Ally Financial Inc.
Form 10-K
March 01, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012 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 (State or other jurisdiction of incorporation or organization)	38-0572512 (I.R.S. Employer 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)

Securities registered pursuant to Section 12(b) of the Act (all listed on the New York Stock Exchange):
Title of each class

10.30% Deferred Interest Debentures due June 15, 2015	7.375% Notes due December 16, 2044
7.30% Public Income Notes (PINES) due March 9, 2031	Fixed Rate/Floating Rate Perpetual Preferred Stock, Series A
7.35% Notes due August 8, 2032	8.125% Fixed Rate/Floating Rate Trust Preferred Securities, Series 2 of GMAC Capital Trust I
7.25% Notes due February 7, 2033	

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 þ No o

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

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 requirements for the past 90 days. Yes þ No o

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations 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 this Form 10-K. þ
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. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o
	(Do not check if a smaller reporting)		

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
Aggregate market value of voting and nonvoting common equity held by nonaffiliates: Ally Financial Inc. common equity is not registered with the Securities and Exchange Commission and there is no ascertainable market value for such common equity.
At February 28, 2013, the number of shares outstanding of the Registrant's common stock was 1,330,970 shares.
Documents incorporated by reference. None.

Table of Contents
INDEX
Ally Financial Inc. Form 10-K

		Page
Part I		
Item 1.	Business	1
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	22
Item 2.	Properties	22
Item 3.	Legal Proceedings	23
Item 4.	Mine Safety Disclosures	23
Part II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	24
Item 6.	Selected Financial Data	25
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	99
Item 8.	Financial Statements and Supplementary Data	100
	Management's Report on Internal Control over Financial Reporting	100
	Reports of Independent Registered Public Accounting Firm	101
	Consolidated Statement of Income	103
	Consolidated Statement of Comprehensive Income	105
	Consolidated Balance Sheet	106
	Consolidated Statement of Changes in Equity	108
	Consolidated Statement of Cash Flows	109
	Notes to Consolidated Financial Statements	111
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	209
Item 9A.	Controls and Procedures	209
Item 9B.	Other Information	209
Part III		
Item 10.	Directors, Executive Officers, and Corporate Governance	210
Item 11.	Executive Compensation	214
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	226
Item 13.	Certain Relationships and Related Transactions, and Director Independence	226
Item 14.	Principal Accountant Fees and Services	227
Part IV		
Item 15.	Exhibits, Financial Statement Schedule	229
Signatures		232

Item 1. Business

General

Ally Financial Inc. (formerly GMAC Inc.) is a leading, independent, financial services firm with $182.3 billion in assets. Founded in 1919, we are a leading automotive financial services company with over 90 years of experience providing a broad array of financial products and services to automotive dealers and their customers. We became a bank holding company on December 24, 2008, under the Bank Holding Company Act of 1956, as amended (the BHC Act). Our banking subsidiary, Ally Bank, is an indirect wholly owned subsidiary of Ally Financial Inc. and a leading franchise in the growing direct (internet, telephone, mobile, and mail) banking market, with $46.9 billion of deposits at December 31, 2012. The terms “Ally,” “the Company,” “we,” “our,” and “us” refer to Ally Financial Inc. and its subsidiaries as a consolidated entity, except where it is clear that the terms means only Ally Financial Inc.

Our Business

Dealer Financial Services, which includes our Automotive Finance and Insurance operations, and Mortgage are our primary lines of business. Our Dealer Financial Services business is centered on our strong and longstanding relationships with automotive dealers and supports manufacturers with which we have marketing relationships and their marketing programs. Our Dealer Financial Services business serves the financial needs of almost 15,000 dealers with a wide range of financial services and insurance products. We believe our dealer-focused business model makes us the preferred automotive finance company for thousands of our automotive dealer customers. We have developed particularly strong relationships with thousands of dealers resulting from our longstanding relationship with General Motors Company (GM) and our relationship with Chrysler Group LLC (Chrysler), providing us with an extensive understanding of the operating needs of these dealers relative to other automotive finance companies. In addition, we have established specialized incentive programs that are designed to encourage dealers to direct more of their business to us.

Ally Bank, our direct banking platform, provides us with a stable and diversified low-cost funding source. Our focus is on building a stable deposit base driven by our compelling brand and strong value proposition. Ally Bank raises deposits directly from customers through the direct banking channel via the internet, over the telephone, and through mobile applications. Ally Bank offers a full spectrum of deposit product offerings including certificates of deposit, savings accounts, money market accounts, IRA (individual retirement account) deposit products, as well as an online checking product. We continue to expand the product offerings in our banking platform in order to meet customer needs. Ally Bank's assets and operating results are divided between our Automotive Finance operations and Mortgage operations based on its underlying business activities.

Our strategy is to extend our leading position in automotive finance in the United States by continuing to provide automotive dealers and their retail customers with premium service, a comprehensive product suite, consistent funding and competitive pricing, reflecting our commitment to the automotive industry. We are focused on expanding profitable dealer relationships, prudent earning asset growth, and higher risk-adjusted returns. Our growth strategy continues to focus on diversifying the franchise by expanding into different products as well as broadening our network of dealer relationships. During 2012, we continued to focus on the used vehicle market, which resulted in strong growth in used vehicle financing volume. We also seek to broaden and deepen the Ally Bank franchise, prudently growing stable, quality deposits while extending our foundation of products and providing a high level of customer service.

Strategic Actions

Subsidiaries' Bankruptcy Filings

On May 14, 2012, Residential Capital, LLC (ResCap) and certain of its wholly owned direct and indirect subsidiaries (collectively, the Debtors) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. In connection with the filings, Ally Financial Inc. and its direct and indirect subsidiaries and affiliates (excluding the Debtors) reached an agreement with the Debtors and certain creditor constituencies on a prearranged Chapter 11 plan, which is subject to bankruptcy court approval and

certain other conditions. As a result of the bankruptcy filing, effective May 14, 2012 the Debtors were deconsolidated from our financial statements. For further details with respect to the bankruptcy and the deconsolidation, refer to Item 1A. Risk Factors and Note 1 to the Consolidated Financial Statements.

Sale of International Businesses

During 2012, we committed to sell substantially all of our remaining international businesses, which included automotive finance, insurance, and banking and deposit operations. On February 1, 2013, we completed the sale of our Canadian automotive finance operation to Royal Bank of Canada, and we expect the sales of our remaining international operations in Europe and Latin America, as well as our share in a joint venture in China, to close in stages throughout 2013. As a result of the sales, for all periods presented, the operating results for these operations have been removed from continuing operations. Refer to Note 2 and Note 31 to the Consolidated Financial Statements for more details.

Dealer Financial Services

Dealer Financial Services includes our Automotive Finance operations and Insurance operations. Our primary customers are automotive dealers, which are independently owned businesses. As part of the process of selling a vehicle, automotive dealers typically originate loans and leases to their retail customers. Dealers then select Ally or another automotive finance provider to which they sell loans and leases. References to consumer automobile loans in this document include installment sales financing unless the context suggests otherwise.

Our Dealer Financial Services operations offer a wide range of financial services and insurance products to almost 15,000 automotive dealerships and approximately 4 million of their retail customers. We have deep dealer relationships that have been built over our greater-than 90-year history. Our dealer-focused business model encourages dealers to use our broad range of products through incentive programs like our Ally Dealer Rewards program, which rewards individual dealers based on the depth and breadth of our relationship. During 2012, 73% of our U.S. automotive dealer customers received benefits under the Ally Dealer Rewards program, which was initiated in 2009. Our automotive finance services include providing retail installment sales contracts, loans, and leases, offering term loans to dealers, financing dealer floorplans and other lines of credit to dealers, fleet leasing, and vehicle remarketing services. We also offer retail vehicle service contracts and commercial insurance primarily covering dealers' wholesale vehicle inventories. We are a leading provider of vehicle service contracts and maintenance coverage.

Dealer Financial Services is supported by approximately 4,400 employees in the United States. A significant portion of our Dealer Financial Services business is conducted with or through GM- and Chrysler-franchised dealers and their customers.

Automotive Finance

Our Automotive Finance operations consist of automotive finance business generated primarily in the United States. At December 31, 2012, our Automotive Finance operations had $128.4 billion of assets and generated $3.1 billion of total net revenue in 2012. According to Experian Automotive, we were the largest independent provider of new retail automotive loans to franchised dealers in the United States during 2012. We have approximately 1,600 automotive finance and 600 insurance employees across the United States focused on serving the needs of our dealer customers with finance and insurance products, expanding the number of overall dealer and automotive manufacturer relationships, and supporting our dealer lending and underwriting functions. In addition, we have over 1,600 employees that support our servicing operations. We manage commercial account servicing for approximately 5,000 dealers that utilize our floorplan inventory lending or other commercial loans. We provide consumer asset servicing for a $75.3 billion portfolio at December 31, 2012. The extensive infrastructure and experience of our servicing operations are important to our ability to minimize our loan losses and enable us to deliver favorable customer experience to both our dealers and their retail customers.

Our success as an automotive finance provider is driven by the consistent and broad range of products and services we offer to dealers who originate loans and leases to their retail customers who are acquiring new and used automobiles. Ally and other automotive finance providers purchase these loans and leases from automotive dealers. Automotive dealers are independently owned businesses and are our primary customers. Our growth strategy continues to focus on diversifying the franchise by expanding into different products as well as broadening our network of dealer relationships. During 2012, we continued to focus on the used vehicle segment primarily through franchised dealers, which resulted in strong growth in used vehicle financing volume. The fragmented used vehicle financing market provides an attractive opportunity that we believe will further expand and support our dealer relationships and increase our volume of retail loan originations.

Automotive dealers desire a full range of financial products, including new and used vehicle inventory financing, inventory insurance, working capital and capital improvement loans, and vehicle remarketing services to conduct their respective businesses as well as service contracts and guaranteed asset protection (GAP) products to offer their customers. We have consistently provided this full suite of products to dealers.

For consumers, we provide retail automotive financing for new and used vehicles and leasing for new vehicles. In the United States, retail financing for the purchase of vehicles takes the form of installment sales financing. During 2012, we originated a total of 1.5 million automotive loans and leases totaling approximately $38.7 billion.

Our consumer automotive financing operations generate revenue through finance charges or lease payments and fees paid by customers on the retail contracts and leases. We also recognize a gain or loss on the remarketing of the vehicles financed through lease contracts at the end of the lease. When the lease contract is originated, we estimate the residual value of the leased vehicle at lease termination. Periodically we revise the projected value of the leased vehicle at lease termination. Our actual sales proceeds from remarketing the vehicle may be higher or lower than the

estimated residual value.

Automotive manufacturers may elect as a marketing incentive to sponsor special financing programs for retail sales of their respective vehicles. The manufacturer can lower the financing rate paid by the customer on either a retail contract or a lease by paying us the present value of the difference between the customer rate and our standard market rates at contract inception. These marketing incentives are referred to as rate support or subvention. GM may also from time to time offer lease pull-ahead programs, which encourage consumers to terminate existing leases early if they acquire a new GM vehicle. As part of these programs, we waive all or a portion of the customer's remaining payment obligation. In most cases, GM compensates us for a portion of the foregone revenue from those waived payments after consideration of the extent that our remarketing sale proceeds are higher than otherwise would be realized if the vehicle had been remarketed at lease contract maturity. Manufacturers may also elect to lower a customer's lease payments through residual support incentive programs. In these instances, we agree to increase the projected value of the vehicle at the time the lease contract was signed in exchange for a payment from the manufacturer.

Our commercial automotive financing operations primarily fund dealer inventory purchases of new and used vehicles, commonly referred to as wholesale or floorplan financing. This represents the largest portion of our commercial automotive financing business. We also extend lines of credit to individual dealers. In general, each wholesale credit line is secured by all the vehicles financed and, in some instances, by other assets owned by the dealer or by a personal guarantee. The amount we advance to dealers is equal to 100% of the

wholesale invoice price of new vehicles. Interest on wholesale automotive financing is generally payable monthly and is usually indexed to a floating rate benchmark. The rate for a particular dealer is based on the dealer's creditworthiness and eligibility for various incentive programs, among other factors. During 2012, we financed an average of $27.2 billion of dealer vehicle inventory through wholesale or floorplan financings. We provide comprehensive automotive remarketing services, including the use of SmartAuction, our online auction platform, which efficiently supports dealer-to-dealer and other commercial wholesale car transactions. In 2012, we and others including dealers, fleet rental companies, financial institutions, and GM, utilized SmartAuction to sell 221,000 vehicles to dealers and other commercial customers. SmartAuction served as the remarketing channel for 35% of Ally's off-lease vehicles.

Manufacturer Agreements

We are currently party to an agreement with GM pursuant to which GM initially agreed to offer all vehicle financing incentives to customers through Ally. However, the agreement, which was originally entered into in November 2006, provides for annual reductions in the percentage of retail financing subvention programs that GM is required to provide through Ally, and currently applies to a limited percentage. The agreement expires on December 31, 2013.

We are also party to an agreement to make available automotive financing products and services to Chrysler dealers and customers. We provide dealer financing and services and retail financing to qualified Chrysler dealers and customers as we deem appropriate according to our credit policies and in our sole discretion, and Chrysler is obligated to use Ally for a designated minimum threshold percentage of Chrysler retail financing subvention programs. On April 25, 2012, Chrysler provided us with notification of nonrenewal related to this agreement and as a result, the agreement will expire on April 30, 2013.

The agreements with GM and Chrysler described above do not provide us with any benefits relating to standard rate financing or lease products. As a result, since the inception of these agreements, we have successfully competed at the dealer-level for standard consumer retail financing and leasing originations for GM and Chrysler automobiles based on our strong dealer relationships, competitive pricing, full suite of products, and comprehensive service. We have further diversified our customer base by establishing agreements to become the preferred financing provider for vehicles manufactured by Thor Industries, Maserati, The Vehicle Production Group LLC, Forest River, and Mitsubishi Motors.

Insurance

Our Insurance operations offer both consumer finance protection and insurance products sold primarily through the automotive dealer channel, and commercial insurance products sold directly to dealers. As part of our focus on offering dealers a broad range of consumer finance and insurance products, we provide vehicle service contracts, maintenance coverage, and GAP products. We also underwrite selected commercial insurance coverages, which primarily insure dealers' wholesale vehicle inventory in the United States. Our Insurance operations had $8.4 billion of assets at December 31, 2012, and generated $1.2 billion of total net revenue in 2012.

Our vehicle service contracts for retail customers offer owners and lessees mechanical repair protection and roadside assistance for new and used vehicles beyond the manufacturer's new vehicle warranty. These vehicle service contracts are marketed to the public through automotive dealerships and on a direct response basis. The vehicle service contracts cover virtually all vehicle makes and models. We also offer GAP products, which allow the recovery of a specified economic loss beyond the covered vehicle's value in the event the vehicle is damaged and declared a total loss.

Wholesale vehicle inventory insurance for dealers provides physical damage protection for dealers' floorplan vehicles. Dealers are generally required to maintain this insurance by their floorplan finance provider. We sell these insurance products to approximately 4,000 dealers. Among U.S. GM franchised dealers to whom we provide wholesale financing, our wholesale insurance product penetration rate is approximately 80%. Dealers who receive wholesale financing from Ally are eligible for wholesale insurance incentives, such as automatic eligibility in our preferred insurance programs and increased financial benefits.

A significant aspect of our Insurance operations is the investment of proceeds from premiums and other revenue sources. We use these investments to satisfy our obligations related to future claims at the time these claims are

settled. Our Insurance operations have an Investment Committee, which develops investment guidelines and strategies. The guidelines established by this committee reflect our risk tolerance, liquidity requirements, regulatory requirements, and rating agency considerations, among other factors.

Mortgage

Our ongoing Mortgage operations are conducted through Ally Bank. We intend to continue to originate a modest level of jumbo and conventional conforming residential mortgages for our own portfolio through a select group of correspondent lenders. Our Mortgage operations also consist of noncore business activities including portfolios in runoff. Additionally, on October 26, 2012, we announced that Ally Bank had begun to explore strategic alternatives for its agency mortgage servicing rights portfolio and its business lending operations. On February 28, 2013, we sold our business lending operations to Walter Investment Management Corp. Our Mortgage operations had $14.7 billion of assets at December 31, 2012, and generated $1.8 billion of total net revenue in 2012.

During 2012, we originated or purchased residential mortgage loans totaling $32.5 billion in the United States. Conforming and government-insured residential mortgage loans comprised 93.2% of our 2012 originations, which, in the ordinary course of business, are sold to the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), or Government National Mortgage Association (Ginnie Mae) (collectively, the Government-sponsored Enterprises, or GSEs). Since the onset of the housing

crisis, we have reduced our overall mortgage assets from $135.1 billion in 2006 to $14.7 billion at December 31, 2012, primarily through the run-off and divestiture of noncore businesses and assets, and the deconsolidation of ResCap.

Corporate and Other

Corporate and Other primarily consists of our centralized corporate treasury activities, such as management of the cash and corporate investment securities portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, the amortization of the discount associated with new debt issuances and bond exchanges, most notably from the December 2008 bond exchange, and the residual impacts of our corporate funds-transfer pricing (FTP) and treasury asset liability management (ALM) activities. Corporate and Other also includes our Commercial Finance Group, certain equity investments, reclassifications and eliminations between the reportable operating segments, and overhead that was previously allocated to operations that have since been sold or classified as discontinued operations. Our Commercial Finance Group provides senior secured commercial-lending products to primarily U.S.-based middle market companies.

Ally Bank

Ally Bank raises deposits directly from customers through direct banking via the internet, telephone, mobile, and mail channels. Ally Bank has established a strong and growing retail banking franchise that is based on a promise of being straightforward, easy to use, and offering high-quality customer service. Ally Bank's products and services are designed to develop long-term customer relationships and capitalize on the shift in consumer preference away from branch banking in favor of direct banking.

Ally Bank provides us with a stable and diversified low-cost funding source. At December 31, 2012, we had $46.9 billion of deposits including $35.0 billion of retail deposits sourced by Ally Bank. The focus on retail deposits and growth in our deposit base from $19.2 billion at the end of 2008 to $46.9 billion at the end of 2012, combined with improving capital markets and a lower interest rate environment have contributed to a reduction in our cost of funds of approximately 95 basis points since the first quarter of 2011. We expect to continue to lower our cost of funds and diversify our overall funding as our deposit base grows.

We believe Ally Bank is well-positioned to continue to benefit from the consumer driven-shift from branch banking to direct banking. According to a 2012 American Bankers Association survey, the percentage of customers who prefer to do their banking via direct channels (internet, mail, phone, and mobile) increased from 21% to 62% between 2007 and 2012, while those who prefer branch banking declined from 39% to 18% over the same period. Ally Bank has received a positive response to innovative savings and other deposit products. Ally Bank's products include savings and money market accounts, certificates of deposit, interest-bearing checking accounts, and individual retirement accounts. Ally Bank's competitive direct banking features include online and mobile banking, electronic bill pay, remote deposit, electronic funds transfer, and no-fee debit cards.

Industry and Competition

The markets for automotive and mortgage financing, banking, and insurance are highly competitive. The market for automotive financing has grown more competitive as more consumers are financing their vehicle purchases and as more competitors continue to enter this market as a result of how well automotive finance assets generally performed relative to other asset classes through the economic cycle during the past several years. More recently, competition for automotive financing has further intensified as a growing number of banks have become increasingly interested in automotive-finance assets. In addition, Ally Bank faces significant competition from commercial banks, savings institutions, and other financial institutions. Our insurance business also faces significant competition from automotive manufacturers, insurance carriers, third-party administrators, brokers, and other insurance-related companies. Many of our competitors have substantial positions nationally or in the markets in which they operate. Some of our competitors have lower cost structures, substantially lower costs of capital, and are much less reliant on securitization activities, unsecured debt, and other public markets. We face significant competition in most areas, including product offerings, rates, pricing and fees, and customer service. Further, there has been significant consolidation among companies in the financial services industry, which is expected to continue.

The markets for automotive securitizations and whole-loan sales are also competitive, and other issuers and originators could increase the amount of their issuances and sales. In addition, lenders and other investors within those markets often establish limits on their credit exposure to particular issuers, originators, and asset classes, or they may require higher returns to increase the amount of their exposure. Increased issuance by other participants in the market or decisions by investors to limit their credit exposure to (or to require a higher yield for) us or to automotive securitizations or whole-loan sales could negatively affect our ability and that of our subsidiaries to price our securitizations and whole-loan sales at attractive rates. The result would be lower proceeds from these activities and lower profits for our subsidiaries and us.

Certain Regulatory Matters

We are subject to various regulatory, financial, and other requirements of the jurisdictions in which our businesses operate. In light of recent conditions in the global financial markets, regulators have increased their focus on the regulation of the financial services industry. As a result, proposals for legislation or regulations that could increase the scope and nature of regulation of the financial services industry are possible. The following is a description of some of the laws and regulations that currently affect our business.

Bank Holding Company Status

Ally Financial Inc. (Ally) and IB Finance Holding Company, LLC (IB Finance) are currently both bank holding companies under the BHC Act. IB Finance is the direct holding company for Ally's FDIC-insured depository institution, Ally Bank. As a bank holding company, Ally is subject to supervision, examination and regulation by the Board of Governors of the Federal Reserve System (FRB). Ally must also

Table of Contents

comply with regulatory risk-based capital and leverage requirements, as well as various safety and soundness standards imposed by the FRB, and is subject to certain statutory restrictions concerning the types of assets or securities it may own and the activities in which it may engage. Ally Bank, our banking subsidiary, is currently not a member of the Federal Reserve System and is subject to supervision, examination and regulation by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI). This regulatory oversight focuses on the protection of depositors, the FDIC's Deposit Insurance Fund, and the banking system as a whole, not security holders, and in some instances may be contrary to their interests.

- Permitted Activities — As a bank holding company, subject to certain exceptions, Ally may not, directly or indirectly, acquire more than 5% of any class of voting shares of any nonaffiliated bank or bank holding company, or, directly or indirectly, acquire control of any other company (including by acquisition of 25% or more of a class of voting shares), without first obtaining FRB approval. Furthermore, Ally's activities must be generally limited to banking or managing or controlling banks, or to other activities deemed closely related to banking or otherwise permissible under the BHC Act. As a result, most of our insurance activities and our SmartAuction vehicle remarketing services for third parties are deemed impermissible under the BHC Act. In addition, Ally generally may not hold more than 5% of any class of voting shares of any company unless that company's activities conform with these requirements. Upon our bank holding company approval on December 24, 2008, we were permitted an initial two-year grace period to bring our activities and investments into conformity with these restrictions. This grace period expired in December 2010. The FRB then granted two one-year extensions that expired in December 2012, and recently granted a third one-year extension that expires in December 2013. We will not be permitted to apply to the FRB for any further extensions. Ally's existing activities and investments deemed impermissible under the BHC Act will need to be terminated or disposed of by December 2013. While some of these activities may be continued if Ally is able to convert to a financial holding company under the BHC Act, Ally may be unable to satisfy the requirements to enable it to convert to a financial holding company prior to that time. For further information, refer to Item 1A. Risk Factors.
- Gramm-Leach-Bliley Act — The enactment of the Gramm-Leach-Bliley Act of 1999 (GLB Act) eliminated large parts of a regulatory framework that had its origins in the Depression era of the 1930s. Effective with its enactment, new opportunities became available for banks, other depository institutions, insurance companies, and securities firms to enter into combinations that permit a single financial services organization to offer customers a more comprehensive array of financial products and services. To further this goal, the GLB Act amended the BHC Act by providing a new regulatory framework applicable to "financial holding companies," which are bank holding companies that meet certain qualifications and elect financial holding company status. The FRB supervises, examines, and regulates financial holding companies, as it does all bank holding companies. However, insurance and securities activities conducted by a financial holding company or its nonbank subsidiaries are regulated primarily by functional regulators. As a bank holding company, we would be eligible to elect financial holding company status upon satisfaction of certain regulatory requirements applicable to us and to Ally Bank (and any depository institution subsidiary that we may acquire in the future). We do not currently satisfy these requirements, however, we expect to apply for financial holding company status once we do. As a financial holding company, Ally would then be permitted to engage in a broader range of financial and related activities than those that are permissible for bank holding companies, in particular, securities, insurance, and merchant banking activities.
- Dodd-Frank Wall Street Reform and Consumer Protection Act — On July 21, 2010, the President of the United States signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, addressing, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, derivatives, lending limits, and mortgage-lending practices. When fully implemented, the Dodd-Frank Act will have material implications for Ally and the entire financial services industry. Among other things, it will or potentially could:
- result in Ally being subject to enhanced oversight and scrutiny as a result of being a bank holding company with $50 billion or more in total consolidated assets;

- increase the levels of capital and liquidity with which Ally must operate and affect how it plans capital and liquidity levels;
- subject Ally to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees paid by Ally Bank to the FDIC;
- impact a number of Ally's business and risk management strategies;
- restrict the revenue that Ally generates from certain businesses;
- require Ally to provide to the FRB and FDIC an annual plan for its rapid and orderly resolution in the event of material financial distress; and
- subject Ally to regulation by the Consumer Financial Protection Bureau (CFPB), which has very broad rule-making, examination, and enforcement authorities.

Many provisions of the Dodd-Frank Act will only become effective at a later date or after a rulemaking process is completed.

In addition, under the Dodd-Frank Act, financial holding companies, including bank holding companies such as Ally, can be subjected to a new orderly liquidation authority. The orderly liquidation authority became effective in July 2010, with implementing regulations adopted thereafter in stages, with some rulemakings still to come. Under the orderly liquidation authority, the FDIC would be appointed as receiver upon an insolvency of Ally, giving the FDIC considerable rights and powers that it must exercise with the goal of liquidating and winding up Ally, including the ability to assign assets and liabilities without the need for creditor consent or prior court review and the ability of the FDIC to differentiate and determine priority among creditors.

In December 2011, the FRB proposed rules to implement some provisions of the systemic risk regime. If adopted as proposed, among other provisions, the rules would require Ally to maintain a sufficient quantity of highly liquid assets to survive a projected 30-day liquidity stress event and implement various liquidity-related corporate governance measures; limit Ally's aggregate exposure to any unaffiliated counterparty to 25% of Ally's capital and surplus; and potentially subject Ally to an early remediation regime that could limit the ability of Ally to pay dividends or expand its business if the FRB identified Ally as suffering from financial or managerial weaknesses.

The CFPB has proposed various rules to implement consumer financial protection provisions of the Dodd-Frank Act and related requirements. Many of these proposed rules, when finalized, will impose new requirements on Ally and its business operations. In addition, as an insured depository institution with total assets of more than $10 billion, Ally Bank may be required in the future to submit periodic reports to the CFPB, and is subject to examination by the CFPB.

- Capital Adequacy Requirements — Ally and Ally Bank are subject to various guidelines as established under FRB and FDIC regulations. Refer to Note 21 to the Consolidated Financial Statements for additional information. See also “Basel Capital Accord” below.
- Capital Planning and Stress Tests — In December 2011, U.S. banking regulators imposed capital planning and stress test requirements on bank holding companies with $50 billion or more of consolidated assets. The capital planning regime requires Ally to submit a proposed capital plan to the FRB every January, which the FRB must take action on by the following March. The proposed capital plan must include a description of all planned capital actions over a nine-quarter planning horizon, including any issuance of a debt or equity capital instrument, any capital distribution, and any similar action that the FRB determines could have an impact on Ally's consolidated capital. The proposed action plan must also include a discussion of how Ally will maintain capital above the minimum regulatory capital ratios and above a Tier 1 common equity-to-total risk-weighted assets ratio of 5 percent, and serve as a source of strength to Ally Bank. The FRB's capital plan rule requires that Ally receive no objection from the FRB before making a capital distribution. If the FRB objects to the capital plan, or if certain material events occur after approval of a plan, Ally must submit a revised capital plan within 30 days. In addition, even with an approved capital plan, Ally must seek the approval of the FRB before making a capital distribution if, among other factors, Ally would not meet its regulatory capital requirements after making the proposed capital distribution. Ally submitted its initial capital plan in January 2012, and then submitted a revised capital plan in June 2012. In connection with its reviews, the FRB provided notice of non-objection to Ally's planned preferred dividends and interest on the trust preferred securities and subordinated debt.

In October 2012, U.S. banking regulators issued final rules on stress testing. The FRB final rule requires Ally to conduct semi-annual (annual and mid-cycle) stress tests under baseline, adverse, and severely adverse economic scenarios over a planning horizon that spans nine quarters. The FDIC final rule requires Ally Bank to conduct an annual stress test under baseline, adverse, and severely adverse economic scenarios over a planning horizon that spans nine quarters. Under these rules, Ally and Ally Bank are required to submit the results of these stress tests to regulators and publicly disclose the results of the stress tests under the severely adverse economic scenario. Per the rule, the regulators will also publish, by March 31 of each calendar year, a summary of the supervisory stress test results of each company.

Stress tests are intended to provide supervisors with forward-looking information to help identify downside risk and the potential effect of adverse conditions on capital adequacy. Stress tests required under the FRB's stress test final

rule are integrated into the capital planning process under the FRB's capital plans rule. On January 7, 2013, Ally and Ally Bank submitted the required 2013 capital plan and stress tests as required by these regulations.

Limitations on Bank Holding Company Dividends and Capital Distributions — Utah law (and, in certain instances, federal law) places restrictions and limitations on dividends or other distributions payable by our banking subsidiary, Ally Bank, to Ally. With respect to dividends payable by Ally to its shareholders, FRB regulations require bank holding companies with $50 billion or more in total consolidated assets, such as Ally, to submit annual capital plans for FRB non-objection. In the absence of a non-objection regarding the capital plan, the new regulation prohibits bank holding companies from paying dividends or making certain other capital distributions without specific FRB non-objection for such action. Even if a bank holding company receives a non-objection to its capital plan, it may not pay a dividend or make certain other capital distributions without FRB approval under certain circumstances (e.g., after giving effect to the dividend or distribution, the bank holding company would not meet a minimum regulatory capital ratio or a Tier 1 common ratio of at least 5%). In addition, FRB supervisory guidance requires bank holding companies such as Ally to consult with the FRB prior to increasing dividends, implementing common stock repurchase programs or redeeming or repurchasing capital instruments. Such guidance provides for a supervisory capital assessment program that outlines FRB expectations concerning the processes that bank holding companies have in place to ensure they hold adequate capital under adverse conditions to maintain ready access to funding. The federal bank regulatory agencies are also authorized to prohibit a

banking subsidiary or bank holding company from engaging in unsafe or unsound banking practices and, depending upon the circumstances, could find that paying a dividend or making a capital distribution would constitute an unsafe or unsound banking practice.

- Transactions with Affiliates — Certain transactions between Ally Bank and any of its nonbank “affiliates,” including but not limited to Ally, are subject to federal statutory and regulatory restrictions. Pursuant to these restrictions, unless otherwise exempted, “covered transactions” including Ally Bank's extensions of credit to and asset purchases from its nonbank affiliates, generally (1) are limited to 10% of Ally Bank's capital stock and surplus with respect to transactions with any individual affiliate, with an aggregate limit of 20% of Ally Bank's capital stock and surplus for all affiliates and all such transactions; (2) in the case of certain credit transactions, are subject to stringent collateralization requirements; (3) in the case of asset purchases by Ally Bank, may not involve the purchase of any asset deemed to be a “low quality asset” under federal banking guidelines; and (4) must be conducted in accordance with safe-and-sound banking practices (collectively, the Affiliate Transaction Restrictions). In addition, transactions between Ally Bank and a nonbank affiliate generally must be on market terms and conditions.

Under the Dodd-Frank Act, among other changes to the Affiliate Transaction Restrictions, credit exposures resulting from derivatives transactions, securities lending and borrowing transactions, and acceptance of affiliate-issued debt obligations (other than securities) as collateral for a loan or extension of credit will be treated as "covered transactions." The Dodd-Frank Act also expands the scope of covered transactions required to be collateralized, requires that collateral be maintained at all times for covered transactions required to be collateralized, and places limits on acceptable collateral.

Furthermore, there is an “attribution rule” that provides that a transaction between Ally Bank and a third party must be treated as a transaction between Ally Bank and a nonbank affiliate to the extent that the proceeds of the transaction are used for the benefit of or transferred to a nonbank affiliate of Ally Bank. For example, because Ally controls Ally Bank, Ally is an affiliate of Ally Bank for purposes of the Affiliate Transaction Restrictions. Thus, retail financing transactions by Ally Bank involving vehicles for which Ally provided floorplan financing are subject to the Affiliate Transaction Restrictions because the proceeds of the retail financings are deemed to benefit, and are ultimately transferred to, Ally.

Historically, the FRB was authorized to exempt, in its discretion, transactions or relationships from the requirements of these rules if it found such exemptions to be in the public interest and consistent with the purposes of the rules. As a result of the Dodd-Frank Act, exemptions now may be granted by the FDIC if the FDIC and FRB jointly find that the exemption is in the public interest and consistent with the purposes of the rules, and the FDIC finds that the exemption does not present an unacceptable risk to the Deposit Insurance Fund. The FRB granted several such exemptions to Ally Bank in the past. However, the existing exemptions are subject to various conditions and, particularly in light of the statutory changes made by the Dodd-Frank Act, any requests for future exemptions might not be granted. Moreover, these limited exemptions generally do not encompass consumer leasing or used vehicle financing. Since there is no assurance that Ally Bank will be able to obtain future exemptions or waivers with respect to these restrictions, the ability to grow Ally Bank's business will be affected by the Affiliate Transaction Restrictions and the conditions set forth in the existing exemption letters.

