Regional Management Corp.
Form 10-Q
August 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period ended

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	**(I.R.S. Employer**
incorporation or organization)	**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)

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 (Section 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 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 ¨
Non-accelerated filer x (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 x

As of August 10, 2012, the registrant had outstanding 12,486,727 shares of Common Stock, $0.10 par value.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Regional Management Corp. and Subsidiaries

Consolidated Balance Sheets

June 30, 2012 and December 31, 2011

($ in Thousands except per share amounts)

	June 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash	$ 2,314	$ 4,849
Gross finance receivables	423,482	387,494
Less unearned finance charges, insurance premiums, and commissions	(78,071)	(80,900)
Finance receivables	345,411	306,594
Allowance for loan losses	(20,780)	(19,300)
Net finance receivables	324,631	287,294
Premises and equipment, net of accumulated depreciation	5,025	4,446
Deferred tax asset, net		15
Repossessed assets at net realizable value	400	409
Other assets	8,695	7,137
Total assets	$ 341,065	$ 304,150
Liabilities and Stockholders Equity		
Liabilities:		
Cash overdraft	$ 6	$ 1
Deferred tax liability, net	4,061	
Accounts payable and accrued expenses	6,684	7,447
Senior revolving credit facility	212,731	206,009
Mezzanine debt-related parties		25,814
Other notes payable	1,018	
Total liabilities	224,500	239,271
Temporary equity		12,000
Commitments and Contingencies		
Stockholders equity:		
Common stock (1,000,000,000 shares authorized; 12,486,727 and 9,336,727 issued and outstanding at June 30, 2012 and December 31, 2011 respectively; $.10 par value per share)	1,249	934
Additional paid-in-capital	79,780	28,150
Retained earnings	35,536	23,795
Total stockholders equity	116,565	52,879
Total liabilities and stockholders equity	$ 341,065	$ 304,150

See accompanying notes to consolidated financial statements (unaudited).

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Regional Management Corp. and Subsidiaries

Consolidated Statements of Income

For the Three and Six Months Ended June 30, 2012 and 2011

(Unaudited)

($ in Thousands except per share amounts)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenue				
Interest and fee income	$ 28,175	$ 21,494	$ 55,244	$ 42,539
Insurance income, net	2,510	1,933	4,995	4,127
Other income	1,331	947	3,317	2,404
Total revenue	32,016	24,374	63,556	49,070
Expenses				
Provision for loan losses	5,908	3,489	11,535	7,325
General and administrative expenses				
Personnel	8,251	6,276	16,226	12,816
Occupancy	2,086	1,590	3,980	3,061
Advertising	632	646	1,225	1,293
Other	2,290	1,658	4,620	3,212
Consulting and advisory fees		308	1,451	618
Interest expense				
Senior revolving credit facility and other notes payable	2,341	1,951	4,851	3,714
Mezzanine debt-related parties		1,007	1,030	2,003
Total interest expense	2,341	2,958	5,881	5,717
Total expenses	21,508	16,925	44,918	34,042
Income before income taxes	10,508	7,449	18,638	15,028
Income taxes	3,888	2,729	6,896	5,373
Net income	$ 6,620	$ 4,720	$ 11,742	$ 9,655
Net income per common share:				
Basic	$ 0.53	$ 0.51	$ 1.08	$ 1.03
Diluted	$ 0.52	$ 0.50	$ 1.05	$ 1.01
Weighted average common shares outstanding:				
Basic	12,452,112	9,336,727	10,894,419	9,336,727
Diluted	12,735,088	9,527,703	11,175,792	9,587,903

See accompanying notes to consolidated financial statements (unaudited).

