Ally Financial Inc.
Form 10-Q
August 09, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2011, 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: 1-3754

ALLY FINANCIAL INC.

(Exact name of registrant as specified in its charter)

Delaware	**38-0572512**
(State or other jurisdiction of	*(I.R.S. Employer*
incorporation or organization)	*Identification No.)*

200 Renaissance Center

P.O. Box 200, Detroit, Michigan

48265-2000

(Address of principal executive offices)

(Zip Code)

(866) 710-4623

(Registrant s telephone number, including area code)

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, and (2) has been subject to such filing for the past 90 days.

Yes þ No ¨

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, 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 a shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated 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. (Check one):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer þ (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 Exchange Act).

Yes ¨ No þ

At August 9, 2011, the number of shares outstanding of the Registrant s common stock was 1,330,970 shares.

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Item 1. Financial Statements

ALLY FINANCIAL INC.

CONDENSED CONSOLIDATED STATEMENT OF INCOME (unaudited)

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	**2011**	2010	**2011**	2010
Financing revenue and other interest income				
Interest and fees on finance receivables and loans	**$ 1,676**	$ 1,617	**$ 3,299**	$ 3,235
Interest on loans held-for-sale	**98**	156	**206**	371
Interest on trading securities	**3**	6	**6**	7
Interest and dividends on available-for-sale investment securities	**108**	90	**212**	189
Interest-bearing cash	**15**	18	**27**	32
Operating leases	**620**	1,011	**1,300**	2,174
Total financing revenue and other interest income	**2,520**	2,898	**5,050**	6,008
Interest expense				
Interest on deposits	**175**	155	**347**	313
Interest on short-term borrowings	**108**	99	**234**	210
Interest on long-term debt	**1,334**	1,409	**2,744**	2,842
Total interest expense	**1,617**	1,663	**3,325**	3,365
Depreciation expense on operating lease assets	**192**	526	**477**	1,182
Net financing revenue	**711**	709	**1,248**	1,461
Other revenue				
Servicing fees	**353**	384	**724**	769
Servicing asset valuation and hedge activities, net	**(105)**	(21)	**(192)**	(154)
Total servicing income, net	**248**	363	**532**	615
Insurance premiums and service revenue earned	**433**	477	**866**	945
Gain on mortgage and automotive loans, net	**115**	266	**207**	537
Loss on extinguishment of debt	**(25)**	(3)	**(64)**	(121)
Other gain on investments, net	**92**	112	**176**	255
Other income, net of losses	**253**	173	**469**	255
Total other revenue	**1,116**	1,388	**2,186**	2,486
Total net revenue	**1,827**	2,097	**3,434**	3,947
Provision for loan losses	**51**	218	**164**	362
Noninterest expense				
Compensation and benefits expense	**424**	388	**858**	814
Insurance losses and loss adjustment expenses	**244**	224	**430**	435
Other operating expenses	**916**	832	**1,688**	1,714
Total noninterest expense	**1,584**	1,444	**2,976**	2,963
Income from continuing operations before income tax expense	**192**	435	**294**	622
Income tax expense from continuing operations	**82**	33	**14**	69

Net income from continuing operations	**110**	402	**280**	553
Income (loss) from discontinued operations, net of tax	**3**	163	**(21)**	174
Net income	**$ 113**	$ 565	**$ 259**	$ 727

Statement continues on the next page.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ALLY FINANCIAL INC.