- Source of Strength — Pursuant to the Federal Deposit Insurance Act, FRB policy and regulations and the Parent Company Agreement and the Capital and Liquidity Maintenance Agreement described in Note 21 to the Consolidated Financial Statements, Ally is required to act as a source of financial and managerial strength to Ally Bank and is required to commit necessary capital and liquidity to support Ally Bank. This support may be required at inopportune times for Ally.
- Enforcement Authority — The FDIC and FRB have broad authority to issue orders to banks and bank holding companies to cease and desist from unsafe or unsound banking practices and from violations of laws, rules, regulations, or conditions imposed in writing by the banking agencies. The FDIC and FRB also are empowered to require affirmative actions to correct any violation or practice; issue administrative orders that can be judicially enforced; direct increases in capital; limit dividends and distributions; restrict growth; assess civil money penalties

against institutions or individuals who violate any laws, regulations, orders, or written agreements with the banking agencies; order termination of certain activities of bank holding companies or their subsidiaries; remove officers and directors; order divestiture of ownership or control of a nonbanking subsidiary by a bank holding company (in the case of the FRB); terminate deposit insurance (in the case of the FDIC); and/or place a bank into receivership (in the case of the FDIC).

Basel Capital Accord

The minimum risk-based capital requirements adopted by the federal banking agencies follow the Capital Accord (Capital Accord or Basel I) of the Bank for International Settlements' Basel Committee on Banking Supervision (Basel Committee). The Capital Accord was published in 1988 and generally applies to depository institutions and their holding companies in the United States. In 2004, the Basel Committee published a revision to the Capital Accord (Basel II). The goal of the Basel II capital rules is to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. U.S. banking regulators published final Basel II rules in December 2007. Ally is currently required to comply with the Basel II rules as implemented by the U.S. banking regulators. Prior to full implementation of the Basel II rules, Ally is required to complete a qualification period of four consecutive quarters during which it needs to demonstrate that it meets the requirements of the rules to the satisfaction of its primary U.S. banking regulator. Pursuant to an extension that was granted to Ally, this qualification period, or parallel run, is required to begin

no later than October 1, 2013. During this period, capital is calculated using both Basel I and Basel II methodologies. Upon completion of this parallel run and with the approval of the primary U.S. banking regulator, Ally will begin to use Basel II to calculate regulatory capital. Basel II contemplated a three-year transition period during which a bank holding company or bank could gradually lower its capital level below the levels required by Basel I. However, under a final capital rule that implements a provision of the Dodd-Frank Act, Ally and Ally Bank must continue to calculate their risk-based capital requirements under Basel I, and the capital requirements that each computes under Basel I will serve as a floor for its risk-based capital requirement computed under Basel II.

In addition to Basel II, in December 2010, the Basel Committee adopted new capital, leverage, and liquidity guidelines under the Capital Accord (Basel III) that when implemented in the United States may have the effect of raising capital requirements beyond those required by current law and the Dodd-Frank Act. Basel III calls for an increase of the minimum Tier 1 common equity ratio to 4.5%, net of regulatory deductions, and introduces a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets raising the target minimum common equity ratio to 7.0%. Basel III increases the minimum Tier 1 capital ratio to 8.5% inclusive of the capital conservation buffer, increases the minimum total capital ratio to 10.5% inclusive of the capital buffer, and introduces a countercyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth. Basel III also introduces a nonrisk adjusted Tier 1 leverage ratio of 3%, based on a measure of the total exposure rather than total assets, and new liquidity standards. The Basel III capital, leverage, and liquidity standards will be phased in over a multiyear period. The Basel III rules also call for a 15% cap on the amount of Tier 1 capital that can be met, in the aggregate, through significant investments in the common shares of unconsolidated financial subsidiaries, mortgage servicing rights (MSRs), and deferred tax assets through timing differences. In addition, under Basel III rules, after a ten-year phase-out period beginning in January 2013, trust preferred and other "hybrid" securities will no longer qualify as Tier 1 capital. However, under the Dodd-Frank Act, subject to certain exceptions (e.g., for debt or equity issued to the U.S. government under the Emergency Economic Stabilization Act), trust preferred and other "hybrid" securities are phased out from Tier 1 capital over a three-year period starting January 2013.

In June 2012, the U.S. banking regulators proposed rules to implement many aspects of Basel III (the U.S. Basel III proposals). The U.S. Basel III proposals contain new capital standards that raise the quality of capital and strengthen counterparty credit risk capital requirements and introduce a leverage ratio as a supplemental measure to the risk-based ratio. The proposals include a new capital conservation buffer, which imposes a common equity requirement above the new minimum that can be depleted under stress, and could result in restrictions on capital distributions and discretionary bonuses under certain circumstances. The U.S. Basel III proposals also provide for a potential countercyclical buffer that regulators can activate during periods of excessive credit growth in their jurisdiction. Furthermore, the U.S. Basel III proposals would replace the current Basel I-based "capital floor" (discussed above) with a standardized approach that, among other things, modifies the existing risk weights for certain types of asset classes. If adopted, this standardized approach would serve as the new minimum "capital floor" for Ally. The U.S. Basel III proposals contemplate that the new capital requirements would be phased in over several years, beginning in 2013. In November 2012, the U.S. banking regulators announced that the U.S. Basel III proposals would not become effective on January 1, 2013. The announcement did not specify new implementation or phase in dates for the U.S. Basel III proposals.

We continue to monitor developments with respect to Basel III and, pending the adoption of final capital rules and subsequent regulatory interpretation by the U.S. regulators, there remains a degree of uncertainty on the full impact of Basel III.

Troubled Asset Relief Program

As part of the Automotive Industry Financing Program created under the Troubled Asset Relief Program (TARP) established by the U.S. Department of Treasury (Treasury) under the Emergency Economic Stabilization Act of 2008 (the EESA), Ally has entered into agreements pursuant to which Treasury has made investments in Ally. As a result of these investments, subject to certain exceptions, Ally and its subsidiaries are generally prohibited from paying certain

dividends or distributions on, or redeeming, repurchasing, or acquiring any common stock without the consent of Treasury. Ally has further agreed that until Treasury ceases to hold Ally preferred stock, Ally will comply with certain restrictions on executive perquisites and compensation. Ally must also take all necessary action to ensure that its corporate governance and benefit plans with respect to its senior executive officers comply with Section 111(b) of the EESA as implemented by any guidance or regulation under the EESA, as amended by the American Recovery and Reinvestment Act of 2009, as implemented by the Interim Final Rule issued by Treasury on June 15, 2009. For further details regarding these restrictions on compensation as a result of TARP investments, refer to the Compensation Discussion and Analysis in Item 11.

Depository Institutions

Ally Bank's deposits are insured by the FDIC, and Ally Bank is required to file periodic reports with the FDIC concerning its financial condition. Total assets of Ally Bank were $94.8 billion and $85.3 billion at December 31, 2012 and 2011, respectively. As a commercial nonmember bank chartered by the State of Utah, Ally Bank is subject to various regulatory capital adequacy requirements administered by state and federal banking agencies. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, identifies five capital categories for insured depository institutions ("well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized") and requires the respective federal regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within such categories. Depending on the category in which an institution is classified, FDICIA imposes progressively more restrictive constraints on operations, management, and capital distributions. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on Ally Bank's results of operations and financial condition. FDICIA generally prohibits a depository

institution from making any capital distribution, including payment of a cash dividend or paying any management fee to its holding company, if the depository institution would become under-capitalized after such payment. Under-capitalized institutions are also subject to growth limitations and are required by the appropriate federal banking agency to submit a capital restoration plan. If any depository institution subsidiary of a holding company is required to submit a capital restoration plan, the holding company would be required to provide a limited guarantee regarding compliance with the plan as a condition of approval of such plan. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements.

At December 31, 2012, we were in compliance with our regulatory capital requirements. For an additional discussion of capital adequacy requirements, refer to Note 21 to the Consolidated Financial Statements.

U.S. Mortgage Business

Our U.S. mortgage business is subject to extensive federal, state, and local laws, rules, and regulations in addition to judicial and administrative decisions that impose requirements and restrictions on this business. As a Federal Housing Administration-approved lender, certain of our U.S. mortgage subsidiaries are required to submit audited financial statements to the Department of Housing and Urban Development on an annual basis. The U.S. mortgage business is also subject to examination by the Federal Housing Commissioner to assure compliance with Federal Housing Administration regulations, policies, and procedures. The federal, state, and local laws, rules, and regulations to which our U.S. mortgage business is subject, among other things, impose licensing obligations and financial requirements; limit the interest rates, finance charges, and other fees that can be charged; regulate the use of credit reports and the reporting of credit information; impose underwriting requirements; regulate marketing techniques and practices; require the safeguarding of nonpublic information about customers; and regulate servicing practices, including the assessment, collection, foreclosure, claims handling, and investment and interest payments on escrow accounts. In addition, proposals have been enacted in the U.S. Congress and are under consideration by various regulatory authorities that would affect the manner in which the GSEs conduct their business and there is some possibility that Fannie Mae and Freddie Mac will be subject to winding down.

Insurance Companies

Our Insurance operations are subject to certain minimum aggregate capital requirements, net asset and dividend restrictions under applicable state and foreign insurance law, and the rules and regulations promulgated by various U.S. and foreign regulatory agencies. Under various state and foreign insurance regulations, dividend distributions may be made only from statutory unassigned surplus with approvals required from the regulatory authorities for dividends in excess of certain statutory limitations. Our insurance operations are also subject to applicable state laws generally governing insurance companies, as well as laws and regulations for products that are not regulated as insurance, such as vehicle service contracts and guarantees asset protection waivers.

Investments in Ally

Because Ally Bank is an FDIC-insured bank and Ally and IB Finance are bank holding companies, acquisitions of our voting stock above certain thresholds may be subject to regulatory approval or notice under federal or state law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our stock in excess of the amount that may be acquired without regulatory approval under the Change in Bank Control Act, the BHC Act, and Utah state law.

International Banks, Finance Companies, and Other Non-U.S. Operations

Certain of our foreign subsidiaries, which we have classified as discontinued operations, operate in local markets as either banks or regulated finance companies and are subject to regulatory restrictions. These regulatory restrictions, among other things, require that our subsidiaries meet certain minimum capital requirements and may restrict dividend distributions and ownership of certain assets. Total assets of the regulated international banks and finance companies were approximately $15.3 billion and $13.6 billion at December 31, 2012 and 2011, respectively. Many of our other operations are also heavily regulated in many jurisdictions outside the United States.

Other Regulations

Some of the other more significant regulations that we are subject to include:

- Privacy — The GLB Act imposes additional obligations on us to safeguard the information we maintain on our customers, requires us to provide notice of our privacy practices, and permits customers to “opt-out” of information sharing with unaffiliated parties. The federal banking agencies and the Federal Trade Commission have issued regulations that establish obligations to safeguard information. In addition, several states have enacted even more stringent privacy and safeguarding legislation. If a variety of inconsistent state privacy rules or requirements are enacted, our compliance costs could increase substantially.
- Fair Credit Reporting Act — The Fair Credit Reporting Act regulates the use of credit reports and the reporting of information to credit reporting agencies, and also provides a national legal standard for lenders to share information with affiliates and certain third parties and to provide firm offers of credit to consumers. In late 2003, the Fair and Accurate Credit Transactions Act was enacted, making this preemption of conflicting state and local law permanent. The Fair Credit Reporting Act was also amended to place further restrictions on the use of information shared between affiliates, to provide new disclosures to consumers when risk-based pricing is used in the credit decision, and to help protect consumers from identity theft. All of these provisions impose additional regulatory and compliance costs on us and reduce the effectiveness of our marketing programs.

- Truth in Lending Act — The Truth in Lending Act (TILA), as amended, and Regulation Z, which implements TILA, requires lenders to provide borrowers with uniform, understandable information concerning terms and conditions in certain credit transactions. These rules apply to Ally and its subsidiaries in transactions in which they extend credit to consumers and require, in the case of certain mortgage and automotive financing transactions, conspicuous disclosure of the finance charge and annual percentage rate, if any. In addition, if an advertisement for credit states specific credit terms, Regulation Z requires that such advertisement state only those terms that actually are or will be arranged or offered by the creditor. The Consumer Financial Protection Bureau has recently issued substantial amendments to the mortgage requirements under TILA, and additional changes are likely in the future. Failure to comply with TILA can result in liability for damages as well as criminal and civil penalties.
- Sarbanes-Oxley Act — The Sarbanes-Oxley Act of 2002 implemented a broad range of corporate governance and accounting measures designed to promote honesty and transparency in corporate America. The principal provisions of the act include, among other things, (1) the creation of an independent accounting oversight board; (2) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (3) additional corporate governance and responsibility measures including the requirement that the principal executive and financial officers certify financial statements; (4) the potential forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve-month period following initial publication of any financial statements that later require restatement; (5) an increase in the oversight of and enhancement of certain requirements relating to audit committees and how they interact with the independent auditors; (6) requirements that audit committee members must be independent and are barred from accepting consulting, advisory, or other compensatory fees from the issuer; (7) requirements that companies disclose whether at least one member of the audit committee is a “financial expert” (as defined by the SEC) and, if not, why the audit committee does not have a financial expert; (8) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions, on nonpreferential terms and in compliance with other bank regulatory requirements; (9) disclosure of a code of ethics; (10) requirements that management assess the effectiveness of internal control over financial reporting and that the Independent Registered Public Accounting firm attest to the assessment; and (11) a range of enhanced penalties for fraud and other violations.
- USA PATRIOT Act/Anti-Money-Laundering Requirements — In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act) was signed into law. Title III of the USA PATRIOT Act amends the Bank Secrecy Act and contains provisions designed to detect and prevent the use of the U.S. financial system for money laundering and terrorist financing activities. The Bank Secrecy Act, as amended by the USA PATRIOT Act, requires bank holding companies, banks, and certain other financial companies to undertake activities including maintaining an anti-money-laundering program, verifying the identity of clients, monitoring for and reporting on suspicious transactions, reporting on cash transactions exceeding specified thresholds, and responding to requests for information by regulatory authorities and law enforcement agencies. We have implemented internal practices, procedures, and controls designed to comply with these anti-money-laundering requirements.
- Community Reinvestment Act — Under the Community Reinvestment Act (CRA), a bank has a continuing and affirmative obligation, consistent with the safe-and-sound operation of the institution, to help meet the credit needs of its entire community, including low- and moderate-income persons and neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions. However, institutions are rated on their performance in meeting the needs of their communities. Failure by Ally Bank to maintain a satisfactory or better rating under the CRA may adversely affect Ally's ability to make acquisitions, engage in new activities, and become a financial holding company.
- Other — Our U.S. mortgage business has subsidiaries that are required to maintain regulatory capital requirements under agreements with the GSEs and the Department of Housing and Urban Development.

Employees

We had approximately 10,600 and 14,800 employees at December 31, 2012 and 2011, respectively. Employees of operations held-for-sale are included within our employee count at December 31, 2012, and 2011. Employees of operations that were deconsolidated during 2012 are included only within our employee count at December 31, 2011.

Additional Information

The results of operations for each of our reportable operating segments and the products and services offered are contained in the individual business operations sections of Management's Discussion and Analysis of Financial Condition and Results of Operations. Financial information related to reportable operating segments and geographic areas is provided in Note 26 to the Consolidated Financial Statements.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K (and amendments to these reports) are available on our internet website, free of charge, as soon as reasonably practicable after the reports are electronically filed with or furnished to the SEC. These reports are available at www.ally.com. Choose Investor Relations, Financial Information, and then SEC Filings (under About Ally). These reports can also be found on the SEC website at www.sec.gov.

Item 1A. Risk Factors

Our businesses face many risks and uncertainties, any of which could result in a material adverse effect on our results of operations or financial condition. We believe that the most significant of the risks and uncertainties that we face are described below. This Form 10-K is qualified in its entirety by these risk factors.

Table of Contents

Risks Related to Regulation

Our business, financial condition, and results of operations could be adversely affected by regulations to which we are subject as a result of our bank holding company status.

We are a bank holding company under the Bank Holding Company Act of 1956 (BHC Act). Many of the regulatory requirements to which we are subject as a bank holding company were not applicable to us prior to December 2008 and have and will continue to require significant expense and devotion of resources to fully implement necessary policies and procedures to ensure continued compliance. Compliance with such laws and regulations involves substantial costs and may adversely affect our ability to operate profitably. Recent events, particularly in the financial and real estate markets, have resulted in bank regulatory agencies placing increased focus and scrutiny on participants in the financial services industry, including us. For a description of our regulatory requirements, see "Business—Certain Regulatory Matters."

Ally is subject to ongoing supervision, examination and regulation by the FRB, and Ally Bank by the FDIC and the Utah DFI, in each case, through regular examinations and other means that allow the regulators to gauge management's ability to identify, assess, and control risk in all areas of operations in a safe-and-sound manner and to ensure compliance with laws and regulations.

Ally is currently required by its banking supervisors to make improvements in areas such as board and senior management oversight, risk management, regulatory reporting, internal audit planning, capital adequacy process, stress testing, and Bank Secrecy Act / anti-money-laundering compliance, and to continue to reduce problem assets. Separately, Ally Bank is currently required by its banking supervisors to make improvements in areas such as compliance management and training, consumer protection monitoring, consumer complaint resolution, internal audit program and residential mortgage loan pricing, and fee monitoring. These requirements are judicially enforceable, and if we are unable to implement and maintain these required actions, plans, policies and procedures in a timely and effective manner and otherwise comply with the requirements outlined above, we could become subject to formal supervisory actions which could subject us to significant restrictions on our existing business or on our ability to develop any new business. Such forms of supervisory action could include, without limitation, written agreements, cease and desist orders, and consent orders and may, among other things, result in restrictions on our ability to pay dividends, requirements to increase capital, restrictions on our activities, the imposition of civil monetary penalties, and enforcement of such action through injunctions or restraining orders. We could also be required to dispose of certain assets and liabilities within a prescribed period. The terms of any such supervisory action could have a material adverse effect on our business, operating flexibility, financial condition, and results of operations.

Our ability to engage in certain activities may be adversely affected by our status as a bank holding company.

As a bank holding company, Ally's activities are generally limited to banking or to managing or controlling banks or to other activities deemed closely related to banking or otherwise permissible under the BHC Act and related regulations. Likewise, subject to certain exceptions, Ally is not permitted to acquire more than 5% of any class of voting shares of any nonaffiliated bank or bank holding company, directly or indirectly, or to acquire control of any other company, directly or indirectly (including by acquisition of 25% or more of a class of voting shares). Upon our bank holding company approval, we were permitted an initial two-year grace period to bring our activities and investments into conformity with these restrictions. This grace period expired in December 2010. The FRB then granted two one-year extensions that expired in December 2012, and recently granted a third and final one-year extension that expires in December 2013. We will not be permitted to apply to the FRB for any further extensions. Certain of Ally's existing activities and investments are deemed impermissible under the BHC Act and must be terminated or disposed of by the expiration of this extension, the most significant of which includes most of our insurance activities and our SmartAuction vehicle remarketing services for third parties. While these activities may be continued if Ally is able to convert to a financial holding company under the BHC Act, Ally may be unable to satisfy the requirements to enable it to convert to a financial holding company prior to that time, and activities, businesses, or investments that would be permissible for a financial holding company will need to be terminated or disposed of. This could have a material adverse effect on our business, results of operations, and financial position.

As a bank holding company, our ability to expand into new business activities would require us to obtain the prior approval of the relevant banking supervisors. There can be no assurance that any required approval will be obtained or that we will be able to execute on any such plans in a timely manner or at all. If we are unable to obtain approval to expand into new business activities, our business, results of operations, and financial position may be materially adversely affected.
Our ability to execute our business strategy may be affected by regulatory considerations.
Our business strategy for Ally Bank, which is primarily focused on automotive lending and growth of our direct-channel deposit business, is subject to regulatory oversight from a safety and soundness perspective. If our banking supervisors raise concerns regarding any aspect of our business strategy for Ally Bank, we may be obliged to alter our strategy, which could include moving certain activities, such as certain types of lending, outside of Ally Bank to one of our nonbanking affiliates. Alternative funding sources outside of Ally Bank, such as asset securitization or financings in the capital markets, could be more expensive than funding through Ally Bank and could adversely affect our business prospects, results of operations and financial condition.
We are subject to new capital planning and systemic risk regimes, which impose significant restrictions and requirements.
As a bank holding company with $50 billion or more of consolidated assets, Ally is required to conduct periodic stress tests and submit a proposed capital action plan to the FRB every January, which the FRB must take action on by the following March. The proposed capital

action plan must include a description of all planned capital actions over a nine-quarter planning horizon, including any issuance of a debt or equity capital instrument, any capital distribution, and any similar action that the FRB determines could have an impact on Ally's consolidated capital. The proposed capital action plan must also include a discussion of how Ally will maintain capital above the minimum regulatory capital ratios and above a Tier 1 common equity-to-total risk-weighted assets ratio of 5 percent, and serve as a source of strength to Ally Bank. The FRB's capital plan rule requires that Ally receive no objection from the FRB prior to making a capital distribution. Ally submitted its capital plan in January 2013. Failure to obtain no objection to this plan could limit our ability to pay dividends, redeem or repurchase securities, or take other capital actions in the future.

In addition, in December 2011, the FRB proposed rules to implement certain provisions of the systemic risk regime under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). If adopted as proposed, among other provisions, the rules would require Ally to maintain a sufficient quantity of highly liquid assets to survive a projected 30-day liquidity stress event and implement various liquidity-related corporate governance measures; limit Ally's aggregate exposure to any unaffiliated counterparty to 25% of Ally's capital and surplus; and potentially subject Ally to an early remediation regime that could limit the ability of Ally to pay dividends or expand its business if the FRB identified Ally as suffering from financial or management weaknesses. The systemic risk provisions, when implemented, could adversely affect our business prospects, results of operations, and financial condition.

Our ability to rely on deposits as a part of our funding strategy may be limited.

Ally Bank continues to be a key part of our funding strategy, and we have increased our reliance on deposits as an alternative source of funding through Ally Bank. Ally Bank does not have a retail branch network, and it obtains its deposits through direct banking and brokered deposits which, at December 31, 2012, included $9.4 billion of brokered certificates of deposit that may be more price sensitive than other types of deposits and may become less available if alternative investments offer higher interest rates. At December 31, 2012, brokered deposits represented 20% of Ally Bank total deposits. Our ability to maintain our current level of deposits or grow our deposit base could be affected by regulatory restrictions including the possible imposition of prior approval requirements, restrictions on deposit growth, or restrictions on our rates offered. In addition, perceptions of our financial strength, rates offered by third parties, and other competitive factors beyond our control, including returns on alternative investments, will also impact our ability to grow our deposit base. Even if we are able to grow the deposit base of Ally Bank, our regulators may impose restrictions on our ability to use Ally Bank deposits as a source of funding for certain business activities potentially raising the cost of funding those activities without the use of Ally Bank deposits.

The regulatory environment in which we operate could have a material adverse effect on our business and earnings.

Our domestic operations are subject to various laws and judicial and administrative decisions imposing various requirements and restrictions relating to supervision and regulation by state and federal authorities. Such regulation and supervision are primarily for the benefit and protection of our customers, not for the benefit of investors in our securities, and could limit our discretion in operating our business. Noncompliance with applicable statutes, regulations, rules, or policies could result in the suspension or revocation of any license or registration at issue as well as the imposition of civil fines and criminal penalties.

Ally, Ally Bank, and many of our nonbank subsidiaries are heavily regulated by bank and other regulatory agencies at the federal and state levels. This regulatory oversight is established to protect depositors, the FDIC's Deposit Insurance Fund, and the banking system as a whole, not security holders. Changes to statutes, regulations, rules, or policies including the interpretation or implementation of statutes, regulations, rules, or policies could affect us in substantial and unpredictable ways including limiting the types of financial services and products we may offer, limiting our ability to pursue acquisitions and increasing the ability of third parties to offer competing financial services and products.

Our operations are also heavily regulated in many jurisdictions outside the United States. For example, certain of our foreign subsidiaries operate either as a bank or a regulated finance company, and our insurance operations are subject to various requirements in the foreign markets in which we operate. The varying requirements of these jurisdictions may be inconsistent with U.S. rules and may materially adversely affect our business or limit necessary regulatory

approvals, or if approvals are obtained, we may not be able to continue to comply with the terms of the approvals or applicable regulations. In addition, in many countries, the regulations applicable to the financial services industry are uncertain and evolving.

Our inability to remain in compliance with regulatory requirements in a particular jurisdiction could have a material adverse effect on our operations in that market with regard to the affected product and on our reputation generally. No assurance can be given that applicable laws or regulations will not be amended or construed differently, that new laws and regulations will not be adopted, or that we will not be prohibited by local laws or regulators from raising interest rates above certain desired levels, any of which could materially adversely affect our business, operating flexibility, financial condition, or results of operations.

Financial services legislative and regulatory reforms may have a significant impact on our business and results of operations.

The Dodd-Frank Act, which became law in July 2010, has and will continue to substantially change the legal and regulatory framework under which we operate. Certain portions of the Dodd-Frank Act were effective immediately, and others have become effective since enactment, while others are subject to further rulemaking and discretion of various regulatory bodies. The Dodd-Frank Act, when fully implemented, will have material implications for Ally and the entire financial services industry. Among other things, it will or potentially could:

- result in Ally being subject to enhanced oversight and scrutiny as a result of being a bank holding company with $50 billion or more in consolidated assets;
- affect the levels of capital and liquidity with which Ally must operate and how it plans capital and liquidity levels;
- subject Ally to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance fees to the FDIC;
- impact a number of Ally's business and risk management strategies;
- restrict the revenue that Ally generates from certain businesses;
- require Ally to provide to the Federal Reserve and FDIC an annual plan for its rapid and orderly resolution in the event of material financial distress; and
- subject Ally to a new Consumer Financial Protection Bureau (CFPB), which has very broad rule-making, examination, and enforcement authorities.

In light of the further study and rulemaking required to fully implement the Dodd-Frank Act, as well as the discretion afforded to federal regulators, the full impact of this legislation on Ally, its business strategies, and financial performance cannot be known at this time and may not be known for a number of years. In addition, regulations may impact us differently in comparison to other more established financial institutions. However, these impacts are expected to be substantial and some of them are likely to adversely affect Ally and its financial performance. The extent to which Ally can adjust its strategies to offset such adverse impacts also is not knowable at this time.

Our business may be adversely affected upon our implementation of the revised capital requirements under the Basel III capital rules.

In December 2010, the Bank for International Settlements' Basel Committee on Banking Supervision adopted new capital, leverage, and liquidity guidelines under the Basel Accord (Basel III), which when implemented in the United States, may have the effect of raising capital requirements beyond those required by current law and the Dodd-Frank Act. In June 2012, the U.S. banking regulators proposed rules to implement many aspects of Basel III (the U.S. Basel III proposals). The U.S. Basel III proposals contain new capital standards that raise the quality of capital and strengthen counterparty credit risk capital requirements and introduce a leverage ratio as a supplemental measure to the risk-based ratio. The proposals include a new capital conservation buffer, which imposes a common equity requirement above the new minimum that can be depleted under stress, and could result in restrictions on capital distributions and discretionary bonuses under certain circumstances. The U.S. Basel III proposals also provide for a potential countercyclical buffer that regulators can activate during periods of excessive credit growth in their jurisdiction. The U.S. Basel III proposals contemplate that the new capital requirements would be phased in over several years, beginning in 2013. In November 2012, the U.S. banking regulators announced that the U.S. Basel III proposals would not become effective on January 1, 2013. The announcement did not specify new implementation or phase-in dates for the U.S. Basel III proposals.

The Basel III rules and the Dodd-Frank Act, when implemented, will over time impose limits on Ally's ability to meet its regulatory capital requirements through the use of mortgage servicing rights (MSRs), trust preferred securities, or other "hybrid" securities, if applicable. At December 31, 2012, Ally had $857 million of MSRs and $2.5 billion of trust preferred securities, which were included as Tier 1 capital. Ally currently has no other "hybrid" securities outstanding. Pending final U.S. implementation of rules for Basel III and subsequent regulatory interpretation, there remains a degree of uncertainty on the full impact of Basel III.

If we or Ally Bank fail to satisfy regulatory capital requirements, we or Ally Bank may be subject to serious regulatory sanctions ranging in severity from being precluded from making acquisitions or engaging in new activities to becoming subject to informal or formal supervisory actions by the FRB and/or FDIC and, potentially, FDIC receivership of Ally Bank. If any of these were to occur, such actions could prevent us from successfully executing our business plan and have a material adverse effect on our business, results of operations, and financial position.

Our business, financial condition, and results of operations could be adversely affected by governmental fiscal and monetary policies.

The actions of the FRB and international central banking authorities directly impact our cost of funds for lending, capital raising, and investment activities and may impact the value of financial instruments we hold. In addition, such changes in monetary policy may affect the credit quality of our customers. Changes in domestic and international monetary policy are beyond our control and difficult to predict.

In addition, our business and earnings are significantly affected by the fiscal and monetary policies of the U.S. government and its agencies. We are particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States. The FRB's policies influence the new and used vehicle financing market, which significantly affects the earnings of our businesses. The FRB's policies also influence the yield on our interest earning assets and the cost of our interest-bearing liabilities. Changes in those policies are beyond our control and difficult to predict and could adversely affect our revenues, profitability, and financial condition.

Future consumer legislation could harm our competitive position.
In addition to the enactment of the Dodd-Frank Act, various legislative bodies have also recently been considering altering the existing framework governing creditors' rights, including legislation that would result in or allow loan modifications of various sorts. Such legislation may change banking statutes and the operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business; limit or expand permissible activities; or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether new legislation will be enacted, and if enacted, the effect that it or any regulations would have on our activities, financial condition, or results of operations.
Ally and its subsidiaries are involved in investigations, and proceedings by government and self-regulatory agencies, which may lead to material adverse consequences.
Ally and its subsidiaries, including Ally Bank, are and may become involved from time to time in reviews, investigations, and proceedings (both formal and informal), and information-gathering requests, by government and self-regulatory agencies, including the FRB, FDIC, Utah DFI, CFPB, SEC, and the Federal Trade Commission regarding their respective operations. Such requests include subpoenas from each of the SEC and the U.S. Department of Justice. We continue to respond to subpoenas and document requests from the SEC, seeking information covering a wide range of mortgage-related matters, including, among other things, various aspects surrounding securitizations of residential mortgages. The subpoenas received from the U.S. Department of Justice include a broad request for documentation and other information in connection with its investigation of potential fraud and other potential legal violations related to mortgage backed securities, as well as the origination and/or underwriting of mortgage loans. In addition, the CFPB has recently advised us that they are investigating certain of our retail financing practices. These matters, or any other investigation or information-gathering request, may result in material adverse consequences including without limitation, adverse judgments, settlements, fines, penalties, injunctions, or other actions.
Our business, financial position, and results of operations could be adversely affected by the impact of affiliate transaction restrictions imposed in connection with certain financing transactions.
Certain transactions between Ally Bank and any of its nonbank "affiliates," including but not limited to Ally Financial Inc. are subject to federal statutory and regulatory restrictions. Pursuant to these restrictions, unless otherwise exempted, "covered transactions," including Ally Bank's extensions of credit to and asset purchases from its nonbank affiliates, generally (1) are limited to 10% of Ally Bank's capital stock and surplus with respect to transactions with any individual affiliate, with an aggregate limit of 20% of Ally Bank's capital stock and surplus for all affiliates and all such transactions; (2) in the case of certain credit transactions, are subject to stringent collateralization requirements; (3) in the case of asset purchases by Ally Bank, may not involve the purchase of any asset deemed to be a "low quality asset" under federal banking guidelines; and (4) must be conducted in accordance with safe-and-sound banking practices (collectively, the Affiliate Transaction Restrictions). Furthermore, there is an "attribution rule" that provides that a transaction between Ally Bank and a third party must be treated as a transaction between Ally Bank and a nonbank affiliate to the extent that the proceeds of the transaction are used for the benefit of, or transferred to, a nonbank affiliate of Ally Bank. Retail financing transactions by Ally Bank involving vehicles for which Ally provided floorplan financing are subject to the Affiliate Transaction Restrictions because the proceeds of the retail financings are deemed to benefit, and are ultimately transferred to, Ally.
Under the Dodd-Frank Act, among other changes to Sections 23A and 23B of the Federal Reserve Act, credit exposures resulting from derivatives transactions, securities lending and borrowing transactions, and acceptance of affiliate-issued debt obligations (other than securities) as collateral for a loan or extension of credit will be treated as "covered transactions." The Dodd-Frank Act also expands the scope of covered transactions required to be collateralized and places limits on acceptable collateral.
Historically, the FRB was authorized to exempt, in its discretion, transactions or relationships with affiliates from the requirements of these rules if it found such exemptions to be in the public interest and consistent with the purposes of the rules. As a result of the Dodd-Frank Act, exemptions now may be granted by the FDIC if the FDIC and FRB jointly find that the exemption is in the public interest and consistent with the purposes of the rules, and the FDIC

finds that the exemption does not present an unacceptable risk to the Deposit Insurance Fund. The FRB granted several such exemptions to Ally Bank in the past. However, the existing exemptions are subject to various conditions and, particularly in light of the statutory changes made by the Dodd-Frank Act, any requests for future exemptions may not be granted. Moreover, these limited exemptions generally do not encompass consumer leasing or used vehicle financing. Since there is no assurance that Ally Bank will be able to obtain future exemptions or waivers with respect to these restrictions, the ability to grow Ally Bank's business will be affected by the Affiliate Transaction Restrictions.

Ally Financial Inc. may require distributions in the future from its subsidiaries.

