Regional Management Corp.
Form 10-K
March 17, 2014
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended December 31, 2013**

**OR**

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

**For the transition period from ______ to ______**

**Commission File Number: 001-35477**

# Regional Management Corp.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **57-0847115** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **509 West Butler Road** | |
| **Greenville, South Carolina** | **29607** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(864) 422-8011**

**(Registrant s telephone number, including area code)**

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| **Common Stock, $0.10 par value** | **New York Stock Exchange** |

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

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

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | x |
| Non-accelerated filer | ¨ (do not check if a smaller reporting company) | Smaller reporting company | ¨ |

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

As of June 28, 2013 (the last business day of the registrant s most recently completed second fiscal quarter), the aggregate market value of the common stock held by non-affiliates of the registrant was $129,846,025 based upon the closing sale price as reported on the New York Stock Exchange.

As of March 14, 2014, there were 12,652,197 shares of the registrant s common stock outstanding.

**Documents Incorporated by Reference**

Certain information required by Part III of this Annual Report on Form 10-K is incorporated herein by reference to the Proxy Statement for the 2014 Annual Meeting of the Company s stockholders, which is expected to be filed pursuant to Regulation 14A within 120 days after the end of the registrant s fiscal year ended December 31, 2013.

**Table of Contents**

**REGIONAL MANAGEMENT CORP.**

**ANNUAL REPORT ON FORM 10-K**

Fiscal Year Ended December 31, 2013

**TABLE OF CONTENTS**

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

*This Annual Report on Form 10-K includes forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including, but not limited to, certain disclosures contained in Item 1, Business, Item 1A, Risk Factors, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. These forward-looking statements include, but are not limited to, statements about our strategies, future operations, future financial position, future revenues, projected costs, expectations regarding demand and acceptance for our financial products, growth opportunities and trends in the market in which we operate, prospects, plans and objectives of management, representations, and contentions, and are not historical facts. Forward-looking statements typically are identified by the use of terms such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, potential, continue, and similar words, although some forward-looking statements are expressed differently. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Forward-looking statements included herein represent management s current judgment and expectations, but our actual results, events, and performance could differ materially from the plans, intentions, and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including without limitation, the risks set forth in Item 1A, Risk Factors in this Annual Report on Form 10-K. We do not intend to update any of these forward-looking statements or publicly announce the results of any revisions to these forward-looking statements, other than as is required under the federal securities laws.*

*The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements, including the notes thereto.*

**PART I**

**ITEM 1.** ***BUSINESS.***
**Overview**

Regional Management Corp. (together with its subsidiaries, Regional, the Company, we, us, and our ) was incorporated in South Carolina on March 25, 1987, and converted into a Delaware corporation on August 23, 2011. We are a diversified specialty consumer finance company providing a broad array of loan products primarily to customers with limited access to consumer credit from banks, thrifts, credit card companies, and other traditional lenders. We began operations in 1987 with four branches in South Carolina and have expanded our branch network to 264 locations with approximately 335,000 active accounts across South Carolina, Texas, North Carolina, Georgia, Tennessee, Alabama, Oklahoma, and New Mexico as of December 31, 2013. Most of our loan products are secured and each is structured on a fixed rate, fixed term basis with fully amortizing equal monthly installment payments, repayable at any time without penalty. Our loans are sourced through our multiple channel platform, including in our branches, through direct mail campaigns, independent and franchise automobile dealerships, online credit application networks, retailers, and our consumer website. We operate an integrated branch model in which nearly all loans, regardless of origination channel, are serviced and collected through our branch network, providing us with frequent in-person contact with our customers, which we believe improves our credit performance and customer loyalty. Our goal is to consistently and soundly grow our finance receivables and manage our portfolio risk while providing our customers with attractive and easy-to-understand loan products that serve their varied financial needs.

Our diversified product offerings include:

*Small Installment Loans* We offer standardized small installment loans ranging from $300 to $2,500, with terms of up to 36 months, which are secured by non-essential household goods. We originate

Table of Contents

these loans both through our branches, via our consumer website, by customer referrals, and through mailing convenience checks to pre-screened individuals who are able to enter into a loan by depositing these checks. As of December 31, 2013, we had approximately 271,900 small installment loans outstanding representing $289.0 million in finance receivables or an average of approximately $1,100 per loan. In 2013, interest and fee income from small installment loans contributed $98.0 million to our total revenue.

