \$9 million reduction in the Structured Settlement business, but when we look at the consolidated aggregate expenses, it's kind of hard to delineate where these saves are coming from and so forth. Number one, should we think about kind of in terms of the expense trajectory used this quarter as the base rate, then maybe assume you'll spend a little bit more in the mortgage business and that your \$9 million of \$30 million in synergies accounted for in the Structured Settlement business, so you've got around \$20 million further savings there, but there should be some offsets through some rising expenses in the growing mortgage business. Is that a reasonable construct to think about, or is there something else?

Stewart Stockdale:

Sure. If we look at things this quarter versus a year-ago quarter, the \$9 million—primarily on the Structured Settlement side—with Home Lending's volumes being higher, expenses were higher in connection with the originations as we mentioned. So on the Structured side, we did see that savings. We did start to implement some cost savings initiatives last year, so it's not fair to say that \$9 million in the first quarter versus the second and third and the fourth quarter just because we had already started to implement that, but we do believe on the whole and on the average that the \$25 million to \$30 million that we talked about is still a good targeting area for us for 2016 versus full-year 2015 levels.

Scott Stevens:

And I'll just add I think when we talk about investing into the Home Lending business we are going to invest prudently and profitably. The first quarter is a good example of that where we're launching a direct-to-consumer channel, but we are not going to go spend \$30 million, \$50 million on building new brand and hope people will come. What we are doing is selectively investing on TV to kind of learn that

channel, and search and learn that channel, and try to prove the unit economics on each. So the \$25 million to \$30 million that pulled versus last year is primarily coming out of the Structured Settlement business, and as we invest into growth it will kind of be similar to how we did it in the first quarter, that we'll selectively test different channels.

Once we get to the right level of economic then we'll dial it up, especially on direct-to-consumer and we'll do that on a profitable basis, so don't expect us to come up here and start saying, "We figured it out. We are going to go spend \$50 million and hope people will come."

John Hecht:

Got you. And final question, I just wondered if you have any commentary on the spread income within the Structured Settlement business. We were accustomed a few years back to 20% kind of spread; its now, you have it in the 12% range. I know you are working on some efficiencies to bring that up just from a productivity perspective, but what about on the other side? Is there any measures you can take to improve pricing? Or is it just a market phenomenon? Is this a permanent shift? How do we think about that?

Scott Stevens:

Going back to last year and literally last summer, we started the dialing up the buy rate, right. Obviously, the cost of funds has an impact on our business on an ongoing basis because it flows directly to our bottom line. But as we went out to raise price—and that's where we started really seeing the whole pressure on the marketplace where we do have a lot of competitors, large and small ones, that are competing on price. So as we dial up, we have to make sure that we are passing certain thresholds on profitability, but then you have to balance that out with losing deals and deals that we probably would have taken a year ago, we are, in essence, passing today. An example of that is what we call the wholesale market. We were pretty active in the wholesale market most of last year because we were buying deals from third parties. We would still pass through our underwriting process, but today, based on what some other players are buying those deals at, we are passing on many of those deals today.

So, we are focused on profitability. Obviously, we have a daily call where we look at total volume of calls and we look at buy rates and we look at really the true economics of each of the deals as they come through the pipeline, but that's really the pressure on the unit volume that we are seeing is as a result of pricing. That is something that we'll deal with over time. Obviously taking out cost is an important factor to that, and we think that given our brand and our position in the marketplace that we'll still be the market leader in the category.

John Hecht:

Okay, great. Thanks very much.

Scott Stevens:

Thank you.

Operator:

Your next question comes from the line of Paul Niklason from Credit Value Partners. Your line is open.

Paul Niklason:

Hey guys, really appreciate you taking my question today.

Scott Stevens:

You're welcome.

Paul Niklason:

I just wanted to tie a few things off on from your comments I guess from the Q4 call to today. Just quickly, on kind of spread margins, I'm trying to understand the impact there. So you guys had said that there was a sequential improvement month-over-month in average spread margins and the purchase yields were kind of similar back to 2014 levels. Am I to understand like maybe something there was kind of an adverse impact in March, or was it just like a cost of funds impact that really saw you guys basically hold in the same kind of spread margin from Q4 in your Structured Settlements business.