We currently fund Ally Financial Inc.'s obligations, including dividend payments to our preferred shareholders, and payments of interest and principal on our indebtedness, from cash generated by Ally Financial Inc. In the future, Ally Financial Inc. may not generate sufficient funds at the parent company level to fund its obligations. As such, it may require dividends, distributions, or other payments from its subsidiaries to fund its obligations. However, regulatory and other legal restrictions may limit the ability of Ally Financial Inc.'s subsidiaries to transfer funds freely to Ally Financial Inc. In particular, many of Ally Financial Inc.'s subsidiaries are subject to laws, regulations, and rules that authorize regulatory bodies to block or reduce the flow of funds to it or that prohibit such transfers entirely in certain circumstances. These laws, regulations, and rules may hinder Ally Financial Inc.'s ability to access funds that it may need to make payments on its obligations in the future. Furthermore, as a bank holding company, Ally Financial Inc. may become subject to a prohibition or to limitations

on its ability to pay dividends. The bank regulators have the authority and, under certain circumstances, the duty to prohibit or to limit payment of dividends by the banking organizations they supervise, including Ally Financial Inc. and its subsidiaries.

Current and future increases in FDIC insurance premiums, including the FDIC special assessment imposed on all FDIC-insured institutions, could decrease our earnings.

Beginning in 2008 and continuing through 2012, higher levels of bank failures have dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund (the DIF). In May 2009, the FDIC announced that it had voted to levy a special assessment on insured institutions in order to facilitate the rebuilding of the DIF. In September 2009, the FDIC voted to adopt an increase in the risk-based assessment rate effective beginning January 1, 2011, by three basis points. Further, the Dodd-Frank Act alters the calculation of an insured institution’s deposit base for purposes of deposit insurance assessments and removes the upper limit for the reserve ratio designated by the FDIC each year. On February 7, 2011, the FDIC approved a final rule implementing these changes, which took effect on April 1, 2011. The FDIC will continue to assess the changes to the assessment rates at least annually. Future deposit premiums paid by Ally Bank depend on the level of the DIF and the magnitude and cost of future bank failures. Any increases in deposit insurance assessments could decrease our earnings.

Risks Related to Our Business

The profitability and financial condition of our operations are heavily dependent upon the performance, operations, and prospects of GM and Chrysler.

GM and Chrysler dealers and their retail customers compose a significant portion of our customer base, and our Dealer Financial Services operations are highly dependent on GM and Chrysler production and sales volume. In 2012, 63% of our U.S. new vehicle dealer inventory financing and 59% of our U.S. new vehicle consumer automotive financing volume were for GM franchised dealers and customers, and 28% of our U.S. new vehicle dealer inventory financing and 32% of our U.S. new vehicle consumer automotive financing volume were for Chrysler dealers and customers.

We are currently party to agreements with each of GM and Chrysler that provide for certain exclusivity privileges related to subvention programs offered by each of them. On April 25, 2012, Chrysler provided us with notification of nonrenewal for the existing agreement, and as a result our agreement with Chrysler will expire in April 2013. Further, Chrysler has recently announced that it has entered into a ten-year agreement with Santander Consumer USA Inc. (Santander), pursuant to which Santander will provide a full range of wholesale and retail financing services to Chrysler dealers and consumers, beginning in May 2013. In addition, our agreement with GM will expire in December 2013. These agreements provided Ally with certain preferred provider benefits, including limiting the use of other financing providers by GM and Chrysler in their incentive programs. We cannot predict the ultimate impact that the expiration of these agreements will have on our operations. However, the expiration of these agreements will likely increase competitive pressure on Ally, as some competitors have or could have exclusive agreements with GM and/or Chrysler.

On October 1, 2010, GM acquired AmeriCredit Corp. (which GM subsequently renamed General Motors Financial Company, Inc. (GMF)), an independent automotive finance company that focuses on providing leasing and subprime financing options. Further, and as previously announced, we have entered into an agreement with GMF pursuant to which GMF will purchase our automotive finance operations in Europe and Latin America, as well as our interest in a joint venture in China. As GMF continues to grow, and as GM directs additional business to GMF, it could reduce GM's reliance on our services over time, which could have a material adverse effect on our profitability and financial condition. In addition, it is possible that GM or other automotive manufacturers could utilize other existing companies to support their financing needs including offering products or terms that we would not or could not offer, which could have a material adverse impact on our business and operations. Furthermore, other automotive manufacturers could expand or establish or acquire captive finance companies to support their financing needs thus reducing their need for our services.

A significant adverse change in GM's or Chrysler's business, including the production or sale of GM or Chrysler vehicles; the quality or resale value of GM or Chrysler vehicles; the use of GM or Chrysler marketing incentives; GM's or Chrysler's relationships with its key suppliers; or GM's or Chrysler's relationship with the United Auto Workers and other labor unions and other factors impacting GM or Chrysler or their respective employees, or significant adverse changes in their respective liquidity position and access to the capital markets; could have a material adverse effect on our profitability and financial condition.

There is no assurance that the global automotive market or GM's and Chrysler's respective share of that market will not suffer downturns in the future, and any negative impact could in turn have a material adverse effect on our business, results of operations, and financial position.

Our business requires substantial capital and liquidity, and disruption in our funding sources and access to the capital markets would have a material adverse effect on our liquidity, capital positions, and financial condition.

Our liquidity and the long-term viability of Ally depend on many factors, including our ability to successfully raise capital and secure appropriate bank financing. We are currently required to maintain a Tier 1 leverage ratio of 15% at Ally Bank, which will require that Ally maintain substantial equity funds in Ally Bank and inject substantial additional equity funds into Ally Bank as Ally Bank's assets increase over time.

We have significant maturities of unsecured debt each year. While we have reduced our reliance on unsecured funding, it continues to remain a critical component of our capital structure and financing plans. At December 31, 2012, approximately $1.3 billion in principal amount of total outstanding consolidated unsecured debt is scheduled to mature in 2013, and approximately $5.6 billion and $5.1 billion in principal amount of consolidated unsecured debt is scheduled to mature in 2014 and 2015, respectively. We also obtain short-term funding from the sale of floating rate demand notes, all of which the holders may elect to have redeemed at any time without restriction. At December 31, 2012, a total of $3.1 billion in principal amount of Demand Notes were outstanding. We also rely on secured funding. At December 31, 2012, approximately $11.5 billion of outstanding consolidated secured debt is scheduled to mature in 2013, approximately $13.6 billion is scheduled to mature in 2014, and approximately $8.6 billion is scheduled to mature in 2015. Furthermore, at December 31, 2012, approximately $15.7 billion in certificates of deposit at Ally Bank are scheduled to mature in 2013, which is not included in the 2013 unsecured maturities provided above. Additional financing will be required to fund a material portion of the debt maturities over these periods. The capital markets continue to be volatile, and Ally's access to the debt markets may be significantly reduced during periods of market stress. In addition, we will continue to have significant original issue discount amortization expenses (OID expense) in the near future, which will adversely affect our net income and resulting capital position. OID expense was $349 million in 2012, and the remaining scheduled amortization of OID is $261 million, $188 million, and $56 million in 2013, 2014, and 2015, respectively.

As a result of the volatility in the markets and our current unsecured debt ratings, we have increased our reliance on various secured debt markets. Although market conditions have improved, there can be no assurances that this will continue. In addition, we continue to rely on our ability to borrow from other financial institutions, and many of our primary bank facilities are up for renewal on a yearly basis. Any weakness in market conditions and a tightening of credit availability could have a negative effect on our ability to refinance these facilities and increase the costs of bank funding. Ally and Ally Bank also continue to access the securitization markets. While markets have continued to stabilize following the 2008 liquidity crisis, there can be no assurances these sources of liquidity will remain available to us.

Our indebtedness and other obligations are significant and could materially and adversely affect our business.

We have a significant amount of indebtedness. At December 31, 2012, we had approximately $82.8 billion in principal amount of indebtedness outstanding (including $45.1 billion in secured indebtedness). Interest expense on our indebtedness constituted approximately 48% of our total financing revenue and other interest income for the year ended December 31, 2012. In addition, during the twelve months ending December 31, 2012, we declared and paid preferred stock dividends of $802 million in the aggregate.

We have the ability to create additional unsecured indebtedness. If our debt service obligations increase, whether due to the increased cost of existing indebtedness or the incurrence of additional indebtedness, we may be required to dedicate a significant portion of our cash flow from operations to the payment of principal of, and interest on, our indebtedness, which would reduce the funds available for other purposes. Our indebtedness also could limit our ability to withstand competitive pressures and reduce our flexibility in responding to changing business and economic conditions.

The worldwide financial services industry is highly competitive. If we are unable to compete successfully or if there is increased competition in the automotive financing and/or insurance markets or generally in the markets for securitizations or asset sales, our business could be negatively affected.

The markets for automotive financing, banking, and insurance are highly competitive. The market for automotive financing has grown more competitive as more consumers are financing their vehicle purchases and as more competitors continue to enter this market as a result of how well automotive finance assets generally performed relative to other asset classes during the 2008 economic downturn. More recently, competition for automotive financing has further intensified as a growing number of banks have become increasingly interested in automotive-finance assets, which has resulted in pressure on our net interest margins. For example, on April 1, 2011, TD Bank Group announced the closing of its acquisition of Chrysler Financial, which could enhance Chrysler

Financial's ability to expand its product offerings and may result in increased competition. Ally Bank faces significant competition from commercial banks, savings institutions, mortgage companies, and other financial institutions. Our insurance business faces significant competition from insurance carriers, reinsurers, third-party administrators, brokers, and other insurance-related companies. Many of our competitors have substantial positions nationally or in the markets in which they operate. Some of our competitors have lower cost structures, substantially lower costs of capital, and are much less reliant on securitization activities, unsecured debt, and other public markets. Our competitors may be subject to different, and in some cases, less stringent, legislative and regulatory regimes than we are, thus putting us at a competitive disadvantage to these competitors. We face significant competition in most areas including product offerings, rates, pricing and fees, and customer service. If we are unable to compete effectively in the markets in which we operate, our profitability and financial condition could be negatively affected.

The markets for asset securitizations and whole-loan sales are competitive, and other issuers and originators could increase the amount of their issuances and sales. In addition, lenders and other investors within those markets often establish limits on their credit exposure to particular issuers, originators, and asset classes, or they may require higher returns to increase the amount of their exposure. Increased issuance by other participants in the market or decisions by investors to limit their credit exposure to (or to require a higher yield for) us or to automotive securitizations or whole-loans could negatively affect our ability and that of our subsidiaries to price our securitizations and whole-loan sales at attractive rates. The result would be lower proceeds from these activities and lower profits for our subsidiaries and us.

Our allowance for loan losses may not be adequate to cover actual losses, and we may be required to materially increase our allowance, which may adversely affect our capital, financial condition, and results of operations.
We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expenses, which represents management's best estimate of probable credit losses that have been incurred within the existing portfolio of loans, all as described in Note 1 to the Consolidated Financial Statements. The allowance, in the judgment of management, is established to reserve for estimated loan losses and risks inherent in the loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks using existing qualitative and quantitative information, all of which may undergo material changes. Changes in economic conditions affecting borrowers, accounting rules and related guidance, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of our control, may require an increase in the allowance for loan losses.
Bank regulatory agencies periodically review our allowance for loan losses, as well as our methodology for calculating our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different than those of management. An increase in the allowance for loan losses results in a decrease in net income and capital and may have a material adverse effect on our capital, financial condition and results of operations.
The previously contemplated plan and settlement related to the ResCap bankruptcy has been allowed to lapse by ResCap, and as a result, there is substantial uncertainty related to resolution of the bankruptcy and substantial claims could be brought against us.
On May 14, 2012 (the Petition Date), Residential Capital, LLC (ResCap) and certain of its wholly owned direct and indirect subsidiaries (collectively, the Debtors) filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court). In connection with the filings in May, Ally Financial Inc. and its direct and indirect subsidiaries and affiliates (excluding the Debtors) (collectively, AFI) had reached an agreement with the Debtors and certain creditor constituencies on a prearranged Chapter 11 plan (the Plan). The Plan included a proposed settlement (the Settlement) between AFI and the Debtors, which included, among other things, an obligation of AFI to make a $750 million cash contribution to the Debtor's estate, and a release of all existing or potential causes of action between AFI and the Debtors, as well as a release of all existing or potential ResCap-related causes of action against AFI held by third parties.
The Settlement contemplated certain milestone requirements that the Debtors failed to satisfy, including the Bankruptcy Court's confirmation of the Plan on or before October 31, 2012. While the failure to meet this October 31 milestone would have resulted in the Settlement's automatic termination, AFI and the Debtors agreed to monthly temporary waivers of this automatic termination through February 28, 2013. This waiver was not extended beyond this date, and therefore the Settlement has terminated.
As of the Petition Date, institutional investors in residential mortgage-backed securities (RMBS Investors) issued by ResCap's affiliates and holding more than 25 percent of at least one class in each of 290 securitizations agreed to settle alleged representation and warranty claims against the Debtors' estates in exchange for a total $8.7 billion allowed claim in the Debtors' bankruptcy cases, subject to the applicable securitization trustees' acceptance of the terms of the settlements (the RMBS Settlements). The RMBS Investors also signed separate plan support agreements (PSAs) with the Debtors and AFI in support of the Plan at the time of entering into the RMBS Settlements. To date, RMBS Investors holding more than 25 percent of at least one class in each of 336 securitizations have agreed to the RMBS Settlements. These 336 securitizations have an aggregate original principal balance of approximately $189 billion (out of a total of 392 outstanding securitizations with an original principal balance of $221 billion). The RMBS Settlements are subject to Bankruptcy Court approval, and the Bankruptcy Court has scheduled a hearing to consider such approval in late May 2013. The PSAs are not part of this scheduled Bankruptcy Court hearing. A number of creditors have raised objections to the RMBS Settlements, but the trustees representing the 336 securitization trusts and AFI have filed statements in support of the Debtors' motion to approve the RMBS Settlements. Separately, the

Debtors have failed to meet several Plan milestones in their bankruptcy cases, each of which has given the RMBS Investors the right to terminate the PSAs upon three business days advance written notice to the Debtors and AFI. The RMBS Investors have not given the Debtors and AFI such a notice to date, but have the right to do so at any time. If the RMBS Settlements were not approved or the RMBS Investors were to decide not to support any proposed plan, it could adversely impact the likelihood that any plan is approved by the Bankruptcy Court. AFI continues to support the RMBS Settlements at this time.

On June 4, 2012, Berkshire Hathaway Inc. filed a motion in the Bankruptcy Court for the appointment of an independent examiner to investigate, among other things, certain of the Debtors' transactions with AFI occurring prior to the Petition Date, any claims the Debtors may hold against AFI's officers and directors, and any claims the Debtors proposed to release under the Plan. On June 20, 2012, the Bankruptcy Court approved the appointment of an examiner and, subsequently, the United States Trustee for the Southern District of New York appointed former bankruptcy judge Arthur J. Gonzalez, Esq. as the examiner (the Examiner). On July 27, 2012, the Bankruptcy Court entered an order approving the scope of the Examiner's investigation. The investigation includes, among other things: (a) all material pre-petition transactions between or among the Debtors and AFI, Cerberus Capital Management, L.P. and its subsidiaries and affiliates, and/or Ally Bank; (b) certain post-petition negotiations and transactions with the Debtors, including with respect to plan sponsor, plan support, and settlement agreements, the debtor-in-possession financing with AFI, the stalking horse asset purchase agreement with AFI, and the servicing agreement with Ally Bank; (c) all state and federal law claims or causes of action the Debtors proposed to release as part of the Plan; and (d) the release of all existing or potential ResCap-related causes of action against AFI held by third parties. In the Examiner's original work plan, the Examiner estimated that his investigation and related report would be completed six months from approximately August 6, 2012. However, on February

---

7, 2013 the Examiner informed the Bankruptcy Court in the third supplement to the work plan that the investigation and related report will not be completed until early May 2013.
On December 26, 2012, the Bankruptcy Court, in an effort to facilitate plan negotiations, entered an order appointing bankruptcy judge James M. Peck, Esq. as mediator to assist the parties in resolving certain issues relating to the formulation and confirmation of the Plan. There can be no assurance that the mediation process will continue or will ultimately lead to a successful agreement among the parties.
On February 26, 2013, the official committee of unsecured creditors appointed in the Debtors' bankruptcy cases (the Creditors' Committee) filed with the Bankruptcy Court a response to the Debtors' motions for appointment of a chief restructuring officer and to extend their exclusive period to file a chapter 11 plan, which, among other things, states that the Creditors' Committee supports such extension through and including April 30, 2013, and during such time the Creditors' Committee will agree not to bring any claims against AFI. The response further states that the Debtors consent to the Creditors' Committee seeking standing in the Bankruptcy Court to prosecute and/or settle the Debtors' alleged claims against AFI and agree to settle claims against AFI only with Creditors' Committee consent.
On February 27, 2013, the Debtors filed a motion with the Bankruptcy Court seeking, for purposes of any proposed chapter 11 plan, that GMAC Mortgage's obligation to conduct and pay for independent file review regarding certain residential foreclosure actions and foreclosure sales prosecuted by GMAC Mortgage and its subsidiaries, as required under the Consent Order, be classified as a general unsecured claim in an amount to be determined, and that the automatic stay under the Bankruptcy Code be applied to prevent the FRB, the FDIC, and other governmental entities from taking any action to enforce the obligation against the Debtors. If the Bankruptcy Court approves the motion, such governmental entities are likely to seek to enforce the obligation against AFI, and any such obligations ultimately borne by AFI could be material. The Debtors have requested that the motion be heard at a hearing on March 21, 2013.
We are currently named as defendants in various lawsuits relating to ResCap mortgage-backed securities and certain other mortgage-related matters, which are described in more detail in Note 29 to the Consolidated Financial Statements. The majority of these matters are currently subject to orders entered by the Bankruptcy Court staying the matters through either March 31, 2012 or April 30, 2013. Unless the Debtors seek and obtain Bankruptcy Court approval to extend these stay orders, these matters are expected to proceed against us once the applicable stay orders expire.
As a result of the termination of the Settlement, AFI is no longer obligated to make the $750 million cash contribution and neither party is bound by the Settlement. Further, AFI is not entitled to receive any releases from either the Debtors or any third party claimants, as was contemplated under the Plan and Settlement. However, AFI has not withdrawn its offer to provide a $750 million cash contribution to the Debtors' estate if an acceptable settlement can be reached. As a result of the termination of the Settlement, substantial claims could be brought against us, which could have a material adverse impact on our results of operations, financial position or cash flows.
We are exposed to consumer credit risk, which could adversely affect our profitability and financial condition.
We are subject to credit risk resulting from defaults in payment or performance by customers for our contracts and loans, as well as contracts and loans that are securitized and in which we retain a residual interest. Furthermore, a weak economic environment and high unemployment rates could exert pressure on our consumer automotive finance customers resulting in higher delinquencies, repossessions, and losses. There can be no assurances that our monitoring of our credit risk as it affects the value of these assets and our efforts to mitigate credit risk through our risk-based pricing, appropriate underwriting policies, and loss-mitigation strategies are, or will be, sufficient to prevent a further adverse effect on our profitability and financial condition. We have begun to increase our nonprime automobile financing. We define nonprime consumer automobile loans as those loans with a FICO score (or an equivalent score) at origination of less than 620. In addition, we have increased our used automobile financing. Borrowers that finance used vehicles tend to have lower FICO scores as compared to new vehicle borrowers, and defaults resulting from vehicle breakdowns are more likely to occur with used vehicles as compared to new vehicles that are financed. At December 31, 2012, the carrying value of our Automotive Finance operations nonprime consumer automobile loans before allowance for loan losses was $5.1 billion, or approximately 9.4% of our total consumer automobile loans. Of

these loans, $62 million were considered nonperforming as they had been placed on nonaccrual status in accordance with internal loan policies. Refer to the Nonaccrual Loans section of Note 1 to the Consolidated Financial Statements for additional information. As we grow our nonprime automobile financing loans over time, our credit risk may increase. As part of the underwriting process, we rely heavily upon information supplied by third parties. If any of this information is intentionally or negligently misrepresented and the misrepresentation is not detected before completing the transaction, the credit risk associated with the transaction may be increased.

General business and economic conditions may significantly and adversely affect our revenues, profitability, and financial condition.

Our business and earnings are sensitive to general business and economic conditions in the United States. A downturn in economic conditions resulting in increased short and long term interest rates, inflation, fluctuations in the debt capital markets, unemployment rates, consumer and commercial bankruptcy filings, or a decline in the strength of national and local economies and other factors that negatively affect household incomes could decrease demand for our financing products and increase financing delinquency and losses on our customer and dealer financing operations. We have been negatively affected due to the significant stress in the residential real estate and related capital markets and, in particular, the lack of home price appreciation in many markets in which we lend. Further, a significant and sustained increase in fuel prices could lead to diminished new and used vehicle purchases and negatively affect our automotive finance business.

If the rate of inflation were to increase, or if the debt capital markets or the economies of the United States were to weaken, or if home prices or new and used vehicle purchases experience declines, we could be significantly and adversely affected, and it could become more

expensive for us to conduct our business. For example, business and economic conditions that negatively affect household incomes, housing prices, and consumer behavior related to our businesses could decrease (1) the demand for our new and used vehicle financing and (2) the value of the collateral underlying our portfolio of held-for-investment assets and new and used vehicle loans and interests that continue to be held by us, thus further increasing the number of consumers who become delinquent or default on their loans. In addition, the rate of delinquencies, foreclosures, and losses on our loans could be higher during more severe economic slowdowns.
Any sustained period of increased delinquencies, foreclosures, or losses could further harm our ability to sell our new and used vehicle loans, the prices we receive for our new and used vehicle loans, or the value of our portfolio of mortgage and new and used vehicle loans held-for-investment or interests from our securitizations, which could harm our revenues, profitability, and financial condition. Continued adverse business and economic conditions could affect demand for new and used vehicles, housing, the cost of construction, and other related factors that could harm the revenues and profitability of our business.
The current debt crisis in Europe, the risk that certain countries may default on their sovereign debt, and recent rating agency actions with respect to European countries and the United States and the resulting impact on the financial markets, could have a material adverse impact on our business, results of operations and financial position.
The current crisis in Europe has created uncertainty with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations. In the past several years, rating agencies have lowered their ratings on several euro-zone countries. The continuation of the European debt crisis has adversely impacted financial markets and has created substantial volatility and uncertainty, and will likely continue to do so. Risks related to this have had, and are likely to continue to have, a negative impact on global economic activity and the financial markets. The effects of the European debt crisis could be even more significant if a Eurozone country determines to depart the European Monetary Union, which would lead to redenomination of obligations of obligors in that country and cause foreign exchange, operational, and settlement disruptions. In addition, on August 5, 2011, Standard & Poor’s Ratings Services lowered its long-term sovereign credit rating on the United States of America to ‘AA+’ from ‘AAA’, and the outlook on its long-term rating is negative. The U.S. downgrade, any future downgrades, as well as the perceived creditworthiness of U.S. government-related obligations, including uncertainty surrounding the U.S. federal deficit and debt ceiling debate, could impact our ability to obtain, and the pricing with respect to, funding that is collateralized by affected instruments and obtained through the secured and unsecured markets. As these conditions persist, our business, results of operation, and financial position could be materially adversely affected.
Acts or threats of terrorism and political or military actions taken by the United States or other governments could adversely affect general economic or industry conditions.
Geopolitical conditions may affect our earnings. Acts or threats of terrorism and political or military actions taken by the United States or other governments in response to terrorism, or similar activity, could adversely affect general economic or industry conditions.
The U.S. Department of Treasury (Treasury) holds a majority of the outstanding common stock.
At February 28, 2013, Treasury held 981,971 shares of common stock, which represents approximately 74% of the voting power of the holders of common stock outstanding for matters requiring a vote of the holders of common stock. In addition, as of the date hereof, Treasury holds 118,750,000 shares of Series F-2 Preferred Stock (which are convertible into shares of common stock in accordance with Ally's certificate of incorporation), with an aggregate liquidation preference of approximately $5.9 billion.
Pursuant to the Amended and Restated Governance Agreement dated May 21, 2009, as of the date hereof, Treasury also has the right to appoint six of the eleven members to our board of directors. As a result of this stock ownership interest and Treasury's right to appoint six directors to our board of directors, Treasury has the ability to exert control, through its power to vote for the election of our directors, over various matters. To the extent Treasury elects to exert such control over us, its interests (as a government entity) may differ from those of our other stockholders and it may influence, through its ability to vote for the election of our directors, matters including:

- the selection, tenure and compensation of our management;

- our business strategy and product offerings;
- our relationship with our employees and other constituencies; and
- our financing activities, including the issuance of debt and equity securities.

In particular, Treasury may have a greater interest in promoting U.S. economic growth and jobs than our other stockholders. In the future we may also become subject to new and additional laws and government regulations regarding various aspects of our business as a result of participation in the TARP program and the U.S. government's ownership in our business. These regulations and actions by directors could make it more difficult for us to compete with other companies that are not subject to similar regulations.

The limitations on compensation imposed on us due to our participation in TARP, including the restrictions placed on our compensation by the Special Master for TARP Executive Compensation, may adversely affect our ability to retain and motivate our executives and employees.
Our performance is largely dependent on the talent and efforts of our management team and employees. As a result of our participation in TARP, the compensation of certain members of our management team and employees is subject to extensive restrictions under the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009 (the ARRA), which was signed into law on February 17, 2009, as implemented by the Interim Final Rule issued by Treasury on June 15, 2009 (the IFR). In addition, due to our level of participation in TARP, pursuant to ARRA and the IFR, the Office of the Special Master for TARP Executive Compensation has the authority to further regulate our compensation arrangements with certain of our executives and employees. In addition, we may become subject to further restrictions under any other future legislation or regulation limiting executive compensation. Many of the restrictions are not limited to our senior executives and affect other employees whose contributions to revenue and performance may be significant. These limitations may leave us unable to create a compensation structure that permits us to retain and motivate certain of our executives and employees or to attract new executives or employees, especially if we are competing against institutions that are not subject to the same restrictions. Any such inability could have a material and adverse effect on our business, financial condition, and results of operations.
Our borrowing costs and access to the unsecured debt capital markets depend significantly on our credit ratings.
The cost and availability of unsecured financing are materially affected by our short- and long-term credit ratings. Each of Standard & Poor’s Rating Services; Moody’s Investors Service, Inc.; Fitch, Inc.; and Dominion Bond Rating Service rates our debt. Our current ratings as assigned by each of the respective rating agencies are below investment grade, which negatively impacts our access to liquidity and increases our borrowing costs in the unsecured market. Ratings reflect the rating agencies’ opinions of our financial strength, operating performance, strategic position, and ability to meet our obligations. On February 2, 2012, Fitch downgraded our senior debt to BB- from BB and changed the outlook to negative. Future downgrades of our credit ratings would increase borrowing costs and further constrain our access to the unsecured debt markets and, as a result, would negatively affect our business. In addition, downgrades of our credit ratings could increase the possibility of additional terms and conditions being added to any new or replacement financing arrangements as well as impact elements of certain existing secured borrowing arrangements.
Agency ratings are not a recommendation to buy, sell, or hold any security and may be revised or withdrawn at any time by the issuing organization. Each agency’s rating should be evaluated independently of any other agency’s rating.
Our profitability and financial condition could be materially and adversely affected if the residual value of off-lease vehicles decrease in the future.
Our expectation of the residual value of a vehicle subject to an automotive lease contract is a critical element used to determine the amount of the lease payments under the contract at the time the customer enters into it. As a result, to the extent the actual residual value of the vehicle, as reflected in the sales proceeds received upon remarketing at lease termination, is less than the expected residual value for the vehicle at lease inception, we incur additional depreciation expense and/or a loss on the lease transaction. General economic conditions, the supply of off-lease and other vehicles to be sold, new vehicle market prices, perceived vehicle quality, overall price and volatility of gasoline or diesel fuel, among other factors, heavily influence used vehicle prices and thus the actual residual value of off-lease vehicles. Consumer confidence levels and the strength of automotive manufacturers and dealers can also influence the used vehicle market. For example, during 2008, sharp declines in demand and used vehicle sale prices adversely affected our remarketing proceeds and financial results.
Vehicle brand images, consumer preference, and vehicle manufacturer marketing programs that influence new and used vehicle markets also influence lease residual values. In addition, our ability to efficiently process and effectively market off-lease vehicles affects the disposal costs and proceeds realized from the vehicle sales. While manufacturers, at times, may provide support for lease residual values including through residual support programs, this support does

not in all cases entitle us to full reimbursement for the difference between the remarketing sales proceeds for off-lease vehicles and the residual value specified in the lease contract. Differences between the actual residual values realized on leased vehicles and our expectations of such values at contract inception could have a negative impact on our profitability and financial condition.

Significant indemnification payments or contract, lease, or loan repurchase activity of retail contracts or leases could harm our profitability and financial condition.

We have repurchase obligations in our capacity as servicer in securitizations and whole-loan sales. If a servicer breaches a representation, warranty, or servicing covenant with respect to an automotive receivable, the servicer may be required by the servicing provisions to repurchase that asset from the purchaser or otherwise compensate one or more classes of investors for losses caused by the breach. If the frequency at which repurchases of assets or other payments occurs increases substantially from its present rate, the result could be a material adverse effect on our financial condition, liquidity, and results of operations.

A loss of contractual servicing rights could have a material adverse effect on our financial condition, liquidity, and results of operations.

We are the servicer for all of the receivables we have acquired or originated and transferred to other parties in securitizations and whole-loan sales of automotive receivables. We are paid a fee for these services, which fees in the aggregate constitute a substantial revenue stream for us. In each case, we are subject to the risk of termination under the circumstances specified in the applicable servicing provisions.

In most securitizations and whole-loan sales, the owner of the receivables will be entitled to declare a servicer default and terminate the servicer upon the occurrence of specified events. These events typically include a bankruptcy of the servicer, a material failure by the servicer to perform its obligations, and a failure by the servicer to turn over funds on the required basis. The termination of these servicing rights, were it to occur, could have a material adverse effect on our financial condition, liquidity, and results of operations.

Our earnings may decrease because of decreases or increases in interest rates.

We are subject to risks from decreasing interest rates, particularly given the Federal Reserve's recent steps to keep interest rates low in an attempt to improve economic growth. A low interest rate environment or a flat or inverted yield curve may adversely affect certain of our businesses by compressing net interest margins or reducing the amounts we earn on our investment securities portfolio, thereby reducing our net interest income and other revenues.

Rising interest rates could also have an adverse impact on our business as well. For example, rising interest rates:

- will increase our cost of funds;
- may reduce our consumer automotive financing volume by influencing customers to pay cash for, as opposed to financing, vehicle purchases or not to buy new vehicles;
- may negatively impact our ability to remarket off-lease vehicles; and
- will generally reduce the value of automotive financing loans and contracts and retained interests and fixed income securities held in our investment portfolio.

Throughout 2009 and 2010 the credit risk embedded in the balance sheet was reduced as a result of asset sales, asset markdowns, and a change in the mix of our loan assets as the legacy portfolios were replaced with assets underwritten to tighter credit standards. This reduction in risk has resulted in a mix of assets outstanding on the balance sheet as of December 31, 2012, with a lower yielding profile than the prior year. During this same period of time we experienced a significant decline in our consumer automotive operating lease portfolio that was realizing higher yields from remarketing gains due to historically high used vehicle prices. The combination of the above factors resulted in a decline in asset yields more than the decline in liability rates, and therefore the decline in the net interest spread on the balance sheet throughout 2010 and into 2011.

Our hedging strategies may not be successful in mitigating our risks associated with changes in interest rates and could affect our profitability and financial condition as could our failure to comply with hedge accounting principles and interpretations.

We employ various economic hedging strategies to mitigate the interest rate and prepayment risk inherent in many of our assets and liabilities. Our hedging strategies rely on assumptions and projections regarding our assets, liabilities, and general market factors. If these assumptions and projections prove to be incorrect or our hedges do not adequately mitigate the impact of changes in interest rates or prepayment speeds, we may experience volatility in our earnings that could adversely affect our profitability and financial condition. In addition, we may not be able to find market participants that are willing to act as our hedging counterparties, which could have an adverse effect on the success of our hedging strategies.

In addition, hedge accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) requires the application of significant subjective judgments to a body of accounting concepts that is complex.

A failure of or interruption in, as well as, security risks of the communications and information systems on which we rely to conduct our business could adversely affect our revenues and profitability.

We rely heavily upon communications and information systems to conduct our business. Any failure or interruption of our information systems or the third-party information systems on which we rely as a result of inadequate or failed processes or systems, human errors, employee misconduct, catastrophic events, or other external events could cause underwriting or other delays and could result in fewer applications being received, slower processing of applications, and reduced efficiency in servicing. In addition, our communication and information systems may present security risks, and could be susceptible to hacking or identity theft. For example, similar to other large financial institutions, Ally's website, ally.com, was recently the subject of cyber attacks that resulted in slow performance and unavailability of the website for some customers. The occurrence of any of these events could have a material adverse effect on our business.

We use estimates and assumptions in determining the fair value of certain of our assets. If our estimates or assumptions prove to be incorrect, our cash flow, profitability, financial condition, and business prospects could be materially and adversely affected.

We use estimates and various assumptions in determining the fair value of many of our assets, including certain held-for-investment and held-for-sale loans for which we elected fair value accounting, retained interests from securitizations of loans and contracts, MSRs, and other

Table of Contents

investments, which do not have an established market value or are not publicly traded. We also use estimates and assumptions in determining the residual values of leased vehicles. In addition, we use estimates and assumptions in determining our reserves for legal matters, insurance losses and loss adjustment expenses which represent the accumulation of estimates for both reported losses and those incurred, but not reported, including claims adjustment expenses relating to direct insurance and assumed reinsurance agreements. For further discussion related to estimates and assumptions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Estimates." Our actual experience may differ materially from these estimates and assumptions. A material difference between our estimates and assumptions and our actual experience may adversely affect our cash flow, profitability, financial condition, and business prospects.

