Q3 2016 OneMain Holdings Inc Earnings Call

Evansville Dec 21, 2016 (Thomson StreetEvents) -- Edited Transcript of OneMain Holdings Inc earnings conference call or presentation Monday, November 7, 2016 at 10:30:00pm GMT

CORPORATE PARTICIPANTS

Craig Steem, OneMain Holdings Inc. - SVP of IR
Jay Levine, OneMain Holdings Inc. - President and CEO
Scott Parker, OneMain Holdings Inc. - CFO

CONFERENCE CALL PARTICIPANTS

Moshe Orenbuch, Credit Suisse - Analyst
Sanjay Sakhrani, Keefe, Bruyette & Woods - Analyst
Rick Shane, JPMorgan - Analyst
Eric Wasserstrom, Guggenheim Securities - Analyst
John Hecht, Jefferies & Co. - Analyst
Lee Cooperman, Omega Advisors - Analyst
Bob Ramsey, FBR Capital Markets - Analyst
John Rowen, Janney Capital Markets - Analyst
David Scharf, JMP Securities - Analyst
Mark DeVries, Barclays Capital - Analyst

PRESENTATION

Operator

Welcome to the OneMain financial third-quarter 2016 earnings conference call and webcast. Hosting the call today, from OneMain, is Craig Streem Senior Vice President, Investor Relations. Today's call is being recorded. (Operator Instructions) It is now my pleasure to turn the floor over to Craig Streem. You may begin.

Craig Steem, OneMain Holdings Inc. - SVP of IR

Thank you, Stephanie. Good evening, everyone. Thanks for joining us.

Let me begin by directing you to pages 2 and 3 of the slide presentation, with our important disclosures concerning forward-looking statements and the use of non-GAAP financial measures. The presentation can be found in the Investor Relations section of our website, and we will be referencing that presentation during this evening's call. Our discussion today will contain certain forward-looking statements reflecting management's current beliefs about the company's future financial performance and business prospects, and these forward-looking statements are subject to inherent risks and uncertainties and speak only as of today.

The factors that could cause actual results to differ materially from these forward-looking statements are set forth within today's earnings press release which was furnished to the SEC in an 8-K report and in our annual report on Form 10-K, which was filed with the SEC on February 29, 2016, as well as in the third-quarter 2016 earnings presentation that has been posted on the IR page of our website. We encourage you to refer to these documents for additional information regarding the risks associated with forward-looking statements and we caution you not to place undue reliance on forward-looking statements.

In our third-quarter 2016 earnings material we provided information that compares and reconciles our non-GAAP financial measures with the GAAP financial information, and we also explained why these presentations are useful to management and investors and we would urge you to review that information in conjunction with tonight's discussion. And if you may be listening to this via replay at some point after today, we remind you that the remarks made herein, are as of today November 7, and have not been updated subsequent to this call.

Our call will include formal remarks from Jay Levine, our President and CEO; and Scott Parker, our Chief Financial Officer. And, as Stephanie said, after we conclude our formal remarks we will have plenty of time for Q&A, so let me turn the call now over to Jay.

Jay Levine, OneMain Holdings Inc. - President and CEO

Thanks, Craig. We had a lot going on this quarter, particularly on the integration front. We also have quite a bit to cover during our call this evening, including: our review of the quarter, the state of the market, our progress on the integration of OneMain, and an update date to our 2016 and 2017 guidance.

So let's begin with slide 4. We had a profitable quarter, earning $25 million or $0.19 per share on a GAAP basis, and $122 million or $0.90 per share in our Consumer and Insurance segment, on an adjusted non-GAAP basis. We made good progress this quarter on our strategic priorities. We continue to grow receivables, manage risks, and strengthen our liquidity and balance sheet.

Looking at the environment, we continue to see strong underlying consumer fundamentals with multi-decade lows in weekly jobless claims, and modest wage growth for middle-income consumers, giving us confidence in the overall health of the US consumer. At the same time, we're seeing an increase in the supply of unsecured credit available to the sub-660 FICO borrowers. Recognizing this shift, as well as our own performance, we have taken a harder look at the lowest credit tiers in our prospect universe, and are requiring collateral or simply not booking these higher risk loans. I will discuss this later in the call.

This quarter, marked a meaningful acceleration of our program to integrate OneMain. As we set out on the journey of maximizing the value of the OneMain acquisition, we have kept our eyes on our destination. One combined branch-network with a single brand, and a national footprint to deliver a uniformly-outstanding experience to the more than 2 million customers we serve across the country.

We knew there would be a number of critical paths, including the implementation of the Unified Underwriting System, building an integrated digital strategy, rebranding our Springleaf offices, and converting to a single loan management system. With the exception of the branch system conversion, scheduled for the first quarter of 2017, we accomplished all these critical tasks in the past quarter. In fact, this was the single busiest quarter since closing, in terms of the sheer level of change, particularly for the almost 5,000 team members, at the more than 1,100 former OneMain branches.

In addition, we successfully converted over 100 OneMain branches in North Carolina and Kentucky, giving us the benefit of very specific intangible experience that we're already using to help us manage the full conversion in the first quarter of 2017. I'm incredibly proud of how our entire team accomplished these large-scale changes during the third quarter and on through the pilot conversions.

That being said, an integration of this scale is not without its challenges, and recently, we have seen a firm-wide slowdown in loan growth, relative to our expectations, as well as an uptick in early stage delinquency, principally at the OneMain branches. I will discuss both these trends in greater detail later in the call.

I'm pleased that with all these changes in the quarter, we still grew our portfolio by almost $200 million, and increased the percentage of secured originations from 30% to 45% year-over-year.

Let's turn now to slide 5. First, and most importantly, our business model is designed to generate unlevered return on receivables, that we believe is unequaled in the industry at over 10%. We will not stretch for growth that does not meet this hurdle rate. We have achieved these returns through responsible lending, at reasonable interest rates, and in-person underwriting, built upon sophisticated analytics.