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Regional Management Corp. and Subsidiaries

Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2012 and 2011

(Unaudited)

($ in Thousands)

	2012	2011
Cash Flows From Operating Activities		
Net income	$ 11,742	$ 9,655
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	11,535	7,325
Depreciation and amortization	1,233	642
Amortization of stock compensation expense	165	123
Fair value adjustment on interest rate caps	23	172
Deferred income taxes	4,076	(90)
Changes in operating assets and liabilities:		
Increase in other assets	(2,107)	(2,934)
Increase in other liabilities	(765)	(1,227)
Net cash provided by operating activities	25,902	13,666
Cash flows from investing activities:		
Net origination of finance receivables	(20,905)	(19,279)
Purchase of two consumer loan companies, net of cash	(27,967)	
Purchase of property and equipment	(1,277)	(1,444)
Net cash (used in) investing activities	(50,149)	(20,723)
Cash flows from financing activities:		
Increase (decrease) in cash overdraft	5	(25)
Net advances on senior revolving credit facility	6,722	9,166
Issuance on other notes payable, net	1,018	34
Net proceeds from issuance of common stock	39,781	
Repayment of mezzanine debt	(25,814)	
Net cash provided by financing activities	21,712	9,175
Net change in cash	(2,535)	2,118
Cash:		
Beginning	4,849	856
Ending	$ 2,314	$ 2,974
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest		
Paid to third parties	$ 4,763	$ 3,493
Paid to related parties	$ 1,152	$ 2,330

Cash payments for income taxes	$ 5,430	$ 7,767

See accompanying notes to consolidated financial statements (unaudited).

Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

Note 1. Basis of Presentation

Basis of presentation: The consolidated financial statements of Regional Management Corp. (the Company) at June 30, 2012 and for the three and six months ended June 30, 2012 and 2011 are unaudited and have been prepared in conformity with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 270, Interim Reporting. In the opinion of management, the interim financial statements include all adjustments, all of which are normal, recurring adjustments that are necessary for a fair presentation of the financial position at June 30, 2012 and the results of operations and cash flows for the three and six month periods ended June 30, 2012 and 2011. The results for interim periods are not necessarily indicative of results that may be expected for other interim periods or for the full year.

The accompanying financial statements have been prepared in accordance with the accounting policies stated in the Company s audited financial statements for the year ended December 31, 2011 and should be read in conjunction with the notes to those consolidated financial statements. These financial statements have also been prepared in accordance with the instructions to Form 10-Q. The consolidated balance sheet data as of December 31, 2011 was derived from the Company s audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Note 2. Nature of Business and Significant Accounting Policies

Nature of business: The Company was incorporated and began operations in 1987. The Company is engaged in the consumer finance business, offering small installment loans, large installment loans, automobile purchase loans, furniture and appliance purchase loans, related credit insurance, and ancillary products and services. As of June 30, 2012, the Company operates offices in 206 locations in the states of Alabama (40 offices), New Mexico (1 office), North Carolina (26 offices), Oklahoma (1 office), South Carolina (69 offices), Tennessee (20 offices), and Texas (49 offices) under the brand names Regional Finance, RMC Financial Services, Anchor Finance, Superior Financial Services, First Community Credit, and Sun Finance. In the six months ended June 30, 2012, the Company opened 17 offices and acquired 23 branches in Alabama, four of which were merged into existing Regional offices.

Principles of consolidation: The consolidated financial statements include the accounts of Regional Management Corp. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company operates through a separate subsidiary in each state.

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the consumer finance industry.

The following is a description of significant accounting policies used in preparing the financial statements.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses, fair value of stock-based compensation, and the valuation of deferred tax assets.

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

Loan losses: Provisions for loan losses are charged to income as losses are estimated to have occurred and in amounts sufficient to maintain an allowance for loan losses at an adequate level to provide for losses on the finance receivables. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Loan loss experience, average loan life, and contractual delinquency of finance receivables by loan type, the value of underlying collateral, and management s judgment are factors used in assessing the overall adequacy of the allowance and the resulting provision for loan losses. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or portfolio performance. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available.

The Company establishes a full valuation allowance for a loan at the date that the loan is contractually delinquent 180 days. The Company initiates repossession proceedings when an account is seriously delinquent and, in the opinion of management, the customer is unlikely to make further payments. The Company sells substantially all repossessed vehicle inventory through public sales conducted by independent automobile auction organizations after the required post-repossession waiting period. Losses on the sale of repossessed collateral are charged to the allowance for loan losses.

The allowance for loan losses consists of general and specific components. The general reserve estimates loan losses for groups of loans on a collective basis. The Company s general component of the allowance for loan losses relates to probable incurred losses of unimpaired loans and consists of two computations as follows:

Large installment loans, automobile purchase loans and furniture and appliance purchase loans. Most recent twelve months of historical losses are used to estimate the general allowance for large installment loans (loans in excess of $2.5), automobile purchase loans, and all furniture and appliance purchase loans.