Fluctuations in valuation of investment securities or significant fluctuations in investment market prices could negatively affect revenues.

Investment market prices in general are subject to fluctuation. Consequently, the amount realized in the subsequent sale of an investment may significantly differ from the reported market value and could negatively affect our revenues. Additionally, negative fluctuations in the value of available-for-sale investment securities could result in unrealized losses recorded in equity. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments, national and international events, and general market conditions.

Changes in accounting standards issued by the Financial Accounting Standards Board (FASB) could adversely affect our reported revenues, profitability, and financial condition.

Our financial statements are subject to the application of GAAP, which are periodically revised and/or expanded. The application of accounting principles is also subject to varying interpretations over time. Accordingly, we are required to adopt new or revised accounting standards or comply with revised interpretations that are issued from time to time by various parties, including accounting standard setters and those who interpret the standards, such as the FASB and the SEC, banking regulators, and our independent registered public accounting firm. Those changes could adversely affect our reported revenues, profitability, or financial condition.

Recently, the FASB has proposed new financial accounting standards, and has many active projects underway, that could materially affect our reported revenues, profitability, or financial condition. These proposed standards or projects include the potential for significant changes in the accounting for financial instruments (including loans, deposits, allowance for loan losses, and debt) and the accounting for leases, among others. It is possible that any changes, if enacted, could adversely affect our reported revenues, profitability, or financial condition.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to different counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty.

Our inability to maintain relationships with dealers could have an adverse effect on our business, results of operations, and financial condition.

Our business depends on the continuation of our relationships with our customers, particularly the automotive dealers with whom we do business. If we are not able to maintain existing relationships with key automotive dealers or if we are not able to develop new relationships for any reason, including if we are not able to provide services on a timely basis or offer products that meet the needs of the dealers, our business, results of operations, and financial condition could be adversely affected.

Adverse economic conditions or changes in laws in states in which we have customer concentrations may negatively affect our operating results and financial condition.

We are exposed to consumer loan portfolio concentration in certain states, including California, Texas, and Florida. Factors adversely affecting the economies and applicable laws in these and other states could have an adverse effect on our business, results of operations and financial position.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal corporate offices are located in Detroit, Michigan; New York, New York; and Charlotte, North Carolina. In Detroit, we lease approximately 247,000 square feet from GM pursuant to a lease agreement expiring in November 2016. In New York, we lease approximately 35,000 square feet of office space under a lease that expires in July 2015. In Charlotte, we lease approximately 133,000 square feet of office space under a lease expiring in December 2015.

The primary offices for Dealer Financial Services operations are located in Detroit, Michigan, and Southfield, Michigan. The primary office for our Automotive Finance operations is located in Detroit, Michigan, and is included in the totals referenced above. The primary

office for our Insurance operations is located in Southfield, Michigan, where we lease approximately 71,000 square feet of office space under leases expiring in April 2016.

The primary offices for our Mortgage operations are located in Fort Washington, Pennsylvania. In Fort Washington, we lease approximately 450,000 square feet of office space pursuant to a lease that expires in November 2019.

In addition to the properties described above, we lease additional space to conduct our operations. We believe our facilities are adequate for us to conduct our present business activities.

Item 3. Legal Proceedings

Refer to Note 29 to the Consolidated Financial Statements for a discussion related to our legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

We currently have a total of 2,021,384 shares of common stock authorized for issuance, and at February 28, 2013, a total of 1,330,970 shares of common stock were issued and outstanding. Further, we have reserved 690,272 of the remaining authorized but unissued shares of common stock for issuance in connection with any future conversion of Ally's Fixed Rate Cumulative Mandatorily Convertible Preferred Stock, Series F-2 (Series F-2 Preferred Stock). Our common stock is not registered with the Securities and Exchange Commission, and there is no established trading market for the shares. At February 28, 2013, there were 153 holders of common stock reflected on our stock register. Subject to certain exceptions, for so long as any shares of the Series F-2 Preferred Stock are outstanding and owned by the U.S. Department of Treasury (Treasury), Ally and its subsidiaries are generally prohibited from paying certain dividends or distributions on, or redeeming, repurchasing or acquiring, any common stock without the consent of Treasury. Ally is also generally prohibited from making any dividends or distributions on, or redeeming, repurchasing, or acquiring, its common stock unless all accrued and unpaid dividends for all past dividend periods on the Series F-2 Preferred Stock are fully paid. In addition, pursuant to the terms of Ally's Fixed Rate Cumulative Perpetual Preferred Stock, Series G, Ally is not permitted to make any Restricted Payments on or prior to January 1, 2014, and may only make Restricted Payments after January 1, 2014, if certain conditions are satisfied. For this purpose, Restricted Payments include dividends or distribution of assets on any share of common stock and any redemption, purchase, or other acquisition of any shares of common stock, subject to certain exceptions.

Preferred Stock

For a discussion of preferred stock currently outstanding, refer to Note 18 to the Consolidated Financial Statements.

Unregistered Sales of Equity Securities

Ally did not have any unregistered sales of its equity securities in fiscal year 2012, except as previously disclosed on Form 8-K.

Item 6. Selected Financial Data

The selected historical financial information set forth below should be read in conjunction with Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations, our Consolidated Financial Statements, and the Notes to Consolidated Financial Statements. The historical financial information presented may not be indicative of our future performance.

The following table presents selected statement of income data.

Year ended December 31, ($ in millions)	2012	2011	2010	2009	2008
Total financing revenue and other interest income	$7,468	$7,061	$8,017	$8,887	$12,143
Interest expense	4,200	5,039	5,460	5,502	7,548
Depreciation expense on operating lease assets	1,399	941	1,251	2,256	3,159
Impairment of investment in operating leases	—	—	—	—	1,082
Net financing revenue	1,869	1,081	1,306	1,129	354
Total other revenue (a)	3,029	2,897	4,416	3,432	14,212
Total net revenue	4,898	3,978	5,722	4,561	14,566
Provision for loan losses	329	188	357	5,174	2,857
Total noninterest expense	5,324	4,741	4,973	6,425	6,789
(Loss) income from continuing operations before income tax (benefit) expense	(755)	(951)	392	(7,038)	4,920
Income tax (benefit) expense from continuing operations (b)	(1,284)	51	104	29	(108)
Net income (loss) from continuing operations	529	(1,002)	288	(7,067)	5,028
Income (loss) from discontinued operations, net of tax	667	845	741	(3,276)	(3,160)
Net income (loss)	$1,196	$(157)	$1,029	$(10,343)	$1,868
Basic and diluted earnings per common share:					
Net (loss) income from continuing operations	$(205)	$(1,326)	$(1,965)	$(15,662)	$46,172
Net income (loss)	296	(691)	(1,039)	(21,850)	17,152
Non-GAAP financial measures (c):					
Net income (loss)	$1,196	$(157)	$1,029	$(10,343)	$1,868
Add: Original issue discount amortization expense (d)	336	962	1,300	1,143	70
Add: Income tax (benefit) expense from continuing operations	(1,284)	51	104	29	(108)
Less: Gain on extinguishment of debt related to the 2008 bond exchange	—	—	—	—	11,460
Less: Income (loss) from discontinued operations, net of tax	667	845	741	(3,276)	(3,160)
Core pretax (loss) income (c)	$(419)	$11	$1,692	$(5,895)	$(6,470)

(a) Total other revenue for 2008 includes $12.6 billion of gains on the extinguishment of debt, primarily related to private exchange and cash tender offers settled during the fourth quarter.

(b) Effective June 30, 2009, we converted from a limited liability company into a corporation and, as a result, became subject to corporate U.S. federal, state, and local taxes. Our conversion to a corporation resulted in a change in tax status and a net deferred tax liability of $1.2 billion was established through income tax expense.

(c) Core pretax (loss) income is not a financial measure defined by accounting principles generally accepted in the United States of America (GAAP). We define core pretax income as earnings from continuing operations before income taxes, original issue discount amortization expense primarily associated with our 2008 bond exchange, and the gain on extinguishment of debt related to the 2008 bond exchange. We believe that the presentation of core pretax (loss) income is useful information for the users of our financial statements in understanding the earnings

from our core businesses. In addition, core pretax (loss) income is the primary measure that management uses to assess the performance of our operations. We believe that core pretax (loss) income is a useful alternative measure of our ongoing profitability and performance, when viewed in conjunction with GAAP measures. The presentation of this additional information is not a substitute for net income (loss) determined in accordance with GAAP.

(d) Primarily represents original issue discount amortization expense associated with the 2008 bond exchange that was reported as a loss on extinguishment of debt in the Consolidated Statement of Income.

Table of Contents
Ally Financial Inc. • Form 10-K

The following table presents selected balance sheet and ratio data.

Year ended December 31, ($ in millions)	2012	2011	2010	2009	2008
Selected period-end balance sheet data:					
Total assets	$182,347	$184,059	$172,008	$172,306	$189,476
Long-term debt	$74,561	$92,885	$86,703	$88,066	$115,935
Preferred stock/interests (a)	$6,940	$6,940	$6,972	$12,180	$6,287
Total equity	$19,898	$19,280	$20,398	$20,794	$21,854
Financial ratios					
Efficiency ratio (b)	108.70 %	119.18 %	86.91 %	140.87 %	46.61 %
Core efficiency ratio (b)	101.72 %	95.97 %	70.82 %	112.64 %	213.76 %
Return on assets (c)					
Net income (loss) from continuing operations	0.29 %	(0.55)%	0.16 %	(3.97)%	2.65 %
Net income (loss)	0.65 %	(0.09)%	0.58 %	(5.81)%	0.99 %
Core pretax (loss) income	(0.23)%	0.01 %	0.96 %	(3.31)%	(3.41)%
Return on equity (c)					
Net income (loss) from continuing operations	2.80 %	(4.99)%	1.39 %	(29.14)%	23.01 %
Net income (loss)	6.32 %	(0.78)%	4.98 %	(42.65)%	8.55 %
Core pretax (loss) income	(2.21)%	0.05 %	8.19 %	(24.31)%	(29.61)%
Equity to assets (c)	10.30 %	11.10 %	11.69 %	13.63 %	11.53 %
Net interest spread (c)(d)	1.14 %	0.59 %	0.97 %	0.45 %	(e)
Net interest spread excluding original issue discount (c)(d)	1.46 %	1.43 %	2.21 %	1.84 %	(e)
Net yield on interest-earning assets (c)(f)	1.37 %	0.84 %	1.15 %	1.03 %	(e)
Net yield on interest-earning assets excluding original issue discount (c)(f)	1.62 %	1.56 %	2.22 %	2.08 %	(e)
Regulatory capital ratios					
Tier 1 capital (to risk-weighted assets) (g)	13.13 %	13.65 %	14.93 %	14.12 %	(e)
Total risk-based capital (to risk-weighted assets) (h)	14.07 %	14.69 %	16.30 %	15.52 %	(e)
Tier 1 leverage (to adjusted quarterly average assets) (i)	11.16 %	11.45 %	12.99 %	12.68 %	(e)
Total equity	$19,898	$19,280	$20,398	$20,794	(e)
Goodwill and certain other intangibles	(494)	(493)	(532)	(534)	(e)
Unrealized gains and other adjustments	(1,715)	(262)	(309)	(447)	(e)
Trust preferred securities	2,543	2,542	2,541	2,540	(e)
Tier 1 capital (g)	20,232	21,067	22,098	22,353	(e)
Preferred equity	(6,940)	(6,940)	(6,972)	(12,180)	(e)
Trust preferred securities	(2,543)	(2,542)	(2,541)	(2,540)	(e)
Tier 1 common capital (non-GAAP) (j)	$10,749	$11,585	$12,585	$7,633	(e)
Risk-weighted assets (k)	$154,038	$154,319	$147,979	$158,326	(e)
Tier 1 common (to risk-weighted assets) (j)	6.98 %	7.51 %	8.50 %	4.82 %	(e)

(a) Effective June 30, 2009, we converted from a Delaware limited liability company into a Delaware corporation. Each unit of each class of common membership interest issued and outstanding immediately prior to the conversion was converted into an equivalent number of shares of common stock with substantially the same rights and preferences as the common membership interests. Upon conversion, holders of our preferred membership interests also received an equivalent number of shares of preferred stock with substantially the same rights and preferences as the former preferred membership interests.

(b)

The efficiency ratio equals total other noninterest expense divided by total net revenue. The core efficiency ratio equals total other noninterest expense divided by total net revenue excluding original issue discount amortization expense and gain on extinguishment of debt related to the 2008 bond exchange.

(c) The 2012, 2011, 2010, and 2009 ratios were computed based on average assets and average equity using a combination of monthly and daily average methodologies. The 2008 ratios have been computed based on period-end total assets and period-end total equity at December 31, 2008.

(d) Net interest spread represents the difference between the rate on total interest-earning assets and the rate on total interest-bearing liabilities, excluding discontinued operations for the periods shown.

(e) Not applicable at December 31, 2008 as we did not become a bank holding company until December 24, 2008.

(f) Net yield on interest-earning assets represents net financing revenue as a percentage of total interest-earning assets.

(g) Tier 1 capital generally consists of common equity, minority interests, qualifying noncumulative preferred stock, and the fixed rate cumulative preferred stock sold to Treasury under TARP, less goodwill and other adjustments.

(h) Total risk-based capital is the sum of Tier 1 and Tier 2 capital. Tier 2 capital generally consists of preferred stock not qualifying as Tier 1 capital, limited amounts of subordinated debt and the allowance for loan losses, and other adjustments. The amount of Tier 2 capital may not exceed the amount of Tier 1 capital.

(i) Tier 1 leverage equals Tier 1 capital divided by adjusted quarterly average total assets (which reflects adjustments for disallowed goodwill and certain intangible assets). The minimum Tier 1 leverage ratio is 3% or 4% depending on factors specified in the regulations.

(j) We define Tier 1 common as Tier 1 capital less noncommon elements, including qualifying perpetual preferred stock, minority interest in subsidiaries, trust preferred securities, and mandatorily convertible preferred securities. Ally considers various measures when evaluating capital utilization and adequacy, including the Tier 1 common equity ratio, in addition to capital ratios defined by banking regulators. This calculation is intended to complement the capital ratios defined by banking regulators for both absolute and comparative purposes. Because GAAP does not include capital ratio measures, Ally believes there are no comparable GAAP financial measures to these ratios. Tier 1 common equity is not formally defined by GAAP or codified in the federal banking regulations and, therefore, is considered to be a non-GAAP financial measure. Ally believes the Tier 1 common equity ratio is important because we believe analysts and banking regulators may assess our capital adequacy using this ratio. Additionally, presentation of this measure allows readers to compare certain aspects of our capital adequacy on the same basis to other companies in the industry.

(k) Risk-weighted assets are defined by regulation and are determined by allocating assets and specified off-balance sheet financial instruments into several broad risk categories.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operation (MD&A), as well as other portions of this Form 10-K, may contain certain statements that constitute forward-looking statements within the meaning of the federal securities laws. The words "expect," "anticipate," "estimate," "forecast," "initiative," "object "plan," "goal," "project," "outlook," "priorities," "target," "intend," "evaluate," "pursue," "seek," "may," "would," "could," "s "potential," "continue," or the negatives of any of these words or similar expressions are intended to identify forward-looking statements. All statements herein, other than statements of historical fact, including without limitation statements about future events and financial performance, are forward-looking statements that involve certain risks and uncertainties. You should not place undue reliance on any forward-looking statement and should consider all uncertainties and risks discussed in this report, including those under Item 1A, Risk Factors, as well as those provided in any subsequent SEC filings. Forward-looking statements apply only as of the date they are made, and Ally undertakes no obligation to update any forward-looking statement to reflect events or circumstances that arise after the date the forward-looking statement are made.

Overview

Ally Financial Inc. (formerly GMAC Inc.) is a leading, independent, 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 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 (internet, telephone, mobile, and mail) banking market.

Our Business

Dealer Financial Services

Our Dealer Financial Services operations offer a wide range of financial services and insurance products to almost 15,000 automotive dealerships and approximately 4 million of their retail customers. We have deep dealer relationships that have been built over our greater-than 90-year history and our dealer-focused business model makes us a preferred automotive finance company for many automotive dealers. Our broad set of product offerings and customer-focused marketing programs differentiate Ally in the marketplace and help drive higher product penetration in our dealer relationships. Our ability to generate attractive automotive assets is driven by our platform and scale, strong relationships with automotive dealers, a full suite of dealer financial products, automotive loan-servicing capabilities, dealer-based incentive programs, and superior customer service.

Our automotive financial services include providing retail installment sales financing, loans, and leases, offering term loans to dealers, financing dealer floorplans and other lines of credit to dealers, fleet leasing, and vehicle remarketing services. We also offer vehicle service contracts and commercial insurance, primarily covering dealers' wholesale vehicle inventories. We are a leading provider of vehicle service contracts, and maintenance coverages.

We have a longstanding relationship with General Motors Company (GM) and have developed strong relationships directly with GM-franchised dealers. We are a preferred financing provider to GM and Chrysler Group LLC (Chrysler) (including Fiat) for incentivized retail loans. Our agreements with GM and Chrysler expire on December 31, 2013 and April 30, 2013, respectively. Ally currently competes in the marketplace for all other parts of the business with GM and Chrysler dealers including wholesale financing, standard rate consumer financing, and leasing. Ally expects to continue to play a significant role with GM and Chrysler dealers in the future as the dealer is Ally's direct customer for the majority of business that is conducted.

We have further diversified our customer base by establishing agreements to become preferred financing providers with other vehicle manufacturers including, Thor Industries, Maserati, The Vehicle Production Group LLC, Forest River, and Mitsubishi Motors. During 2010 our primary emphasis was on originating loans of higher credit tier borrowers. For this reason, our current operating results continue to reflect higher credit quality, lower yielding loans with lower credit loss experience. Ally however seeks to be a meaningful lender to a wide spectrum of borrowers. In

2010 we enhanced our risk management practices and efforts on risk-based pricing. We have gradually increased volumes in lower credit tiers in 2011 and 2012. We plan to continue to increase the proportion of our non-GM and Chrysler business, as we focus on maintaining and growing our dealer-customer base through our full suite of products, our dealer relationships, the scale of our platform, and our dealer-based incentive programs.

Our Insurance operations offer both consumer finance and insurance products sold primarily through the automotive dealer channel, and commercial insurance products sold to dealers. As part of our focus on offering dealers a broad range of consumer finance and insurance products, we provide vehicle service contracts, maintenance coverage, and Guaranteed Automobile Protection (GAP) products. We also underwrite selected commercial insurance coverage, which primarily insures dealers' wholesale vehicle inventory in the United States.

Change in Reportable Segments

During the fourth quarter of 2012, we announced that we had reached agreements to sell substantially all of our International operations. As a result, beginning in the fourth quarter of 2012, we are presenting our continuing Automotive Finance activities under one reportable operating segment, Automotive Finance operations. Previously our Automotive Finance operations were presented as two reportable operating segments, North American Automotive Finance operations and International Automotive Finance operations.

Mortgage

The principal ongoing Mortgage operations are conducted through Ally Bank. We intend to continue to originate a modest level of jumbo and conventional conforming residential mortgages for our own portfolio through a select group of correspondent lenders. Our Mortgage operations also consist of noncore business activities including portfolios in run-off.

On October 26, 2012, we announced that Ally Bank had begun to explore strategic alternatives for its agency mortgage servicing rights portfolio and its business lending operations. On February 28, 2013, we sold our business lending operations to Walter Investment Management Corp. The majority of Ally Bank’s serviced mortgage assets are subserviced by GMAC Mortgage, LLC (GMACM), a subsidiary of ResCap, pursuant to a servicing agreement.

Additionally, in July 2012, we announced our intention to shut down our U.S. Warehouse Lending business and, as of December 31, 2012, we successfully managed receivables down to $0 with no commitments outstanding. Our intent is to significantly reduce or eliminate our mortgage-related activities with respect to the origination of conforming mortgage loans with the intent to sell into securitizations sponsored by the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), or Government National Mortgage Association (Ginnie Mae) (collectively, the Government-sponsored Enterprises, or GSEs), the retention of mortgage servicing rights, and the extension of credit to third-party mortgage originators (warehouse lending).

Residential Capital, LLC (ResCap) and certain of its wholly-owned subsidiaries (collectively, the Debtors), filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York on May 14, 2012. Refer to Note 1 to the Consolidated Financial Statements for further information regarding the Debtors' Bankruptcy and the deconsolidation of ResCap.

Subsequent to the bankruptcy filing, ResCap announced the sale of certain assets to third parties. Upon the closing of those sales, we do not expect ResCap to continue to broker loans to us. This will primarily impact the production of loans within the Direct Lending channel, which are currently sourced exclusively from ResCap.

As the actions discussed continue to progress, we expect the level of loan production and mortgage-related assets (with the exception of mortgage loans held for investment), as well as the income before income tax expense from Mortgage operations, to decline.

Change in Reportable Segments

On May 14, 2012, the Debtors filed for relief under Chapter 11 of the Bankruptcy Code in the United States. As a result of the bankruptcy filing, ResCap was deconsolidated from our financial statements; and beginning in the second quarter of 2012, we began presenting our mortgage business activities under one reportable operating segment, Mortgage operations. Previously our Mortgage operations had been presented as two reportable operating segments, Origination and Servicing operations and Legacy Portfolio and Other operations. The new presentation is consistent with the organizational alignment of the business and management's current view of the mortgage business.

Corporate and Other

Corporate and Other primarily consists of our centralized corporate treasury activities, such as management of the cash and corporate investment securities portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, the amortization of the discount associated with new debt issuances and bond exchanges, most notably from the December 2008 bond exchange, and the residual impacts of our corporate funds-transfer pricing (FTP) and treasury asset liability management (ALM) activities. Corporate and Other also includes our Commercial Finance Group, certain equity investments, reclassifications and eliminations between the reportable operating segments, and overhead that was previously allocated to operations that have since been sold or classified as discontinued operations. Our Commercial Finance Group provides senior secured commercial-lending products to primarily U.S.-based middle market companies.

The net financing revenue of our Automotive Finance and Mortgage operations includes the results of an FTP process that insulates these operations from interest rate volatility by matching assets and liabilities with similar interest rate sensitivity and maturity characteristics. The FTP process assigns charge rates to the assets and credit rates to the

liabilities within our Automotive Finance and Mortgage operations, respectively, based on anticipated maturity and a benchmark index plus an assumed credit spread. The assumed credit spread represents the cost of funds for each asset class based on a blend of funding channels available to the enterprise, including unsecured and secured capital markets, private funding facilities, and deposits. In addition, a risk-based methodology, which incorporates each operations credit, market, and operational risk components is used to allocate equity to these operations.

Change in Reportable Segments

During the fourth quarter of 2012, we began to allocate expenses associated with certain deposit gathering activities and other additional costs of holding liquidity to our Automotive Finance and Mortgage operations. These expenses were previously included within our Corporate and Other activities. Additionally, we began to include overhead that was previously allocated to operations that have since been sold or moved into discontinued operations within our Corporate and Other activities.

Ally Bank

Ally Bank, our direct banking platform, provides us with a stable and diversified low-cost funding source. Our focus is on building a stable deposit base driven by our compelling brand and strong value proposition. Ally Bank raises deposits directly from customers through direct banking via the internet, telephone, mobile, and mail channels. Ally Bank has established a strong and growing retail banking franchise

which is based on a promise of being straightforward, easy to use, and offering high-quality customer service. Ally Bank's products and services are designed to develop long-term customer relationships and capitalize on the shift in consumer preference for direct banking.

Ally Bank offers a full spectrum of deposit product offerings, such as checking, savings, and certificates of deposit (CDs), as well as 48-month raise your rate CDs, IRA deposit products, Popmoney person-to-person transfer service, eCheck remote deposit capture, Ally Perks debit rewards program, and Mobile Banking. In addition, brokered deposits are obtained through third-party intermediaries. At December 31, 2012, Ally Bank had $46.9 billion of deposits, including $35.0 billion of retail deposits. The growth of our retail base from $7.2 billion at the end of 2008 to $35.0 billion at December 31, 2012, has enabled us to reduce our cost of funds during that period. The growth in deposits is primarily attributable to our retail deposits while our brokered deposits have remained at historical levels. Strong retention rates, reflecting the strength of the franchise, have materially contributed to our growth in retail deposits.

Funding and Liquidity

Our funding strategy largely focuses on the development of diversified funding sources which we manage across products, programs, markets, and investor groups. We fund our assets primarily with a mix of retail and brokered deposits, public and private asset-backed securitizations, asset sales, committed and uncommitted credit facilities and public unsecured debt.

The diversity of our funding sources enhances funding flexibility, limits dependence on any one source and results in a more cost-effective funding strategy over the long term. Throughout 2008 and 2009, the global credit markets experienced extraordinary levels of volatility and stress. As a result, access by market participants, including Ally, to the capital markets was significantly constrained and borrowing costs increased. In response, numerous government programs were established aimed at improving the liquidity position of U.S. financial services firms. After converting to a bank holding company in late 2008, we participated in several of the programs, including Temporary Liquidity Guaranty Program (TLGP), Term Auction Facility, and Term Asset-Backed Securities Loan Facility. Our diversification strategy and participation in these programs helped us to maintain sufficient liquidity during this period of financial distress to meet all maturing unsecured debt obligations and to continue our lending and operating activities. During 2012, we repaid the TLGP debt and the other programs were discontinued prior to 2012.

As part of our overall transformation from an independent financial services company to a bank holding company, we took actions to further diversify and develop more stable funding sources and, in particular, embarked upon initiatives to grow our consumer deposit-taking capabilities within Ally Bank. In addition, we began distinguishing our liquidity management strategies between bank funding and nonbank funding.

Maximizing bank funding continues to be the cornerstone of our long-term liquidity strategy. We have made significant progress in migrating assets to Ally Bank and growing our retail deposit base since becoming a bank holding company. Retail deposits provide a low-cost source of funds that are less sensitive to interest rate changes, market volatility or changes in our credit ratings than other funding sources. At December 31, 2012, deposit liabilities totaled $47.9 billion, which constituted 37% of our total funding. This compares to just 14% at December 31, 2008.

In addition to building a larger deposit base, we continue to remain active in the securitization markets to finance Ally Bank's automotive loan portfolios. During 2012, we issued $11.8 billion in secured funding backed by retail automotive loans and leases as well as dealer floorplan automotive loans of Ally Bank. Continued structural efficiencies in securitizations combined with improving capital market conditions have resulted in a reduction in the cost of funds achieved through secured funding transactions, making them a very attractive source of funding. Additionally, for retail loans and leases, the term structure of the transaction locks in funding for a specified pool of loans and leases for the life of the underlying asset. Once a pool of retail automobile loans are selected and placed into a securitization, the underlying assets and corresponding debt amortize simultaneously resulting in committed and matched funding for the life of the asset. We manage the execution risk arising from secured funding by maintaining a diverse investor base and maintaining committed secured facilities.

As we have shifted our focus to migrating assets to Ally Bank and growing our bank funding capabilities, our reliance on parent company liquidity has consequently been reduced. Funding sources at the parent company generally consist of longer-term unsecured debt, private credit facilities, and asset-backed securitizations. In 2012, we issued over $3.6 billion of unsecured debt globally through several issuances. At December 31, 2012, we had $1.3 billion and $5.6 billion of outstanding unsecured long-term debt with maturities in 2013 and 2014, respectively. To fund these maturities, we expect to use existing pre-issued liquidity combined with maintaining an opportunistic approach to new issuance.

The strategies outlined above have allowed us to build and maintain a conservative liquidity position. Total available liquidity at the parent company was $15.6 billion and Ally Bank had $13.2 billion of available liquidity at December 31, 2012. Parent company liquidity is defined as our consolidated operations less Ally Bank and the subsidiaries of Ally Insurance's holding company. At the same time, these strategies have also resulted in a cost of funds improvement of approximately 95 basis points since the first quarter of 2011. Looking forward, given our enhanced liquidity and capital position and generally improved credit ratings, we expect that our cost of funds will continue to improve over time.

Credit Strategy

We are a full spectrum automotive finance lender with most of our automotive loan originations underwritten within the prime-lending markets as we continue to prudently expand in nonprime markets. During 2012, we continued to recognize improvement in our credit risk profile as a result of proactive credit risk initiatives that were taken in 2009 and 2010 and modest improvement in the overall economic

environment. Additionally, we discontinued certain nonstrategic operations, mainly in our international businesses. Within our Automotive Finance operations, we exited certain underperforming dealer relationships. Within our Mortgage operations, we have taken action with the intent to significantly reduce or eliminate our mortgage-related activities with respect to the origination of conforming mortgage loans with the intent to sell into GSE-sponsored securitizations, the retention of mortgage servicing rights, and the extension of credit to third-party mortgage originators (warehouse lending). We intend to continue to originate a modest level of high-quality non-conforming mortgages that exceed GSE limits (jumbo mortgages) for retention as mortgage loans held for investment.

During the year ended December 31, 2012, the credit performance of our portfolios remained strong overall as our asset quality trends within our automotive and mortgage portfolios were stable. Nonperforming loans continued to decline, benefiting from the deconsolidation of ResCap. Charge-offs also declined primarily due to recoveries in the commercial portfolio. Our provision for loan losses increased to $329 million in 2012 from $188 million in 2011 due to higher asset levels in the consumer and commercial automotive portfolios and our prudent expansion of underwriting strategy to originate volumes across a broader credit spectrum, which was significantly narrowed during the recession.

We continue to see signs of economic stabilization in the housing and vehicle markets, although our total credit portfolio will continue to be affected by sustained levels of high unemployment and continued uncertainty in the housing market.

Bank Holding Company and Treasury's Investments

During 2008, and continuing into 2009, the credit, capital, and mortgage markets became increasingly disrupted. This disruption led to severe reductions in liquidity and adversely affected our capital position. As a result, Ally sought approval to become a bank holding company to obtain access to capital at a lower cost to remain competitive in our markets. On December 24, 2008, Ally and IB Finance Holding Company, LLC, the holding company of Ally Bank, were each approved as bank holding companies under the Bank Holding Company Act of 1956. At the same time, Ally Bank converted from a Utah-chartered industrial bank into a Utah-chartered commercial nonmember bank. Ally Bank as an FDIC-insured depository institution, is subject to the supervision and examination of the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI). Ally Financial Inc. is subject to the supervision and examination of the Board of Governors of the Federal Reserve System (FRB). We are required to comply with regulatory risk-based and leverage capital requirements, as well as various safety and soundness standards established by the FRB, and are subject to certain statutory restrictions concerning the types of assets or securities that we may own and the activities in which we may engage.

As one of the conditions to becoming a bank holding company, the FRB required several actions of Ally, including meeting a minimum amount of regulatory capital. In order to meet this requirement, Ally took several actions, the most significant of which were the execution of private debt exchanges and cash tender offers to purchase and/or exchange certain of our and our subsidiaries outstanding notes held by eligible holders for a combination of cash, newly issued notes of Ally, and in the case of certain of the offers, preferred stock. The transactions resulted in an extinguishment of all notes tendered or exchanged into the offers and the new notes and stock were recorded at fair value on the issue date. This resulted in a pretax gain on extinguishment of debt of $11.5 billion in 2008 and a corresponding increase to our capital levels. The gain included a $5.4 billion original issue discount representing the difference between the face value and the fair value of the new notes and is being amortized as interest expense over the term of the new notes. In addition, the U.S. Department of Treasury (Treasury) made an initial investment in Ally on December 29, 2008, pursuant to the Troubled Asset Relief Program (TARP) with a $5.0 billion purchase of Ally perpetual preferred stock with a total liquidation preference of $5.25 billion (Perpetual Preferred Stock).

On May 21, 2009, Treasury made a second investment of $7.5 billion in exchange for Ally's mandatorily convertible preferred stock with a total liquidation preference of approximately $7.9 billion (Old MCP), which included a $4 billion investment to support our agreement with Chrysler to provide automotive financing to Chrysler dealers and customers and a $3.5 billion investment related to the FRB's Supervisory Capital Assessment Program requirements.

Shortly after this second investment, on May 29, 2009, Treasury acquired 35.36% of Ally common stock when it exercised its right to acquire 190,921 shares of Ally common stock from GM as repayment for an $884 million loan that Treasury had previously provided to GM.

On December 30, 2009, we entered into another series of transactions with Treasury under TARP, pursuant to which Treasury (i) converted 60 million shares of Old MCP (with a total liquidation preference of $3.0 billion) into 259,200 shares of additional Ally common stock; (ii) invested $1.25 billion in new Ally mandatorily convertible preferred stock with a total liquidation preference of approximately $1.3 billion (the New MCP); and (iii) invested $2.54 billion in new trust preferred securities with a total liquidation preference of approximately $2.7 billion (Trust Preferred Securities). At this time, Treasury also exchanged all of its Perpetual Preferred Stock and remaining Old MCP (following the conversion of Old MCP described above) into additional New MCP.

On December 30, 2010, Treasury converted 110 million shares of New MCP (with a total liquidation preference of approximately $5.5 billion) into 531,850 shares of additional Ally common stock. The conversion reduces dividends by approximately $500 million per year, assists with capital preservation, and is expected to improve profitability with a lower cost of funds.

On March 1, 2011, the Declaration of Trust and certain other documents related to the Trust Preferred Securities were amended, and all of the outstanding Trust Preferred Securities held by Treasury were designated 8.125% Fixed Rate/Floating Rate Trust Preferred Securities, Series 2. On March 7, 2011, Treasury sold 100% of the Series 2 Trust Preferred Securities in an offering registered with the SEC. Ally did not receive any proceeds from the sale.

Following the transactions described above, Treasury currently holds 73.78% of Ally common stock and approximately $5.9 billion in New MCP. As a result of its current common stock investment, Treasury is entitled to appoint six of the eleven total members of the Ally Board of Directors.