CONDENSED CONSOLIDATED STATEMENT OF INCOME (unaudited)

($ in millions except per share data)	Three months ended June 30, **2011**	Three months ended June 30, 2010	Six months ended June 30, **2011**	Six months ended June 30, 2010
Net (loss) income attributable to common shareholders				
Net income from continuing operations	**$ 110**	$ 402	**$ 280**	$ 553
Preferred stock dividends U.S. Department of Treasury	**(134)**		**(267)**	(386)
Preferred stock dividends	**(57)**	(25)	**(127)**	(142)
Impact of preferred stock amendment			**32**	
Net (loss) income from continuing operations attributable to common shareholders (a)	**(81)**	377	**(82)**	25
Income (loss) from discontinued operations, net of tax	**3**	163	**(21)**	174
Net (loss) income attributable to common shareholders	**$ (78)**	$ 540	**$ (103)**	$ 199
Basic weighted-average common shares outstanding	**1,330,970**	799,120	**1,330,970**	799,120
Diluted weighted-average common shares outstanding (a)	**1,330,970**	1,787,320	**1,330,970**	799,120
Basic earnings per common share				
Net (loss) income from continuing operations	**$ (61)**	$ 472	**$ (62)**	$ 32
Income (loss) from discontinued operations, net of tax	**2**	204	**(16)**	217
Net (loss) income	**$ (59)**	$ 676	**$ (78)**	$ 249
Diluted earnings per common share (a)				
Net (loss) income from continuing operations	**$ (61)**	$ 211	**$ (62)**	$ 32
Income (loss) from discontinued operations, net of tax	**2**	91	**(16)**	217
Net (loss) income	**$ (59)**	$ 302	**$ (78)**	$ 249

(a) Due to the antidilutive effect of converting the Fixed Rate Cumulative Mandatorily Convertible Preferred Stock into common shares and the net loss attributable to common shareholders for the for the three and six months ended June 30, 2011 and the six months ended June 30, 2010, income attributable to common shareholders and basic weighted-average common shares outstanding were used to calculate basic and diluted earnings per share.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ALLY FINANCIAL INC.

CONDENSED CONSOLIDATED BALANCE SHEET (unaudited)

($ in millions)	**June 30, 2011**	December 31, 2010
Assets		
Cash and cash equivalents		
Noninterest-bearing	**$ 2,039**	$ 1,714
Interest-bearing	**12,862**	9,956
Total cash and cash equivalents	**14,901**	11,670
Trading securities	**311**	240
Investment securities	**15,961**	14,846
Loans held-for-sale, net ($2,545 and $6,424 fair value-elected)	**7,168**	11,411
Finance receivables and loans, net		
Finance receivables and loans, net ($946 and $1,015 fair value-elected)	**110,725**	102,413
Allowance for loan losses	**(1,739)**	(1,873)
Total finance receivables and loans, net	**108,986**	100,540
Investment in operating leases, net	**9,015**	9,128
Mortgage servicing rights	**3,701**	3,738
Premiums receivable and other insurance assets	**2,124**	2,181
Other assets	**16,722**	18,254
Total assets	**$ 178,889**	$ 172,008
Liabilities		
Deposit liabilities		
Noninterest-bearing	**$ 2,405**	$ 2,131
Interest-bearing	**39,857**	36,917
Total deposit liabilities	**42,262**	39,048
Short-term borrowings	**7,130**	7,508
Long-term debt ($899 and $972 fair value-elected)	**91,723**	86,612
Interest payable	**1,734**	1,829
Unearned insurance premiums and service revenue	**2,845**	2,854
Reserves for insurance losses and loss adjustment expenses	**782**	862
Accrued expenses and other liabilities ($19 and $ fair value-elected)	**11,990**	12,806
Total liabilities	**158,466**	151,519
Equity		
Common stock and paid-in capital	**19,668**	19,668
Mandatorily convertible preferred stock held by U.S. Department of Treasury	**5,685**	5,685
Preferred stock	**1,255**	1,287
Accumulated deficit	**(6,508)**	(6,410)
Accumulated other comprehensive income	**323**	259
Total equity	**20,423**	20,489
Total liabilities and equity	**$ 178,889**	$ 172,008

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ALLY FINANCIAL INC.

CONDENSED CONSOLIDATED BALANCE SHEET (unaudited)

The assets of consolidated variable interest entities that can be used only to settle obligations of the consolidated variable interest entities and the liabilities of these entities for which creditors (or beneficial interest holders) do not have recourse to our general credit were as follows.