Small installment loans. Most recent eight months of historical losses are used to estimate the general allowance for small installment loans, including live checks (loans of $2.5 or less).

Automobile purchase, furniture and appliance purchase, and large installment loans have longer maturities than small installment loans, which is why a shorter period is used for small installment loan losses.

The Company adjusts the computed historical loss percentages as described above for qualitative factors based on an assessment of internal and external influences on credit quality that are not fully reflected in the historical loss data. Those qualitative factors include trends in growth in the loan portfolio, delinquency, unemployment, bankruptcy, and other economic trends.

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

The specific component of the allowance for loan losses relates to impaired loans. The specific component includes a full reserve for accounts that are 180 days or more delinquent on a contractual basis. The specific component also includes an estimate of the loss resulting from the difference between the recorded investment in a loan to a bankrupt customer and the present value of the cash flows of such loans in accordance with the modified loan terms approved by the bankruptcy court discounted at the original contractual interest rate. Loans to bankrupt customers are evaluated in the aggregate rather than on a specific loan basis. Such loans are accounted for as troubled debt restructurings (as described under Impaired loans below).

In 2011, the Company began evaluating the loans of customers in Chapter 13 bankruptcy for impairment as troubled debt restructurings. The Company has adopted the policy of aggregating loans with similar risk characteristics for purposes of computing the amount of impairment. In connection with the adoption of this practice, the Company computed the estimated impairment on its Chapter 13 bankrupt loans in the aggregate by discounting the projected cash flows at the original contract rates on the loan using the terms imposed by the bankruptcy court. This method was applied in the aggregate to each of the Company s four classes of loans.

The Company s policy for the accounts of customers in bankruptcy is to charge off the balance of accounts in a confirmed bankruptcy under Chapter 7 of the bankruptcy code. For customers in a Chapter 13 bankruptcy plan, the Company reduces the interest rate to that specified in the bankruptcy order. Additionally, if the bankruptcy court converts a portion of a loan to an unsecured claim the Company s policy is to charge off the portion of the unsecured balance that it deems uncollectible at the time the bankruptcy plan is confirmed. Once the customer is in a confirmed Chapter 13 bankruptcy plan, the Company receives payments with respect to the remaining amount of the loan at the reduced interest rate from the bankruptcy trustee. The Company does not believe that accounts in a confirmed Chapter 13 plan have a higher level of risk than non-bankrupt accounts. If a customer fails to comply with the terms of the bankruptcy order, the Company will petition the trustee to have the customer dismissed from bankruptcy. Upon dismissal, the Company restores the account to the original terms and pursues collection through its normal collection activities.

In making the computations of the present value of cash payments to be received on bankrupt accounts in each product category, the Company used the weighted average interest rates and weighted average remaining term based on data as of each balance sheet date.

Impaired loans: A loan is considered impaired by the Company when it is 180 or more days contractually delinquent, at which time a full valuation allowance is established for such loans within the allowance for loan losses. In addition, loans that have been modified by bankruptcy proceedings are accounted for in the aggregate by the Company as troubled debt restructurings and are also considered impaired loans. At the time of restructuring, a specific valuation allowance is established for such loans within the allowance for loan losses.

The factors used to determine whether an account is uncollectible are the age of the account, supervisory review of collection efforts, and other factors such as customers relocating to an area where collection is not practical. As of June 30, 2012, bankrupt accounts that had not been charged-off were approximately $4,625. Such accounts are specifically evaluated for impairment. The Company has elected to evaluate such loans in the aggregate in accordance with FASB ASC Topic 310 as they have common risk characteristics. Of the total $4,625 of bankrupt accounts at June 30, 2012, $339 are more than 180 days contractually delinquent and thus fully reserved. For customers with a confirmed Chapter 13 bankruptcy plan, the Company receives payments through the bankruptcy court. For customers who recently filed for Chapter 13 bankruptcy, the Company generally does not receive any

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

payments until their bankruptcy plan is confirmed by the court. If the customers have made payments to the trustee in advance of plan confirmation, the Company may receive a lump sum payment from the trustee once the plan is confirmed. This lump sum payment represents the Company s pro-rata share of the amount paid by the customer. If a customer files for bankruptcy under Chapter 7 of the bankruptcy code, the customer s entire debt is cancelled. In such cases, the Company charges off the account upon receiving notice from the bankruptcy court. If a vehicle secures a Chapter 7 bankruptcy account, the customer has the option of buying the vehicle at fair value or reaffirming the loan and continuing to pay the loan.