*Large Installment Loans* We offer large installment loans through our branches ranging from $2,500 to $20,000, with terms of between 18 and 60 months. Our large installment loans are secured by a vehicle, which may be an automobile, motorcycle, boat, or all-terrain vehicle, in addition to non-essential household goods. As of December 31, 2013, we had approximately 12,300 large installment loans outstanding representing $43.3 million in finance receivables or an average of approximately $3,500 per loan. In 2013, interest and fee income from large installment loans contributed $12.5 million to our total revenue.

*Automobile Purchase Loans* We offer automobile purchase loans of up to $27,500, generally with terms of between 36 and 72 months, which are secured by the purchased vehicle. Our automobile purchase loans are offered through a network of dealers in our geographic footprint. Our automobile purchase loans include both direct loans, which are sourced through a dealership and closed at one of our branches, and indirect loans, which are originated and closed at a dealership in our network without the need for the customer to visit one of our branches. As of December 31, 2013, we had approximately 19,300 automobile purchase loans outstanding representing $181.1 million in finance receivables or an average of approximately $9,300 per loan. In 2013, interest and fee income from automobile purchase loans contributed $36.2 million to our total revenue.

*Retail Purchase Loans* We offer indirect retail purchase loans of up to $7,500, with terms of between six and 48 months, which are secured by the purchased item. These loans are offered through a network of retailers within and, to a limited extent, outside of our geographic footprint. Since launching this product in November 2009, our portfolio has grown to approximately 31,200 retail purchase loans outstanding representing $31.3 million in finance receivables or an average of approximately $1,000 per loan as of December 31, 2013. In 2013, interest and fee income from retail purchase loans contributed $5.6 million to our total revenue.

*Insurance Products* We offer our customers optional payment protection insurance relating to many of our loan products. In 2013, insurance income, net, was $11.5 million, or 6.7% of our total revenue.

We report operating segments in accordance with generally accepted accounting principles in the United States of America. We have one reportable segment, which is the consumer finance segment. Our other revenue generating activities, including insurance operations, are performed in the existing branch network in conjunction with or as a complement to the lending operations. For financial information regarding the results of our only reportable segment, the consumer finance segment, for each of the last three fiscal years, refer to Item 6, Selected Financial Data and Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

**Our Industry**

We operate in the consumer finance industry serving the large and growing population of non-prime and underbanked consumers who have limited access to credit from banks, thrifts, credit card companies, and other traditional lenders. According to the Federal Deposit Insurance Corporation ( FDIC ), there were approximately 51 million adults living in underbanked households in the United States in 2011. Furthermore, we believe that difficult economic conditions in recent years have resulted in an increase in the number of non-prime consumers in the United States.

While the number of non-prime consumers in the United States has grown, the supply of consumer credit to this demographic has contracted. Following deregulation of the U.S. banking industry in the 1980s, many banks and finance companies that traditionally provided small denomination consumer credit refocused their businesses on larger loans with lower comparative origination costs and lower charge-off rates. Tightened credit requirements imposed by banks, thrifts, credit card companies, and other traditional lenders that began during the recession in 2008 and 2009 have further reduced the supply of consumer credit for the growing number of non-prime and underbanked individuals.

We believe the large and growing number of potential customers in our target market, combined with the decline in available consumer credit, provides an attractive market opportunity for our diversified product offerings installment lending, automobile purchase lending, and retail purchase lending.

***Installment Lending.*** Installment lending to underbanked and other non-prime consumers is one of the most highly fragmented sectors of the consumer finance industry. Providers of installment loans, such as Regional, generally offer loans with longer terms and lower interest rates than other alternatives available to underbanked consumers, such as title, payday, and pawn lenders.

***Automobile Purchase Lending.*** Automobile finance comprises one of the largest consumer finance markets in the United States. The automobile purchase loan sector is generally segmented by the credit characteristics of the borrower. Automobile purchase loans are typically initiated or arranged through automobile dealers nationwide who rely on financing to drive their automobile sales.