($ in millions)	**June 30, 2011**	December 31, 2010
Assets		
Loans held-for-sale, net	**$ 10**	$ 21
Finance receivables and loans, net		
Finance receivables and loans, net ($946 and $1,015 fair value-elected)	**40,497**	33,483
Allowance for loan losses	**(287)**	(238)
Total finance receivables and loans, net	**40,210**	33,245
Investment in operating leases, net	**971**	1,065
Other assets	**3,156**	3,279
Total assets	**$ 44,347**	$ 37,610
Liabilities		
Short-term borrowings	**$ 924**	$ 964
Long-term debt ($899 and $972 fair value-elected)	**29,863**	24,466
Interest payable	**15**	15
Accrued expenses and other liabilities	**393**	397
Total liabilities	**$ 31,195**	$ 25,842

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

ALLY FINANCIAL INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

Six Months Ended June 30, 2011 and 2010

($ in millions)	Common stock and paid-in capital	Mandatorily convertible preferred stock held by U.S. Department of Treasury	Preferred stock	Accumulated deficit	Accumulated other comprehensive income	Total equity	Comprehensive income
Balance at January 1, 2010, before cumulative effect of adjustments	$ 13,829	$ 10,893	$ 1,287	$ (5,630)	$ 460	$ 20,839	
Cumulative effect of a change in accounting principle, net of tax (a)				(57)	4	(53)	
Balance at January 1, 2010, after cumulative effect of adjustments	$ 13,829	$ 10,893	$ 1,287	$ (5,687)	$ 464	$ 20,786	
Net income				727		727	$ 727
Preferred stock dividends paid to the U.S. Department of Treasury				(386)		(386)	
Preferred stock dividends				(142)		(142)	
Dividends to shareholders				(7)		(7)	
Other comprehensive loss					(279)	(279)	(279)
Other (b)				74		74	
Balance at June 30, 2010	$ 13,829	$ 10,893	$ 1,287	$ (5,421)	$ 185	$ 20,773	$ 448
Balance at January 1, 2011	**$ 19,668**	**$ 5,685**	**$ 1,287**	**$ (6,410)**	**$ 259**	**$ 20,489**	
Net income				**259**		**259**	**$ 259**
Preferred stock dividends paid to the U.S. Department of Treasury				**(267)**		**(267)**	
Preferred stock dividends				**(127)**		**(127)**	
Series A preferred stock amendment (c)			**(32)**	**32**			
Other comprehensive income					**64**	**64**	**64**
Other (b)				**5**		**5**	
Balance at June 30, 2011	**$ 19,668**	**$ 5,685**	**$ 1,255**	**$ (6,508)**	**$ 323**	**$ 20,423**	**$ 323**

(a) Cumulative effect of change in accounting principle, net of tax, due to adoption of ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*.

(b) Represents a reduction of the estimated payment accrued for tax distributions as a result of the completion of the GMAC LLC U.S. Return of Partnership Income for the tax period January 1, 2009 through June 30, 2009.