The remainder of the 180 or more days past due accounts are those of which operations personnel are of the view that some portion can be collected. At June 30, 2012, there are $1,888 of accounts that are 180 or more days contractually delinquent of which $339 represent the accounts of customers in bankruptcy.

Delinquency: The Company determines past due status using the contractual terms of the loan. This is the credit quality indicator used to evaluate the allowance for loan losses for each class of finance receivables.

Interest rate caps: In 2009, the Company purchased three interest rate caps with notional amounts of $10,000 each. The Company purchased the caps to protect a portion of its senior revolving credit facility from increases in interest rates above the strike rate of the cap. In early 2010, the Company exchanged its $30,000 notional cap for a cap with a notional amount of $128,500, a strike rate of 6.0%, and a maturity of March 2014. There was no cost related to this exchange. In late 2010, the Company purchased an additional cap increasing the total interest rate protection to $150,000 on the same terms as the exchanged cap. At June 30, 2012, the caps are based on the three-month LIBOR contract and reimburse the Company for the difference when three-month LIBOR exceeds six percent. The carrying value of the caps, are adjusted to fair value. For the six months ended June 30, 2012 and 2011, the Company recorded unfavorable fair value adjustments of $23 and $172, respectively, as increases in interest expense.

Earnings per share: Earnings per share have been computed based on the weighted-average number of common shares outstanding during each reporting period presented. Common shares issuable upon the exercise of the stock-based compensation, which are computed using the treasury stock method, are included in the computation of diluted earnings per share.

Government regulation: The Company is subject to various state and federal laws and regulations, which, among other things, impose limits on interest rates, other charges, and insurance premiums and require licensing and qualifications.

In 2010, congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act. Among other provisions, the bill created the Consumer Financial Protection Bureau (CFPB). The CFPB has the authority to promulgate regulations that could affect the Company s business. The CFPB has not issued any regulations to date and the Company is not aware of any pending regulations that might affect its business.

Disclosure about fair value of financial instruments: The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Finance receivables: Finance receivables are originated either at prevailing market rates or at statutory limits. The Company s loan portfolio turns approximately 1.2 times per year from cash payments and renewal of loans. Management believes that the carrying value approximates the fair value of its loan portfolio.

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

Interest rate caps: The fair value of the interest rate caps is the estimated amount the Company would receive to terminate the cap agreements at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets and creditworthiness of the Company for liabilities.

Debt: The Company refinanced its senior revolving credit facility in January 2012 and as a result of the refinancing believes that the fair value of this variable rate debt approximates its carrying value at June 30, 2012 and December 31, 2011. The Company also refinanced its mezzanine debt in August 2010 and estimated that the fixed interest rate on the mezzanine debt exceeded the estimated market interest rate for similar debt, which resulted in a fair value in excess of the carrying amount. The Company also considered its creditworthiness in its determination of fair value. Our mezzanine debt was repaid in full from the proceeds of our initial public offering, which closed on April 2, 2012.

The Company follows the provisions of ASC 820-10. ASC 820-10 applies to all assets and liabilities that are being measured and reported on a fair value basis. ASC 820-10 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 Quoted market prices in active markets for identical assets or liabilities.

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC 820-10. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

The carrying amount and estimated fair values of the Company s financial instruments summarized by level are as follows:

	June 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Unaudited)		(Unaudited)	
Assets				
Level 1 inputs				
Cash	$ 2,314	$ 2,314	$ 4,849	$ 4,849
Restricted cash	1,338	1,338	1,338	1,338
Level 2 inputs				
Interest rate caps	5	5	28	28
Level 3 inputs				
Net finance receivables	324,631	324,631	287,294	287,294
Repossessed assets	400	400	409	409
Liabilities				
Level 3 inputs				
Senior revolving credit facility	212,731	212,731	206,009	206,009
Mezzanine debt-related parties			25,814	26,428
Other notes payable	1,018	1,018		

Accounting pronouncements issued and adopted:

In October 2010, the FASB issued ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. ASU 2010-26 modifies the definitions of the type of costs incurred by insurance entities that can be capitalized in the successful acquisition of new and renewal contracts. ASU 2010-26 requires incremental direct costs of successful contract acquisition as well as certain costs related to underwriting, policy issuance and processing, medical and inspection and sales force contract selling for successful contract acquisition to be capitalized. These incremental direct costs and other costs are those that are essential to the contract transaction and would not have been incurred had the contract transaction not occurred. This guidance was adopted by the Company for the year beginning January 1, 2012 and will be applied prospectively. The adoption of this guidance did not have a material impact on the Company s consolidated financial position, results of operations, cash flows, or disclosures.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement*, which aligns disclosures related to fair value between U.S. GAAP and International Financial Reporting Standards. The ASU includes changes to the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and changes to the disclosure of information about fair value measurements. More specifically, the changes clarify the intent of the FASB regarding the application of existing fair value measurements and disclosures as well as changing some particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. This ASU is effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the consolidated financial statements.

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

Note 3. Finance Receivables, Credit Quality Information, and Allowance for Loan Losses

Finance receivables consisted of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Small installment loans	$ 121,300	$ 130,257
Large installment loans	57,053	36,938
Automobile purchase loans	146,478	128,660
Furniture and appliance purchase loans	20,580	10,739
Finance receivables	$ 345,411	$ 306,594

The following is a summary of the changes in the allowance for loan losses for the periods indicated (unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Balance at beginning of period	$ 19,860	$ 18,000	$ 19,300	$ 18,000
Provision for loan losses	5,908	3,489	11,535	7,325
Finance receivables charged off	(5,210)	(3,612)	(10,452)	(7,616)
Recoveries	222	123	397	291
Balance at end of period	$ 20,780	$ 18,000	$ 20,780	$ 18,000

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

The following is a reconciliation of the allowance for loan losses by component for the three and six months ended June 30, 2012 and 2011.

	Balance April 1, 2012	Provision	Charge-Offs	Recoveries	Balance June 30, 2012	Finance Receivables June 30, 2012	Allowance as Percentage of Loan Balance June 30, 2012
Small installment loans	$ 8,147	$ 4,296	$ (2,983)	$ 91	$ 9,551	$ 121,300	7.9%
Large installment loans	3,490	519	(812)	96	3,293	57,053	5.8%
Automobile purchase loans	7,756	985	(1,325)	35	7,451	146,478	5.1%
Furniture and appliance purchase loans	467	108	(90)		485	20,580	2.4%
Total	$ 19,860	$ 5,908	$ (5,210)	$ 222	$ 20,780	$ 345,411	6.0%

	Balance April 1, 2011	Provision	Charge-Offs	Recoveries	Balance June 30, 2011	Finance Receivables June 30, 2011	Allowance as Percentage of Loan Balance June 30, 2011
Small installment loans	$ 6,953	$ 2,603	$ (2,361)	$ 86	$ 7,281	$ 105,441	6.9%
Large installment loans	2,478	541	(418)	14	2,615	34,186	7.6%
Automobile purchase loans	8,399	177	(798)	22	7,800	114,739	6.8%
Furniture and appliance purchase loans	170	168	(35)	1	304	4,834	6.3%
Total	$ 18,000	$ 3,489	$ (3,612)	$ 123	$ 18,000	$ 259,200	6.9%

	Balance January 1, 2012	Provision	Charge-Offs	Recoveries	Balance June 30, 2012	Finance Receivables June 30, 2012	Allowance as Percentage of Finance Receivables June 30, 2012
Small installment loans	$ 8,838	$ 6,746	$ (6,246)	$ 213	$ 9,551	$ 121,300	7.9%

Large installment loans	2,448	2,009	(1,285)	121	3,293	57,053	5.8%
Automobile purchase loans	7,618	2,532	(2,761)	62	7,451	146,478	5.1%
Furniture and appliance purchase loans	396	248	(160)	1	485	20,580	2.4%
Total	$ 19,300	$ 11,535	$ (10,452)	$ 397	$ 20,780	$ 345,411	6.0%