The following table summarizes the investments in Ally made by Treasury in 2008 and 2009.

($ in millions)	Investment type	Date	Cash investment	Warrants	Total
TARP	Preferred equity	December 29, 2008	$5,000	$250	$5,250
GM Loan Conversion (a)	Common equity	May 21, 2009	884	—	884
SCAP 1	Preferred equity (MCP)	May 21, 2009	7,500	375	7,875
SCAP 2	Preferred equity (MCP)	December 30, 2009	1,250	63	1,313
SCAP 2	Trust preferred securities	December 30, 2009	2,540	127	2,667
Total cash investments			$17,174	$815	$17,989

(a) In January 2009, Treasury loaned $884 million to General Motors. In connection with that loan, Treasury acquired rights to exchange that loan for 190,921 shares. In May 2009, Treasury exercised that right.

The following table summarizes Treasury's investment in Ally at December 31, 2012.

December 31, 2012 ($ in millions)	Book Value	Face Value
MCP (a)	$5,685	$5,938
Common equity (b)		73.78 %

(a) Reflects the exchange of face value of $5.25 billion of Perpetual Preferred Stock to MCP in December 2009 and the conversion of face value of $3.0 billion and $5.5 billion of MCP to common equity in December 2009 and December 2010, respectively.

(b) Represents the current common equity ownership position by Treasury.

Discontinued Operations

During 2012, 2011, and 2010, we committed to dispose certain operations of our Automotive Finance operations, Insurance operations, Mortgage operations, and Commercial Finance Group, and have classified these operations as discontinued. For all periods presented, all of the operating results for these operations have been removed from continuing operations. Refer to Note 2 to the Consolidated Financial Statements for more details. The MD&A has been adjusted to exclude discontinued operations unless otherwise noted.

Sales transactions for our Automotive Finance operations are expected to close in stages throughout 2013. It is anticipated that there could be significant gains or losses occurring during interim periods of 2013 as the various stages close. We believe that when all of the various stages are closed, we will realize a gain on the sale of our Automotive Finance discontinued operations.

Primary Lines of Business

Dealer Financial Services, which includes our Automotive Finance and Insurance operations, and Mortgage are our primary lines of business. The following table summarizes the operating results excluding discontinued operations of each line of business. Operating results for each of the lines of business are more fully described in the MD&A sections that follow.

Year ended December 31, ($ in millions)	2012	2011	2010	Favorable/ (unfavorable) 2012-2011 % change	Favorable/ (unfavorable) 2011-2010 % change
Total net revenue (loss)					
Dealer Financial Services					
Automotive Finance operations	$3,149	$2,952	$3,421	7	(14)
Insurance operations	1,214	1,398	1,801	(13)	(22)
Mortgage operations	1,768	1,171	2,587	51	(55)
Corporate and Other	(1,233)	(1,543)	(2,087)	20	26
Total	$4,898	$3,978	$5,722	23	(30)
Income (loss) from continuing operations before income tax (benefit) expense					
Dealer Financial Services					
Automotive Finance operations	$1,389	$1,333	$1,757	4	(24)
Insurance operations	160	316	557	(49)	(43)
Mortgage operations	689	(622)	772	n/m	(181)
Corporate and Other	(2,993)	(1,978)	(2,694)	(51)	27
Total	$(755)	$(951)	$392	21	n/m

n/m = not meaningful

Consolidated Results of Operations

The following table summarizes our consolidated operating results excluding discontinued operations for the periods shown. Refer to the operating segment sections of the MD&A that follows for a more complete discussion of operating results by line of business.

Year ended December 31, ($ in millions)	2012	2011	2010	Favorable/ (unfavorable) 2012-2011 % change	Favorable/ (unfavorable) 2011-2010 % change
Net financing revenue					
Total financing revenue and other interest income	$7,468	$7,061	$8,017	6	(12)
Interest expense	4,200	5,039	5,460	17	8
Depreciation expense on operating lease assets	1,399	941	1,251	(49)	25
Net financing revenue	1,869	1,081	1,306	73	(17)
Other revenue					
Net servicing income	693	569	1,094	22	(48)
Insurance premiums and service revenue earned	1,059	1,170	1,371	(9)	(15)
Gain on mortgage and automotive loans, net	532	470	1,239	13	(62)
Loss on extinguishment of debt	(148)	(64)	(124)	(131)	48
Other gain on investments, net	146	259	502	(44)	(48)
Other income, net of losses	747	493	334	52	48
Total other revenue	3,029	2,897	4,416	5	(34)
Total net revenue	4,898	3,978	5,722	23	(30)
Provision for loan losses	329	188	357	(75)	47
Noninterest expense					
Compensation and benefits expense	1,365	1,322	1,348	(3)	2
Insurance losses and loss adjustment expenses	461	483	547	5	12
Other operating expenses	3,498	2,936	3,078	(19)	5
Total noninterest expense	5,324	4,741	4,973	(12)	5
(Loss) income from continuing operations before income tax (benefit) expense	(755)	(951)	392	21	n/m
Income tax (benefit) expense from continuing operations	(1,284)	51	104	n/m	51
Net income (loss) from continuing operations	$529	$(1,002)	$288	153	n/m

n/m = not meaningful

2012 Compared to 2011

We earned net income from continuing operations of $529 million for the year ended December 31, 2012, compared to a net loss from continuing operations of $1.0 billion for the year ended December 31, 2011. Net income from continuing operations for the year ended December 31, 2012, was favorably impacted by our Automotive Finance operations, primarily due to an increase in consumer automotive financing revenue related to growth in the retail loan and operating lease portfolios. Additional favorability for the year ended December 31, 2012 was primarily the result of a more favorable servicing asset valuation, net of hedge, compared to the same period in 2011, higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs, higher net gains on the sale of mortgage loans, and lower original issue discount (OID) amortization expense related to bond maturities and normal monthly amortization. The increase was partially offset by a $1.2 billion charge related to the Debtors' Chapter 11 filing, higher provision for loan losses, and lower investment income due to impairment related to certain investment securities that we do not plan on holding to

recovery.

Total financing revenue and other interest income increased $407 million for the year ended December 31, 2012, compared to 2011. The increase resulted primarily from an increase in operating lease revenue and consumer financing revenue at our Automotive Finance operations driven primarily by an increase in consumer asset levels as a result of increased used vehicle automotive financing and higher automotive industry sales, as well as limited use of whole-loan sales as a funding source in recent periods. Additionally, we continue to prudently expand our nonprime origination volume. The increase was partially offset by the deconsolidation of ResCap effective May 14, 2012, which primarily impacted our Mortgage operations, as well as a lower average yield mix as higher rate Ally Bank mortgage loans run off.

Interest expense decreased 17% for the year ended December 31, 2012, compared to 2011. OID amortization expense decreased $576 million for the year ended December 31, 2012, compared to 2011, due to bond maturities and normal monthly amortization. Additionally, interest expense decreased at our Mortgage operations due to the deconsolidation of ResCap and lower funding costs.

Depreciation expense on operating lease assets increased 49% for the year ended December 31, 2012, compared to 2011, primarily due to higher lease asset balances as a result of strong lease origination volume and lower lease remarketing gains primarily due to lower lease remarketing volume. During the latter half of 2009, we re-entered the U.S. leasing market with targeted lease product offerings and have continued to expand lease volume since that time.

Net servicing income was $693 million for the year ended December 31, 2012, compared to $569 million in 2011. The increase was primarily due to the performance of the derivative servicing hedge as compared to a less favorable hedge performance in 2011, partially offset by lower servicing fees due to the deconsolidation of ResCap.

Insurance premiums and service revenue earned decreased 9% for the year ended December 31, 2012, compared to 2011, primarily due to declining U.S. vehicle service contracts written between 2007 and 2009 as a result of lower domestic vehicle sales volume.

Gain on mortgage and automotive loans increased 13% for the year ended December 31, 2012, compared to 2011. Though we deconsolidated ResCap during the second quarter of 2012, the increase was primarily due to higher consumer mortgage-lending production through our direct lending channel and margins associated with government-sponsored refinancing programs, higher margins on warehouse and correspondent lending due to decreased competition and more selective originations from these channels, and improved gains on specified pooled mortgage loans.

Loss on extinguishment of debt increased $84 million for the year ended December 31, 2012, compared to the same period in 2011, primarily due to fees incurred related to the early termination of FHLB debt as a result of replacing our higher-cost long-term debt structure in favor of a lower-cost short-term FHLB debt structure.

Other gain on investments, net, was $146 million for the year ended December 31, 2012, compared to $259 million in 2011. The decrease was primarily due to the recognition of $61 million other-than-temporary impairment on certain equity securities in 2012 and lower realized investment gains.

Other income, net of losses, increased 52% for the year ended December 31, 2012, compared to 2011. The increase was primarily due to higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs and a decrease in fair value option election valuation losses related to the deconsolidation of ResCap, partially offset by lower remarketing fee income from our Automotive Finance operations driven by lower remarketing volumes through our proprietary SmartAuction platform.

The provision for loan losses was $329 million for the year ended December 31, 2012, compared to $188 million in 2011. The increase was driven primarily by higher asset levels in the consumer automotive portfolio and our prudent expansion of underwriting strategy to originate volumes across a broader credit spectrum, which was significantly narrowed during the recession.

Other operating expenses increased 19% for the year ended December 31, 2012, compared to 2011. The increase was primarily due to a $1.2 billion charge related to ResCap's Chapter 11 filing (refer to Note 1 for more information regarding the Debtors' bankruptcy, deconsolidation, and this charge), a $90 million expense related to penalties imposed by certain regulators and other governmental agencies in connection with mortgage foreclosure-related matters during the second quarter of 2012, and higher professional services expense, partially offset by lower mortgage representation and warranty expense related to the deconsolidation of ResCap.

We recognized consolidated income tax benefit from continuing operations of $1.3 billion for the year ended December 31, 2012, compared to income tax expense of $51 million in 2011. In 2011, we had a full valuation allowance against our domestic net deferred tax assets and certain international net deferred tax assets. For the year ended December 31, 2012, our results from operations benefited $1.3 billion from the release of U.S. federal and state valuation allowances and related effects on the basis of management's reassessment of the amount of its deferred tax assets that are more likely than not to be realized. Refer to Note 23 to the Consolidated Financial Statements for further information.

2011 Compared to 2010

We incurred a net loss from continuing operations of $1.0 billion for the year ended December 31, 2011, compared to net income from continuing operations of $288 million for the year ended December 31, 2010. Continuing operations for the year ended December 31, 2011, were unfavorably impacted by a decrease in net servicing income due to a drop in interest rates and increased market volatility, lower gains on the sale of loans, and a $230 million expense related to penalties imposed by certain regulators and other governmental agencies in connection with mortgage foreclosure-related matters. Partially offsetting these decreases were lower representation and warranty expense and provision for loan losses.

Total financing revenue and other interest income decreased by 12% for the year ended December 31, 2011, compared to 2010. Operating lease revenue and the related depreciation expense at our Automotive Finance operations declined due to a lower average operating lease portfolio balance as a result of our decision in late 2008 to significantly curtail leasing. Depreciation expense was also impacted by lower lease remarketing gains resulting from lower lease termination volumes. The decrease in our Mortgage operations resulted from a decline in average asset levels due to loan sales, the deconsolidation of previously on-balance sheet securitizations, and portfolio runoff. Partially offsetting the decrease was an increase in consumer financing revenue at our Automotive Finance operations driven primarily by an increase in consumer asset levels related to strong loan origination volume during 2010 and 2011 resulting primarily from higher automotive industry sales, increased used vehicle financing volume, and higher on-balance sheet retention.

Interest expense decreased 8% for the year ended December 31, 2011, compared to 2010, primarily as a result of a change in our funding mix with an increased amount of funding coming from deposit liabilities as well as favorable trends in the securitization markets.

Net servicing income was $569 million for the year ended December 31, 2011, compared to $1.1 billion in 2010. The decrease was primarily due to a decrease in interest rates and increased market volatility compared to favorable valuation adjustments in 2010. Additionally, 2011 includes a valuation adjustment that estimates the impact of higher servicing costs related to enhanced foreclosure procedures, establishment of single point of contact, and other processes to comply with a consent order (the Consent Order) with the FRB and the FDIC entered into on April 13, 2011.

Insurance premiums and service revenue earned decreased 15% for the year ended December 31, 2011, compared to 2010. The decrease was primarily driven by the sale of certain international insurance operations during the fourth quarter of 2010 and lower earnings from our U.S. vehicle service contracts written between 2007 and 2009 due to lower domestic vehicle sales volume.

Gain on mortgage and automotive loans decreased 62% for the year ended December 31, 2011, compared to 2010. The decrease was primarily due to lower margins on mortgage loan sales, a decrease in mortgage loan production, lower whole-loan mortgage sales and mortgage loan resolutions in 2011, the absence of the 2010 gain on the deconsolidation of an on-balance sheet securitization, and the expiration of our automotive forward flow agreements during the fourth quarter of 2010.

We incurred a loss on extinguishment of debt of $64 million for the year ended December 31, 2011, compared to a loss of $124 million for the year ended December 31, 2010. The activity in all periods related to the extinguishment of certain Ally debt, which included $50 million of accelerated amortization of original issue discount for 2011, compared to $101 million in 2010.

Other gain on investments was $259 million for the year ended December 31, 2011, compared to $502 million in 2010. The decrease was primarily due to lower realized investment gains on our Insurance operations investment portfolio.

Other income, net of losses, increased 48% for the year ended December 31, 2011, compared to 2010. The increase during 2011 was primarily due to the positive impact of a $121 million gain on the early settlement of a loss holdback provision related to certain historical automotive whole-loan forward flow agreements and a favorable change in the fair value option election adjustment.

The provision for loan losses was $188 million for the year ended December 31, 2011, compared to $357 million in 2010. The decrease during 2011 reflected improved credit quality of the overall portfolio as a result of the decision to curtail nonprime lending in 2009 and the continued runoff and improved loss performance of our Nuvell nonprime automotive financing portfolio.

Insurance losses and loss adjustment expenses decreased 12% for the year ended December 31, 2011, compared to 2010. The decrease was primarily due to lower frequency and severity experienced in our U.S. vehicle service contract business and the sale of certain international insurance operations during the fourth quarter of 2010, which was partially offset by higher weather-related losses in the United States on our dealer inventory insurance products.

Other operating expenses decreased 5% for the year ended December 31, 2011, compared to 2010. The decrease was primarily related to a decrease of $346 million in mortgage representation and warranty reserve expense, lower insurance commissions expense, and lower vehicle remarketing and repossession expense. The decrease was partially offset by a $230 million expense related to penalties imposed by certain regulators and other governmental agencies in connection with mortgage foreclosure-related matters.

We recognized consolidated income tax expense of $51 million for the year ended December 31, 2011, compared to $104 million in 2010. For those respective periods, we had a full valuation allowance against our domestic net deferred tax assets and certain international net deferred tax assets. Accordingly, tax expense was driven by U.S. state income taxes in states where profitable subsidiaries are required to file separately from other loss companies in the

group or where the use of prior losses is restricted, and foreign income taxes on pretax profits within foreign jurisdictions. The decrease in income tax expense for 2011, compared to 2010, was driven by increased foreign pretax losses.

Table of Contents

Dealer Financial Services

Results for Dealer Financial Services are presented by reportable segment, which includes our Automotive Finance and Insurance operations.

Automotive Finance Operations

Results of Operations

The following table summarizes the operating results of our Automotive Finance operations excluding discontinued operations for the periods shown. Automotive Finance operations include the automotive activities of Ally Bank. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

Year ended December 31, ($ in millions)	2012	2011	2010	Favorable/ (unfavorable) 2012-2011 % change	Favorable/(unfavorable) 2011-2010 % change
Net financing revenue					
Consumer	$2,827	$2,411	$1,953	17	23
Commercial	1,152	1,134	1,210	2	(6)
Loans held-for-sale	15	5	112	n/m	(96)
Operating leases	2,379	1,929	2,579	23	(25)
Other interest income	52	92	109	(43)	(16)
Total financing revenue and other interest income	6,425	5,571	5,963	15	(7)
Interest expense	2,199	2,100	2,011	(5)	(4)
Depreciation expense on operating lease assets	1,399	941	1,255	(49)	25
Net financing revenue	2,827	2,530	2,697	12	(6)
Other revenue					
Servicing fees	109	161	227	(32)	(29)
Gain on automotive loans, net	41	48	248	(15)	(81)
Other income	172	213	249	(19)	(14)
Total other revenue	322	422	724	(24)	(42)
Total net revenue	3,149	2,952	3,421	7	(14)
Provision for loan losses	253	89	260	(184)	66
Noninterest expense					
Compensation and benefits expense	416	395	352	(5)	(12)
Other operating expenses	1,091	1,135	1,052	4	(8)
Total noninterest expense	1,507	1,530	1,404	2	(9)
Income before income tax expense	$1,389	$1,333	$1,757	4	(24)
Total assets	$128,411	$112,591	$97,961	14	15

n/m = not meaningful

2012 compared to 2011

Our Automotive Finance operations earned income before income tax expense of $1.4 billion for the year ended December 31, 2012, compared to $1.3 billion for the year ended December 31, 2011. Results for the year ended December 31, 2012 were favorably impacted by higher consumer and operating lease revenues driven by growth in the retail loan and operating lease portfolios. These items were partially offset by higher provision for loan losses, lower operating lease remarketing gains due primarily to lower remarketing volume, lower servicing fees, and lower income generated from lease remarketing.

Consumer financing revenue increased 17% for the year ended December 31, 2012, compared to 2011, due to an increase in consumer asset levels driven by limited use of whole-loan sales as a funding source in recent periods, increased volumes of used vehicle automotive financing, and higher automotive industry sales; however, our GM and Chrysler penetration levels for new retail automotive loans were lower than those in 2011. Additionally, we continue to prudently expand our nonprime origination volume. The increase in consumer revenue from volume was partially offset by lower yields as a result of the competitive market environment for automotive financing.

Commercial financing revenue increased $18 million for the year ended December 31, 2012, compared to 2011. The increase was primarily driven by higher commercial loan balances due to growth in our wholesale dealer floorplan lending and dealer loan portfolio, partially offset by lower yields as a result of competitive markets for automotive commercial financing.

Operating lease revenue increased 23% for the year ended December 31, 2012, compared to 2011, primarily due to higher lease asset balances as a result of strong origination volume.

Interest expense increased $99 million for the year ended December 31, 2012, compared to 2011. The increase was primarily due to higher levels of earning assets, primarily as a result of growth in the retail loan and lease portfolios.

Depreciation expense on operating lease assets increased 49% for the year ended December 31, 2012, compared to 2011, primarily due to higher lease asset balances as a result of strong lease origination volume and lower lease remarketing gains primarily due to lower lease remarketing volume.

Servicing fee income decreased 32% for the year ended December 31, 2012, compared to 2011, due to lower levels of off-balance sheet retail serviced assets.

Gains on the sale of automotive loans were $41 million for the year ended December 31, 2012, compared to $48 million for 2011. We sold approximately $2.5 billion of retail automotive loans during 2012 compared to approximately $2.8 billion during 2011. While we continue to opportunistically utilize whole-loan sales as a source of funding, we have primarily focused on securitization and deposit-based funding sources.

Other income decreased 19% for the year ended December 31, 2012, compared to 2011, primarily due to lower remarketing fee income driven by lower remarketing volumes through our proprietary SmartAuction platform.

The provision for loan losses was $253 million for the year ended December 31, 2012, compared to $89 million in 2011. The increase was primarily due to continued growth in the consumer portfolio and our prudent expansion of underwriting strategy to originate volumes across a broader credit spectrum, which was significantly narrowed during the recession.

2011 Compared to 2010

Our Automotive Finance operations earned income before income tax expense of $1.3 billion for the year ended December 31, 2011, compared to $1.8 billion for the year ended December 31, 2010. Results for the year ended December 31, 2011, were primarily driven by less favorable remarketing results in our operating lease portfolio due primarily to lower lease terminations and the absence of gains on the sale of automotive loans due to the expiration of our forward flow agreements during the fourth quarter of 2010. These declines were partially offset by increased consumer financing revenue driven by strong loan origination volume related primarily to improvement in automotive industry sales, the growth in used vehicle financing volume, and a lower loan loss provision due to an improved credit mix and improved consumer credit performance.

Consumer financing revenue increased 23% for the year ended December 31, 2011, compared to 2010, due to an increase in consumer asset levels primarily related to strong loan origination volume during 2010 and 2011 resulting primarily from higher automotive industry sales, increased used vehicle financing volume, and higher on-balance sheet retention. Additionally, we continue to prudently expand our nonprime origination volume and introduce innovative finance products to the marketplace. The increase in consumer revenue was partially offset by lower yields as a result of an increasingly competitive market environment and a change in the consumer asset mix, including the runoff of the higher-yielding Nuvell nonprime automotive financing portfolio.

Loans held-for-sale financing revenue decreased $107 million for the year ended December 31, 2011, compared to 2010, due to the expiration of whole-loan forward flow agreements during the fourth quarter of 2010. Subsequent to the expiration of these agreements, consumer loan originations have largely been retained on-balance sheet utilizing deposit funding from Ally Bank and on-balance sheet securitization transactions.

Operating lease revenue decreased 25% for the year ended December 31, 2011, compared to 2010. Operating lease revenue and depreciation expense declined due to a lower average operating lease portfolio balance. Depreciation expense was also impacted by lower remarketing gains due primarily to a decline in lease termination volume. In 2008 and 2009, we significantly curtailed our lease product offerings in the United States. During the latter half of 2009, we re-entered the U.S. leasing market with targeted lease product offerings and have continued to expand lease volume since that time.

Servicing fee income decreased $66 million for the year ended December 31, 2011, compared to 2010, due to lower levels of off-balance sheet retail serviced assets driven by a reduction of new whole-loan sales subsequent to the expiration of our forward flow agreements in the fourth quarter of 2010.

Net gain on automotive loans decreased $200 million for the year ended December 31, 2011, compared to 2010, primarily due to the expiration of whole-loan forward flow agreements during the fourth quarter of 2010.

The provision for loan losses was $89 million for the year ended December 31, 2011, compared to $260 million in 2010. The decrease was primarily due to improved credit quality that drove improved loss performance in the consumer loan portfolio and continued strength in the used vehicle market, partially offset by continued growth in the consumer loan portfolio.

Automotive Finance Operations

Our Automotive Finance operations provide automotive financing services to consumers and automotive dealers. For consumers, we provide retail financing and leasing for new and used vehicles, and through our commercial automotive financing operations, we fund dealer purchases of new and used vehicles through wholesale or floorplan financing.

Consumer Automotive Financing

Historically, we have provided two basic types of financing for new and used vehicles: retail installment sale contracts (retail contracts) and lease contracts. In most cases, we purchase retail contracts and leases for new and used vehicles from dealers when the vehicles are purchased or leased by consumers. Our consumer automotive financing operations generate revenue through finance charges or lease payments and fees paid by customers on the retail contracts and leases. In connection with lease contracts, we also recognize a gain or loss on the remarketing of the vehicle at the end of the lease.

The amount we pay a dealer for a retail contract is based on the negotiated purchase price of the vehicle and any other products, such as service contracts, less any vehicle trade-in value and any down payment from the consumer. Under the retail contract, the consumer is obligated to make payments in an amount equal to the purchase price of the vehicle (less any trade-in or down payment) plus finance charges at a rate negotiated between the consumer and the dealer. In addition, the consumer is also responsible for charges related to past-due payments. When we purchase the contract, it is normal business practice for the dealer to retain some portion of the finance charge as income for the dealership. Our agreements with dealers place a limit on the amount of the finance charges they are entitled to retain. Although we do not own the vehicles we finance through retail contracts, we hold a perfected security interest in those vehicles.

With respect to consumer leasing, we purchase leases (and the associated vehicles) from dealerships. The purchase price of consumer leases is based on the negotiated price for the vehicle less any vehicle trade-in and any down payment from the consumer. Under the lease, the consumer is obligated to make payments in amounts equal to the amount by which the negotiated purchase price of the vehicle (less any trade-in value or down payment) exceeds the contract residual value (including residual support) of the vehicle at lease termination, plus lease charges. The consumer is also generally responsible for charges related to past due payments, excess mileage, excessive wear and tear, and certain disposal fees where applicable. When the lease contract is entered into, we estimate the residual value of the leased vehicle at lease termination. At contract inception, we generally determine the projected residual values based on independent data, including independent guides of vehicle residual values, and analysis. These projected values may be upwardly adjusted as a marketing incentive if the manufacturer considers above-market residual support necessary to encourage consumers to lease vehicles. To the extent the actual residual value of the vehicle, as reflected in the sales proceeds received upon remarketing at lease termination, is less than the expected residual value for the vehicle at lease inception, we incur additional depreciation expense and/or a loss on the lease transaction.

Our standard U.S. leasing plan, SmartLease, requires a monthly payment by the consumer. We also offer an alternative leasing plan, SmartLease Plus, that requires one up-front payment of all lease amounts at the time the consumer takes possession of the vehicle.

During 2011, we introduced the Ally Buyer's Choice product on new GM and Chrysler vehicles to select states in the United States. The Ally Buyer's Choice financing product allows customers to own their vehicle with a fixed rate and payment with the option to sell it to us at a pre-determined point during the contract term and at a pre-determined price.

Consumer leases are operating leases; therefore, credit losses on the operating lease portfolio are not as significant as losses on retail contracts because lease credit losses are primarily limited to payments and assessed fees. Since some of these fees are not assessed until the vehicle is returned, these losses on the lease portfolio are correlated with lease termination volume. U.S. operating lease accounts past due over 30 days represented 0.73% and 0.66% of the total portfolio at December 31, 2012 and 2011, respectively.

With respect to all financed vehicles, whether subject to a retail contract or a lease contract, we require that property damage insurance be obtained by the consumer. In addition, for lease contracts, we require that bodily injury, collision, and comprehensive insurance be obtained by the consumer.

Total consumer financing revenue of our Automotive Finance operations was $2.8 billion, $2.4 billion, and $2.0 billion in 2012, 2011, and 2010, respectively.

Consumer Automotive Financing Volume

The following table summarizes our new and used vehicle consumer financing volume, including lease, and our share of consumer sales in the United States.

	Consumer automotive financing volume			% Share of consumer sales		
Year ended December 31, (units in thousands)	2012	2011	2010	2012	2011	2010
GM new vehicles	579	707	596	30	38	38
Chrysler new vehicles	315	304	302	26	32	45
Other non-GM / Chrysler new vehicles	81	68	33			
Used vehicles	485	466	255			
Total consumer automotive financing volume	1,460	1,545	1,186			

The decline in consumer automotive financing volume in 2012, compared to 2011, was primarily driven by lower retail penetration at both GM and Chrysler in the United States. Additionally, both used and non-GM/Chrysler originations were higher due to the continued strategic focus within these markets. We continue to increase our focus on used vehicle financing, primarily through franchised dealers. The decrease in GM and Chrysler penetration during the year ended December 31, 2012 was primarily due to the market for automotive financing growing more competitive as more consumers are financing their vehicle purchases and as more competitors continue to enter this market as a result of how well automotive finance assets generally performed relative to other asset classes during the 2008 economic downturn.

Manufacturer Marketing Incentives

Automotive manufacturers may elect to sponsor incentive programs (on both retail contracts and leases) by supporting finance rates below the standard market rates at which we purchase retail contracts. These marketing incentives are also referred to as rate support or subvention. When automotive manufacturers utilize these marketing incentives, we are compensated at contract inception for the present value of the difference between the customer rate and our standard rates. For retail loans, we defer and recognize this amount as a yield adjustment over the life of the contract. For lease contracts, this payment reduces our cost basis in the underlying lease asset.

Automotive manufacturers may also provide incentives on leased vehicles by supporting an above-market residual value, referred to as residual support, to encourage consumers to lease vehicles. Residual support results in a lower monthly lease payment for the consumer. While we are compensated by the manufacturer at the time of lease origination to raise the contract residual, we may bear the risk of loss to the extent the value of the leased vehicle upon remarketing is below the contract residual value of the vehicle at the time the lease contract is signed. Under certain residual support programs, the automotive manufacturer may reimburse us to the extent remarketing sales proceeds are less than the residual value set forth in the lease contract and no greater than our standard residual rates that would have otherwise been applied. To the extent remarketing sales proceeds are more than the contract residual at termination, we may reimburse the automotive manufacturer for a portion of the higher residual value.

Under what we refer to as pull-ahead programs, consumers may be encouraged by the manufacturer to terminate leases early in conjunction with the acquisition of a new vehicle. As part of these programs, we waive all or a portion of the customer's remaining payment obligation. Under most programs, the automotive manufacturer compensates us for a portion of the foregone revenue from the waived payments that are offset partially to the extent that our remarketing sales proceeds are higher than otherwise would be realized if the vehicle had been remarketed at lease contract maturity.

We are currently party to an agreement with GM pursuant to which GM initially agreed to offer all vehicle financing incentives to customers through Ally. However, the agreement, which was originally entered into in November 2006, provides for annual reductions in the percentage of financing subvention programs that GM is required to provide through Ally, and currently applies to a limited percentage. The agreement expires on December 31, 2013.

We are also party to an agreement to make available automotive financing products and services to Chrysler dealers and customers. We provide dealer financing and services and retail financing to qualified Chrysler dealers and customers as we deem appropriate according to our credit policies and in our sole discretion, and Chrysler is obligated to use Ally for a designated minimum threshold percentage of Chrysler retail financing subvention programs. On April 25, 2012, Chrysler provided us with notification of nonrenewal related to this agreement and as a result, the agreement will expire on April 30, 2013.

The following table presents the total U.S. consumer origination dollars and percentage mix by product type.

	Consumer automotive financing originations			% Share of consumer sales		
Year ended December 31, ($ in billions)	2012	2011	2010	2012	2011	2010
GM new vehicles						
New retail standard	$6,230	$9,009	$8,460	16	23	27
New retail subvented	5,960	6,734	6,532	15	17	21
Lease	5,919	5,075	2,954	15	13	9
Total GM new vehicle originations	18,109	20,818	17,946			
Chrysler new vehicles						
New retail standard	4,431	4,062	3,324	12	10	11
New retail subvented	1,971	2,454	3,893	5	6	12
Lease	2,380	2,165	891	6	5	3
Total Chrysler new vehicle originations	8,782	8,681	8,108			
Other new retail vehicles	2,178	1,684	736	6	4	2
Other lease	93	76	43	—	—	—
Used vehicles	9,581	8,990	4,736	25	22	15
Total consumer automotive financing originations	$38,743	$40,249	$31,569			

At December 31, 2012, the percentage of U.S. new retail contracts acquired that included rate subvention from GM and Chrysler decreased as a percentage of total U.S. new retail contracts compared to 2011, primarily driven by lower retail penetration at both GM and Chrysler in the United States as a result of the continued evolution of our business model. Additionally, both used and non-GM/Chrysler originations were higher due to the continued strategic focus within these markets. We continue to increase our focus on used vehicle financing, primarily through franchised dealers. The fragmented used vehicle financing market provides an attractive opportunity that we believe will further expand and support our dealer relationships and increase our volume of retail loan originations.

Servicing

We have historically serviced all retail contracts and leases we retained on-balance sheet. We historically sold a portion of the retail contracts we originated and retained the right to service and earn a servicing fee for our servicing functions. Ally Servicing LLC, a wholly owned subsidiary, performs most servicing activities for U.S. retail contracts and consumer automobile leases.

Servicing activities consist largely of collecting and processing customer payments, responding to customer inquiries such as requests for payoff quotes, processing customer requests for account revisions (such as payment extensions and rewrites), maintaining a perfected security interest in the financed vehicle, monitoring vehicle insurance coverage, and disposing of off-lease vehicles. Servicing activities are generally consistent for our Automotive Finance operations; however, certain practices may be influenced by local laws and regulations.

Our U.S. customers have the option to receive monthly billing statements to remit payment by mail or through electronic fund transfers, or to establish online web-based account administration through the Ally Account Center. Customer payments are processed by regional third-party processing centers that electronically transfer payment data to customers' accounts.

Servicing activities also include initiating contact with customers who fail to comply with the terms of the retail contract or lease, typically via telephone or sending a reminder notice, when an account becomes 3 to 15 days past due. Accounts that become 30 to 45 days past due are transferred to special collection teams that track accounts more closely. The nature and timing of these activities depend on the repayment risk of the account.

During the collection process, we may offer a payment extension to a customer experiencing temporary financial difficulty. A payment extension enables the customer to delay monthly payments for 30, 60, or 90 days, thereby deferring the maturity date of the contract by the period of delay. Extensions granted to a customer typically do not

exceed 90 days in the aggregate during any 12-month period or 180 days in aggregate over the life of the contract. During the deferral period, we continue to accrue and collect interest on the contract as part of the deferral agreement. If the customer's financial difficulty is not temporary and management believes the customer could continue to make payments at a lower payment amount, we may offer to rewrite the remaining obligation, extending the term and lowering the monthly payment obligation. In those cases, the principal balance generally remains unchanged while the interest rate charged to the customer generally increases. Extension and rewrite collection techniques help mitigate financial loss in those cases where management believes the customer will recover from financial difficulty and resume regularly scheduled payments or can fulfill the obligation with lower payments over a longer period. Before offering an extension or rewrite, collection personnel evaluate and take into account the capacity of the customer to meet the revised payment terms. Generally, we do not consider extensions that fall within our policy guidelines to represent more than an insignificant delay in payment and, therefore, they are not considered Troubled Debt Restructurings (TDRs). Although the granting of an extension could delay the eventual charge-off of an account, typically we are able to repossess and sell the related collateral, thereby

mitigating the loss. As an indication of the effectiveness of our consumer credit practices, of the total amount outstanding in the U. S. traditional retail portfolio at December 31, 2009, only 7.5% of the extended or rewritten balances were subsequently charged off through December 31, 2012. A three-year period was utilized for this analysis as this approximates the weighted average remaining term of the portfolio. At December 31, 2012, 7.6% of the total amount outstanding in the servicing portfolio had been granted an extension or was rewritten.