(c) Refer to Note 16 to the Condensed Consolidated Financial Statements for further details.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ALLY FINANCIAL INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Six months ended June 30, *($ in millions)*	**2011**	2010
Operating activities		
Net income	**$ 259**	$ 727
Reconciliation of net income to net cash provided by operating activities		
Depreciation and amortization	**1,418**	2,249
Other impairment	**6**	16
Changes in fair value of mortgage servicing rights	**115**	944
Provision for loan losses	**163**	382
Gain on sale of loans, net	**(215)**	(559)
Net gain on investment securities	**(183)**	(256)
Loss on extinguishment of debt	**64**	116
Originations and purchases of loans held-for-sale	**(25,874)**	(27,600)
Proceeds from sales and repayments of loans held-for-sale	**29,166**	35,564
Net change in:		
Trading securities	**(154)**	(28)
Deferred income taxes	**(66)**	(198)
Interest payable	**(111)**	61
Other assets	**(1,288)**	1,322
Other liabilities	**1,815**	375
Other, net	**(752)**	(1,532)
Net cash provided by operating activities	**4,363**	11,583
Investing activities		
Purchases of available-for-sale securities	**(10,982)**	(11,994)
Proceeds from sales of available-for-sale securities	**8,423**	9,854
Proceeds from maturities of available-for-sale securities	**2,386**	2,535
Net increase in finance receivables and loans	**(8,669)**	(8,175)
Proceeds from sales of finance receivables and loans	**1,346**	2,362
Purchases of operating lease assets	**(3,817)**	(1,491)
Disposals of operating lease assets	**3,621**	4,435
Proceeds from sale of business units, net (a)	**47**	(12)
Other, net	**871**	1,678
Net cash used in investing activities	**(6,774)**	(808)

Statement continues on the next page.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ALLY FINANCIAL INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Six months ended June 30, *($ in millions)*	**2011**	2010
Financing activities		
Net change in short-term borrowings	**(227)**	(3,827)
Net increase in bank deposits	**2,570**	2,720
Proceeds from issuance of long-term debt	**26,225**	20,996
Repayments of long-term debt	**(22,951)**	(32,307)
Dividends paid	**(419)**	(532)
Other, net	**551**	773
Net cash provided by (used in) financing activities	**5,749**	(12,177)
Effect of exchange-rate changes on cash and cash equivalents	**(78)**	619
Net increase (decrease) in cash and cash equivalents	**3,260**	(783)
Adjustment for change in cash and cash equivalents of operations held-for-sale (a)(b)	**(29)**	343
Cash and cash equivalents at beginning of year	**11,670**	14,788
Cash and cash equivalents at June 30,	**$ 14,901**	$ 14,348
Supplemental disclosures		
Cash paid for		
Interest	**$ 2,886**	$ 3,209
Income taxes	**471**	306
Noncash items		
Increase in finance receivables and loans due to a change in accounting principle (c)		17,990
Increase in long-term debt due to a change in accounting principle (c)		17,054
Transfer of mortgage servicing rights into trading securities through certification	**266**	
Other disclosures		
Proceeds from sales and repayments of mortgage loans held-for-investment originally designated as held-for-sale	**110**	249

(a) The amounts are net of cash and cash equivalents of $88 million at June 30, 2011, and $745 million at June 30, 2010, of business units at the time of disposition.

(b) Cash flows of discontinued operations are reflected within operating, investing, and financing activities in the Condensed Consolidated Statement of Cash Flows. The cash balance of these operations is reported as assets of operations held-for-sale on the Condensed Consolidated Balance Sheet.

(c) Relates to the adoption of ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*.

The Notes to the Condensed Consolidated Financial Statements (unaudited) are an integral part of these statements.

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ALLY FINANCIAL INC.

NOTES TO CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Description of Business, Basis of Presentation, and Changes in Significant Accounting Policies

Ally Financial Inc. (formerly GMAC Inc. and referred to herein as Ally, we, our, or us) is a leading, independent, globally diversified, financial services firm. Founded in 1919, we are a leading automotive financial services company with over 90 years experience providing a broad array of financial products and services to automotive dealers and their customers. We are also one of the largest residential mortgage companies in the United States. We became a bank holding company on December 24, 2008, under the Bank Holding Company Act of 1956, as amended. Our banking subsidiary, Ally Bank, is an indirect wholly owned subsidiary of Ally Financial Inc. and a leading franchise in the growing direct (online and telephonic) banking market.

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and that affect income and expenses during the reporting period. In developing the estimates and assumptions, management uses all available evidence; however, actual results could differ because of uncertainties associated with estimating the amounts, timing, and likelihood of possible outcomes.