Scott Stevens:

Yes. It is true. What you said is, is our buy rate did improve sequentially, and in the fourth quarter we did see an improvement there as well. Cost of funds were relatively flat from the fourth quarter to the first quarter. There was a little bit of an increase there but pretty insignificant. I think now, as Stewart mentioned, really we are focused on volumes and so we've got everything in place. We've done a lot of things in terms of efficiencies and specialization of the factory and we are very efficient in that regard. So we've set things up nicely for ultimately what we are looking for now is an increase in volumes.

Paul Niklason:

Okay, sure. Maybe I have missed this but I thought this spread revenue margin that you guys reported is kind of agnostic or independent of volumes. But am I missing there saying that?

Scott Stevens:

No, what we talked about was on a per unit basis kind of the spread economics, right?

Paul Niklason:

Yes, sure. Sorry, we may be talking past each other, but I'm just looking at the spread revenue margin, which my understanding was that was kind of the unrealized gains on VIE per unit of TRB. So I mean just looking at you guys' adjusted financials, VIE was 23 spot 8 of unrealized gains per the 203 spot 7 of total TRB purchases, and then what's that ratio? Now is kind of a same, so it's independent, at least from the sequential—from Q4 it's independent of volumes. I was looking more for color on that. Was it a cost of funds that drove that? Because you guys had said that your buy rates had improved, so just trying to understand it.

Scott Stevens:

Again, in total, that complete amount of spread revenue there is a function of the units and the average spreads, right, so maybe we are talking—I'm not quite sure I'm following.

Paul Niklason:

I get what you are saying, it's a function of the units, right? Maybe an example will help. So in Q4, I see you guys unrealized gains on VIE at 25 spot 6 and that was generated off of TRB of 224, 224 purchases of TRB in the quarter. So now with a lower TRB, you would expect the unrealized gain to be lower, right? But it's more about the ratio between those two numbers, not—I understand that lower TRBs are going to drive lower unrealized gains, but what is the ratio, like the unrealized gain divided by the total TRB? So regardless of volumes—maybe we're beating a dead horse here but I'll stop it here. Sorry.

Scott Stevens:

Yes, okay. So why don't we take this offline? We'll set up a call after this and we'll get into more of the granular detail with you.

Paul Niklason:

Sure.

Scott Stevens:

To make sure that we're all on the same page.

Stewart Stockdale:

But, in essence I mean the unit economics—and we've been focusing on obviously taking out cost and that obviously flows into that down to the unit level, and we've spent a lot of time over the course of the last few months on working at buy rates that are going to improve on the unit economics as well and we've made progress on the buy rate. I think our biggest issue that we do have right now is take the unit pricing, and we feel good about where we are in that, is really less units, right? So part of our big focus right now is getting more through the front door so that it could flow through the factory now that we've kind of reset the factory. Our biggest challenge right now is a unit challenge, not necessarily a profitability per unit challenge is the way I would think about it. But we'll set up some time and we'll go through the fourth quarter and the first quarter and kind of the trends on that. Okay?

Paul Niklason:

Great. Thank you so much.

Operator:

As a reminder, that's star, one on your telephone keypad in order to ask a question.

Your next question comes from the line Justin Wohler from Candlewood. Your line is open.

Justin Wohler:

Good morning. I wanted to shift gears and ask a few questions about the Company's corporate structure. There were some comments in the last 10-K indicating roughly that a 100% of the stockholders' equity of the company was free from any restriction on payment of dividends. I was wondering if you could just help us understand if that is still the case today? Obviously stockholders' equity is lower this quarter, but is there still no restriction on dividends? Then I guess as a follow-up, where does the cash actually reside? Has any money been dividended upstream to what I understand is the intermediate holdco, JGW, LLC?

Stewart Stockdale:

Well, there are two questions there. The first question, the restriction on the dividends on the cash is an annual calculation, so it's not performed on a quarterly basis, according to our term loan agreement. So that's the first point.

The second point with respect to dividends being sent upstream, there were no dividends paid and have not been any dividends paid upstream since the date that we went public back in 2013.