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

	Balance January 1, 2011	Provision	Charge-Offs	Recoveries	Balance June 30, 2011	Finance Receivables June 30, 2011	Allowance as Percentage of Finance Receivables June 30, 2011
Small installment loans	$ 8,974	$ 2,924	$ (4,826)	$ 209	$ 7,281	$ 105,441	6.9%
Large installment loans	2,972	607	(997)	33	2,615	34,186	7.6%
Automobile purchase loans	5,909	3,566	(1,723)	48	7,800	114,739	6.8%
Furniture and appliance purchase loans	145	228	(70)	1	304	4,834	6.3%
Total	$ 18,000	$ 7,325	$ (7,616)	$ 291	$ 18,000	$ 259,200	6.9%

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

Following is a summary of the finance receivables associated with customers in bankruptcy as of the periods indicated:

	Finance Receivables in Bankruptcy as of June 30, 2012 (Unaudited)	Finance Receivables in Bankruptcy as of December 31, 2011
Small installment loans	$ 364	$ 352
Large installment loans	1,775	586
Automobile purchase loans	2,433	2,160
Furniture and appliance purchase loans	53	32
Total	$ 4,625	$ 3,130

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

The following is an assessment of the credit quality of finance receivables at June 30, 2012 and December 31, 2011. The contractual delinquency of the finance receivable portfolio by component at June 30, 2012 and December 31, 2011 was:

	June 30, 2012 (Unaudited)									
	Small Installment Loans		Large Installment Loans		Automobile Purchase Loans		Furniture and Appliance Purchase Loans		Total	
	$	%	$	%	$	%	$	%	$	%
Current	$ 91,219	75.2%	$ 42,282	74.0%	$ 107,863	73.7%	$ 17,194	83.5%	$ 258,558	75.0%
1 to 29 days delinquent	20,743	17.1%	10,699	18.8%	31,663	21.6%	2,677	13.0%	65,782	19.0%
Delinquent accounts										
30 to 59 days	3,443	2.8%	1,933	3.4%	4,143	2.8%	302	1.5%	9,821	2.8%
60 to 89 days	1,937	1.6%	771	1.4%	1,336	0.9%	143	0.7%	4,187	1.2%
Over 90 days	3,958	3.3%	1,368	2.4%	1,473	1.0%	264	1.3%	7,063	2.0%
Total delinquency	$ 9,338	7.7%	$ 4,072	7.2%	$ 6,952	4.7%	$ 709	3.5%	$ 21,071	6.0%
Total loans	$ 121,300	100.0%	$ 57,053	100.0%	$ 146,478	100.0%	$ 20,580	100.0%	$ 345,411	100.0%
Loans in nonaccrual status	$ 3,958	3.3%	$ 1,368	2.4%	$ 1,473	1.0%	$ 264	1.3%	$ 7,063	2.0%

The accounts of the acquired Alabama branches were converted to the Company s loan management system on April 2, 2012. In presenting June 30, 2012, the Company made estimates of the delinquency reported by the acquired company s loan management system to conform to the methods used by the Company.

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Regional Management Corp. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

June 30, 2012 and 2011

(Dollars in thousands, except per share information)

(Unaudited)

	December 31, 2011									
	Small Installment Loans		Large Installment Loans		Automobile Purchase Loans		Furniture and Appliance Purchase Loans		Total	
	$	%	$	%	$	%	$	%	$	%
Current	$ 97,240	74.7%	$ 25,787	69.8%	$ 91,947	71.5%	$ 9,101	84.7%	$ 224,075	73.0%
1 to 29 days delinquent	22,784	17.5%	8,202	22.2%	30,376	23.6%	1,313	12.2%	62,675	20.5%
Delinquent accounts										
30 to 59 days	4,084	3.1%	1,484	4.0%	3,962	3.1%	146	1.4%	9,676	3.2%
60 to 89 days	3,002	2.3%	686	1.9%	1,185	0.9%	75	0.7%	4,948	1.6%
90 days and over	3,147	2.4%	779	2.1%	1,190	0.9%	104	1.0%	5,220	1.7%
Total delinquency	$ 10,233	7.8%	$ 2,949	8.0%	$ 6,337	4.9%	$ 325	3.1%	$ 19,844	6.5%
Total loans	$ 130,257	100.0%	$ 36,938	100.0%	$ 128,660	100.0%	10,739	100.0%	$ 306,594	100.0%

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