The Condensed Consolidated Financial Statements at June 30, 2011, and for the three months and six months ended June 30, 2011, and 2010, are unaudited but reflect all adjustments that are, in management s opinion, necessary for the fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements (and the related notes) included in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed on February 25, 2011, with the U.S. Securities and Exchange Commission (SEC).

Residential Capital, LLC

Residential Capital, LLC (ResCap), one of our mortgage subsidiaries, was negatively impacted by the events and conditions in the mortgage banking industry and the broader economy beginning in 2007. The market deterioration led to fewer sources of, and significantly reduced levels of, liquidity available to finance ResCap s operations. ResCap is highly leveraged relative to its cash flow and previously recognized credit and valuation losses resulting in a significant deterioration in capital. ResCap may also be negatively impacted by exposure to representation and warranty obligations, adverse outcomes with respect to current or future litigation, fines, penalties, or settlements related to our mortgage-related activities and additional expenses to address regulatory requirements. ResCap s consolidated tangible net worth, as defined, was $772 million at June 30, 2011, and ResCap remained in compliance with all of its consolidated tangible net worth covenants. For this purpose, consolidated tangible net worth is defined as ResCap s consolidated equity excluding intangible assets. There continues to be a risk that ResCap may not be able to meet its debt service obligations, may default on its financial debt covenants due to insufficient capital, and/or may be in a negative liquidity position in future periods.

ResCap actively manages its liquidity and capital positions and is continually working on initiatives to address its debt covenant compliance and liquidity needs including debt maturing in the next twelve months and other risks and uncertainties. ResCap s initiatives could include, but are not limited to, the following: continuing to work with key credit providers to optimize all available liquidity options; possible further reductions in assets and other restructuring activities; focusing production on conforming and government-insured residential mortgage loans; and continued exploration of opportunities for funding and capital support from Ally and its affiliates. The outcomes of most of these initiatives are to a great extent outside of ResCap s control resulting in increased uncertainty as to their successful execution.

During 2009 and 2010, we performed a strategic review of our mortgage business. As a result of this, we effectively exited the European mortgage market through the sale of our U.K. and continental Europe operations. We also completed the sale of certain higher-risk legacy mortgage assets and settled representation and warranty claims with certain counterparties. The ongoing focus of our Mortgage Origination and Servicing operations will be predominately the origination and sale of conforming and government-insured residential mortgages and mortgage servicing.

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ALLY FINANCIAL INC.

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CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

In the future, Ally and ResCap may take additional actions with respect to ResCap as each party deems appropriate. These actions may include Ally providing or declining to provide additional liquidity and capital support for ResCap; refinancing or restructuring some or all of ResCap s existing debt; the purchase or sale of ResCap debt securities in the public or private markets for cash or other consideration; entering into derivative or other hedging or similar transactions with respect to ResCap or its debt securities; Ally purchasing assets from ResCap; or undertaking corporate transactions such as a tender offer or exchange offer for some or all of

ResCap s outstanding debt securities, asset sales, or other business reorganization or similar action with respect to all or part of ResCap and/or its affiliates. In this context, Ally and ResCap typically consider a number of factors to the extent applicable and appropriate including, without limitation, the financial condition, results of operations, and prospects of Ally and ResCap; ResCap s ability to obtain third-party financing; tax considerations; the current and anticipated future trading price levels of ResCap s debt instruments; conditions in the mortgage banking industry and general economic conditions; other investment and business opportunities available to Ally and/or ResCap; and any nonpublic information that ResCap may possess or that Ally receives from ResCap.

ResCap remains heavily dependent on Ally and its affiliates for funding and capital support, and there can be no assurance that Ally or its affiliates will continue such actions or that Ally will choose to execute any further strategic transactions with respect to ResCap or that any transactions undertaken will be successful.

Although our continued actions through various funding and capital initiatives demonstrate support for ResCap, there are currently no commitments or assurances for future capital support. Consequently, there remains substantial doubt about ResCap s ability to continue as a going concern. Should we no longer continue to support the capital or liquidity needs of ResCap or should ResCap be unable to successfully execute other initiatives, it would have a material adverse effect on ResCap s business, results of operations, and financial position.