***Retail Purchase Lending.*** The retail industry represents a large consumer market with limited financing options for non-prime consumers. Retailers often do not provide their own financing, but instead partner with large banks and credit card companies who generally limit their lending activities to prime borrowers. As a result, non-prime customers often do not qualify for financing from these traditional lenders. Continued consumer demand, combined with constraints on the availability of credit for non-prime consumers, presents a growth opportunity for retail purchase loans.

**Our Business Model and Operations**

***Integrated Branch Model.*** Our branch network, with 264 locations across eight states as of December 31, 2013, serves as the foundation of our multiple channel platform and the primary point of contact with our approximately 335,000 active accounts. By integrating underwriting, servicing, and collections at the branch level, our employees are able to maintain a relationship with our customers throughout the life of a loan. For loans originated at a branch, underwriting decisions are typically made by our local branch manager. Our branch managers combine our sound, company-wide underwriting standards and flexibility within our guidelines to consider each customer s unique circumstances. This tailored branch-level underwriting approach allows us to both reject certain marginal loans that would otherwise be approved solely based on a credit report or automated loan approval system, as well as to selectively extend loans to customers with prior credit challenges who might otherwise be denied credit. In addition, nearly all loans, regardless of origination channel, are serviced and collected through our branches, which allows us to maintain frequent, in-person contact with our customers. We believe this frequent-contact, relationship-driven lending model provides greater insight into potential payment difficulties and allows us to more effectively pursue payment solutions, which improves our overall credit performance. It also provides us with frequent opportunities to assess the borrowing needs of our customers and to offer new loan products as their credit profiles evolve.

***Multiple Channel Platform.*** We offer a diversified range of loan products through our multiple channel platform, which enables us to efficiently reach existing and new customers throughout our markets. We began building our strategically located branch network over 25 years ago and have expanded to 264 branches as of December 31, 2013. Our automobile purchase loans are offered through a network of dealers in our geographic footprint. In recent years, we expanded this channel by offering indirect automobile purchase loans, which are closed at the dealership without the need for the customer to visit a branch. In addition, we have relationships with retailers that offer our retail purchase loans in their stores at the point of sale. We have also further developed and refined our direct mail campaigns, including pre-screened convenience check mailings and mailings of invitations to apply for a loan, which enable us to market our products to hundreds of thousands of customers on a cost-effective basis. Finally, we have developed our consumer website to promote our products and facilitate loan applications. We believe that our multiple channel platform provides us with a competitive advantage by giving us broader access to our existing customers and multiple avenues for attracting new customers, enabling us to grow our finance receivables, revenues, and earnings while maintaining consistent credit performance through our integrated branch model.

***Attractive Products for Customers with Limited Access to Credit.*** Our flexible loan products, ranging from $300 to $27,500 with terms of up to 72 months, are competitively priced, easy to understand, and incorporate features designed to meet the varied financial needs and credit profiles of a broad array of consumers. This product diversity distinguishes us from monoline competitors and provides us with the ability to offer our customers new loan products as their credit profiles evolve, building customer loyalty.

We believe that the rates on our products are significantly more attractive than many other credit options available to our customers, such as payday, pawn, or title loans. We also differentiate ourselves from such alternative financial service providers by reporting our customers payment performance to credit bureaus, providing our customers the opportunity to improve their credit score by establishing a responsible payment history with us and ultimately to gain access to a wider range of credit options, including our own. We believe this opportunity for our customers to potentially improve their credit history, combined with our competitive pricing and terms, distinguish us in the consumer finance market and provide us with a competitive advantage.

***Demonstrated Organic Growth.*** We have grown our finance receivables by 153% from $215.7 million at December 31, 2009 to $544.7 million at December 31, 2013. Our growth has come both from expanding our branch network and developing new channels and products.

From 2009 to 2013, we grew our year-end branch count from 117 branches to 264 branches, a compound annual growth rate ( CAGR ) of 22.6%. We opened or acquired 43 net new branches in 2013. We have also grown our existing branch revenues. Historically, our branches have rapidly increased their outstanding finance receivables during the early years of operations and generally have quickly achieved profitability.