Justin Wohler:

Okay, that's helpful. But if monies were sent up to JGW LLC or further up to the Company, would I understand correctly that those would then become no longer collateral under the secured credit facility?

Scott Stevens:

If they were dividended up from JGW LLC up to the Parent Company, the JG Wentworth Company, that is correct, but they wouldn't...

Justin Wohler:

How about amounts at JGW LLC itself?

Scott Stevens:

You mean if cash was dividended up to JG Wentworth LLC?

Justin Wohler:

Correct. Maybe another way to ask this question: does JGW LLC in way guarantee or have cross-default language with the credit agreement?

Scott Stevens:

I don't believe so, no.

Justin Wohler:

Is there any cash at JGW LLC today?

Scott Stevens:

I would have to go back into the details of our reporting, but I do not believe if there is any cash sitting at JG Wentworth LLC.

Justin Wohler:

Okay, thank you. Then I guess as it relates to the Home Lending business acquisition, did Home Lending become a – I guess a restricted sub under the credit agreement? Are the assets of Home Lending collateral for the credit agreement?

Scott Stevens:

I believe they are, yes.

Justin Wohler:

Okay, thank you very much. That's all I had. Appreciate it.

Scott Stevens:

You're welcome.

Operator:

Your next question comes from the line of Jerry Lvovich from Waddell & Reed. Your line is open.

Jerry Lvovich:

Hi guys. Thanks for taking the question. Trying to understand the adjusted cash flow a little bit better. I suppose given the fact that you have utilized alternative financing, one would have expected your cash level to grow. I understand that it's been pushed out between first and second quarter a little. But still nevertheless I guess if I'm sort of looking at the financials as they are present but I can definitely see how there is a collateral utilization of warehouse lines to the tune of \$50 million that probably affected it. Is that the main reason, or are there a couple of other items, that if I'm looking at in terms of cash utilization that have affected the negative cash—adjusted cash flow?

Scott Stevens:

Yes. The one item that I did mention—again, historically, it's been the case as well, is that the timing of inflows happens throughout the calendar year, and so at the end of the first quarter going into the early part of this quarter, the second quarter, we did receive an inflow. So again, that really just depends on kind of how the deals are structured and when those payments are received. The amount we received in April is by enlarge from earlier receivables if you will, right? So that timing has been sort of we call it lumpy and the timing don't always line up with the kind of the calendar quarter. So I would say that's one of the largest reasons of the explanation for change there.

Jerry Lvovich:

And you are talking about Structured Settlement right now? Not so much the...

Scott Stevens:

Correct.

Jerry Lvovich:

Okay. Then am I right to interpret that the warehouse lines were just utilized a little bit with cash on balance sheet as well? Is that, if I'm looking at...

Scott Stevens:

Correct.

Jerry Lvovich:

Okay.

Scott Stevens:

That's right and that also depends on timing, right? I mean we would fund normally once a week and sort of depending on the day of the week and things. So there is a lot of puts and takes with regards to the calendar reporting periods versus the actual amounts of cash.

Jerry Lvovich:

So with the utilization of this alternative finance in the channel, I think if I was to summarize I think it basically \$160 million of TRB you received a little bit under \$50 million. So if I was to literally just pro rata sort of like extrapolate that in terms of thinking of cash generation ability of the business, if you were to sell all 204, roughly speaking that would imply the price—hypothetically speaking obviously, right? A price—a cash generation of about \$60 million so if that TRB level sort of stayed the same for the year that would imply \$240 million of cash generation. Again, there is a lot of hypothetical assumptions in there but am I generally on the right path?

Scott Stevens:

That's right, that's the consistent business model. Again, I would say that one of the biggest variables there would be market conditions and funding costs at the time any deals are done, right? As you know, we accumulate product and then we fund those periodically. So that is one of the big unknowns right in terms of that model you just laid out.

Jerry Lvovich:

Of course.

Stewart Stockdale:

And within that as we did obviously go through a different vehicle than we did in the fourth quarter, we will continue to access the asset backed securities market. We did go through a private deal this first quarter. It kind of worked for us in that first quarter for market conditions swayed us that way, and we now have that flexibility going forward. So every time we go to market we'll decide which is the best vehicle for us to access. But we are committed to the ABS market and we'll continue to access that channel going forward.