Ally has extensive financing and hedging arrangements with ResCap that could be at risk of nonpayment if ResCap were to file for bankruptcy. At June 30, 2011, we had $1.9 billion in secured financing arrangements with ResCap of which $1.3 billion in loans was utilized. At June 30, 2011, there was no net exposure under the hedging arrangements because the arrangements were fully collateralized. Amounts outstanding under the secured financing and hedging arrangements fluctuate. If ResCap were to file for bankruptcy, ResCap s repayments of its financing facilities, including those with us, could be slower. In addition, we could be an unsecured creditor of ResCap to the extent that the proceeds from the sale of our collateral are insufficient to repay ResCap s obligations to us. It is possible that other ResCap creditors would seek to recharacterize our loans to ResCap as equity contributions or to seek equitable subordination of our claims so that the claims of other creditors would have priority over our claims. In addition, should ResCap file for bankruptcy, our $772 million investment related to ResCap s equity position would likely be reduced to zero. If a ResCap bankruptcy were to occur and a substantial amount of our credit exposure is not repaid to us, it would have an adverse impact on our near-term net income and capital position, but we do not believe it would have a materially adverse impact on Ally s consolidated financial position over the longer term.

Relationship and Transactions with General Motors Company

General Motors Company (GM), GM dealers, and GM-related employees compose a significant portion of our customer base, and our Global Automotive Services operations are highly dependent on GM production and sales volume. As a result, a significant adverse change in GM s business, including significant adverse changes in GM s liquidity position and access to the capital markets, the production or sale of GM vehicles, the quality or resale value of GM vehicles, the use of GM marketing incentives, GM s relationships with its key suppliers, GM s relationship with the United Auto Workers and other labor unions, and other factors impacting GM or its employees could have a significant adverse effect on our profitability and financial condition.

GM is no longer considered a related party for purposes of applicable disclosure within the Notes to Condensed Consolidated Financial Statements, as it beneficially owns less than 10% of the voting interests in Ally and does not control or have the ability to significantly influence the management and policies of Ally. In addition, the Federal Reserve has determined that GM is no longer considered an affiliate of Ally Bank for purposes of Sections 23A and 23B of the Federal Reserve Act, which impose limitations on transactions between banks and their affiliates.

Refer to Note 26 to the Consolidated Financial Statements in our 2010 Annual Report on Form 10-K for a summary of related party transactions with GM during 2010.

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ALLY FINANCIAL INC.

NOTES TO CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Significant Accounting Policies

Earnings per Common Share

We compute earnings (loss) per common share by dividing net income (loss) (after deducting dividends on preferred stock) by the weighted-average number of common shares outstanding during the period. We compute diluted earnings (loss) per common share by dividing net income (loss) (after deducting dividends on preferred stock) by the weighted-average number of common shares outstanding during the period plus the dilution resulting from the conversion of convertible preferred stock, if applicable.

Refer to Note 1 to the Consolidated Financial Statements in our 2010 Annual Report on Form 10-K regarding additional significant accounting policies.

Recently Adopted Accounting Standards

Receivables Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20)

During the three months ended March 31, 2011, Accounting Standards Update (ASU) 2010-20 required us to disclose a rollforward of the allowance for loan losses, additional activity-based disclosures for both financing receivables, and the allowance for each reporting period. We early adopted the rollforward requirement during the December 31, 2010, reporting period. Since the guidance relates only to disclosures, adoption did not have a material impact on our consolidated financial condition or results of operations.