We have also grown by adding new channels and products, which are then serviced at the local branch level. We introduced direct automobile purchase loans in 1998, and in recent years, we have expanded our product offerings to include indirect automobile purchase loans. Indirect automobile purchase loans allow customers to obtain a loan at a dealership without visiting one of our branches. We opened two AutoCredit Source branches in each of 2011, 2012, and 2013, which focus solely on originating, underwriting, and servicing indirect automobile purchase loans. Gross loan originations from our convenience check program have grown from $40.6 million in 2009 to $200.0 million in 2013, a CAGR of 49%, as we have increased the volume and sophistication of our convenience check marketing campaigns. We also introduced a consumer website enabling customers to complete a loan application online. Since the launch of our website in late 2008, we have received more than 76,000 applications resulting in loans representing $17.9 million in gross finance receivables.

***Consistent Portfolio Performance.*** Through over 25 years of experience in the consumer finance industry, we have established conservative and sound underwriting and lending practices to carefully manage our credit exposure as we grow our business, develop new products, and enter new markets. We generally do not make loans to customers with less than one year with their current employer and at their current residence, although we also consider numerous other factors in evaluating a potential customer s creditworthiness, such as unencumbered income and a credit report detailing the applicant s credit history. Our sound underwriting standards focus on our customers ability to affordably make loan payments out of their discretionary income, with the value of pledged collateral serving as a credit enhancement rather than the primary underwriting criterion. Portfolio performance is improved by our regular in-person contact with customers at our branches, which helps us to anticipate repayment problems before they occur, and allows us to proactively work with customers to develop solutions prior to default, using repossession only as a last option. In addition, our centralized management information system enables regular monitoring of branch portfolio metrics. Our state operations vice presidents and district supervisors monitor loan underwriting, delinquencies, and charge-offs of each branch in their respective regions. In addition, the compensation received by our branch managers and assistant managers has a significant performance component and is closely tied to credit quality, among other defined performance targets.

We believe our frequent-contact, relationship-driven lending model, combined with regular monitoring and alignment of employee incentives, improves our overall credit performance. Despite the challenges posed by the sharp economic downturn beginning in 2008, our annual net charge-offs since 2009 remained consistent, ranging from 6.3% to 8.6% of our average finance receivables. In 2013, our net charge-offs as a percentage of average finance receivables were 6.9%. Our credit loss provision as a percentage of total revenue for 2013 was 23%. We believe that our consistent portfolio performance demonstrates the resiliency of our business model throughout economic cycles.

***Experienced Management Team.*** Our executive and senior operations management teams consist of individuals highly experienced in installment lending and other consumer finance services. We believe our executive management team s experience has allowed us to consistently grow our business while delivering high-quality service to our customers and carefully managing our credit risk. Our executive management team has centralized a number of business procedures, such as marketing and direct mail campaigns, which were formerly conducted at each branch, allowing us to enhance control over our individual branches. Our management team has also strengthened our underwriting procedures and improved the data monitoring that we apply across our business, including for our direct mail campaigns and our branch location analysis. As of December 31, 2013, our state operations vice presidents averaged more than 24 years of industry experience and more than 10 years of service at Regional, while our district supervisors averaged 25 years of industry experience and more than four years of service with Regional.

**Our Strategies**

***Grow Our Branch Network.*** We intend to continue growing the revenue and profitability of our branch network by increasing volume at our existing branches, opening new branches within our existing geographic footprint, and expanding our operations into new states. Establishing local contact with our customers through the expansion of our branch network is key to our frequent-contact, relationship-driven lending model and is embodied in our marketing tagline: Your Hometown Credit Source.

*Existing Branches* We intend to continue increasing same-store revenues, by further building relationships in the communities in which we operate and capitalizing on opportunities to offer our customers new loan products as their credit profiles evolve. From 2009 to 2013, we opened 153 new branches, and we expect revenues at these branches will continue to grow faster than our overall same-store revenue growth rate as these branches mature.