We have proven that our model can effectively manage the most critical variable, credit risk, allowing us to drive consistent profitability. Additionally, we have achieved strong credit performance, while growing our portfolio over the past several years. We believe that our market opportunity, combined with our extensive branch network, will continue to drive strong receivables and earnings growth.

Our national scale, and largely fixed-cost base, position us to achieve increasing returns on incremental receivable growth through very meaningful operating leverage. Our focus on unlevered returns is also important, as maintaining a strong level of risk-adjusted profitability helps us ensure access to low-cost funding in the capital markets.

Most importantly, not only is our loan spread attractive, in and of itself, but with modest leverage, we believe we can generate strong ROEs in the 20% plus range. So the principles of our business model are; one, maintain our 10plus% unlevered return; keep a firm hand on credit, and not chase loans or competitors in a manner that jeopardizes these long-term returns; leverage our invaluable branch networks to take full advantage of our scale; and continue to generate strong returns on equity with our balance sheet model of lending. We believe that over the long-term, our model can drive higher and more sustainable earnings than any consumer finance model by retaining the full economics of our originations.

Let's now turn to slide 6. Our proven ability to manage credit risk has been a major differentiator, and when we look back over longer periods, we believe our credit performance holds up extremely well.

Going back almost 20 years, Springleaf had performed strongly against other comparable sectors, such as private label credit cards and sub-prime auto, reflecting our conservative underwriting, emphasis on secured lending, and the benefit of the branch model. We recognize that installment lending, on weekly short-terms, is a better formula than open-ended lending with undrawn capacity, which allows borrowers a free option to draw down on your credit, just when you may not want to be lending to them.

Further, in an effort to help as many potential customers as we profitably can, including those with FICOs extending below 600, we always lean toward a greater percentage of lending to be secured by autos. This has helped us manage our credit performance through cycles, especially when credit available to our customers has been somewhat easier.

Let's turn to slide 7 where we are showing you the more recent performance of the combined portfolio. As we think about our delinquency and loss trends, there are a few things I'd like to point out. First, for full-year 2016, we expect the net charge-off rate to be very close to 7.1%, right around the mid-point of what we previously projected back in February.

Second, the numbers in the chart on the left, are the combined number of the two portfolios, and reflect a much larger percentage of unsecured loans than we expect to manage over time. Third, delinquency was up from the second quarter. This increase was due to normal seasonality, and to the impact of recent integration activities at the former OneMain branches. We believe the impact of integration from the former OneMain network, led to an incremental increase of 20 basis points in early stage delinquencies for the whole portfolio, at the end of third quarter.

Finally, as we look ahead to expected charge-offs for full-year 2017, we're anticipating a higher loss range than we had shared earlier now 7.2% to 7.6%, and the first-half, 2017 charge-offs expected to be elevated as we go through this integration. Our revised credit outlook is partly related to denominator effect, with less expected near-term growth and receivables on our books, as well as a link to the uptick in delinquencies we anticipate experiencing through the integration.

As we look at slides 8 and 9, we will be going into a bit more detail on each of the two portfolios, so let's begin with slide 8.

As we think about the business, we view our primary job to be stewards of shareholder capitol, with the single most important task being managing credit risk, even at times at the expense of growth. We believe the availability of unsecured credit is currently the greatest it has been in recent years.

I know we have said it before, but the primary reason for our focus on secured loans, is that protects us from the incremental credit risk of new loans our customers may add after we've closed our loan. Secured lending is the most effective way we know, to manage credit risk to those at the weaker end of the spectrum of the customers we serve.

I want to illustrate the very positive benefits of secured lending at Springleaf, and then talk about how we been using this to improve credit performance at OneMain. Total outstanding net receivables to Springleaf grew 21% in 2014, and 31% in 2015. And at the same time, we increased the secured percentage of the Springleaf portfolio. Some of that loan growth came from our new auto program, where we made larger loans on newer cars, and some came from increased secured lending to the riskier segment of our customer base.

Secured lending has been a key part of both our growth and risk management strategies, and our secured portfolio has increased nicely from 44% in the first quarter of 2014, to 58% at the end of the third quarter. Importantly, while the net charge-off rate on unsecured loans runs around 9%, the net charge-off rate on secured loans runs over 50% lower. So it's easy to see why the strategy is so compelling, and that difference is even more pronounced on the riskier segments of our customer base.

Again, for the overall portfolio, as well as for every vintage we originate, we closely track metrics to ensure our marketing and underwriting models are working, and that losses and overall returns are performing as originally projected. One of the most important leading indicators of loan performance, is the share of loans that are 60 days past due, at six months after origination. In fact this 60 at 6 indicator gives us the best early read on the health of each vintage, relative to expected performance.

As you see in the top left, our secured mix at Springleaf -- the 60 at 6 measure has, over the time demonstrated the benefit of originating more secured volume. This gives us confidence that we can expect an underlying improvement in Springleaf net charge-offs going forward. Our 30 to 89 day delinquencies have improved in 2016, and we believe this will lead to lower charge-offs in 2017, compared to 2016 for Springleaf.

Let's turn to slide 9. As we've mentioned previously, over the past several years, OneMain has deemphasized secured lending, and you can clearly see that in the chart. Historically, interest rates on OneMain secured loans were only at a small discount compared to their unsecured offers. With this pricing, it was an easy decision for customers to take the unsecured offer and it was certainly easier for the branches to sell and close the unsecured loan.

This has had a negative impact on OneMain's recent and expected credit performance, as you can see in the 60 at 6 chart in the top right. In addition, the performance of the first quarter vintage is showing some effects of the integration activities I mentioned earlier. Needless to say, increasing secured lending in the portfolio has been one of our biggest priorities since closing, and we believe it will be a significant contributor to long-term growth, lower losses, and importantly, enhanced profitability.