Subject to legal considerations, in the United States we normally begin repossession activity once an account becomes greater than 60-days past due. Repossession may occur earlier if management determines the customer is unwilling to pay, the vehicle is in danger of being damaged or hidden, or the customer voluntarily surrenders the vehicle. Approved third-party repossession firms handle repossessions. Normally the customer is given a period of time to redeem the vehicle by paying off the account or bringing the account current. If the vehicle is not redeemed, it is sold at auction. If the proceeds do not cover the unpaid balance, including unpaid earned finance charges and allowable expenses, the resulting deficiency is charged off. Asset recovery centers pursue collections on accounts that have been charged off, including those accounts where the vehicle was repossessed, and skip accounts where the vehicle cannot be located.

At December 31, 2012 and 2011, our total consumer automotive serviced portfolio was $75.3 billion and $85.5 billion, respectively, compared to our consumer automotive on-balance sheet portfolio of $67.3 billion and $73.2 billion at December 31, 2012 and 2011, respectively. Refer to Note 11 to the Consolidated Financial Statements for further information regarding servicing activities.

Remarketing and Sales of Leased Vehicles

When we acquire a consumer lease, we assume ownership of the vehicle from the dealer. Neither the consumer nor the dealer is responsible for the value of the vehicle at the time of lease termination. When vehicles are not purchased by customers or the receiving dealer at scheduled lease termination, the vehicle is returned to us for remarketing through an auction. We generally bear the risk of loss to the extent the value of a leased vehicle upon remarketing is below the contract residual value determined at the time the lease contract is signed. Automotive manufacturers may share this risk with us for certain leased vehicles, as described previously under Manufacturer Marketing Incentives.

Our methods of vehicle sales in the United States at lease termination primarily include the following:

- Sale to dealer — After the lessee declines an option to purchase the off-lease vehicle, the dealer who accepts the returned off-lease vehicle has the opportunity to purchase the vehicle directly from us at a price we define.
- Internet auctions — Once the lessee and dealer decline their options to purchase, we offer off-lease vehicles to dealers and certain other third parties in the United States through our proprietary internet site (SmartAuction). This internet sales program maximizes the net sales proceeds from off-lease vehicles by reducing the time between vehicle return and ultimate disposition, reducing holding costs, and broadening the number of prospective buyers. We maintain the internet auction site, set the pricing floors on vehicles, and administer the auction process. We earn a service fee for every vehicle sold through SmartAuction, which, in 2012, was 221,000 vehicles.
- Physical auctions — We dispose of our off-lease vehicles not purchased at termination by the lease consumer or dealer or sold on an internet auction through traditional official manufacturer-sponsored auctions. We are responsible for handling decisions at the auction including arranging for inspections, authorizing repairs and reconditioning, and determining whether bids received at auction should be accepted.

Commercial Automotive Financing

Automotive Wholesale Dealer Financing

One of the most important aspects of our dealer relationships is supporting the sale of vehicles through wholesale or floorplan financing. We primarily support automotive finance purchases by dealers of new and used vehicles manufactured or distributed before sale or lease to the retail customer. Wholesale automotive financing represents the largest portion of our commercial financing business and is the primary source of funding for dealers' purchases of new and used vehicles. During 2012, we financed an average commercial wholesale floorplan receivables balance of $15.3 billion of new GM vehicles, representing a 71% share of GM's U.S. dealer inventory. We also financed an

average of $6.7 billion of new Chrysler vehicles representing a 58% share of Chrysler's U.S. dealer inventory. In addition, we financed an average of $2.2 billion of new non-GM/Chrysler vehicles and $3.0 billion of used vehicles. Wholesale credit is arranged through lines of credit extended to individual dealers. In general, each wholesale credit line is secured by all vehicles and typically by other assets owned by the dealer or the operator's or owner's personal guarantee. As part of our floorplan financing arrangement, we typically require repurchase agreements with the automotive manufacturer to repurchase new vehicle inventory under certain circumstances. The amount we advance to dealers is equal to 100% of the wholesale invoice price of new vehicles, which includes destination and other miscellaneous charges, and a price rebate, known as a holdback, from the manufacturer to the dealer in varying amounts stated as a percentage of the invoice price. Interest on wholesale automotive financing is generally payable monthly. Most wholesale automotive financing is structured to yield interest at a floating rate indexed to the Prime Rate. The rate for a particular dealer is based on, among other things, competitive factors, the amount and status of the dealer's creditworthiness, and various incentive programs.

Under the terms of the credit agreement with the dealer, we may demand payment of interest and principal on wholesale credit lines at any time; however, unless we terminate the credit line or the dealer defaults or the risk and exposure warrant, we generally require payment of the principal amount financed for a vehicle upon its sale or lease by the dealer to the customer.

Total commercial wholesale revenue of our Automotive Finance operations was $999 million, $976 million, and $909 million in 2012, 2011, and 2010, respectively.

Commercial Wholesale Financing Volume

The following table summarizes the average balances of our commercial wholesale floorplan finance receivables of new and used vehicles and share of dealer inventory in the United States.

	Average balance			% Share of dealer inventory		
Year ended December 31, ($ in millions)	2012	2011	2010	2012	2011	2010
GM new vehicles (a)	$15,331	$13,407	$10,941	71	78	82
Chrysler new vehicles (a)	6,693	6,228	4,665	58	67	72
Other non-GM / Chrysler new vehicles	2,230	1,844	1,704			
Used vehicles	2,985	2,920	2,727			
Total commercial wholesale finance receivables	$27,239	$24,399	$20,037			

(a) Share of dealer inventory based on a 13 month average of dealer inventory (excludes in-transit units).

Commercial wholesale financing average volume increased during 2012, compared to 2011, primarily due to growing dealer inventories required to support increasing automobile sales. GM and Chrysler wholesale penetration decreased during 2012, compared to 2011, as a result of increased competition in the wholesale marketplace.

Other Commercial Automotive Financing

We also provide other forms of commercial financing for the automotive industry including automotive dealer term loans and automotive fleet financing. Automotive dealer term loans are loans that we make to dealers to finance other aspects of the dealership business. These loans are typically secured by real estate, other dealership assets, and are personally guaranteed by the individual owners of the dealership. Automotive fleet financing may be obtained by dealers, their affiliates, and other companies and be used to purchase vehicles, which they lease or rent to others.

Servicing and Monitoring

We service all of the wholesale credit lines in our portfolio and the wholesale automotive finance receivables that we have securitized. A statement setting forth billing and account information is distributed on a monthly basis to each dealer. Interest and other nonprincipal charges are billed in arrears and are required to be paid immediately upon receipt of the monthly billing statement. Generally, dealers remit payments to us through wire transfer transactions initiated by the dealer through a secure web application.

Dealers are assigned a risk rating based on various factors, including capital sufficiency, operating performance, financial outlook, and credit and payment history. The risk rating affects the amount of the line of credit, the determination of further advances, and the management of the account. We monitor the level of borrowing under each dealer's account daily. When a dealer's balance exceeds the credit line, we may temporarily suspend the granting of additional credit or increase the dealer's credit line or take other actions following evaluation and analysis of the dealer's financial condition and the cause of the excess.

We periodically inspect and verify the existence of dealer vehicle inventories. The timing of the verifications varies, and ordinarily no advance notice is given to the dealer. Among other things, verifications are intended to determine dealer compliance with the financing agreement and confirm the status of our collateral.

Insurance Operations

Results of Operations

The following table summarizes the operating results of our Insurance operations excluding discontinued operations for the periods shown. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

Year ended December 31, ($ in millions)	2012	2011	2010	Favorable/ (unfavorable) 2012-2011 % change	Favorable/ (unfavorable) 2011-2010 % change
Insurance premiums and other income					
Insurance premiums and service revenue earned	$1,055	$1,153	$1,342	(8)	(14)
Investment income	124	220	418	(44)	(47)
Other income	35	25	41	40	(39)
Total insurance premiums and other income	1,214	1,398	1,801	(13)	(22)
Expense					
Insurance losses and loss adjustment expenses	454	452	511	—	12
Acquisition and underwriting expense					
Compensation and benefits expense	61	61	64	—	5
Insurance commissions expense	382	431	510	11	15
Other expenses	157	138	159	(14)	13
Total acquisition and underwriting expense	600	630	733	5	14
Total expense	1,054	1,082	1,244	3	13
Income from continuing operations before income tax expense	$160	$316	$557	(49)	(43)
Total assets	$8,439	$8,036	$8,789	5	(9)
Insurance premiums and service revenue written	$1,061	$1,039	$1,029	2	1
Combined ratio (a)	98.3 %	93.1 %	90.6 %		

(a) Management uses a combined ratio as a primary measure of underwriting profitability with its components measured using accounting principles generally accepted in the United States of America. Underwriting profitability is indicated by a combined ratio under 100% and is calculated as the sum of all incurred losses and expenses (excluding interest and income tax expense) divided by the total of premiums and service revenues earned and other income.

2012 Compared to 2011

Our Insurance operations earned income from continuing operations before income tax expense of $160 million for the year ended December 31, 2012, compared to $316 million for the year ended December 31, 2011. The decrease was primarily attributable to lower investment income, lower insurance premiums and service revenue earned from our U.S. vehicle service contracts, and higher weather-related losses, including the effects of Storm Sandy.

Insurance premiums and service revenue earned was $1.1 billion for the year ended December 31, 2012, compared to $1.2 billion in 2011. The decrease was primarily due to declining U.S. vehicle service contracts written between 2007 and 2009 as a result of lower domestic vehicle sales volume.

Investment income totaled $124 million for the year ended December 31, 2012, compared to $220 million in 2011. The decrease was primarily due to the recognition of other-than-temporary impairment on certain equity securities of $61 million and lower realized investment gains.

Other income totaled $35 million for the year ended December 31, 2012, compared to $25 million in 2011. The increase was primarily due to a gain of $8 million on the sale of our Canadian personal lines business during the second quarter of 2012.

Insurance losses and loss adjustment expenses totaled $454 million for the year ended December 31, 2012, compared to $452 million for the year ended December 31, 2011. The slight increase was driven primarily by higher weather-related losses in the United States on our dealer inventory insurance products, including the effects of Storm Sandy, mostly offset by lower frequency experienced in our vehicle service contract business and lower losses matching our decrease in earned premium. Despite the decrease in insurance premiums and service revenue earned, insurance losses and loss adjustment expenses increased primarily due to the impacts of Storm Sandy, which further impacted the increase in the combined ratio.

Acquisition and underwriting expense decreased 5% for the year ended December 31, 2012, compared to 2011. The decrease was primarily a result of lower commission expense in our U.S. dealership-related products matching our decrease in earned premiums, partially offset by increased technology expense.

2011 Compared to 2010

Our Insurance operations earned income from continuing operations before income tax expense of $316 million for the year ended December 31, 2011, compared to $557 million for the year ended December 31, 2010. The decrease was primarily attributable to lower insurance premiums and service contract revenue earned from our U.S. vehicle service contracts and lower realized investment gains.

Insurance premiums and service revenue earned was $1.2 billion for the year ended December 31, 2011, compared to $1.3 billion in 2010. The decrease was primarily due to the sale of certain international insurance operations during the fourth quarter of 2010 and lower earnings from our U.S. vehicle service contracts written between 2007 and 2009 due to lower domestic vehicle sales volume.

Investment income totaled $220 million for the year ended December 31, 2011, compared to $418 million in 2010. The decrease was primarily due to lower realized investment gains.

Insurance losses and loss adjustment expenses totaled $452 million for the year ended December 31, 2011, compared to $511 million in 2010. The decrease was primarily due to lower frequency and severity experienced in our U.S. vehicle service contract business and the sale of certain international insurance operations during the fourth quarter of 2010, which was partially offset by higher weather-related losses in the United States on our dealer inventory insurance products.

Acquisition and underwriting expense decreased 14% for the year ended December 31, 2011, compared to 2010. The decrease was primarily due to the sale of certain international insurance operations during the fourth quarter of 2010 and lower commission expense in our U.S. dealership-related products matching our decrease in earned premiums.

Premium and Service Revenue Written

The following table shows premium and service revenue written by insurance product.

Year ended December 31, ($ in millions)	2012	2011	2010
Vehicle service contracts			
New retail	$406	$376	$315
Used retail	509	514	517
Reinsurance	(119)	(103)	(91)
Total vehicle service contracts	796	787	741
Wholesale	132	115	103
Other finance and insurance (a)	129	133	113
North American operations	1,057	1,035	957
International and Corporate (b)	4	4	72
Total	$1,061	$1,039	$1,029

(a) Other finance and insurance includes Guaranteed Automobile Protection (GAP) coverage, excess wear and tear, wind-down of Canadian personal lines, and other ancillary products.

(b) International and Corporate includes certain international operations that were sold during the fourth quarter of 2010 and other run-off products.

Insurance premiums and service revenue written was $1.1 billion for the year ended December 31, 2012, compared to $1.0 billion in 2011 and 2010. Insurance premiums and service revenue written increased slightly due to higher written premiums in our new retail vehicle service contract and dealer inventory insurance products. Vehicle service contract revenue is earned over the life of the service contract on a basis proportionate to the anticipated cost pattern. Accordingly, the majority of earnings from vehicle service contracts written during 2012 will be recognized as income in future periods.

Cash and Investments

A significant aspect of our Insurance operations is the investment of proceeds from premiums and other revenue sources. We use these investments to satisfy our obligations related to future claims at the time these claims are settled. Our Insurance operations have an Investment Committee, which develops guidelines and strategies for these

investments. The guidelines established by this committee reflect our risk tolerance, liquidity requirements, regulatory requirements, and rating agency considerations, among other factors.

The following table summarizes the composition of our Insurance operations cash and investment portfolio at fair value.

December 31, ($ in millions)	2012	2011
Cash		
Noninterest-bearing cash	$129	$211
Interest-bearing cash	488	629
Total cash	617	840
Available-for-sale securities		
Debt securities		
U.S. Treasury and federal agencies	1,090	496
Foreign government	303	678
Mortgage-backed	714	590
Asset-backed	8	95
Corporate debt	1,264	1,491
Other debt	—	23
Total debt securities	3,379	3,373
Equity securities	1,148	1,054
Total available-for-sale securities	4,527	4,427
Total cash and securities	$5,144	$5,267

Mortgage Operations

Results of Operations

The following table summarizes the operating results for our Mortgage operations excluding discontinued operations for the periods shown. Our Mortgage operations include the ResCap legal entity (prior to its deconsolidation from Ally Financial as of May 14, 2012) and the mortgage operations of Ally Bank. Refer to Note 1 to the Consolidated Financial Statements for further details on ResCap. The amounts presented are before the elimination of balances and transactions with our other reportable segments.

Year ended December 31, ($ in millions)	2012	2011	2010	Favorable/ (unfavorable) 2012-2011 % change	Favorable/ (unfavorable) 2011-2010 % change
Net financing revenue					
Total financing revenue and other interest income	$743	$1,147	$1,711	(35)	(33)
Interest expense	592	937	1,122	37	16
Net financing revenue	151	210	589	(28)	(64)
Servicing fees	592	1,198	1,261	(51)	(5)
Servicing asset valuation and hedge activities, net	(8)	(789)	(394)	99	(100)
Total servicing income, net	584	409	867	43	(53)
Gain on mortgage loans, net	529	395	990	34	(60)
Other income, net of losses	504	157	141	n/m	11
Total other revenue	1,617	961	1,998	68	(52)
Total net revenue	1,768	1,171	2,587	51	(55)
Provision for loan losses	86	150	144	43	(4)
Noninterest expense					
Compensation and benefits expense	252	394	322	36	(22)
Representation and warranty expense	67	324	670	79	52
Other operating expenses	674	925	679	27	(36)
Total noninterest expense	993	1,643	1,671	40	2
Income (loss) from continuing operations before income tax expense	$689	$(622)	$772	n/m	(181)
Total assets	$14,744	$33,906	$36,786	(57)	(8)

n/m = not meaningful

2012 Compared to 2011

Our Mortgage operations earned income from continuing operations before income tax expense of $689 million for the year ended December 31, 2012, compared to losses from continuing operations before income tax expense of $622 million for the year ended December 31, 2011. During 2011, we experienced an unfavorable servicing asset valuation, net of hedge, that did not recur in 2012. Additionally, during 2012, we earned higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs, and higher net gains on the sale of mortgage loans. We incurred lower representation and warranty expense and operating expenses resulting from the deconsolidation of ResCap during the second quarter of 2012. Refer to Note 1 to the Consolidated Financial Statements for further information regarding ResCap.

Net financing revenue was $151 million for the year ended December 31, 2012, compared to $210 million in 2011. The decrease in net financing revenue was primarily due to the deconsolidation of ResCap during the second quarter of 2012. Additionally, total financing revenue and other interest income decreased in 2012 due to lower average yield mix as higher-rate Ally Bank mortgage loans continued to run off. Partially offsetting the decrease was lower interest expense related to lower funding costs.

Total servicing income, net was $584 million for the year ended December 31, 2012, compared to $409 million in 2011. The increase was primarily due to the performance of the derivative servicing hedge as compared to a less favorable hedge performance in 2011. The increase was partially offset by lower servicing fees due to the deconsolidation of ResCap.

The net gain on mortgage loans increased 34% for the year ended December 31, 2012, compared to 2011. Though we deconsolidated ResCap during the second quarter of 2012, the increase was primarily due to higher consumer mortgage-lending production through our direct lending channel and margins associated with government-sponsored refinancing programs, higher margins on warehouse and correspondent lending due to decreased competition and more selective originations from these channels, and improved market gains on specified pooled loans.

Other income, net of losses, was $504 million for the year ended December 31, 2012, compared to $157 million in 2011. The increase was primarily due to higher fee income and net origination revenue related to increased consumer mortgage-lending production associated with government-sponsored refinancing programs and a decrease in fair value option election valuation losses resulting from the deconsolidation of ResCap.

The provision for loan losses was $86 million for the year ended December 31, 2012, compared to $150 million in 2011. The decrease for the year ended December 31, 2012, was primarily due to lower net charge-offs in 2012 due to the continued runoff of legacy mortgage assets and improvements in home prices.

Total noninterest expense decreased 40% for the year ended December 31, 2012, compared to 2011. The decrease was primarily driven by lower representation and warranty expense and compensation and benefits expense resulting from the deconsolidation of ResCap. The decrease was partially offset by a $90 million expense related to penalties imposed by certain regulators and other governmental agencies in connection with mortgage foreclosure-related matters during the second quarter of 2012.

2011 Compared to 2010

Our Mortgage operations incurred a loss before income tax expense of $622 million for the year ended December 31, 2011, compared to income before income tax expense of $772 million for the year ended December 31, 2010. The decrease was primarily driven by lower net gains on the sale of mortgage loans, unfavorable servicing asset valuation, net of hedge, lower financing revenue related to a decrease in asset levels, and a $230 million expense related to penalties imposed by certain regulators and other governmental agencies in connection with mortgage foreclosure-related matters. The decrease was partially offset by lower representation and warranty expense.

Net financing revenue was $210 million for the year ended December 31, 2011, compared to $589 million in 2010. The decrease was driven by lower financing revenue and other interest income due primarily to a decline in average asset levels related to loan sales, the deconsolidation of previously on-balance sheet securitizations, and portfolio runoff. The decrease was partially offset by lower interest expense related to a reduction in average borrowings commensurate with a smaller asset base.

Total servicing income, net was $409 million for the year ended December 31, 2011, compared to $867 million in 2010. The decrease was primarily due to a drop in interest rates and increased market volatility compared to favorable valuation adjustments in 2010. Additionally, 2011 includes a valuation adjustment that estimates the impact of higher servicing costs related to enhanced foreclosure procedures, establishment of single point of contact, and other processes to comply with the Consent Order.

The net gain on mortgage loans was $395 million for the year ended December 31, 2011, compared to $990 million in 2010. The decrease during 2011 was primarily due to lower margins and production, lower whole-loan sales, lower gains on mortgage loan resolutions, and the absence of the 2010 gain on the deconsolidation of an on-balance sheet securitization. Refer to Note 10 to the Consolidated Financial Statements for information on the deconsolidation.

Total noninterest expense decreased 2% for the year ended December 31, 2011, compared to 2010. The decrease was primarily driven by lower representation and warranty expense in 2011 as 2010 included a significant increase in expense to cover anticipated repurchase requests and settlements with key counterparties. The decrease was partially offset by a $230 million expense related to penalties imposed by certain regulators and other governmental agencies in connection with mortgage foreclosure-related matters, higher loan processing and underwriting fees, and an increase in compensation and benefits expense due to an increase in headcount related to expansion activities in our broker, retail, and servicing operations.

Loan Production

U.S. Mortgage Loan Production Channels

Ally Bank continues to perform certain mortgage activities as a result of the ResCap bankruptcy process. Subsequent to the bankruptcy filing, ResCap announced the sale of certain assets to third parties. Upon the closing of those sales, we do not expect ResCap to continue to broker loans to us. This will primarily impact the production of loans within the direct lending channel, which are currently sourced exclusively from ResCap. We expect the level of loan

production to continue to decline.
We have three primary channels for residential mortgage loan production: the purchase of loans in the secondary market (primarily from Ally Bank correspondent lenders), the origination of loans through our direct-lending network, and the origination of loans through our mortgage brokerage network.

- Correspondent lender and secondary market purchases — Loans purchased from correspondent lenders are originated or purchased by the correspondent lenders and subsequently sold to us. All of the purchases from correspondent lenders are conducted through Ally Bank. We qualify and approve any correspondent lenders who participate in the loan purchase programs. We intend to continue to originate a modest level of jumbo and conventional conforming residential mortgages for our own portfolio through a select group of correspondent lenders.
- Direct-lending network — Our direct-lending network consists of internet and telephone-based call center operations as well as our retail network. Virtually all of the residential mortgage loans of this channel are brokered to Ally Bank.

- Mortgage brokerage network — Residential mortgage loans originated through mortgage brokers. We review and underwrite the application submitted by the mortgage broker, approve or deny the application, set the interest rate and other terms of the loan, and, upon acceptance by the borrower and the satisfaction of all conditions required by us, fund the loan through Ally Bank. We qualify and approve all mortgage brokers who generate mortgage loans and continually monitor their performance.

The following table summarizes U.S. consumer mortgage loan production by channel.

Year ended December 31, ($ in millions)	2012 Number of loans	2012 Dollar amount of loans	2011 Number of loans	2011 Dollar amount of loans	2010 Number of loans	2010 Dollar amount of loans
Correspondent lender and secondary market purchases	58,766	$14,224	196,964	$45,349	263,963	$61,465
Direct lending	75,096	14,640	37,743	7,414	36,064	7,586
Mortgage brokers	12,996	3,601	12,018	3,495	2,035	491
Total U.S. production	146,858	$32,465	246,725	$56,258	302,062	$69,542

The following table summarizes the composition of our U.S. consumer mortgage loan production. ResCap was deconsolidated from Ally as of May 14, 2012. Refer to Note 1 to the Consolidated Financial Statements for further details on ResCap.

Year ended December 31, ($ in millions)	2012 Number of loans	2012 Dollar amount of loans	2011 Number of loans	2011 Dollar amount of loans	2010 Number of loans	2010 Dollar amount of loans
Ally Bank	146,074	$32,324	245,849	$56,130	300,738	$69,320
ResCap	784	141	876	128	1,324	222
Total U.S. production	146,858	$32,465	246,725	$56,258	302,062	$69,542

Mortgage Loan Production by Type

We intend to continue to originate a modest level of jumbo and conventional conforming residential mortgages for our held-for-investment portfolio through a select group of correspondent lenders. During 2012, 2011, and 2010, we primarily originated prime conforming and government-insured residential mortgage loans. We define prime as mortgage loans with a FICO score of 660 and above. Our mortgage loans are categorized as follows.

- Prime conforming mortgage loans — Prime credit quality first-lien mortgage loans secured by 1-4 family residential properties that meet or conform to the underwriting standards established by the GSEs for inclusion in their guaranteed mortgage securities programs.
- Prime nonconforming mortgage loans — Prime credit quality first-lien mortgage loans secured by 1-4 family residential properties that either (1) do not conform to the underwriting standards established by the GSEs because they had original principal amounts exceeding GSE limits, which are commonly referred to as jumbo mortgage loans, or (2) have alternative documentation requirements and property or credit-related features (e.g., higher loan-to-value or debt-to-income ratios) but are otherwise considered prime credit quality due to other compensating factors.
- Prime second-lien mortgage loans — Open- and closed-end mortgage loans secured by a second or more junior-lien on single-family residences, which include home equity mortgage loans and lines of credit. We ceased originating prime second-lien mortgage loans during 2008.
- Government mortgage loans — First-lien mortgage loans secured by 1-4 family residential properties that are insured by the Federal Housing Administration or guaranteed by the Veterans Administration.
- Nonprime mortgage loans — First-lien and certain junior-lien mortgage loans secured by single-family residences made to individuals with credit profiles that do not qualify for a prime loan, have credit-related features that fall outside the parameters of traditional prime mortgage products, or have performance characteristics that otherwise exposes us to

comparatively higher risk of loss. Nonprime includes mortgage loans the industry characterizes as “subprime,” as well as high combined loan-to-value second-lien loans that fell out of our standard loan programs due to noncompliance with one or more criteria. We ceased originating nonprime mortgage loans during 2007.

The following table summarizes our U.S. consumer mortgage loan production by type.

Year ended December 31, ($ in millions)	2012 Number of loans	2012 Dollar amount of loans	2011 Number of loans	2011 Dollar amount of loans	2010 Number of loans	2010 Dollar amount of loans
Prime conforming	133,359	$27,920	209,031	$47,511	228,936	$53,721
Prime nonconforming	2,706	2,211	2,008	1,679	1,837	1,548
Government	10,793	2,334	35,686	7,068	71,289	14,273
Total U.S. production	146,858	$32,465	246,725	$56,258	302,062	$69,542

U.S. Warehouse Lending

Historically, we provided warehouse-lending facilities to correspondent lenders and other mortgage originators in the United States. These facilities enabled lenders and originators to finance residential mortgage loans until they were sold in the secondary mortgage loan market. In July 2012, we announced our intention to shut down this business and, as of December 31, 2012, we successfully managed receivables down to $0 with no commitments outstanding. At December 31, 2011, we had total warehouse line of credit commitments of $2.8 billion, against which we had $1.9 billion of advances outstanding.

Loans Outstanding

Consumer mortgage loans held-for-sale and consumer mortgage loans held-for-investment as of December 31, 2012, represent loans held by Ally Bank. ResCap was deconsolidated from Ally Financial as of May 14, 2012. Refer to Note 1 to the Consolidated Financial Statements for further details on ResCap.

Consumer mortgage loans held-for-sale were as follows.

December 31, ($ in millions)	2012	2011
Prime conforming	$2,407	$3,345
Prime nonconforming	—	571
Prime second-lien	—	545
Government (a)	8	3,294
Nonprime	—	561
International	—	17
Total (b)	2,415	8,333
Net premiums (discounts)	26	(221)
Fair value option election adjustment	49	60
Lower-of-cost or fair value adjustment	—	(60)
Total, net (c)	$2,490	$8,112

(a) Includes loans subject to conditional repurchase options of $0 million and $2.3 billion sold to Ginnie Mae-guaranteed securitizations at December 31, 2012, and December 31, 2011, respectively. The corresponding liability is recorded in accrued expenses and other liabilities on the Consolidated Balance Sheet.

(b) Includes unpaid principal write-down of $0 million and $1.5 billion at December 31, 2012, and December 31, 2011, respectively. The amounts are write-downs taken upon the transfer of mortgage loans from held-for-investment to held-for-sale during the fourth quarter of 2009 and charge-offs taken in accordance with our charge-off policy.

(c) Includes loans subject to conditional repurchase options of $0 million and $106 million sold to off-balance sheet private-label securitizations at December 31, 2012, and December 31, 2011, respectively. The corresponding liability is recorded in accrued expenses and other liabilities on the Consolidated Balance Sheet.

Consumer mortgage loans held-for-investment were as follows.

December 31, ($ in millions)	2012	2011
Prime conforming	$245	$278
Prime nonconforming	8,322	8,069
Prime second-lien	1,137	2,200
Government	—	—
Nonprime	—	1,349
International	—	422
Total	9,704	12,318
Net premiums	43	38
Fair value option election adjustment	—	(1,601)
Allowance for loan losses	(432)	(495)
Other	8	—
Total, net (a)	$9,323	$10,260

(a) At December 31, 2012, and December 31, 2011, the carrying value of mortgage loans held-for-investment relating to securitization transactions accounted for as on-balance sheet securitizations and pledged as collateral totaled $0 million and $837 million, respectively. The investors in these on-balance sheet securitizations have no recourse to our other assets beyond the loans pledged as collateral other than market customary representation and warranty provisions.

Mortgage Loan Servicing

Our retained mortgage servicing rights consist of primary servicing rights. When we act as primary servicer, we collect and remit mortgage loan payments, respond to borrower inquiries, account for principal and interest, hold custodial and escrow funds for payment of property taxes and insurance premiums, counsel or otherwise work with delinquent borrowers, supervise foreclosures and property dispositions, and generally administer the loans. The majority of our serviced mortgage assets are subserviced by GMAC Mortgage, LLC, a subsidiary of ResCap, pursuant to a servicing agreement. Historically, we acted as a master servicer. When we acted as master servicer, we collected mortgage loan payments from primary servicers and distributed those funds to investors in mortgage-backed and mortgage-related asset-backed securities and whole-loan packages. Key services in this regard include loan accounting, claims administration, oversight of primary servicers, loss mitigation, bond administration, cash flow waterfall calculations, investor reporting, and tax-reporting compliance. In return for performing these functions, we receive servicing fees equal to a specified percentage of the outstanding principal balance of the loans being serviced and may also be entitled to other forms of servicing compensation, such as late payment fees or prepayment penalties. Servicing compensation also includes interest income or the float earned on collections that are deposited in various custodial accounts between their receipt and the scheduled/contractual distribution of the funds to investors. Refer to Note 11 to the Consolidated Financial Statements for additional information.

The value of mortgage servicing rights is sensitive to changes in interest rates and other factors. We have developed and implemented an economic hedge program to, among other things, mitigate the overall risk of loss due to a change in the fair value of our mortgage servicing rights. Accordingly, we hedge the change in the total fair value of our mortgage servicing rights. The effectiveness of this economic hedging program may have a material effect on the results of operations. Refer to the Critical Accounting Estimates section of this MD&A and Note 22 to the Consolidated Financial Statements for further discussion. On October 26, 2012, we announced that Ally Bank began to explore strategic alternatives for its agency mortgage servicing rights portfolio, including a potential sale of the asset. A sale alternative would require GSE approval.

The following table summarizes our primary consumer mortgage loan-servicing portfolio by product category.

December 31, ($ in millions)	2012	2011
U.S. primary servicing portfolio		

Prime conforming	$117,544	$226,239
Prime nonconforming	11,628	47,767
Prime second-lien	1,136	6,871
Government	16	49,027
Nonprime	—	20,753
International primary servicing portfolio	—	5,773
Total primary servicing portfolio (a)	$130,324	$356,430

(a) Excludes loans for which we acted as a subservicer. Subserviced loans totaled $0 billion and $26.4 billion at December 31, 2012 and 2011, respectively.

Corporate and Other

The following table summarizes the activities of Corporate and Other excluding discontinued operations for the periods shown. Corporate and Other primarily consists of our centralized corporate treasury activities, such as management of the cash and corporate investment securities portfolios, short- and long-term debt, retail and brokered deposit liabilities, derivative instruments, the amortization of the discount associated with new debt issuances and bond exchanges, most notably from the December 2008 bond exchange, and the residual impacts of our corporate funds-transfer pricing (FTP) and treasury asset liability management (ALM) activities. Corporate and Other also includes our Commercial Finance Group, certain equity investments, overhead that was previously allocated to operations that have since been sold or classified as discontinued operations, and reclassifications and eliminations between the reportable operating segments. Our Commercial Finance Group provides senior secured commercial-lending products to primarily U.S.-based middle market companies.

Year ended December 31, ($ in millions)	2012	2011	2010	Favorable/ (unfavorable) 2012-2011 % change	Favorable/ (unfavorable) 2011-2010 % change
Net financing loss					
Total financing revenue and other interest income	$157	$196	$206	(20)	(5)
Interest expense					
Original issue discount amortization	349	925	1,204	62	23
Other interest expense	981	992	1,055	1	6
Total interest expense	1,330	1,917	2,259	31	15
Net financing loss (a)	(1,173)	(1,721)	(2,053)	32	16
Other (expense) revenue					
Loss on extinguishment of debt	(148)	(64)	(124)	(131)	48
Other gain on investments, net	69	84	146	(18)	(42)
Other income, net of losses	19	158	(56)	(88)	n/m
Total other (expense) revenue	(60)	178	(34)	(134)	n/m
Total net loss	(1,233)	(1,543)	(2,087)	20	26
Provision for loan losses	(10)	(51)	(47)	(80)	9
Noninterest expense					
Compensation and benefits expense	636	472	610	(35)	23
Other operating expense (b)					
Accrual related to ResCap Bankruptcy and deconsolidation (c)	750	—	—	n/m	—
Impairment of investment in ResCap (c)	442	—	—	n/m	—
Other	(58)	14	44	n/m	68
Total other operating expense	1,134	14	44	n/m	68
Total noninterest expense	1,770	486	654	n/m	26
Loss from continuing operations before income tax expense	$(2,993)	$(1,978)	$(2,694)	(51)	27
Total assets	$30,753	$29,526	$28,472	4	4

n/m = not meaningful

(a) Refer to the table that follows for further details on the components of net financing loss.