*New Branches* We believe there is sufficient demand for consumer finance services to continue our pattern of new branch growth and branch acquisitions in the states where we currently operate, allowing us to capitalize on our existing infrastructure and experience in these markets. We also analyze detailed demographic and market data to identify favorable locations for new branches. Opening new branches allows us to generate both direct lending at the branches, as well as to create new origination opportunities by establishing relationships through the branches with automobile dealerships and retailers in the community.

*New States* We intend to explore opportunities for growth in several states outside of our existing geographic footprint that enjoy favorable interest rate and regulatory environments, such as Kentucky, Louisiana, Mississippi, Missouri, and Virginia. We do not expect to expand into states with unfavorable interest rate or regulatory environments even if those states are otherwise attractive for our business. In 2011, we opened our first branch in Oklahoma; in 2012, we opened our first branch in New Mexico; and in 2013, we opened our first branch in Georgia.

Table of Contents

We also believe that the highly fragmented nature of the consumer finance industry and the evolving competitive, regulatory, and economic environment provide attractive opportunities for growth through branch acquisitions, although we have no present agreement or plan concerning any specific acquisition.

***Continue to Expand and Capitalize on Our Diverse Channels and Products.*** We intend to continue to expand and capitalize on our multiple channel platform and broad array of offerings as follows:

*Automobile Purchase Loans* We source our automobile purchase loans through a network of dealers in our geographic footprint. We have hired dedicated marketing personnel to develop relationships with these dealers and to expand our automobile financing network. We will also seek to capture a larger percentage of the financing activity of dealers in our existing network by continuing to improve our relationships with dealers and our response time for loan applications. We intend to continue to expand the number of franchise dealer relationships through our AutoCredit Source branches to grow our loan portfolio through increased penetration.

*Convenience Check Program* We continue to refine our screening criteria and tracking for direct mail campaigns, which we believe has enabled us to improve response rates and credit performance and allowed us to more than triple the annual number of convenience checks that we mailed since 2007. In 2013, we mailed over 3 million convenience checks as well as over 95,000 invitations to apply for loans. We intend to continue to increase our use of convenience checks to grow our loan portfolio by adding new customers and increasing volume at our branches, creating opportunities to offer new loan products to our existing customers. In addition, we mail convenience checks in new markets shortly before opening new branches, which we believe helps our new branches more quickly develop a customer base and build finance receivables. Other than with respect to the State of Georgia, the use of convenience checks is not subject to substantial regulation in the states in which we currently operate but is subject to regulation in other jurisdictions. We are not aware of any pending legislation in any of the states in which we operate that would affect our use of convenience checks.

*Retail Purchase Loans* Our retail purchase loans are offered through a network of retailers in our geographic footprint. We intend to continue to grow our network of retailers by having our dedicated marketing personnel continue to solicit new retailers, obtain referrals through relationships with our existing retail partners, and to a lesser extent, reach retailers through trade shows and industry associations. We believe that the retail purchase lending markets are currently substantially underpenetrated, particularly with respect to non-prime customers, due to the limited number of lenders providing financing to these customers and the recent curtailment of credit provided by prime financing sources.

*Online Sourcing* We developed a new channel in late 2008 by offering an online loan application on our consumer website to serve customers who seek to reach us over the Internet. We intend to continue to develop and expand our online marketing efforts and increase traffic to our consumer website through the use of tools such as search engine optimization and paid online advertising.

We believe the expansion of our channels and products, supported by the growth of our branch network, will provide us with opportunities to reach new customers as well as to offer new loan products to our existing customers as their credit profiles evolve. We plan to continue to develop and introduce new products that are responsive to the needs of our customers in the future.

***Continue to Focus on Sound Underwriting and Credit Control.*** We intend to continue to leverage our core competencies in sound underwriting and credit management developed through over 25 years of lending experience as we seek to profitably grow our share of the consumer finance market. Our philosophy is to emphasize sound underwriting standards focused on a customer s ability to affordably make loan payments, to work with customers experiencing payment difficulties, and to use repossession only as a last option. For example, we permit customers to defer payments or refinance delinquent loans under limited circumstances, although we generally do not offer customers experiencing payment difficulties the opportunity to modify their loans to reduce the amount of principal or interest that they owe. A deferral extends the due date of the loan by one month and allows the customer to maintain his or her credit rating in good standing.