With originations in the third quarter of OneMain at 38% secured versus 13% one year ago, and with the OneMain portfolio at 21% secured at the end of the third quarter, we have already made meaningful strides since closing, and expect the secured percentage of the OneMain portfolio will grow to approximately 35% by late 2017. This level of security is expected to drive losses and 2018, below the projected 2017 level.

As we have brought new emphasis to secured lending in the OneMain branch network, we have recently seen a reduction in our unsecured volumes. While we have had real success in selling secured loans, not every unsecured prospect or customer has the collateral or the willingness to take on a secured loan, and we believe that this along with the integration activities, has been a driver of the recent slowdown in growth at OneMain.

Let's turn to slide 10. At the time of the acquisition, OneMain was growing its receivables at less than 5% per year, and receivables at Springleaf were growing above 20% per year. Looking forward, based on the growing number of new customer applications we continue to see, we believe good demand continues to exist for our loan products. We continue to expect mid-teens growth at Springleaf, where there are fewer integration activities occurring.

As our integration activities accelerate in the third quarter, the amount of change we asked of our branch team members, simply kept them from bringing their historical level of focus on new business and collections. In addition, we postponed a number of growth initiatives in light of the need to focus on the integration. As we think about our learnings from the integration over the past few months, and as we approach the final stages of our branch systems conversion, we now expect minimal growth to former OneMain, until the integration is completed in the first half of next year, with growth expected to pick up in the second half of the year.

Let's turn to slide 11. First, it goes without saying, that we are disappointed by the recent downturn in volume and growth, and the resulting need to reduce our earnings guidance for 2016 and 2017. Let me share some of the critical factors that have shaped our updated view.

First, we're seeing more unsecured credit available and in response, we have moved to eliminate unsecured lending to our highest risk prospects. We have recaptured some of this volume with secured lending, but clearly not every one of these customers has the willingness or the collateral to take on a secured loan.

Second, after we close on the acquisition, we saw tremendous excitement in the OneMain branches about the new products and growth potential and we experienced a strong first quarter pick up in loan originations. Unfortunately, as a moved into the more intensive portion of the integration particularly in this last quarter we have seen productivity decline in the OneMain network, impacting both growth and credit. We view this impact as transitional, and expect to see positive momentum in both receivables growth and credit performance after we complete the integration in the first half of 2017.

Accordingly we're resetting our Consumer and Insurance adjusted EPS guidance for 2016, to a range of $3.60 to $3.70 per share. For 2017, we are lowering our target for total C&I ending net receivables, by about $2 billion, taking into account the full branch integration that we anticipate completing in the first quarter. This reduction in receivables, has led us to update our 2017 C&I adjusted EPS guidance to $3.75 to $4.00 per share.

Again, our primary objective is to ensure our business is positioned to grow long-term shareholder value. This means we must continue to focus on completing the integration as efficiently and effectively as possible, and we will not stretch for growth by allowing unacceptable risks to our operations or credit management. We fully expect to deliver on the opportunity ahead of us.

I'm now going to turn the call over to Scott to give you more detail on third-quarter performance.

Scott Parker, OneMain Holdings Inc. - CFO

Thanks, Jay. Now let's turn to slide 12 to review our third-quarter performance.

We earned $25 million or $0.19 per share in the third quarter on a GAAP basis. As a reminder, our reported results for the quarter included $157 million of pretax acquisition-related, and other adjustments. Our book value per share ended the quarter at $22.56. Our consumer insurance segment earned $122 million, or $0.90 per share in the third quarter, on a non-GAAP adjusted basis.

C&I adjusted earnings were down $0.06 versus the prior quarter, and up over 2 1/2 times versus the prior year. On the right side of the page, you will see the return analysis of the performance of our C&I segment, on an adjusted basis for the third quarter, walking down to a 3.6% return on receivables.

Return on receivables is down from 3.9% in the second quarter, and down slightly from the first quarter level. Return on receivables was impacted this quarter, by reserve building, related to the uptick in delinquencies at the OneMain branches, as well as by higher average funding costs, and a bit of a drop-off in our revenue yield.

Average net receivables were $13.4 billion, up from $13.3 billion from the second quarter, including the impact of the May 1 branch sale. As we look into the fourth quarter, we're guiding to C&I adjusted earnings per share of $0.80 to $0.90.

As Jay mentioned, as we move through the integration we're anticipating an uptick in delinquencies in the OneMain portfolio, as well as a slower receivable growth from the OneMain branches. With that in mind, we expect our results to come under some pressure in the fourth quarter and the first half of 2017, as we complete the branch integration.

Additionally, given some of the near-term elevation in early delinquencies, we built our non-TDR reserves in the quarter by $34 million, or 19 basis points, relative to prior quarter levels. If current trends continue, we would anticipate some incremental reserve building in the fourth quarter as well.

I want to note that our GAAP tax rate this quarter was 24.5%, as a result of few discrete tax benefits. Going forward, we will continue to use 38% as the estimated tax rate for our C&I segment.

Turning to slide 13, I want to highlight our progress on expenses and driving operating leverage as we continue to execute on the integration. You can see the pre-acquisition profile of a 13% operating expense to receivable ratio, at Springleaf, with its smaller footprint, and 9% at OneMain. When we closed the deal, the combined company was running at about 10.8% in the C&I segment, and we have made meaningful reductions from there.

In the third quarter we reported a C&I OpEx ratio of 9.9%, so we're down 90 basis points from the time of the acquisition, and we expect to be at a run rate of 9.6% by the end of the year. This is very much in line, in terms of nominal dollars, with our previous expectations. Given the lower asset growth that Jay outlined earlier, we are coming in a little bit higher on the OpEx ratio, than we previously expected. That is really driven by a lower expected denominator.

In 2017, we expect to capture additional synergies as we complete the transition to a single platform for the combined company, consolidate overlapping branches, and migrate off the TSA with Citi.