(b) Includes a reduction of $814 million for the year ended December 31, 2012, and $757 million for each of the years ended December 31, 2011, and 2010, related to the allocation of corporate overhead expenses to other segments. The receiving segments record their allocation of corporate overhead expense within other operating expense.

(c) Refer to Note 1 to the Consolidated Financial Statements for further information regarding the deconsolidation of ResCap.

The following table summarizes the components of net financing losses for Corporate and Other.

At and for the year ended December 31, ($ in millions)	2012	2011	2010
Original issue discount amortization			
2008 bond exchange amortization	$(320)	$(886)	$(1,158)
Other debt issuance discount amortization	(29)	(39)	(46)
Total original issue discount amortization (a)	(349)	(925)	(1,204)
Net impact of the funds transfer pricing methodology			
Unallocated liquidity costs (b)	(586)	(564)	(495)
Funds-transfer pricing / cost of funds mismatch (c)	170	42	(364)
Unassigned equity costs (d)	(467)	(364)	(77)
Total net impact of the funds transfer pricing methodology	(883)	(886)	(936)
Other (including Commercial Finance Group net financing revenue)	59	90	87
Total net financing losses for Corporate and Other	$(1,173)	$(1,721)	$(2,053)
Outstanding original issue discount balance	$1,840	$2,194	$3,169

(a) Amortization is included as interest on long-term debt in the Consolidated Statement of Comprehensive Income.
(b) Represents the unallocated cost of funding our cash and investment portfolio.
(c) Represents our methodology to assign funding costs to classes of assets and liabilities based on expected duration and the London interbank offer rate (LIBOR) swap curve plus an assumed credit spread. Matching duration allocates interest income and interest expense to the reportable segments so the respective reportable segments results are insulated from interest rate risk. The balance above is the resulting benefit (loss) due to holding interest rate risk at Corporate and Other.
(d) Primarily represents the unassigned cost of maintaining required capital positions for certain of our regulated entities, primarily Ally Bank and Ally Insurance.

The following table presents the scheduled remaining amortization of the original issue discount at December 31, 2012.

Year ended December 31, ($ in millions)	2013	2014	2015	2016	2017	2018 and thereafter (a)	Total
Original issue discount							
Outstanding balance	$1,579	$1,391	$1,335	$1,272	$1,197	$—	
Total amortization (b)	261	188	56	63	75	1,197	$1,840
2008 bond exchange amortization (c)	241	166	43	53	66	1,059	1,628

(a) The maximum annual scheduled amortization for any individual year is $158 million in 2030 of which $152 million is related to 2008 bond exchange amortization.
(b) The amortization is included as interest on long-term debt on the Consolidated Statement of Comprehensive Income.
(c) 2008 bond exchange amortization is included in total amortization.

2012 Compared to 2011

Loss from continuing operations before income tax expense for Corporate and Other was $3.0 billion for the year ended December 31, 2012, compared to $2.0 billion for the year ended December 31, 2011. Corporate and Other’s loss from continuing operations before income tax expense was driven by net financing losses, which primarily represents original issue discount amortization expense and the net impact of our FTP methodology, which includes the unallocated cost of maintaining our liquidity and investment portfolios.

The higher loss from continuing operations before income tax expense for the year ended December 31, 2012 was primarily due to a $1.2 billion charge related to ResCap's filing for relief under Chapter 11 of the bankruptcy code in the United States. Refer to Note 1 to the Consolidated Financial Statements for additional information related to

ResCap. Additionally, higher losses for the year ended December 31, 2012 were impacted by the early prepayment of certain Federal Home Loan Bank debt to further reduce funding costs, the absence of a $121 million gain on the early settlement of a loss holdback provision related to certain historical automotive whole-loan forward flow agreements recognized during 2011, and an increase in compensation and benefits expense as a result of increased incentive compensation and pension-related expenses. The pension-related expenses resulted from our decision to de-risk our long-term pension liability through lump-sum buyouts and annuity placements for former subsidiaries. Refer to Note 24 to the Consolidated Financial Statements for further detail on these certain pension actions. Partially offsetting the higher losses for the year ended December 31, 2012 were decreases in OID amortization expense related to bond maturities and normal monthly amortization. Additionally, we incurred no accelerated amortization of OID for the year ended December 31, 2012, compared to $50 million for the year ended December 31, 2011.

Corporate and Other also includes the results of our Commercial Finance Group. Our Commercial Finance Group earned income from continuing operations before income tax expense of $48 million for the year ended December 31, 2012, compared to $141 million for the year ended December 31, 2011. The decrease was primarily related to lower net revenue resulting from a decline in income from servicer advance collections, lower accelerated fee income due to fewer early loan payoffs during 2012, compared to 2011. Additionally, provision

expense was less favorable in 2012 due to a greater decline in portfolio-level reserves in 2011 associated with higher recoveries on nonperforming exposures, combined with the runoff of the majority of our higher-risk non-core portfolio.

2011 Compared to 2010

Loss from continuing operations before income tax expense for Corporate and Other was $2.0 billion for the year ended December 31, 2011, compared to $2.7 billion for the year ended December 31, 2010. Corporate and Other's loss from continuing operations before income tax expense for both periods was driven by net financing losses, which primarily represents original issue discount amortization expense and the net impact of our FTP methodology, which includes the unallocated cost of maintaining our liquidity and investment portfolios.

The improvement in the loss from continuing operations before income tax expense for the year ended December 31, 2011, was primarily due to a decrease in original issue discount amortization expense related to bond maturities and normal monthly amortization and favorable net impact of the FTP methodology. The net FTP methodology improvement was primarily the result of favorable unallocated interest costs due to lower non-earning assets and unamortized original issue discount balance. Additionally, 2011 was favorably impacted by a $121 million gain on the early settlement of a loss holdback provision related to certain historical automotive whole-loan forward flow agreements, a reduction in debt fees driven by the restructuring of our secured facilities and the termination of our automotive forward flow agreements, and by a lower loss on the extinguishment of certain Ally debt (which included accelerated amortization of original issue discount of $50 million for the year ended December 31, 2011, compared to $101 million in 2010).

Corporate and Other also includes the results of our Commercial Finance Group. Our Commercial Finance Group earned income from continuing operations before income tax expense of $141 million for the year ended December 31, 2011, compared to $182 million for the year ended December 31, 2010. The decrease was primarily due to lower asset levels partially offset by lower expenses and favorable loss provisions.

Cash and Securities

The following table summarizes the composition of the cash and securities portfolio held at fair value by Corporate and Other.

December 31, ($ in millions)	2012	2011
Cash		
Noninterest-bearing cash	$944	$1,768
Interest-bearing cash	5,942	9,781
Total cash	6,886	11,549
Trading securities		
Mortgage-backed	—	589
Total trading securities	—	589
Available-for-sale securities		
Debt securities		
U.S. Treasury and federal agencies	1,124	1,051
U.S. states and political subdivisions	—	1
Foreign government	—	106
Mortgage-backed	6,191	6,722
Asset-backed	2,332	2,520
Other debt (a)	—	305
Total debt securities	9,647	10,705
Equity securities	4	4
Total available-for-sale securities	9,651	10,709
Total cash and securities	$16,537	$22,847

(a) Includes intersegment eliminations.

Risk Management

Managing the risk/reward trade-off is a fundamental component of operating our businesses. Our risk management program is overseen by the Ally Board of Directors (the Board), various risk committees, and the executive leadership team. The Board sets the risk appetite across our company while the risk committees and executive leadership team identify and monitor potential risks and manage the risk to be within our risk appetite. Ally's primary risks include credit, lease residual, market, operational, insurance/underwriting, country, and liquidity.

- Credit risk — The risk of loss arising from a creditor not meeting its financial obligations to our firm.
- Lease Residual risk — The risk of loss arising from the possibility that the actual proceeds realized upon the sale of returned vehicles will be lower than the projection of the values used in establishing the pricing at lease inception.
- Market risk — The risk of loss arising from changes in the fair value of our assets or liabilities (including derivatives) caused by movements in market variables, such as interest rates, foreign-exchange rates, and equity and commodity prices.
- Operational risk — The risk of loss arising from inadequate or failed processes or systems, human factors, or external events.
- Insurance/Underwriting risk — The risk of loss associated with either (i) fortuitous occurrences (e.g., fires, hurricanes, tortuous conduct) and/or (ii) the failure to consider the frequency of losses, severity of losses or the correlation of losses with multiple events.
- Country risk — The risk that economic, social and political conditions, and events in foreign countries will adversely affect our financial interests.
- Liquidity risk — The risk that our financial condition or overall safety and soundness is adversely affected by an inability, or perceived inability, to meet our financial obligations, and to withstand unforeseen liquidity stress events (see Liquidity Management, Funding, and Regulatory Capital discussion within this MD&A).

While risk oversight is ultimately the responsibility of the Board, our governance structure starts within each line of business, including committees established to oversee risk in their respective areas. The lines of business are responsible for executing on risk strategies, policies, and controls that are fundamentally sound and compliant with global risk management policies and with applicable laws and regulations. The line of business risk committees, which report up to the Risk and Compliance Committee of the Board, monitor the performance within each portfolio and determine whether to amend any risk practices based upon portfolio trends.

In addition, the Global Risk Management and Compliance organizations are accountable for independently monitoring, measuring, and reporting on our various risks. They are also responsible for monitoring that our risks remain within the tolerances established by the Board, developing and maintaining policies, and implementing risk management methodologies.

All lines of business and global functions are subject to full and unrestricted audits by Audit Services. Audit Services reports to the Audit Committee of the Board, and is primarily responsible for assisting the Audit Committee in fulfilling its governance and oversight responsibilities. Audit Services is granted free and unrestricted access to any and all of our records, physical properties, technologies, management, and employees.

In addition, our Global Loan Review Group provides an independent assessment of the quality of Ally's credit risk portfolios and credit risk management practices. This group reports its findings directly to the Risk and Compliance Committee. The findings of this group help to strengthen our risk management practices and processes throughout the organization.

Loan and Lease Exposure

The following table summarizes the exposures from our loan and lease activities.

December 31, ($ in millions)	2012	2011
Finance receivables and loans		
Dealer Financial Services	$86,542	$100,734
Mortgage operations	9,821	12,753
Corporate and Other	2,692	1,268
Total finance receivables and loans	99,055	114,755
Held-for-sale loans		
Dealer Financial Services	—	425
Mortgage operations	2,490	8,112
Corporate and Other	86	20
Total held-for-sale loans	2,576	8,557
Total on-balance sheet loans	$101,631	$123,312
Off-balance sheet securitized loans		
Dealer Financial Services	$1,495	$—
Mortgage operations	119,384	326,975
Corporate and Other	—	—
Total off-balance sheet securitized loans	$120,879	$326,975
Operating lease assets		
Dealer Financial Services	$13,550	$9,275
Mortgage operations	—	—
Corporate and Other	—	—
Total operating lease assets	$13,550	$9,275
Serviced loans and leases		
Dealer Financial Services	$134,122	$122,881
Mortgage operations (a)	130,324	356,430
Corporate and Other	1,344	1,762
Total serviced loans and leases	$265,790	$481,073

(a) Includes primary mortgage loan-servicing portfolio only.

The risks inherent in our loan and lease exposures are largely driven by changes in the overall economy, used vehicle and housing price levels, unemployment levels, and their impact to our borrowers. The potential financial statement impact of these exposures varies depending on the accounting classification and future expected disposition strategy. We retain the majority of our automobile loans as they complement our core business model, but we do sell loans from time to time on an opportunistic basis. We primarily originate mortgage loans with the intent to sell them and, as such, retain only a small percentage of the loans that we originate or purchase. Mortgage loans that we do not intend to retain are sold to investors, primarily through securitizations guaranteed by GSEs. However, we may retain an interest or right to service these loans. We ultimately manage the associated risks based on the underlying economics of the exposure. Given our recent strategic actions, we intend to continue to originate a modest level of jumbo and conventional conforming residential mortgages through a select group of correspondent lenders with the intent to retain within our held-for-investment portfolio.

- Finance receivables and loans — Loans that we have the intent and ability to hold for the foreseeable future or until maturity or loans associated with an on-balance sheet securitization classified as secured financing. These loans are recorded at the principal amount outstanding, net of unearned income and premiums and discounts. Probable credit-related losses inherent in our finance receivables and loans carried at historical cost are reflected in our allowance for loan losses and recognized in current period earnings. We manage the economic risks of these

exposures, including credit risk, by adjusting underwriting standards and risk limits, augmenting our servicing and collection activities (including loan modifications and restructurings), and optimizing our product and geographic concentrations. Additionally, we had historically elected to carry certain mortgage loans of ResCap at fair value. Changes in the fair value of these loans are recognized in a valuation allowance separate from the allowance for loan losses and were reflected in current period earnings. We used market-based instruments, such as derivatives, to hedge changes in the fair value of these loans. Refer to the Critical Accounting Estimates discussion within this MD&A and Note 1 to the Consolidated Financial Statements for further information.

- Held-for-sale loans — Loans that we have the intent to sell. These loans are recorded on our balance sheet at the lower of cost or estimated fair value and are evaluated by portfolio and product type. Changes in the recorded value are recognized in a valuation allowance and reflected in current period earnings. We manage the economic risks of these exposures, including market and credit risks, in various ways including the use of market-based instruments such as derivatives. Refer to the Critical Accounting Estimates discussion within this MD&A and Note 1 to the Consolidated Financial Statements for further information.
- Off-balance sheet securitized loans — Loans that we transfer off-balance sheet to nonconsolidated variable interest entities. We primarily report this exposure as cash, servicing rights, or retained interests (if applicable). Similar to finance receivables and loans, we manage the economic risks of these exposures, including credit risk, through activities including servicing and collections. Refer to the Critical Accounting Estimates discussion within this MD&A and Note 1 to the Consolidated Financial Statements for further information.
- Operating lease assets — The net book value of the automobile assets we lease are based on the expected residual values upon remarketing the vehicles at the end of the lease. We are exposed to fluctuations in the expected residual value upon remarketing the vehicle at the end of the lease, and as such at contract inception, we generally determine the projected residual values based on independent data, including independent guides of vehicle residual values, and analysis. A valuation allowance related to lease credit losses is recorded directly against the lease rent receivable balance which is a component of Other Assets. An impairment to the carrying value of the assets may be deemed necessary if there is an unfavorable and unrecoverable change in the value of the recorded asset. Refer to the Critical Accounting Estimates discussion within this MD&A and Note 1 to the Consolidated Financial Statements for further information.
- Serviced loans and leases — Loans that we service on behalf of our customers or another financial institution. As such, these loans can be on or off our balance sheet. For our mortgage servicing rights, we record an asset or liability (at fair value) based on whether the expected servicing benefits will exceed the expected servicing costs. Changes in the fair value of the mortgage servicing rights are recognized in current period earnings. We also service consumer automobile loans. We do not record servicing rights assets or liabilities for these loans because we receive a fee that adequately compensates us for the servicing costs. We manage the economic risks of these exposures, including market and credit risks, in part through market-based instruments such as derivatives and securities. Refer to the Critical Accounting Estimates discussion within this MD&A and Note 1 to the Consolidated Financial Statements for further information.

Credit Risk Management

Credit risk is defined as the potential failure to receive payments when due from a creditor in accordance with contractual obligations. Therefore, credit risk is a major source of potential economic loss to us. To mitigate the risk, we have implemented specific processes across all lines of business utilizing both qualitative and quantitative analyses. Credit risk is monitored by global and line of business committees and the Global Risk Management organization. Together they oversee the credit decisioning and management processes and monitor that credit risk exposures are managed in a safe-and-sound manner and are within our risk appetite. In addition, our Global Loan Review Group provides an independent assessment of the quality of our credit portfolios and credit risk management practices, and directly reports its findings to the Risk and Compliance Committee on a regular basis.

We have policies and practices that reflect our commitment to maintain an independent and ongoing assessment of credit risk and credit quality. Our policies require an objective and timely assessment of the overall quality of the consumer and commercial loan and lease portfolios. This includes the identification of relevant trends that affect the collectability of the portfolios, segments of the portfolios that are potential problem areas, loans and leases with potential credit weaknesses, and assessment of the adequacy of internal credit risk policies and procedures to monitor compliance with relevant laws and regulations. In addition, we maintain limits and underwriting guidelines that reflect our risk appetite.

We manage credit risk based on the risk profile of the borrower, the source of repayment, the underlying collateral, and current market conditions. We monitor the credit risk profile of individual borrowers and the aggregate portfolio of borrowers either within a designated geographic region or a particular product or industry segment. To mitigate risk concentrations, we may take part in loan sales and syndications.

Additionally, we have implemented numerous initiatives in an effort to mitigate loss and provide ongoing support to customers in financial distress. For automobile loans, we offer several types of assistance to aid our customers. Loss mitigation includes changing the maturity date, extending payments, and rewriting the loan terms. We have implemented these actions with the intent to provide the borrower with additional options in lieu of repossessing their vehicle. For mortgage loans, as part of our participation in certain governmental programs, we offer mortgage loan modifications to qualified borrowers. Numerous initiatives, such as the Home Affordable Modification Program (HAMP) are in place to provide support to our mortgage customers in financial distress, including principal forgiveness, maturity extensions, delinquent interest capitalization, and changes to contractual interest rates.

Furthermore, we manage our counterparty credit exposure based on the risk profile of the counterparty. Within our policies, we have established minimum standards and requirements for managing counterparty risk exposures in a safe-and-sound manner. Counterparty credit risk is derived from multiple exposure types, including derivatives, securities trading, securities financing transactions, financial futures, cash balances (e.g. due from depository institutions, restricted accounts and cash equivalents), and investment in debt securities. For more information on Derivative Counterparty Credit Risk, refer to Note 22 to the Consolidated Financial Statements.

During 2012, the U.S. economy continued to expand and the labor market recovered further. Within the U.S. automotive portfolio, encouraging trends include higher automotive industry sales when compared to the previous year. Additionally, the housing market continued to recover with strong home price appreciation in late 2012 and existing home sales registered their highest annual level since 2007. We continue to be cautious with the outlook due to weak manufacturing activity, slow global economic growth and pending budgets cuts to the U.S. federal government.

On-balance Sheet Portfolio

Our on-balance sheet portfolio includes both finance receivables and loans and held-for-sale loans. At December 31, 2012, this primarily included $86.5 billion of automobile finance receivables and loans and $12.3 billion of mortgage finance receivables and loans. Within our on-balance sheet portfolio, we had historically elected to account for certain mortgage loans of ResCap at fair value. The valuation allowance recorded on fair value-elected loans is separate from the allowance for loan losses. Changes in the fair value of loans are classified as gain on mortgage and automotive loans, net, in the Consolidated Statement of Comprehensive Income.

During 2012, we further executed on our strategy of discontinuing and selling or liquidating nonstrategic operations. Refer to Note 2 to the Consolidated Financial Statements for additional information.

The following table presents our total on-balance sheet consumer and commercial finance receivables and loans reported at carrying value before allowance for loan losses.

	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
December 31, ($ in millions)	2012	2011	2012	2011	2012	2011
Consumer						
Finance receivables and loans						
Loans at historical cost	$63,536	$73,452	$642	$567	$1	$4
Loans at fair value	—	835	—	210	—	—
Total finance receivables and loans	63,536	74,287	642	777	1	4
Loans held-for-sale	2,490	8,537	25	2,820	—	73
Total consumer loans	66,026	82,824	667	3,597	1	77
Commercial						
Finance receivables and loans						
Loans at historical cost	35,519	40,468	216	339	—	—
Loans at fair value	—	—	—	—	—	—
Total finance receivables and loans	35,519	40,468	216	339	—	—
Loans held-for-sale	86	20	—	—	—	—
Total commercial loans	35,605	40,488	216	339	—	—
Total on-balance sheet loans	$101,631	$123,312	$883	$3,936	$1	$77

(a) Includes nonaccrual troubled debt restructured loans of $419 million and $934 million at December 31, 2012, and December 31, 2011, respectively.

(b) Generally, loans that are 90 days past due and still accruing represent loans with government guarantees. This includes no troubled debt restructured loans classified as 90 days past due and still accruing at December 31, 2012, and $42 million at December 31, 2011.

Total on-balance sheet loans outstanding at December 31, 2012, decreased $21.7 billion to $101.6 billion from December 31, 2011 reflecting a decrease of $16.8 billion in the consumer portfolio and a decrease of $4.9 billion in the commercial portfolio. The decrease in total on-balance sheet loans outstanding was primarily driven by the reclassification of foreign Automotive Finance operations to discontinued operations and the deconsolidation of ResCap, partially offset by domestic automobile originations which outpaced portfolio runoff. Refer to Note 1 and Note 2 to the Consolidated Financial Statements for additional information related to ResCap and discontinued

operations, respectively.

The total TDRs outstanding at December 31, 2012, decreased $744 million to $1.2 billion from December 31, 2011, due to the deconsolidation of ResCap.

During the third quarter of 2012, the Office of the Comptroller of the Currency (OCC) advised the banks for which they serve as the primary bank regulatory agency that certain loans that are current, have been discharged in a Chapter 7 Bankruptcy and have not been reaffirmed by the borrower should be accounted for as TDRs and written down to collateral value regardless of their current payment history and expected continued performance. The OCC is not our primary regulator, and our primary regulator has not provided definitive guidance. It is expected that all of the banking regulators will be evaluating this issue in the first quarter of 2013; however, due to industry practice, we have determined that these loans should be accounted for as TDRs on a prospective basis. The write down based on the discounted expected cash flows of these assets has already been considered in our allowance for loan and lease losses recorded at December 31, 2012. The impact of any change will not be material.

Total nonperforming loans at December 31, 2012, decreased $3.1 billion to $883 million from December 31, 2011, reflecting a decrease of $2.9 billion of consumer nonperforming loans and a decrease of $123 million of commercial nonperforming loans. The decrease in total nonperforming loans from December 31, 2011, was primarily due to the deconsolidation of ResCap. Nonperforming loans include finance receivables and loans on nonaccrual status when the principal or interest has been delinquent for 90 days or when full collection is determined not to be probable. Refer to Note 1 to the Consolidated Financial Statements for additional information.

The following table includes consumer and commercial net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

	Net charge-offs (recoveries)		Net charge-off ratios (a)	
Year ended December 31, ($ in millions)	2012	2011	2012	2011
Consumer				
Finance receivables and loans at historical cost	$507	$514	0.7 %	0.7 %
Commercial				
Finance receivables and loans at historical cost	(33)	39	(0.1)	0.1
Total finance receivables and loans at historical cost	$474	$553	0.4	0.5

(a) Net charge-off ratios are calculated as net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the year for each loan category.

Net charge-offs were $474 million for the year ended December 31, 2012, compared to $553 million for the year ended December 31, 2011. The decrease in net charge-offs for the year ended December 31, 2012, was largely due to recoveries in the commercial portfolio. Loans held-for-sale are accounted for at the lower-of-cost or fair value, and therefore we do not record charge-offs.

The Consumer Credit Portfolio and Commercial Credit Portfolio discussions that follow relate to consumer and commercial finance receivables and loans recorded at historical cost. Finance receivables and loans recorded at historical cost have an associated allowance for loan losses. Finance receivables and loans measured at fair value were excluded from these discussions since those exposures are not accounted for within our allowance for loan losses.

Consumer Credit Portfolio

Our consumer portfolio primarily consists of automobile loans, first mortgages, and home equity loans (we ceased originating home equity loans in 2009). Loan losses in our consumer portfolio are influenced by general business and economic conditions including unemployment rates, bankruptcy filings, and home and used vehicle prices. Additionally, our consumer credit exposure is significantly concentrated in automobile lending (largely through GM and Chrysler dealerships). Due to our subvention relationships, we are able to mitigate some interest income exposure to certain consumer defaults by receiving a rate support payment directly from the automotive manufacturers at origination.

Credit risk management for the consumer portfolio begins with the initial underwriting and continues throughout a borrower's credit cycle. We manage consumer credit risk through our loan origination and underwriting policies, credit approval process, and servicing capabilities. We use proprietary credit-scoring models to differentiate the expected default rates of credit applicants enabling us to better evaluate credit applications for approval and to tailor the pricing and financing structure according to this assessment of credit risk. We regularly review the performance of the credit scoring models and update them for historical information and current trends. These and other actions mitigate but do not eliminate credit risk. Improper evaluations of a borrower's creditworthiness, fraud, and/or changes in the applicant's financial condition after approval could negatively affect the quality of our receivables portfolio, resulting in loan losses.

Our servicing activities are another key factor in managing consumer credit risk. Servicing activities consist largely of collecting and processing customer payments, responding to customer inquiries such as requests for payoff quotes, and processing customer requests for account revisions (such as payment extensions and refinancings). Servicing

activities are generally consistent across our operations; however, certain practices may be influenced by local laws and regulations.

During the year ended December 31, 2012, the credit performance of the consumer portfolio remained strong as our charge-off rate was relatively stable. For information on our consumer credit risk practices and policies regarding delinquencies, nonperforming status, and charge-offs, refer to Note 1 to the Consolidated Financial Statements.

The following table includes consumer finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses.

	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
December 31, ($ in millions)	2012	2011	2012	2011	2012	2011
Domestic						
Consumer automobile	$53,713	$46,576	$260	$139	$—	$—
Consumer mortgage						
1st Mortgage	7,173	6,867	342	258	1	1
Home equity	2,648	3,102	40	58	—	—
Total domestic	63,534	56,545	642	455	1	1
Foreign						
Consumer automobile	2	16,883	—	89	—	3
Consumer mortgage						
1st Mortgage	—	24	—	23	—	—
Home equity	—	—	—	—	—	—
Total foreign	2	16,907	—	112	—	3
Total consumer finance receivables and loans	$63,536	$73,452	$642	$567	$1	$4

(a) Includes nonaccrual troubled debt restructured loans of $373 million and $180 million at December 31, 2012, and December 31, 2011, respectively.

(b) There were no troubled debt restructured loans classified as 90 days past due and still accruing at December 31, 2012, and December 31, 2011.

Total consumer outstanding finance receivables and loans decreased $9.9 billion at December 31, 2012 compared with December 31, 2011. This decrease was related to the reclassification of foreign Automotive Finance operations to discontinued operations. This was partially offset by an increase in our core domestic business driven by automobile consumer loan originations, which outpaced portfolio runoff, primarily due to increased industry sales and growth in used and non-GM/Chrysler originations. Additionally, we continued to prudently expand our nonprime originations.

Total consumer nonperforming finance receivables and loans at December 31, 2012, increased $75 million to $642 million from December 31, 2011, reflecting an increase of $32 million of consumer automobile nonperforming finance receivables and loans and an increase of $43 million of consumer mortgage nonperforming finance receivables and loans. Nonperforming consumer domestic automotive finance receivables and loans increased due in part to seasoning of the domestic portfolio as well as increased TDRs as we continue to provide additional options in lieu of repossessing vehicles. Nonperforming consumer domestic mortgage finance receivables and loans increased primarily due to increased TDRs as we continue foreclosure prevention and loss mitigation procedures along with our participation in a variety of government-sponsored refinancing programs. Refer to Note 8 to the Consolidated Financial Statements for additional information. Nonperforming consumer finance receivables and loans as a percentage of total outstanding consumer finance receivables and loans were 1.0% and 0.8% at December 31, 2012 and December 31, 2011, respectively.

Consumer domestic automotive loans accruing and past due 30 days or more increased $290 million to $1.1 billion at December 31, 2012, compared with December 31, 2011. The increase is primarily due to asset growth, prudent expansion of underwriting strategy, which was significantly narrowed during the recession, and seasoning of the portfolio.

The following table includes consumer net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

	Net charge-offs		Net charge-off ratios (a)	
Year ended December 31, ($ in millions)	2012	2011	2012	2011
Domestic				
Consumer automobile	$267	$249	0.5 %	0.6 %
Consumer mortgage				
1st Mortgage	82	115	1.2	1.7
Home equity	56	74	2.0	2.3
Total domestic	405	438	0.7	0.8
Foreign				
Consumer automobile	102	72	0.6	0.4
Consumer mortgage				
1st Mortgage	—	4	4.4	1.2
Home equity	—	—	—	—
Total foreign	102	76	0.6	0.4
Total consumer finance receivables and loans	$507	$514	0.7	0.7

(a) Net charge-off ratios are calculated as net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the year for each loan category.

Our net charge-offs from total consumer automobile finance receivables and loans were $369 million for the year ended December 31, 2012, compared to $321 million for the year ended December 31, 2011. The $18 million increase in net charge-offs from the domestic automobile finance receivables and loans for the year ended December 31, 2012, was driven primarily by higher outstandings as the net charge-off rate improved.

Our net charge-offs from total consumer mortgage receivables and loans were $138 million for the year ended December 31, 2012, compared to $193 million in 2011. The decrease was driven by the improved mix of remaining loans as the lower quality legacy loans continued to runoff.

The following table summarizes the unpaid principal balance of total consumer loan originations for the periods shown. Total consumer loan originations include loans classified as finance receivables and loans and loans held-for-sale during the period.

Year ended December 31, ($ in millions)	2012	2011
Domestic		
Consumer automobile	$30,351	$32,933
Consumer mortgage		
1st Mortgage	32,465	56,258
Home equity	—	—
Total domestic	62,816	89,191
Foreign		
Consumer automobile	9,653	9,983
Consumer mortgage		
1st Mortgage	—	1,403
Home equity	—	—
Total foreign	9,653	11,386
Total consumer loan originations	$72,469	$100,577

Total automobile-originated loans decreased $2.9 billion for the year ended December 31, 2012, compared to 2011. The decrease was primarily due to lower retail penetration at both GM and Chrysler. Total mortgage-originated loans decreased $25.2 billion for the year ended December 31, 2012. The decline in loan production was primarily driven by

the reduction in correspondent lending.
Consumer loan originations retained on-balance sheet as held-for-investment were $42.2 billion at December 31, 2012, compared to $44.6 billion at December 31, 2011. The decrease was primarily due to lower retail penetration at both GM and Chrysler.

The following table shows the percentage of total consumer finance receivables and loans recorded at historical cost reported at carrying value before allowance for loan losses by state and foreign concentration. Total automobile loans were $53.7 billion and $63.5 billion at December 31, 2012, and December 31, 2011, respectively. Total mortgage and home equity loans were $9.8 billion and $10.0 billion at December 31, 2012, and December 31, 2011, respectively.

December 31,	2012 (a) Automobile	2012 (a) 1st Mortgage and home equity	2011 Automobile	2011 1st Mortgage and home equity
Texas	12.9 %	5.8 %	9.5 %	5.5 %
California	5.6	29.2	4.6	25.7
Florida	6.7	3.6	4.8	4.0
Michigan	5.0	4.1	4.0	4.8
Pennsylvania	5.2	1.6	3.6	1.6
Illinois	4.3	4.8	3.1	5.0
New York	4.6	2.0	3.5	2.3
Ohio	4.0	0.8	2.9	1.0
Georgia	3.7	1.9	2.5	1.8
North Carolina	3.3	2.0	2.2	2.1
Other United States	44.7	44.2	32.9	45.9
Foreign (b)	—	—	26.4	0.3
Total consumer loans	100.0 %	100.0 %	100.0 %	100.0 %

(a) Presentation is in descending order as a percentage of total consumer finance receivables and loans at December 31, 2012.

(b) Foreign consumer finance receivables and loans as of December 31, 2012, was $2 million. These remaining foreign balances are within Finland and the Czech Republic.

We monitor our consumer loan portfolio for concentration risk across the geographies in which we lend. The highest concentrations of loans in the United States are in Texas and California, which represented an aggregate of 21.0% and 16.4% of our total outstanding consumer finance receivables and loans at December 31, 2012, and December 31, 2011, respectively.

Concentrations in our Mortgage operations are closely monitored given the volatility of the housing markets. Our consumer mortgage loan concentrations in California, Florida, and Michigan receive particular attention as the real estate value depreciation in these states has been amongst the most severe.

Repossessed and Foreclosed Assets

We classify an asset as repossessed or foreclosed (included in other assets on the Consolidated Balance Sheet) when physical possession of the collateral is taken. We dispose of the acquired collateral in a timely fashion in accordance with regulatory requirements. For more information on repossessed and foreclosed assets, refer to Note 1 to the Consolidated Financial Statements.

Repossessed assets in our Automotive Finance operations at December 31, 2012, increased $6 million to $62 million from December 31, 2011. Foreclosed mortgage assets at December 31, 2012, decreased $71 million to $6 million from December 31, 2011, primarily due to the deconsolidation of ResCap.

Higher-Risk Mortgage Loans

Since 2009, we primarily focused our origination efforts on prime conforming and government-insured residential mortgages in the United States. However, we continued to hold mortgage loans originated in prior years that have features that expose us to potentially higher credit risk including high original loan-to-value mortgage loans (prime or nonprime), payment-option adjustable-rate mortgage loans (prime nonconforming), interest-only mortgage loans (classified as prime conforming or nonconforming for domestic production and prime nonconforming or nonprime for

international production), and below-market rate (teaser) mortgages (prime or nonprime).

In circumstances when a loan has features such that it falls into multiple categories, it is classified to a category only once based on the following hierarchy: (1) high original loan-to-value (LTV) mortgage loans, (2) payment-option adjustable-rate mortgage loans, (3) interest-only mortgage loans, and (4) below-market rate (teaser) mortgages. Given the continued stress within the housing market, we believe this hierarchy provides the most relevant risk assessment of our nontraditional products.

- High loan-to-value mortgages — Defined as first-lien loans with original loan-to-value ratios equal to or in excess of 100% or second-lien loans that when combined with the underlying first-lien mortgage loan result in an original loan-to-value ratio equal to or in excess of 100%. We ceased originating these loans with the intent to retain during 2009.