Revenue Recognition Revenue Arrangements with Multiple Deliverables (ASU 2009-13)

As of January 1, 2011, we adopted ASU 2009-13, which amends Accounting Standards Codification (ASC) 605, *Revenue Recognition*. The guidance significantly changed the accounting for revenue recognition in arrangements with multiple deliverables and eliminated the residual method, which allocated the discount of a multiple deliverable arrangement among the delivered items. The guidance requires entities to allocate the total consideration to all deliverables at inception using the relative selling price and to allocate any discount in the arrangement proportionally to each deliverable based on each deliverable s selling price. The adoption did not have a material impact to our consolidated financial condition or results of operations.

Recently Issued Accounting Standards

Financial Services Insurance Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (ASU 2010-26)

In December 2010, the FASB issued ASU 2010-26, which amends ASC 944, *Financial Services Insurance*. The amendments in this ASU specify which costs incurred in the acquisition of new and renewal insurance contracts should be capitalized. All other acquisition-related costs should be expensed as incurred. If the initial application of the amendments in this ASU results in the capitalization of acquisition costs that had not been previously capitalized, an entity may elect not to capitalize those types of costs. The ASU will be effective for us on January 1, 2012.

We do not expect the adoption to have a material impact to our consolidated financial condition or results of operations.

Receivables A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring (ASU 2011-02)

In April 2011, the FASB issued ASU 2011-02, which amends ASC 310, *Receivables*. The amendments in this ASU clarify which loan modifications constitute a troubled debt restructuring. It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. The ASU was effective for us on July 1, 2011, and must be applied retrospectively to modifications made subsequent to the beginning of the annual period of adoption, which for us is January 1, 2011.

If, as a result of applying these amendments, we identify receivables that are newly considered impaired, we are required to apply the measurement portion of the amendments to these newly identified impairments at the end of the reporting period

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of adoption. Effective September 30, 2011, we will also be required to retrospectively disclose the total amount of receivables and the allowance for credit losses as of January 1, 2011, related to those receivables that are newly considered impaired for which impairment was previously measured under ASC 450-20, *Contingencies Loss Contingencies.*

We do not expect the adoption to have a material impact to our consolidated financial condition or results of operations.

Fair Value Measurement Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS) (ASU 2011-04)

In May 2011, the FASB issued ASU 2011-04, which amends ASC 820, *Fair Value Measurements*. The amendments in this ASU clarify how to measure fair value. It is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The ASU will be effective for us on January 1, 2012, and must be applied prospectively.

Early adoption is permitted. We do not expect the adoption to have a material impact to our consolidated financial condition or results of operations.

Comprehensive Income Presentation of Comprehensive Income (ASU 2011-05)

In June 2011, the FASB issued ASU 2011-05, which amends ASC 220, *Comprehensive Income*. The amendments will increase the prominence of items reported in other comprehensive income and facilitate convergence between GAAP and IFRS. This ASU will require that nonowner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The ASU will be effective for us on January 1, 2012.

Early adoption is permitted. Since the guidance relates only to disclosures, the adoption will have no impact to our consolidated financial condition or results of operations.

2. Discontinued Operations

We classified certain operations as discontinued when operations and cash flows will be eliminated from our ongoing operations and we will not have any significant continuing involvement in their operations after the respective sale transactions. For all periods presented, all of the operating results for these operations were removed from continuing operations and are presented separately as discontinued operations, net of tax. The Notes to the Condensed Consolidated Financial Statements were adjusted to exclude discontinued operations unless otherwise noted.

Select Insurance Operations

During the second quarter of 2011, we completed the sale of our U.K. consumer property and casualty insurance business.

Select International Automotive Finance Operations

We completed the sale of our Ecuador operations during the first quarter of 2011. We expect to complete the sale of our Venezuela operations by December 31, 2011.

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Select Financial Information

The pretax income or loss recognized for the discontinued operations, including the direct costs to transact a sale, could differ from the ultimate sales price due to the fluidity of ongoing negotiations, price volatility, changing interest rates, changing foreign-currency rates, and future economic conditions.

Selected financial information of discontinued operations is summarized below.