Turning to slide 14, you'll see a summary of our $14.4 billion in debt, on an unpaid principal value basis. We have a mix of about 60/40 secured to unsecured debt, with a balance security profile of unsecured debt. On the liquidity side, we're in a strong position. We had $3.8 billion of unencumbered consumer loans, at $4.6 billion of undrawn available conduits at the end of the quarter. These liquidity sources will allow us to fund all of our operating plans over the next 12 to 18 months mitigating any capital markets risk we may experience.

As we have discussed in previous calls, we see ourselves as a regular issuer in both the asset-backed and unsecured bond markets. And this year we have raised over $2 billion of term ABS funding, including our recent Auto ABS deal in July, and $1 billion of unsecured bonds in April. We invest a significant amount of time in investor development, which has paid off by attracting several large, global leaders into our funding programs.

Turning to slide 15, we're continuing to deleverage our balance sheet, even with our expectations for lower near-term assets and earnings growth. Our tangible leverage decreased to 10.7 times in the third quarter. And with our updated financial projections, we're still on track to reach the high-end of our target tangible leverage range towards the end of 2018.

We were able to reduce our leverage ratio, as our tangible capital is expected to build more rapidly than our debt balances over the coming years. On the right side, you will see a table that goes into more detail on our path to reducing leverage and building tangible capital over the next few years.

At the top of the table, you will see the underlying adjusted earnings for the C&I segment that we guided to. Below that, as we have previously provided, we have outlined more significant elements that walk down to the tangible capital build that we expect. Based on these items, by the end of 2017 we should be around $1.6 billion in tangible capital.

As we move past 2017, tangible capital growth should accelerate, as we expect to drive from acquisition-related costs in real estate to less than $100 million per year, and to tail off in the subsequent years. Importantly, with our current expectations for asset growth, we will be able to maintain our expected path to lower leverage.

At this point I'd like to turn it back to Jay for slide 16, and his closing remarks.

Jay Levine, OneMain Holdings Inc. - President and CEO

Thanks Scott. I really want to emphasize our long-term goals, and the opportunity to create substantial shareholder value. The acquisition of OneMain has driven a significant increase in our earnings power. In just one year since closing, we have more than doubled our C&I adjusted earnings per share, and as we execute on the integration, and revised growth at OneMain, we are positioned to continue to deliver double-digit, unlevered receivable return.

As you have seen throughout today's presentation, we're focused on disciplined underwriting and we're not willing to jeopardize long-term returns for next term growth. We are building the right portfolio for the long term. While I am disappointed with our recent receivables growth, and revised near-term outlook, completing the integration and being able to move forward as one company, is the most critical immediate step to position us for success.

With our compelling business model and continued strong consumer demand, I have tremendous confidence in our future business prospects. For us, the key to significantly enhancing earnings growth and returns, is the tremendous positive operating leverage of our model. Our focus is on the near-term task at hand to allow us to return to growth opportunities and build shareholder value. Now I would like to turn the call over to the operator to begin the Q&A portion.

QUESTIONS AND ANSWERS

Answer – Operator: (Operator Instructions)

Moshe Orenbuch, Credit Suisse.

Analyst: Moshe Orenbuch, Credit Suisse - Analyst

Question – Moshe Orenbuch: Thanks. I am sort of hoping that you could give us a little more detail in terms of the integration issues and what causes them actually to be removed and allow for growth in loans and maybe a little more detail over the next couple of quarters. Because we spoke more than a month into this quarter and it wasn't apparent at that time that this level of disruption was going to go on, and so if there is a way you could be a little more detailed as to what happened and why it's going to be repaired over a period of time that would be helpful.

Answer – Jay Levine: Sure. This was a quarter that, compared to everything that's happened in the past, was the most active quarter we've had and in particular it was pretty active late in the quarter as we began to position for the rebranding. While we were operating two independent networks, one Springleaf, one OneMain, business largely continued as is. We knew certain things were going to have to happen to ultimately operate as one brand which we did beginning October 1, OneMain. The biggest single component of that being aligned underwriting and pricing model. That was rolled out in September, so I'd say as we look back over the previous year, really the biggest change has occurred late in the third quarter.

They were things we been working on for some time, but clearly they had more of an impact on business, really what we would say in September and ultimately in October than possibly we anticipated. But it was the way the two companies went about their business was slightly different in terms of underwriting and processing of loans and marketing and all that came together and on both sides there was an adjustment. So I would say that has been dealt with, that's now in the system and being worked through. As I think I also alluded to in October, on October 1, we converted two states from what had a former operating system of OneMain Symphony to the Springleaf system to make sure the systems all worked, and we are very pleased that that has all transpired. The remaining 1000 branches will convert in January and February and we believe those are the last critical activities that have to happen. So there's some adjustment to the new underwriting and pricing that's occurring as we speak. There's a new system that had to be adjusted to that will happen in January and February but after that I think we are back to normal operating.

Question – Moshe Orenbuch: And Jay just to follow up, so the level of originations for the fourth quarter is going to be better or worse than the third quarter? How do you compare kind of fourth-quarter, first-quarter, second-quarter? How should we think about that?

Answer – Jay Levine: I will say our business is seasonal, so the first quarter is always our quietest quarter and the fourth quarter is always our busiest quarter. We would expect and we plan for fourth-quarter originations to be higher than they were third quarter. And I think we still have a lot of November and December to see that through, but in general we expect the fourth quarter to be better than the third quarter, the question is what will the growth be when all is said and done? We grew by couple hundred million in the third quarter that was less than we hoped to grow to meet the receivable numbers that is required to make the guidance and certainly we want to see growth in the fourth quarter as well.

Question – Moshe Orenbuch: Thank you.

Answer – Operator: Sanjay Sakhrani, KBW.