In addition to deferrals, we also allow customers to refinance loans. While we typically only allow customers to refinance if their loan is current, we allow customers to refinance delinquent loans on a limited basis if those customers otherwise satisfy our credit standards (other than with respect to the delinquency). We believe that refinancing delinquent loans for certain deserving customers who have made periodic payments allows us to help customers to resolve temporary financial setbacks and to repair or sustain their credit. During 2013, we refinanced only $5.3 million of loans that were 60 days or more past due, representing approximately 0.6% of our total loan volume for fiscal 2013. As of December 31, 2013, the outstanding gross balance of such refinancings was only $3.6 million, or less than 0.6% of gross finance receivables as of such date.

In accordance with this philosophy, we intend to continue to refine our underwriting standards to assess an individual s creditworthiness and ability to repay a loan. In recent years, we have implemented several new programs to continue to improve our underwriting standards and loan collection rates, including our branch scorecard program that systematically monitors a range of operating, credit quality, and performance metrics. Our management information system enables us to regularly review loan volumes, collections, and delinquencies. We believe this central oversight, combined with our branch-level servicing and collections, improves credit performance. We plan to continue to develop strategies to further improve our sound underwriting standards and loan collection rates as we expand.

**Our Products**

***Small Installment Loans.*** We offer small installment loans ranging from $300 to $2,500 through our branches as well as through our convenience check program. Our small installment loans are standardized by amount, rate, and maturity to reduce documentation and related processing costs and to conform with federal and state lending laws. They are payable in fixed rate, fully amortizing equal monthly installments with terms of up to 36 months, and are repayable at any time without penalty. In 2013, the average originated net loan size and term for our small installment loans were $1,153 and 14 months, respectively. Our small installment loans include loans originated through our convenience check campaigns, which had an average originated net loan size and term of $1,233 and 15 months for 2013. The weighted average yield we earned on our portfolio of small installment loans was 44.0% in 2013. The interest rates, fees and other charges, maximum principal amounts, and maturities for our small installment loans vary from state to state, depending upon relevant laws and regulations.

Our small installment loans, other than those originated through our direct mail campaigns, are made to customers who visit one of our branches and complete a standardized credit application. Customers may also complete and submit a small installment loan application by phone or on our consumer website before completing the loan in one of our branches. We carefully evaluate each potential customer s creditworthiness by examining the individual s unencumbered income, length of current employment, duration of residence, and a credit report detailing the applicant s credit history.

Our small installment loan approval process is based on the customer s creditworthiness rather than the value of collateral pledged. Loan amounts are established based on underwriting standards designed to allow customers to affordably make their loan payments out of their discretionary income.

In addition, for small installment loans originated at our branches, we require our customers to submit a list of their non-essential household goods and pledge these goods as collateral. We do not perfect our security interests by filing UCC financing statements in these goods and instead typically collect a non-file insurance fee and obtain non-file insurance.

Table of Contents

Each of our branches is equipped to perform immediate background, employment, and credit checks, and approve small installment loan applications promptly while the customer waits. Our employees verify the applicant s employment and credit histories through telephone checks with employers, other employment references, supporting documentation, such as paychecks and earnings summaries, and a variety of third-party credit reporting agencies.

We also source small installment loans through our convenience check mailing campaigns to pre-screened individuals. These campaigns are often timed to coincide with seasonal demand for loans to finance vacations, back-to-school needs, and holiday spending. We also launch convenience check campaigns in conjunction with opening new branches to help build an initial customer base. Customers can cash or deposit convenience checks at their convenience, thereby agreeing to the terms of the loan as prominently set forth on the check and accompanying disclosures. Each individual we solicit for a convenience check loan has been pre-screened through a major credit bureau to meet our thorough underwriting criteria. In addition to screening each potential convenience check recipient s credit score and bankruptcy history, we also use a proprietary model that assesses 27 different attributes of potential recipients. When a customer enters into a loan by cashing or depositing the convenience check, our personnel gather additional contact and other information on the borrower to assist us in servicing the loan and offering other products to meet the customer s financing needs.