Jerry Lvovich:

How do you see the spreads that that market demands of you in today's environment? Can you provide some color?

Stewart Stockdale:

Yes. When we look at that, literally all the time, every month, every week and we are in constant conversations with our key banks assesses on that. I'll be honest with you, that's the reason that we went down this other channel in the first quarter. It wasn't that we didn't have access to the ABS market—on the contrary, we could have done—but we didn't like the spreads, and so we went down a different channel and it turned out to be a fairly efficient transaction for us. It is very cost efficient as well for us.

As we get closer to the next deal, we will talk to our bankers again and decide whether the rates and the spreads are at the right level, and if not we'll consider going down a different channel again. We think that over time the most efficient channel will be the ABS market on a consistent basis. It's worked out in the first quarter. We found one single investor that took all of the assets, and the next time we go about it, we'll go through the same process and we'll evaluate at the time.

Jerry Lvovich:

In your line of thinking, would you deem beneficial to maybe—again, obviously if you get proper evaluation in terms of discount rate from this alternative channel, would you deem beneficial to accelerate some of the cash payments, so that you can address the debt first. Is that going into your way of thinking a little bit?

Stewart Stockdale:

Well. I mean obviously we constantly monitor the capital structure of the company and we work with our Board to help guide us in that direction. Obviously, we think about the debt on an ongoing basis. Obviously, it's something that comes due in early part of 2019, and that's something that we continuously evaluate. People talk to us about buying back stock. People talk to us about paying down the debt, and we have all of those conversations on an ongoing basis.

Jerry Lvovich:

Okay, understood. To follow-up on the previous caller's question regarding the run rates for expenses, I'm also a bit confused—and I guess I have my own model as to like—what were the variable versus fixed

expenses of the Home Lending business, so I can sort of like try to tinker with that? Would it be possible to provide a bit more sort of clarity on what those expenses for in the first quarter so we can sort of have better quality models in terms of thinking of the expense run rate going forward?

Scott Stevens:

Yes. So we can kind of go through line item by line item, which ones are directly variable tied to volume, right? So again, we can do that separately or...

Jerry Lvovich:

Offline is fine, and if you guys think it might be helpful then I guess post back them. You can post it for everybody else, I suppose, if necessary.

Scott Stevens:

Yes, we are kind of—go ahead.

Jerry Lvovich:

Sorry. Yes, just one last question for me if you don't mind. I guess in terms of some of the Structured Settlement financing outside of the term loan, would it be possible to post the credit agreement in an 8-K so we sort of know what are the main rules that are governing that particular tranche?

Scott Stevens:

I believe we did post the term loan agreement in an 8-K, back at the IPO date. It was an exhibit to that document, the S-1.

Jerry Lvovich:

Okay.

Scott Stevens:

Back in November 2013, so if you go to the SEC website or to our website within the Financial Information section, Investor Relations subsection, you should be able to locate it there.

Jerry Lvovich:

I was thinking about financing directly against the Structured Settlement. We can follow-up offline and...

Scott Stevens:

Yes. We don't disclose that and I don't know that we will, but that's something that let's talk offline on kind of what you are trying to get at and maybe we can help you.

Jerry Lvovich:

Okay.

Scott Stevens:

And maybe we can't, but...

Jerry Lvovich:

Okay.

Scott Stevens:

Let's take that one offline.

Jerry Lvovich:

Okay, great. Thank you so much for taking my questions.

Scott Stevens:

No, thank you. I appreciate it.

Operator:

We have no other questions in queue at this time, so I turn the call back over for closing remarks.

Stewart Stockdale:

I want to thank everybody for joining our call today. As I mentioned in my opening remarks, I believe we made progress on stabilizing the Structured Settlement business, and as we mentioned, our headwinds are still on a unit basis. On the other side, we believe we are scaling the Home Lending business and we had, I believe, a pretty good quarter and proved that we could scale that business. I think the brand is taking effect on a positive basis to that business and we look forward to really growing that segment over the months and years to come.

Thank you very much for today's call and we'll be happy to take additional questions if people choose to call us directly independently. Thank you very much.

Operator:

This concludes today's conference. You may now disconnect.