Analyst: Sanjay Sakhrani, Keefe, Bruyette & Woods - Analyst

Question – Sanjay Sakhrani: Thanks. Jay you talked about new players entering the market sub-660. I was just wondering if you could talk qualitatively about those players and maybe how much of the revision is related to that?

Answer – Jay Levine: I would say nothing directly related to that. I would say first, I think when I'm largely talking about a credit card issuers it doesn't really matter who you look at, whether it's a smaller balance or some of the bigger names, they've all emphasized going down and that's where a lot of the growth has come from as well as some of the retail cards. So for us what matters to our customers is both the overall economy as well as their total debt burden, so we're paying a fair amount of attention and trying to be responsible to what their debt burden is when they come to us as well as where it may go. So I think those are the things we are paying attention to. I would say that's kind of how we see the unsecured market. I don't think we see any significant number of new players making installment loans or doing anything differently there.

Question – Sanjay Sakhrani: Okay and maybe just to follow up on Moshe's question and maybe just get a little bit more there, in terms of the risks going forward of not achieving the goals you've outlined, could you maybe talk about those outside of a recessionary scenario?

Answer – Jay Levine: Sure. A very direct question. To get to the numbers we put out for the rest of this year and next year, certainly a number of things need to happen. There needs to be some receivables growth. We need to continue to manage our credit through the integration, but I will tell you based on everything we've seen as well as where we've gotten to now, we feel good about it.

Question – Sanjay Sakhrani: Okay. And maybe a final question, in terms of your revised views, have you guys discussed those with the rating agencies and any context as far as those discussions? Thanks

Answer – Scott Parker: We had conversations before the call, I think the focus we have with rating agencies revolved a lot around the deleveraging plan. So as we outlined in the deck, you see we're continuing on the path to delever as we get through 2017, even with lower expectations, we're on the right path to get down to our target leverage.

Question – Sanjay Sakhrani: Great. Thank you.

Answer – Operator: Rick Shane, JPMorgan.

Analyst: Rick Shane, JPMorgan - Analyst

Question – Rick Shane: Thanks guys for taking my questions. When I think about the revision to guidance today, I think it's really three things. One is credit is a bit weaker than you had anticipated. The second is that as you point to, there is a shift in demand due to the competitive environment, there's less demand -- or there's more competition for unsecured and that's creating some pressure in your secured product. And then the third that you point to, and I think Moshe focused on this and I think we need to delve into this a little bit more, is on the integration. That is creating pressure in terms of loan growth through the remainder of this year but it looks like that that's actually going to continue into next year. In fact, we're not only emerging from 2016 at a lower level, but the run rate into 2017 or through 2017 is going to further be below previous expectations. I'm really curious, what's the demand at the branch level that has changed for the originators that has caused significant flattening of originations and why isn't that a more fundamental shift?

Answer – Jay Levine: I think you nailed a couple of the few big ones. You are right, there was a little bit more in the way of credit that went into the numbers. But I'd say, look, the biggest one is the delta on receivables, which is origination and the originations -- the numbers have come down for a couple of reasons. One is the environment and I'd say in a slightly different way which is, as we look at the environment and in particular some of the weaker customers, we are now saying we're happy to make that loan, but we want collateral. As we have aligned the underwriting through companies and as I think I alluded to, not every customer wants to pledge the collateral, and that means there's going to be slower growth as a result of that.

And again, that's being prudent around additional debt they may have today or they may take on in the future. I think our thinking around post integration is we wind up getting back to a similar level of growth in the double digits, low to mid double digits and sustainable there over time so long as the economy stays where it is.

But as it relates to the integration we do think that is a near-term thing we're going through, we think it's one that passes within months. It has, really I'd say from every standpoint, gone very well other than it has slowed down origination growth. Some of that is aligning the underwriting systems and people getting used to what's passing through, but overall I would say the biggest things that have related to the change, it may be driven by integration, but is largely about the receivables delta.

Question – Rick Shane: And in that vein, can you talk about the incentives for the OneMain employees and is there a situation here where this becomes a little bit of a spiral because the incentives and the expectations are now unachievable before them, so it becomes a disincentive?

Answer – Jay Levine: Very fair question. What I would say is we spend a lot of time and continuing the line to make sure people are incented to do the right thing, both collect and originate, we spend time making sure we have the right balance, we have the right participation and we're willing to adjust those things appropriately to make sure we are building and protecting shareholder value.

Question – Rick Shane: Thank you for taking my questions.

Answer – Jay Levine: Sure.

Answer – Operator: Eric Wasserstrom, Guggenheim Securities.

Analyst: Eric Wasserstrom, Guggenheim Securities - Analyst

Question – Eric Wasserstrom: Thanks just to follow up on a question that was asked earlier, again related to the growth, is the slowing in any way related to a response from the rating agencies?

Answer – Scott Parker: No there is no correlation between the rating agencies and our growth. It's all what Jay's been talking about around integration activities that have really embarked in the third quarter.

Question – Eric Wasserstrom: Okay great, and Scott I'm curious why, recognizing that you are producing less revenue with less growth, but you are also consuming less capital in the process and given the high returns on the existing book, why the delevering isn't in fact accelerating a bit here relative to the prior guidance?

Answer – Scott Parker: You're making a point that clearly we generate a lot of cash flow from our portfolio and we can take you off line through the math, but you lay it out, our equity is building which means we have to issue less debt as well as the cash flow that we earn off the portfolio gets us to those kind of leverage ratios in 2017 and 2018. But that just factors into that.

Question – Eric Wasserstrom: Great. Perhaps I'll follow-up with you on that later. Thanks very much.

Answer – Operator: John Hecht, Jefferies.