The following table sets forth the composition of our finance receivables for small installment loans by state at December 31 of each year from 2009 through 2013:

| | AT DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** | **2013** |
| South Carolina | 47% | 43% | 40% | 31% | 26% |
| Texas | 27% | 29% | 29% | 31% | 29% |
| North Carolina | 21% | 20% | 21% | 21% | 16% |
| Tennessee | 4% | 5% | 6% | 7% | 8% |
| Alabama | 1% | 3% | 4% | 9% | 14% |
| Oklahoma | | | | 1% | 5% |
| New Mexico | | | | | 2% |
| Georgia | | | | | |
| **Total** | 100% | 100% | 100% | 100% | 100% |

The following table sets forth the total number of small installment loans, finance receivables, and average per loan for our small installment loans by state at December 31, 2013:

| | **TOTAL NUMBER OF LOANS** | **FINANCE RECEIVABLES (In thousands)** | **AVERAGE PER LOAN** |
|---|---|---|---|
| South Carolina | 70,133 | $ 74,105 | $ 1,057 |
| Texas | 85,923 | 83,955 | 977 |
| North Carolina | 40,546 | 47,385 | 1,169 |
| Tennessee | 22,294 | 23,573 | 1,057 |
| Alabama | 36,467 | 40,683 | 1,116 |
| Oklahoma | 11,388 | 13,824 | 1,214 |
| New Mexico | 3,882 | 4,503 | 1,160 |
| Georgia | 1,259 | 951 | 755 |
| **Total** | 271,892 | $ 288,979 | $ 1,063 |

Table of Contents

***Large Installment Loans.*** We also offer large installment loans through our branches in amounts ranging from $2,500 to $20,000. Our large installment loans are payable in fixed rate, fully amortizing equal monthly installments with terms of 18 to 60 months, and are repayable at any time without penalty. We require our large installment loans to be secured by a vehicle, which may be an automobile, motorcycle, boat, or all-terrain vehicle, as well as certain non-essential household goods. In 2013, our average originated net loan size and term for large installment loans were $3,982 and 28 months, respectively. The weighted average yield we earned on our portfolio of large installment loans was 27.6% for 2013.

A potential customer applies for a large installment loan by visiting one of our branches, where he or she is interviewed by one of our employees who evaluates the customer s creditworthiness, including a review of a credit bureau report, before extending a loan. As with our small installment loans, large installment loans are made based on the customer s unencumbered income, length of current employment, duration of residence, and prior credit experience and credit report history. Loan amounts are established based on underwriting standards designed to allow customers to affordably make their loan payments out of their discretionary income. Our branches perform the same immediate verifications that we perform for small installment loans in order to approve large installment loan applications promptly.

Our branch employees will perform an in-person appraisal of the collateral pledged for a large installment loan using our multipoint checklist and will use one or more third-party valuation sources, such as the National Automobile Dealers Association Appraisal Guides, to determine an estimate of the collateral s value. Regardless of the value of the vehicle, we will not lend in excess of our assessment of the borrower s ability to repay.

We perfect all first-lien security interests in each pledged vehicle by retaining the title to the collateral in our files until the loan is fully repaid. In certain states, we offer large installment loans secured by second-lien security interests on vehicles, in which case we instead seek to perfect our security interest by recording our lien on the title. We work with customers experiencing payment difficulties to help them find a solution and view repossession only as a last option. In the event we do elect to repossess a vehicle, we use third-party vendors in the vast majority of circumstances. We then sell our repossessed vehicle inventory through public sales conducted by independent automobile auction organizations or, to a lesser extent, private sales after the required post-repossession waiting period. Any excess proceeds from the sale of the collateral are returned to the customer.

The following table sets forth the composition of our finance receivables for large installment loans by state at December 31 of each year from 2009 through 2013:

| | AT DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | **2009** | **2010** | **2011** | **2012** | **2013** |
| South Carolina | 62% | 57% | 49% | 30% | 28% |
| Texas | 11% | 9% | 9% | 6% | 4% |
| North Carolina | | | | | |