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	**2011**	2010	**2011**	2010
Select Insurance operations				
Total net revenue	**$ 40**	$ 61	**$ 96**	$ 300
Pretax income (loss) including direct costs to transact a sale (a)	**6**	(6)	**13**	(6)
Tax (benefit)		(5)		(1)
Select International operations				
Total net revenue	**$ 5**	$ 39	**$ 10**	$ 80
Pretax (loss) income including direct costs to transact a sale (a)	**(3)**	59	**(34)**	64
Tax (benefit) expense		(6)		2
Select Mortgage Legacy and Other operations				
Total net revenue	**$**	$ 16	**$**	$ 44
Pretax income including direct costs to transact a sale		89		102
Tax (benefit)		(9)		(8)
Select Commercial Finance operations				
Total net revenue	**$**	$ 3	**$**	$ 11
Pretax (loss) income including direct costs to transact a sale (a)		(3)		7
Tax (benefit)		(4)		

(a) Includes certain income tax activity recognized by Corporate and Other.

3. Other Income, Net of Losses

Details of other income, net of losses, were as follows.

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	**2011**	2010	**2011**	2010
Securitization income (loss) other	**$ 127**	$ 3	**$ 149**	$ (46)
Mortgage processing fees and other mortgage income	**44**	41	**88**	94
Remarketing fees	**31**	36	**68**	67
Late charges and other administrative fees	**24**	35	**57**	72
Income from equity-method investments	**20**	13	**42**	25

Full-service leasing fees	**9**	13	**24**	41
Real estate services, net		2		9
Change due to fair value option elections (a)	**(22)**	(56)	**(39)**	(129)
Fair value adjustment on derivatives (b)	**(65)**	(2)	**(79)**	(58)
Other, net	**85**	88	**159**	180
Total other income, net of losses	**$ 253**	$ 173	**$ 469**	$ 255

(a) Refer to Note 21 for a description of fair value option elections.
(b) Refer to Note 19 for a description of derivative instruments and hedging activities.

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4. Other Operating Expenses

Details of other operating expenses were as follows.

	Three months ended June 30,		Six months ended June 30,	
($ in millions)	**2011**	2010	**2011**	2010
Mortgage representation and warranty, net	**$ 184**	$ 97	**$ 210**	$ 146
Insurance commissions	**124**	150	**249**	296
Technology and communications	**116**	134	**236**	272
Professional services	**79**	63	**147**	119
Lease and loan administration	**45**	35	**89**	66
Advertising and marketing	**41**	50	**95**	74
Vehicle remarketing and repossession	**37**	47	**73**	102
State and local non-income taxes	**35**	36	**66**	60
Regulatory and licensing fees	**34**	25	**71**	55
Premises and equipment depreciation	**24**	20	**50**	38
Occupancy	**23**	26	**46**	51
Full-service leasing vehicle maintenance costs	**11**	6	**22**	36
Restructuring	**6**	14	**3**	56
Other	**157**	129	**331**	343
Total other operating expenses	**$ 916**	$ 832	**$ 1,688**	$ 1,714

5. Trading Securities

The composition of trading securities was as follows.

($ in millions)	**June 30, 2011**	December 31, 2010
U.S. Treasury	**$**	$ 77
Mortgage-backed residential	**311**	69
Asset-backed		94
Total trading securities	**$ 311**	$ 240

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6. Investment Securities

Our portfolio of securities includes bonds, equity securities, asset- and mortgage-backed securities, notes, interests in securitization trusts, and other investments. The cost, fair value, and gross unrealized gains and losses on available-for-sale securities were as follows.

	June 30, 2011				December 31, 2010			
		Gross unrealized		Fair		Gross unrealized		Fair
($ in millions)	Cost	gains	losses	value	Cost	gains	losses	value
Available-for-sale securities								
Debt securities								
U.S. Treasury and federal agencies	**$ 1,155**	**$ 14**	**$**	**$ 1,169**	$ 3,307	$ 22	$ (11)	$ 3,318
States and political subdivisions	**1**			**1**	3		(1)	2