Analyst: John Hecht, Jefferies & Co. - Analyst

Question – John Hecht: Good afternoon, thanks guys. I guess a little bit more on the origination issue. If I recall the Springleaf, when you guys introduce the auto product, there was a fairly high conversion rate and a lot of interest from your customer base at Springleaf. It seems like, whether it's because of competitive products or not, the conversion rate and the interest in the product moving from unsecured to secured is a little less. So is that procedural, like you mentioned, Jay, some of the sales tactics at OneMain versus Springleaf platform or is there a characteristic difference of the customer base or is there something else we should think about there?

Answer – Jay Levine: No. I think this is a timing thing. I'd say when we look at it - well, I'd say a couple of things. One, you saw, while OneMain previously, in a prior life, had emphasized secured lending, it has been a while and you've seen the portfolio decline down. So I'd say the comfort around the process of taking the title, going through the entirety of the closing was probably a little bit different.

When I look today at where we are I'd say we're you excited that OneMain's been successful, we probably originated $500 million to $750 million of loans. But when you look at the potential and the gap between what the Springleaf branch is continue to close and what the OneMain branches continue to close, it's one of the greatest points of our optimism of why we think growth is going to get back. It's still probably running even after three quarters, it's still probably running at half to two-thirds of what we think it could be, and we know with those bigger loans, lower losses, the opportunity is there to build the receivables. So I think what you just highlighted is one of those things that will come in time but with all the other things going on in the branches it's one of those we haven't been able to put enough resources for the training and other things for the sale process.

Question – John Hecht: Okay. And maybe just to give us a sense of what is the conversion and integration successful that the growth trajectory will take off. What's the average size right now in the OneMain hard secured loan versus the - excuse me, the Springleaf platform hard secured loan versus maybe an average unsecured loan at OneMain?

Answer – Scott Parker: If you look at originations recently, they are all pretty locked. That was one of the keys for getting the underwriting modules put in across the companies, so similar customer, similar credit, would wind up with a like dollar amount, like rate, like those things really by state, because you have to look at each state, the way we do it. In general, we have seen--answer a couple of different things maybe. We've generally seen the OneMain auto has wound up, I think on average, about $1000 higher. So where OneMain may have been $12,500 or $13,000 the other is $1000 higher on average, generally indicating potentially newer cars and better credit across the OneMain portfolio. I don't know the specifics on the OneMain unsecured, I know on average there's 1.2 million customers, about $8 billion receivables some of which are autos so the average is probably about $6000 in general with the customers that are there today.

Question – John Hecht: Okay. And then last question and I think you guys stated this very clearly on the call, the synergy guidance hasn't changed at all but maybe the cost as a percentage of our receivables moves up just because the average receivables balance isn't going to be quite as high. Am I interpreting that accurately?

Answer – Scott Parker: That's correct. We talked about getting down to $100 million annualized savings at the end of 2016, and if you look where we are John, expecting to be at $325 million in the fourth quarter gets you to that run rate. And then as you venture through 2017, we talked about exiting 2017 at another $100 million reduction, so outside of the percentage impact of the denominator, the absolute cost take-out is still on track.

Question – John Hecht: Okay. Thanks very much guys.

Answer – Operator: Lee Cooperman, Omega Advisors.

Analyst: Lee Cooperman, Omega Advisors - Analyst

Question – Lee Cooperman: Thank you. I think what I am hearing on the call is that funding is good, performance of existing portfolio was good, we have less growth than we were hoping for, which means you are generating more liquidity than you need, we have $5 billion available cash, and quote you, tremendous confidence in the growth prospects of the company. My question is with roughly $4 in earnings, why don't you pay a $1 dividend to shareholders to basically reward them during this period? Why is the urgency to reduce debt when we have the lowest interest rates in the history of the world? That's the question of dividend policy.

Answer – Jay Levine: Thanks Lee and I appreciate it. What we talked about was by way of earnings, really related to the core business and before a number of one-time adjustments that we continue to probably take through 2018, at least until we finish 2017. So largely related to the acquisition. I would say by the time we finish the one-time charges, we're close to really what we generate in earnings in the core business comes a lot closer to the earnings and that's about the time that leverage starts to hit where it should. So I would say if there was any one obstacle getting in the way of what I think is a very -- I don't know if dollar is the right number, but a sensible plan would be the fact that we still have 2017, one-time charges to take related to the acquisition. And I don't know if Scott wants to jump on that.

Question – Lee Cooperman: Just before he does, do you have any covenant prohibitions of dividend, as I understand it and my partner knows better numbers than me, but were talking about $5 billion of liquidity, we have 135 million shares, $1 dividend is $135 million. It doesn't seem like a large number and that leaves the company, divide that by four, leaves the company quarterly and you underpin the stock, whereas the issue competing with other financial service companies for representation of the portfolio and most financial companies today are paying dividends. That's what's behind my question.

Answer – Jay Levine: Look Lee, it makes total sense. I think we've talked about once we hit our leverage targets, and you're right, there are no covenants, our responsibility to run the company prudently, to have the right amount of capital so we can survive any economic thing that comes our way. But I will tell you that, as I said before, once we are at a leverage point that we think is responsible and we continue to work with the rating agency to get what upgrades we think we deserve, we absolutely intend to look at what's the appropriate thing to do with the excess earnings and capital generating the business.

Question – Lee Cooperman: Different view, but it's okay.

Answer – Operator: Bob Ramsey, FBR.

Analyst: Bob Ramsey, FBR Capital Markets - Analyst

Question – Bob Ramsey: Good afternoon guys. Wondering if you could quantify the diminished outlook. What percent of that is related to OneMain execution and what percent is more the market conditions and competition? Is it 50/50, 60/40, how should we think about the reduction?

Answer – Jay Levine: I would say, look, when we think about competition, we continue to see more demand for credit than we have seen. Our apps are up year-over-year and we really see no challenges on that front. What I think we're thinking about, it's really the ability of credit and making sure and being responsible about the [loan] we put on. Some of it is being prudent about underwriting, but that doesn't mean there's not demand --I would say that the market really hasn't changed and the part about integration is really a very near term thing that we have to get trainings around a new system and underwriting modules to get rolled out in the case of underwriting across 1800 locations and in the case of new systems, around 1000 more stores. Once that is done, we think -- what's important as it's always been, is to maintain the right underwriting, because those are the loan, the portfolios that we live with for years to come. But I will tell you there's nothing around competition that we think has hurt us, if anything I would say the success of some of our plans, the single [brands] have actually helped us.

Question – Bob Ramsey: Okay, but I guess prudent underwriting was a part of this model from the time the deal was announced and today the outlook is different. So that either means you guys are seeing something externally that makes you more cautious or else it's something -- you guys have highlighted there have been some of the integration issues that have affected credit, so I'm just trying to get a sense what of this is internal versus external, knowing that obviously it makes sense to be prudent on underwriting, but you always have been.

Answer – Jay Levine: Look, I'd say we've always looked at performance, I think you've seen it across the board, whether it's anywhere you look, the weakest customers are seeing lifts in both delinquencies and charge off. You've seen that from some of the online and others, and we are being sensitive as we go down the module and down the lending spectrum, especially as credit is more available that they don't get in trouble and for that reason, thank goodness we're set up with the branch system where we can get collateral and be able to be prudent about the riskier loans. It's hard to figure out what's tightening in credit and what's integration. I would say the majority of what we're going through now is integration and you can't put a precise on any one of these things, but from spending a lot of time in the field with our managers in the branches talking to people and trying to [root cause] all of these things, we see the majority of it being integration related.

Question – Bob Ramsey: Okay. And on the competitive front, can you quantify what you were seeing on the online versus storefront side of things? Are you seeing increasingly customers shift to online options? Are you not seeing a real change in that dynamic? I'm just curious how that's working.

Answer – Jay Levine: Look, it's always hard to know what a customer does away from you because they don't come and say oh, by the way, I went here or there. So it's a little bit difficult. We do take surveys, all kinds (inaudible) customers that got loans from us, didn't get loans from us and try to get as much information. But in general, we're not seeing a ton of competition or any heightened competition from the online players. I think the branch based players are much more regionally concentrated, so in some states we might have more than others. I'd say the place that customers tend to be getting more credit tend to be coming from the credit cards. That tends to be a [fate], but again, those are smaller balances and generally aren't competing with what we're trying to do which is a $5000 to $10,000 loan for a single purchase or a debt consolidation. Overall, I'd say the market is pretty similar to what it has been in previous quarters and I'd say, if anything, we are focused on getting through the integration and being mindful of credit at the lower end.

Question – Bob Ramsey: Okay. All right. Thank you.

Answer – Jay Levine: Sure.

Answer – Operator: John Rowen, Janney.

Analyst: John Rowen, Janney Capital Markets - Analyst

Question – John Rowen: Hi guys. Jay, just to make sure I understand, so you are cutting off all unsecured credit in the former OneMain branches, did I hear that correctly?

Answer – Jay Levine: No. That's not even - that's not what we are doing. What I said is we're trying to create the right balance of lending that we do. I'd say it's -- let me lay out our strategy as it relates to secured lending, just so there's no confusion. The weakest customers, and it's hard to define them because I do have [FICO as a proxy], just to be clear we don't underwrite by FICO, but for the very weakest customers, we're happy to make loans we generally (inaudible) want collateral. That's the very bottom and a very small percentage of our customers. As you move up, we give customers choices. We will lend you unsecured, we'll also lend you secured and we will show you different prices. One of the advantages, again, of our auto program, it can run as much as 700, 800 or 1000 basis points lower than an unsecured loan might go. So in that case we'll tell the customer, look, you can get the unsecured loan at X% or we can give you a direct auto loan at Y%. So the customer is then making a choice, they can get more dollars, they can pay off more receivables, have more in pocket. So there are some loans, and this is true for both portfolios, this is how it's always operated, we're trying to make sure customers have choices of doing secured and unsecured at its appropriate pricing differentials that are in the hundreds of basis points. And for some element of customers that we would consider the riskiest, that we wouldn't want to lend to unsecured, we will only lend on a secured basis and that's true across both portfolios. Overtime, as I have said, whether it's 50/50, 60/40 both portfolios will wind up in that ballpark.

Question – John Rowen: Okay, but to go back then to your prior point. You talk about wanting to be in this range of a higher balanced loan, are you doing anything to nibble around the edges to control credit from other aspects like loan to value ratio? Just trying to gauge how you're going to control credit in the unsecured portfolio without a broader shift to secured?

Answer – Jay Levine: How we're going to control credit in the unsecured portfolio?

Question – John Rowen: Correct, like loan to value rates. Because obviously you're not doing it by lowering the total loan balance, you talked about wanting to keep that high. I'm curious how else you're trying to control credit in the unsecured book.

Answer – Jay Levine: Sure, I'd say we're doing what we've always done, what I talked about was just the integration of the underwriting models. What I'd say is with the lowest tier going down and not requiring collateral, I think you'll expect to see our overall credit with what's left of these unsecured being a stronger book overtime, which is one of the things and that was one of our priorities going forward. But we have normal underwriting for a period, less around LTD because we don't have collateral, but it's really around disposable income, stability of job, timing of residence, the key things as well as the credit bureau, the history with that customer, how he's have paid other creditors, et cetera. So across the board we have risk ratings and risk scoring depending upon what each customer looks like.

Analyst: John Hecht, Jefferies & Co. - Analyst

Question – John Hecht: Okay. Thank you.

Answer – Jay Levine: Sure.

Answer – Operator: David Scharf, JMP Securities.

Analyst: David Scharf, JMP Securities - Analyst

Question – David Scharf: Yes, good afternoon. Hopefully I'm not rehashing some previous ones, but Jay, trying to get a sense for, as we think about the loss rate guidance next year sort of mirrors the discussion about AR growth, how much of it is integration related versus competitive. As we think about the loss rate, how much of it is just the denominator effect? Impacting the calculation versus how much of it is collection efforts being impacted by integration factors?

Answer – Scott Parker: This is Scott. It's a small piece on the denominator effect. I think it's really, as we tried to lay out in the slides, you see as we go into 2017, we expect Springleaf to stabilize and actually be down. And so it's a combination of the integration activities on the one main portfolio that we talked about and two, as you saw the chart where the level of unsecured loan vintages are producing a little bit higher delinquency which will lead to charge-offs in 2017, but as we pre-mix] the portfolio with the higher concentration of secured lending at a much lower loss rate, we expect to, in 2018, get down into the 7%, 7.5% range that we laid out.

Question – David Scharf: Okay so it's more product mix as well exiting this year with a greater mix of unsecured than you had originally been forecasting.

Answer – Scott Parker: Correct. So there is an impact of the lower volume, but I think the key piece, really for the range, is really the integration activities and trying to box that.

Question – David Scharf: Got it. And then shifting to maybe more of the nuts and bolts of integration. I've been taking notes here and I've written down -- I've heard references to underwriting system, to single loan system, to operating system, can you give us a little better feeling for that branch manager and collector, particularly at a legacy OneMain unit. What's going on that's causing them to basically not be able to close as much business and focus? Are these all different systems? It sounds like some have been converted, some haven't, but what's exactly happening on the ground?

Answer – Jay Levine: Sure. Let me start with systems. Because that's probably called the same thing at least three different times, it sounds like, so that probably hasn't been overly helpful, so apologies.

First, we really have one operating system and that's what goes into the branches. And we call it [classes 4]. What it's called is less important than what it is, it's really the origination and servicing system. It's what every branch manager uses, it's what's been historically in all the Springleaf branches, it's what was just implemented in the OneMain branches in North Carolina and Kentucky successfully, and what we rolled out for the last 1000 branches. And that's what the branch manager and the other three or four people in that branch work on as their loan applications come in doing their collections, customer relationships, keeping track of all the things is what that is.

The two systems are pretty comparable but as usual, there are little differences and we're getting used to that. But I'd say some of the real benefits of it that we've already seen in North Carolina is there is paperless closing, so the whole closing process for our customer is much more efficient. It's actually one of the reasons we went with this system and the whole customer experience, how long it takes to close a loan [without using] touch screens and all of that are all benefit. That's sort of an aside so that's at the systems about.

What's going on, I'd say a number of things really transpired in the third quarter. Besides [for just] systems, we streamlined the management of the field and in particular, we have what we call district managers and directors of operation that oversee all of our branches, and we realigned those to get efficiencies in other things in the third quarter. So I will say a good chunk of our branch managers saw a new boss overseeing their branch in the third quarter. So in addition to some of the other things, we had field consolidations, we changed how we routed our internet app to try and streamline those in the quarter. So there was a number of different small things that I'd say probably all compounded to really create that level of a little bit of stress in what the normal ecosystem of lending and collecting for that branch manager. So in hindsight, that was a lot we brought on them that we saw, without that, they were able to certainly grow and originate, as we saw on the first and second quarter, and certainly getting this behind us is what we're trying to get back to certainly in the second half of next year.

Answer – Scott Parker: (inaudible) to you.

Answer – Jay Levine: You want to go visit a branch and see what it's up to, we'd love to bring you. But the branch managers are doing everything they can, I think they're incented properly, which was a great question, to do what's most important which is, managing the book of receivables and putting on new, responsible customers while they get used to some new underwriting and other things along the way.

Question – David Scharf: Got it. Thanks Jay.

Answer – Jay Levine: Sure.

Answer – Operator: Mark DeVries, Barclays.

Analyst: Mark DeVries, Barclays Capital - Analyst

Question – Mark DeVries: Yes, thanks. Jay, I think you were pretty clear that you believe most of the impact on the credit outlook is due to the integration and maybe I missed this, but do you also feel that most of the moderation in the growth outlook is also due to the integration as opposed to the increasing competition you alluded to?

Answer – Jay Levine: Certainly yes. I'd say when I talked about the lower volume of integration, it's a couple of things. Certainly there's new underwriting and other things that have to be done, but I also said through the weakest of our borrowers, we are requiring collateral and some of that we would have done previously without collateral. And it's really the learnings from that that have continued to bring us to enhance our models to look at underwriting over time, so some of it's probably a little bit of that, but I'd say the majority of it goes back to integration.

Question – Mark DeVries: Okay and it sounds like the majority of the burden of the integration is falling on legacy OneMain as opposed to legacy Springleaf and is it fair to say then that you are seeing both the impact on credit and moderated growth, most of it coming through the legacy OneMain branches.

Answer – Jay Levine: Absolutely. Springleaf continues to grow at double digits with delinquencies pretty much where we expected them to be. The elevation has really come from the OneMain branches. What we have been doing and I think we'll be effective at is buddy branches, the good things is a lot of these branches are not far in neighboring communities, and I think from what we've learned already in Kentucky and North Carolina, we're going to take some of those learnings and make sure that as we get through the first quarter, we do everything we can to mitigate all that.

Question – Mark DeVries: Okay great and just one last question around reserve coverage. Could you just describe what you are targeting right now in terms of months of coverage of charge-offs?

Answer – Scott Parker: [The LEP is] in the 7%, 7.5% range for the portfolio.

Question – Mark DeVries: Okay, thank you.

Answer – Jay Levine: I just want to say thank you to everybody on the call. I know Stephanie is going to wrap in one second, but there's a little bit of integration we have to get through, as you hopefully heard us all say we feel great about our business, we are proud of what we have accomplished, we want to get through the next few months to really get this company back to what we believe all its potential is. Stephanie you can wrap if you want.

Answer – Operator: Thank you. This does conclude today's conference call. Please disconnect your lines at this time and have a wonderful day.