- Payment-option adjustable-rate mortgages — Permit a variety of repayment options. The repayment options include minimum, interest-only, fully amortizing 30-year, and fully amortizing 15-year payments. The minimum payment option generally sets the monthly payment at the initial interest rate for the first year of the loan. The interest rate resets after the first year, but the borrower can continue to make the minimum payment. The interest-only option sets the monthly payment at the amount of interest due on the loan. If the interest-only option payment would be less than the minimum payment, the interest-only option is not available to the borrower. Under the fully amortizing 30- and 15-year payment options, the borrower's monthly payment is set based on the interest rate, loan balance, and remaining loan term. We ceased originating these loans during 2008.
- Interest-only mortgages — Allow interest-only payments for a fixed time. At the end of the interest-only period, the loan payment includes principal payments and can increase significantly. The borrower's new payment, once the loan becomes amortizing (i.e., includes principal payments), will be greater than if the borrower had been making principal payments since the origination of the loan. We ceased originating these loans with the intent to retain during 2010.
- Below-market rate (teaser) mortgages — Contain contractual features that limit the initial interest rate to a below-market interest rate for a specified time period with an increase to a market interest rate in a future period. The increase to the market interest rate could result in a significant increase in the borrower's monthly payment amount. We ceased originating these loans with the intent to retain during 2008.

The following table summarizes mortgage finance receivables and loans by higher-risk loan type. These finance receivables and loans are recorded at historical cost and reported at carrying value before allowance for loan losses.

	2012			2011		
December 31, ($ in millions)	Outstanding	Nonperforming	Accruing past due 90 days or more	Outstanding	Nonperforming	Accruing past due 90 days or more
Interest-only mortgage loans (a)	$2,063	$125	$—	$2,947	$147	$—
Below-market rate (teaser) mortgages	192	3	—	248	6	—
Total higher-risk mortgage loans	$2,255	$128	$—	$3,195	$153	$—

(a) The majority of the interest-only mortgage loans are expected to start principal amortization in 2015 or beyond.

High original LTV mortgage finance receivables and loans and payment-option adjustable-rate mortgage finance receivables and loans remained flat at $1 million and $3 million, respectively, at December 31, 2012 and December 31, 2011. There were no high original LTV mortgage loans or payment-option adjustable-rate mortgage loans classified as nonperforming or 90 days past due and still accruing at December 31, 2012 and December 31, 2011.

The allowance for loan losses was $104 million, or 4.6%, of total higher-risk held-for-investment mortgage loans recorded at historical cost based on carrying value outstanding before allowance for loans losses at December 31, 2012.

The following table includes our five largest state concentrations based on our higher-risk mortgage finance receivables and loans recorded at historical cost and reported at carrying value before allowance for loan losses.

December 31, ($ in millions)	Interest-only mortgage loans	Below-market rate (teaser) mortgages	Total higher-risk mortgage loans
2012			
California	$500	$60	$560
Virginia	216	9	225
Maryland	166	5	171
Illinois	107	6	113
Michigan	106	5	111
Other United States	968	107	1,075
Total higher-risk mortgage loans	$2,063	$192	$2,255
2011			
California	$748	$78	$826
Virginia	274	10	284
Maryland	217	6	223
Illinois	153	8	161
Michigan	199	9	208
Other United States	1,356	137	1,493
Total higher-risk mortgage loans	$2,947	$248	$3,195

Commercial Credit Portfolio

Our commercial portfolio consists primarily of automotive loans (wholesale floorplan, dealer term loans including real estate loans, and automotive fleet financing), and some commercial finance loans. In general, the credit risk of our commercial portfolio is impacted by overall economic conditions in the countries in which we operate and the financial health of the automotive manufacturers that provide the inventory we floorplan. As part of our floorplan financing arrangements, we typically require repurchase agreements with the automotive manufacturer to repurchase new vehicle inventory under certain circumstances.

Our credit risk on the commercial portfolio is markedly different from that of our consumer portfolio. Whereas the consumer portfolio represents smaller-balance homogeneous loans that exhibit fairly predictable and stable loss patterns, the commercial portfolio exposures can be less predictable. We utilize an internal credit risk rating system that is fundamental to managing credit risk exposure consistently across various types of commercial borrowers and captures critical risk factors for each borrower. The ratings are used for many areas of credit risk management, such as loan origination, portfolio risk monitoring, management reporting, and loan loss reserves analyses. Therefore, the rating system is critical to an effective and consistent credit risk management framework.

During the year ended December 31, 2012, the credit performance of the commercial portfolio remained strong as nonperforming finance receivables and loans and net charge-offs declined. For information on our commercial credit risk practices and policies regarding delinquencies, nonperforming status, and charge-offs, refer to Note 1 to the Consolidated Financial Statements.

The following table includes total commercial finance receivables and loans reported at carrying value before allowance for loan losses.

	Outstanding		Nonperforming (a)		Accruing past due 90 days or more (b)	
December 31, ($ in millions)	2012	2011	2012	2011	2012	2011
Domestic						
Commercial and industrial						
Automobile	$30,270	$26,552	$146	$105	$—	$—
Mortgage	—	1,887	—	—	—	—
Other (c)	2,679	1,178	33	22	—	—
Commercial real estate						
Automobile	2,552	2,331	37	56	—	—
Mortgage	—	—	—	—	—	—
Total domestic	35,501	31,948	216	183	—	—
Foreign						
Commercial and industrial						
Automobile	—	8,265	—	118	—	—
Mortgage	—	24	—	—	—	—
Other (c)	18	63	—	15	—	—
Commercial real estate						
Automobile	—	154	—	11	—	—
Mortgage	—	14	—	12	—	—
Total foreign	18	8,520	—	156	—	—
Total commercial finance receivables and loans	$35,519	$40,468	$216	$339	$—	$—

(a) Includes nonaccrual troubled debt restructured loans of $29 million and $21 million at December 31, 2012, and December 31, 2011, respectively.

(b) There were no troubled debt restructured loans classified as 90 days past due and still accruing at December 31, 2012 and December 31, 2011.

(c) Other commercial primarily includes senior secured commercial lending.

Total commercial finance receivables and loans outstanding decreased $4.9 billion to $35.5 billion at December 31, 2012, from December 31, 2011. The domestic commercial and industrial outstandings increased $3.3 billion primarily due to increased automotive industry sales and corresponding rise in inventories as well as ResCap's debtor-in-possession financing, partially offset by the wind-down of the mortgage warehouse lending's portfolio. The foreign commercial and industrial outstandings decreased $8.3 billion primarily due to the reclassification of foreign Automotive Finance operations to discontinued operations.

Total domestic commercial nonperforming finance receivables and loans were $216 million at December 31, 2012, an increase of $33 million compared to December 31, 2011. However, portfolio performance was stable during 2012, and total nonperforming commercial finance receivables and loans as a percentage of outstanding commercial finance receivables and loans declined from 0.8% as of December 31, 2011 to 0.6% as of December 31, 2012.

The following table includes total commercial net charge-offs from finance receivables and loans at historical cost and related ratios reported at carrying value before allowance for loan losses.

	Net charge-offs (recoveries)		Net charge-off ratios (a)	
Year ended December 31, ($ in millions)	2012	2011	2012	2011
Domestic				
Commercial and industrial				
Automobile	$2	$7	— %	— %
Mortgage	(1)	(3)	(0.1)	(0.3)
Other	(3)	(7)	(0.2)	(0.5)
Commercial real estate				
Automobile	(1)	6	—	0.3
Mortgage	—	(1)	—	n/m
Total domestic	(3)	2	—	—
Foreign				
Commercial and industrial				
Automobile	(2)	(1)	—	—
Mortgage	—	8	2.2	25.0
Other	(28)	2	(75.3)	0.8
Commercial real estate				
Automobile	—	1	0.3	0.3
Mortgage	—	27	(7.1)	60.9
Total foreign	(30)	37	(0.4)	0.4
Total commercial finance receivables and loans	$(33)	$39	(0.1)	0.1

n/m = not meaningful

(a) Net charge-off ratios are calculated as net charge-offs divided by average outstanding finance receivables and loans excluding loans measured at fair value and loans held-for-sale during the year for each loan category.

Our net charge-offs from commercial finance receivables and loans resulted in recoveries of $33 million for the year ended December 31, 2012, compared to net charge-offs of $39 million in 2011. The decrease in net charge-offs during 2012 was largely driven by strong recoveries in certain wind-down portfolios and an improved mix of loans in the existing portfolios.

Commercial Real Estate

The commercial real estate portfolio consists of finance receivables and loans issued primarily to automotive dealers. Commercial real estate finance receivables and loans were $2.6 billion and $2.5 billion at December 31, 2012, and December 31, 2011, respectively.

The following table presents the percentage of total commercial real estate finance receivables and loans by geographic region and property type. These finance receivables and loans are reported at carrying value before allowance for loan losses.

December 31,	2012		2011	
Geographic region				
Texas	13.0	%	12.4	%
Michigan	12.6		14.1	
Florida	11.7		12.4	
California	9.3		9.3	
New York	4.9		3.5	
Virginia	3.9		4.1	
North Carolina	3.9		2.1	
Pennsylvania	3.3		2.9	
Georgia	3.0		2.5	
Tennessee	2.3		1.8	
Other United States	32.1		28.3	
Foreign	—		6.6	
Total commercial real estate finance receivables and loans	100.0	%	100.0	%
Property type				
Automotive dealers	100.0	%	99.4	%
Other	—		0.6	
Total commercial real estate finance receivables and loans	100.0	%	100.0	%

Commercial Criticized Exposure

Finance receivables and loans classified as special mention, substandard, or doubtful are deemed criticized. These classifications are based on regulatory definitions and generally represent finance receivables and loans within our portfolio that have a higher default risk or have already defaulted. These finance receivables and loans require additional monitoring and review including specific actions to mitigate our potential economic loss.

The following table presents the percentage of total commercial criticized finance receivables and loans by industry concentrations. These finance receivables and loans are reported at carrying value before allowance for loan losses.

December 31,	2012		2011	
Industry				
Automotive	85.7	%	82.9	%
Manufacturing	5.5		1.8	
Services	4.9		1.9	
Other	3.9		13.4	
Total commercial criticized finance receivables and loans	100.0	%	100.0	%

Total criticized exposures declined $1.4 billion to $1.7 billion at December 31, 2012 from December 31, 2011, primarily due to the reclassification of foreign Automotive Finance operations to discontinued operations as well as improvements in dealer financial condition within the domestic automotive industry. The increase in our automotive criticized concentration rate was driven primarily by the decrease in overall criticized outstandings.

Selected Loan Maturity and Sensitivity Data

The table below shows the commercial finance receivables and loans portfolio and the distribution between fixed and floating interest rates based on the stated terms of the commercial loan agreements. This portfolio is reported at carrying value before allowance for loan losses.

December 31, 2012 ($ in millions)	Within 1 year (a)	1-5 years	After 5 years	Total (b)
Commercial and industrial	$31,107	$1,798	$44	$32,949
Commercial real estate	131	2,004	417	2,552
Total domestic	31,238	3,802	461	35,501
Foreign	3	15	—	18
Total commercial finance receivables and loans	$31,241	$3,817	$461	$35,519
Loans at fixed interest rates		$1,809	$381	
Loans at variable interest rates		2,008	80	
Total commercial finance receivables and loans		$3,817	$461	

(a) Includes loans (e.g., floorplan) with revolving terms.
(b) Loan maturities are based on the remaining maturities under contractual terms.

Allowance for Loan Losses

The following tables present an analysis of the activity in the allowance for loan losses on finance receivables and loans.

($ in millions)	Consumer automobile	Consumer mortgage	Total consumer	Commercial	Total
Allowance at January 1, 2012	$766	$516	$1,282	$221	$1,503
Charge-offs					
Domestic	(438)	(149)	(587)	(8)	(595)
Foreign	(178)	—	(178)	(3)	(181)
Total charge-offs	(616)	(149)	(765)	(11)	(776)
Recoveries					
Domestic	171	11	182	11	193
Foreign	76	—	76	33	109
Total recoveries	247	11	258	44	302
Net charge-offs	(369)	(138)	(507)	33	(474)
Provision for loan losses	257	86	343	(14)	329
Foreign provision for loan losses	115	—	115	(50)	65
Deconsolidation of ResCap	—	(9)	(9)	—	(9)
Other (a)	(194)	(3)	(197)	(47)	(244)
Allowance at December 31, 2012	$575	$452	$1,027	$143	$1,170
Allowance for loan losses to finance receivables and loans outstanding at December 31, 2012 (b)	1.1%	4.6%	1.6%	0.4%	1.2%
Net charge-offs to average finance receivables and loans outstanding at December 31, 2012 (b)	0.5%	1.4%	0.7%	(0.1)%	0.4%
Allowance for loan losses to total nonperforming finance receivables and loans at December 31, 2012 (b)	221.3%	118.0%	159.8%	66.4%	136.3%
	1.6	3.3	2.0	(4.3)	2.5

Ratio of allowance for loans losses to net
charge-offs at December 31, 2012

(a) Other includes the allowance of foreign Automotive Finance operations finance receivables and loans that were reclassified as discontinued operations.

(b) Coverage percentages are based on the allowance for loan losses related to finance receivables and loans excluding those loans held at fair value as a percentage of the unpaid principal balance, net of premiums and discounts.

The allowance for consumer loan losses at December 31, 2012, declined $255 million compared to December 31, 2011. The decline reflects the reclassification of the foreign Automotive Finance operations to discontinued operations and the runoff of legacy portfolios, which was partially offset by an increase in loans outstanding.

The allowance for commercial loan losses declined $78 million at December 31, 2012, compared to December 31, 2011, primarily related to the ongoing strength in dealer performance, the reclassification of foreign Automotive Finance operations to discontinued operations, and general overall improvement in the Commercial Finance Group's portfolio.

($ in millions)	Consumer automobile	Consumer mortgage	Total consumer	Commercial	Total
Allowance at January 1, 2011	$970	$580	$1,550	$323	$1,873
Charge-offs					
Domestic	(435)	(205)	(640)	(27)	(667)
Foreign	(145)	(5)	(150)	(63)	(213)
Total charge-offs	(580)	(210)	(790)	(90)	(880)
Recoveries					
Domestic	186	16	202	25	227
Foreign	73	1	74	26	100
Total recoveries	259	17	276	51	327
Net charge-offs	(321)	(193)	(514)	(39)	(553)
Provision for loan losses	102	129	231	(43)	188
Foreign provision for loan losses	52	—	52	(21)	31
Other	(37)	—	(37)	1	(36)
Allowance at December 31, 2011	$766	$516	$1,282	$221	$1,503
Allowance for loan losses to finance receivables and loans outstanding at December 31, 2011 (a)	1.2%	5.2%	1.7%	0.5%	1.3%
Net charge-offs to average finance receivables and loans outstanding at December 31, 2011 (a)	0.5%	1.9%	0.7%	0.1%	0.5%
Allowance for loan losses to total nonperforming finance receivables and loans at December 31, 2011 (a)	335.8%	152.1%	226.0%	65.3%	165.9%
Ratio of allowance for loans losses to net charge-offs at December 31, 2011	2.4	2.7	2.5	5.7	2.7

(a) Coverage percentages are based on the allowance for loan losses related to finance receivables and loans excluding those loans held at fair value as a percentage of the unpaid principal balance, net of premiums and discounts.

The allowance for consumer loan losses was $1.3 billion at December 31, 2011, compared to $1.6 billion at December 31, 2010. The decline reflected overall improved credit quality of newer vintages reflecting tightened underwriting standards which was partially offset by an increase in loans outstanding.

The allowance for commercial loan losses was $221 million at December 31, 2011, compared to $323 million at December 31, 2010. The decline was primarily related to improvement in dealer performance and continued wind-down of non-core commercial assets.

Allowance for Loan Losses by Type

The following table summarizes the allocation of the allowance for loan losses by product type.

	2012			2011		
December 31, ($ in millions)	Allowance for loan losses	Allowance as a % of loans outstanding	Allowance as a % of allowance for loan losses	Allowance for loan losses	Allowance as a % of loans outstanding	Allowance as a % of allowance for loan losses
Consumer						
Domestic						
Consumer automobile	$575	1.1 %	49.2 %	$600	1.3 %	39.9 %
Consumer mortgage						
1st Mortgage	245	3.4	20.9	275	4.0	18.3
Home equity	207	7.8	17.7	237	7.7	15.8
Total domestic	1,027	1.6	87.8	1,112	2.0	74.0
Foreign						
Consumer automobile	—	—	—	166	1.0	11.1
Consumer mortgage						
1st Mortgage	—	—	—	4	14.5	0.2
Home equity	—	—	—	—	—	—
Total foreign	—	—	—	170	1.0	11.3
Total consumer loans	1,027	1.6	87.8	1,282	1.7	85.3
Commercial						
Domestic						
Commercial and industrial						
Automobile	55	0.2	4.7	62	0.2	4.0
Mortgage	—	—	—	1	—	0.1
Other	48	1.8	4.1	52	4.4	3.5
Commercial real estate						
Automobile	40	1.6	3.4	39	1.7	2.6
Mortgage	—	—	—	—	—	—
Total domestic	143	0.4	12.2	154	0.5	10.2
Foreign						
Commercial and industrial						
Automobile	—	—	—	48	0.6	3.2
Mortgage	—	—	—	10	43.1	0.7
Other	—	—	—	1	1.9	0.1
Commercial real estate						
Automobile	—	—	—	3	1.7	0.2
Mortgage	—	—	—	5	33.2	0.3
Total foreign	—	—	—	67	0.8	4.5
Total commercial loans	143	0.4	12.2	221	0.5	14.7
Total allowance for loan losses	$1,170	1.2	100.0 %	$1,503	1.3	100.0 %

69

Table of Contents

Provision for Loan Losses

The following table summarizes the provision for loan losses by product type.

Year ended December 31, ($ in millions)	2012	2011	2010
Consumer			
Domestic			
Consumer automobile	$257	$102	$228
Consumer mortgage			
1st Mortgage	52	68	72
Home equity	34	55	90
Total domestic	343	225	390
Foreign			
Consumer automobile	—	—	(2)
Consumer mortgage			
1st Mortgage	—	6	2
Home equity	—	—	—
Total foreign	—	6	—
Total consumer loans	343	231	390
Commercial			
Domestic			
Commercial and industrial			
Automobile	(3)	(3)	2
Mortgage	(1)	(3)	(13)
Other	(10)	(51)	(47)
Commercial real estate			
Automobile	—	(10)	34
Mortgage	—	(1)	(10)
Total domestic	(14)	(68)	(34)
Foreign			
Commercial and industrial			
Automobile	—	—	(2)
Mortgage	—	5	(5)
Other	—	—	—
Commercial real estate			
Automobile	—	—	—
Mortgage	—	20	8
Total foreign	—	25	1
Total commercial loans	(14)	(43)	(33)
Total provision for loan losses	$329	$188	$357

Lease Residual Risk Management

We are exposed to residual risk on vehicles in the consumer lease portfolio. This lease residual risk represents the possibility that the actual proceeds realized upon the sale of returned vehicles will be lower than the projection of these values used in establishing the pricing at lease inception. The following factors most significantly influence lease residual risk. For additional information on our valuation of automobile lease assets and residuals, refer to the Critical Accounting Estimates — Valuation of Automobile Lease Assets and Residuals section within this MD&A.

- Used vehicle market — We have exposure to changes in used vehicle prices. General economic conditions, used vehicle supply and demand, and new vehicle market prices heavily influence used vehicle prices.

- Residual value projections — We establish risk adjusted residual values at lease inception by consulting independently published guides and proprietary statistical models. The residual values are consistently monitored during the lease term. These values are

projections of expected values in the future (typically between two and four years) based on current assumptions for the respective make and model. Actual realized values often differ.

- Remarketing abilities — Our ability to efficiently process and effectively market off-lease vehicles affects the disposal costs and the proceeds realized from vehicle sales.
- Manufacturer vehicle and marketing programs — Automotive manufacturers influence lease residual results in the following ways:

The brand image of automotive manufacturers and consumer demand for their products affect residual risk.
Automotive manufacturer marketing programs may influence the used vehicle market for those vehicles through programs such as incentives on new vehicles, programs designed to encourage lessees to terminate their leases early in conjunction with the acquisition of a new vehicle (referred to as pull-ahead programs), and special rate used vehicle programs.
Automotive manufacturers may provide support to us for certain residual deficiencies.

The following table summarizes the volume of our serviced lease terminations in the United States over recent periods. It also summarizes the average sales proceeds on 24-, 36-, and 48-month scheduled lease terminations for those same periods. The mix of terminated vehicles in 2012 was used to normalize results over previous periods to more clearly demonstrate market pricing trends.

Year ended December 31,	2012	2011	2010
Off-lease vehicles remarketed (in units)	63,315	248,624	376,203
Average sales proceeds on scheduled lease terminations ($ per unit)			
24-month (a)	$22,586	n/m	$22,400
36-month (b)	n/m	n/m	n/m
48-month	18,124	16,134	14,289

n/m = not meaningful

(a) During 2011, 24-month lease terminations were not materially sufficient to create a historical comparison due to our temporary curtailment of leasing in 2009.

(b) The 36-month lease terminations were not materially sufficient to create a historical multi-year comparison from that term due to our temporary curtailment of leasing in 2009.

The number of off-lease vehicles remarketed in 2012 reached a historic low, declining 75% from 2011. The significant decrease was due to our temporary curtailment of leasing in late 2008 through 2009. Sales proceeds have strengthened since 2009 due primarily to the lower supply of attractive used vehicles, which can be largely attributed to the significant drop in new vehicle sales and leasing activity during the last economic downturn. For information on our Investment in Operating Leases, refer to Note 9 to the Consolidated Financial Statements.

Market Risk

Our automotive financing, mortgage, and insurance activities give rise to market risk representing the potential loss in the fair value of assets or liabilities and earnings caused by movements in market variables, such as interest rates, foreign-exchange rates, equity prices, market perceptions of credit risk, and other market fluctuations that affect the value of securities, assets held-for-sale, and operating leases. We are exposed to interest rate risk arising from changes in interest rates related to financing, investing, and cash management activities. More specifically, we have entered into contracts to provide financing, to retain mortgage servicing rights, and to retain various assets related to securitization activities all of which are exposed in varying degrees to changes in value due to movements in interest rates. Interest rate risk arises from the mismatch between assets and the related liabilities used for funding. We enter into various financial instruments, including derivatives, to maintain the desired level of exposure to the risk of interest rate and other fluctuations. Refer to Note 22 to the Consolidated Financial Statements for further information.
We are also exposed to foreign-currency risk arising from the possibility that fluctuations in foreign-exchange rates will affect future earnings or asset and liability values related to our global operations. We enter into hedges to mitigate foreign exchange risk.

We also have exposure to equity price risk, primarily in our Insurance operations, which invests in equity securities that are subject to price risk influenced by capital market movements. We enter into equity options to economically hedge our exposure to the equity markets.

Although the diversity of our activities from our complementary lines of business may partially mitigate market risk, we also actively manage this risk. We maintain risk management control systems to monitor interest rates, foreign-currency exchange rates, equity price risks, and any of their related hedge positions. Positions are monitored using a variety of analytical techniques including market value, sensitivity analysis, and value at risk models.

Fair Value Sensitivity Analysis

The following table and subsequent discussion presents a fair value sensitivity analysis of our assets and liabilities using isolated hypothetical movements in specific market rates. The analysis assumes adverse instantaneous, parallel shifts in market-exchange rates, interest rate yield curves, and equity prices. Additionally, since only adverse fair value impacts are included, the natural offset between asset and liability rate sensitivities that arise within a diversified balance sheet, such as ours, is not considered.

	2012		2011	
December 31, ($ in millions)	Nontrading	Trading	Nontrading	Trading
Financial instruments exposed to changes in:				
Interest rates				
Estimated fair value	(a)	$—	(a)	$549
Effect of 10% adverse change in rates	(a)	—	(a)	(2)
Foreign-currency exchange rates				
Estimated fair value	$2,791	$—	$6,724	$—
Effect of 10% adverse change in rates	(279)	—	(672)	—
Equity prices				
Estimated fair value	$1,152	$—	$1,059	$—
Effect of 10% decrease in prices	(115)	—	(106)	—

(a) Refer to the next section titled Net Interest Income Sensitivity Analysis for information on the interest rate sensitivity of our nontrading financial instruments.

The fair value of our foreign-currency exchange-rate sensitive financial instruments decreased during the year ended December 31, 2012, compared to 2011, due to decreases in finance receivables and loans that were reclassified to discontinued operations partially offset by a decrease in foreign-denominated short-term borrowings and foreign-denominated long-term debt that were also reclassified to discontinued operations. The net decrease consequently drove the decrease in the fair value estimate and associated adverse 10% change in rates impact. The increase in the fair value of our equity sensitive financial instruments was due to a slightly higher equity investment balance compared to prior year. This change in equity exposure drove our increased sensitivity to a 10% decrease in equity prices.

Net Interest Income Sensitivity Analysis

We use net interest income sensitivity analysis as our primary metric to measure and manage the interest rate sensitivities of our nontrading financial instruments. Interest rate risk represents the most significant market risk to the nontrading exposures. We actively monitor the level of exposure so that movements in interest rates do not adversely affect future earnings.

We prepare forward-looking forecasts of net interest income, which take into consideration anticipated future business growth, asset/liability positioning, and interest rates based on the implied forward curve. Simulations are used to assess changes in net interest income in multiple interest rates scenarios relative to the baseline forecast. The changes in net interest income relative to the baseline are defined as the sensitivity. The net interest income sensitivity tests measure the potential change in our pretax net interest income over the following twelve months. A number of alternative rate scenarios are tested including immediate parallel shocks to the forward yield curve, nonparallel shocks to the forward yield curve, and stresses to certain term points on the yield curve in isolation to capture and monitor a number of risk types.

Included in our forward-looking forecast is the planned sale of our international and Canadian operations. These instruments were moved to discontinued operations at year end 2012 based on their expected sale in 2013. Consequently, the interest income and expense from these instruments is not included in net interest income and their interest sensitivity is managed using a fair value approach. Therefore, we no longer include the interest sensitivity of these financial instruments in our net interest income simulations.

Our twelve-month pretax net interest income sensitivity based on the forward-curve was as follows.

Year ended December 31, ($ in millions)	2012	2011
Parallel rate shifts		
-100 basis points	$(7)	$73
+100 basis points	(46)	(84)
+200 basis points	48	88

The adverse change in net interest income in the -100 basis point scenario in the 2012 analysis is mainly due to the low interest rate environment as further declines in deposit and short funding rates are limited. The positive change in net interest income in the +200 basis point scenario is mainly due to income on certain commercial loans that have rate index floors. Interest income on these loans increases significantly as interest rates and the related rate index rises above the level of the floor.

The change in net interest income sensitivity from the prior year was due to the lower and flatter yield curve and to a lesser extent the planned sale of our international operations.

Operational Risk

We define operational risk as the risk of loss resulting from inadequate or failed processes or systems, human factors, or external events. Operational risk is an inherent risk element in each of our businesses and related support activities. Such risk can manifest in various ways, including errors, business interruptions, and inappropriate behavior of employees, and can potentially result in financial losses and other damage to us. Examples of operational risk include legal/compliance, vendor management, model, reputational, and representation and warranty obligation risks (See the Purchase Obligations discussion within this MD&A).

To monitor and control such risk, we maintain a system of policies and a control framework designed to provide a sound and well-controlled operational environment. This framework employs practices and tools designed to maintain risk governance, risk and control assessment and testing, risk monitoring, and transparency through risk reporting mechanisms. The goal is to maintain operational risk at appropriate levels in view of our financial strength, the characteristics of the businesses and the markets in which we operate, and the related competitive and regulatory environment.

Notwithstanding these risk and control initiatives, we may incur losses attributable to operational risks from time to time, and there can be no assurance these losses will not be incurred in the future.

Insurance / Underwriting Risk

In underwriting our vehicle service contracts and insurance policies, we assess the particular risk involved, including losses and loss adjustment expenses, and determine the acceptability of the risk as well as the categorization of the risk for appropriate pricing. We base our determination of the risk on various assumptions tailored to the respective insurance product. With respect to vehicle service contracts, assumptions include the quality of the vehicles produced, the price of replacement parts, repair labor rates in the future, and new model introductions. Insurance risk also includes event risk, which is synonymous with pure risk, hazard risk, or insurance risk, and presents no chance of gain, only of loss.

In some instances, reinsurance is used to reduce the risk associated with volatile businesses, such as catastrophe risk in U.S. dealer vehicle inventory insurance. Our commercial products business is covered by traditional catastrophe protection, aggregate stop loss protection, and an extension of catastrophe coverage for hurricane events. In addition, loss control techniques, such as hail nets or storm path monitoring to assist dealers in preparing for severe weather, help to mitigate loss potential.

We mitigate losses by the active management of claim settlement activities using experienced claims personnel and the evaluation of current period reported claims. Losses for these events may be compared to prior claims experience, expected claims, or loss expenses from similar incidents to assess the reasonableness of incurred losses.

In accordance with industry and accounting practices and applicable insurance laws and regulatory requirements, we maintain reserves for reported losses, losses incurred but not reported, and loss adjustment expenses. The estimated values of our prior reported loss reserves and changes to the estimated values are routinely monitored by credentialed actuaries. Our reserve estimates are regularly reviewed by management; however, since the reserves are based on estimates and numerous assumptions, the ultimate liability may differ from the amount estimated.

Country Risk

We have exposures to obligors domiciled in foreign countries; and therefore, our portfolio is subject to country risk. Country risk is the risk that conditions in a foreign country will impair the value of our assets, restrict our ability to repatriate equity or profits, or adversely impact the ability of the guarantor to uphold their obligations to us. Country risk includes risks arising from the economic, political, and social conditions prevalent in a country, as well as the strengths and weaknesses in the legal and regulatory framework. These conditions may have potentially favorable or unfavorable consequences for our investments in a particular country.

Country risk is measured by determining our cross-border outstandings in accordance with Federal Financial Institutions Examination Council guidelines. Cross-border outstandings are reported as assets within the country of which the obligor or guarantor resides. Furthermore, outstandings backed by tangible collateral are reflected under the country in which the collateral is held. For securities received as collateral, cross-border outstandings are assigned to the domicile of the issuer of the securities. Resale agreements are presented based on the domicile of the counterparty.

The following table lists all countries in which cross-border outstandings exceed 1.0% of consolidated assets.

($ in millions)	Banks	Sovereign	Other	Net local country assets	Derivatives	Total cross-border outstandings (a)
2012 (b)						
Canada	$396	$305	$190	$2,953	$6	$3,850
Germany	10	30	3	3,340	450	3,833
United Kingdom	265	—	16	2,348	237	2,866
2011 (b)						
Canada	$343	$250	$451	$3,746	$20	$4,810
Germany	47	32	5	3,219	576	3,879
United Kingdom	311	6	13	962	1,356	2,648

(a) As we continue to execute on our strategy of selling or liquidating our nonstrategic operations, our total cross-border outstandings will significantly decline upon the completion of the transactions.

(b) Our total cross-border exposure to Portugal, Ireland, Italy, Greece, and Spain was $649 million and $327 million as of December 31, 2012, and 2011, respectively, most of which was nonsovereign exposure.

Liquidity Management, Funding, and Regulatory Capital

Overview

The purpose of liquidity management is to ensure our ability to meet changes in loan and lease demand, debt maturities, deposit withdrawals, and other cash commitments under both normal operating conditions as well as periods of economic or financial stress. Our primary objective is to maintain cost-effective, stable and diverse sources of funding capable of sustaining the organization throughout all market cycles. Sources of liquidity include both retail and brokered deposits and secured and unsecured market-based funding across various maturity, interest rate, currency, and investor profiles. Further liquidity is available through a pool of unencumbered highly liquid securities, borrowing facilities, repurchase agreements, as well as funding programs supported by the Federal Reserve and the Federal Home Loan Bank of Pittsburgh (FHLB).

We define liquidity risk as the risk that an institution's financial condition or overall safety and soundness is adversely affected by an inability, or perceived inability, to meet its financial obligations, and to withstand unforeseen liquidity stress events. Liquidity risk can arise from a variety of institution specific or market-related events that could have a negative impact on cash flows available to the organization. Effective management of liquidity risk helps ensure an organization's preparedness to meet uncertain cash flow obligations caused by unanticipated events. The ability of financial institutions to manage liquidity needs and contingent funding exposures has proven essential to their solvency.

The Asset-Liability Committee (ALCO) is chaired by the Corporate Treasurer and is responsible for monitoring Ally's liquidity position, funding strategies and plans, contingency funding plans, and counterparty credit exposure arising from financial transactions. Corporate Treasury is responsible for managing the liquidity positions of Ally within prudent operating guidelines and targets approved by ALCO and the Risk and Compliance Committee of the Ally Financial Board of Directors. We manage liquidity risk at the business segment, legal entity, and consolidated levels. Each business segment, along with Ally Bank, prepares periodic forecasts depicting anticipated funding needs and sources of funds with oversight and monitoring by Corporate Treasury. Corporate Treasury manages liquidity under baseline economic projections as well as more severe economic stressed environments. Corporate Treasury, in turn, plans, and executes our funding strategies.

Ally uses multiple measures to frame the level of liquidity risk, manage the liquidity position, or identify related trends as early warning indicators. These measures include coverage ratios that measure the sufficiency of the liquidity portfolio and stability ratios that measure longer-term structural liquidity. In addition, we have established several internal management routines designed to review all aspects of liquidity and funding plans, evaluate the adequacy of liquidity buffers, review stress testing results, and assist senior management in the execution of its structured funding strategy and risk management accountabilities.

We maintain available liquidity in the form of cash, unencumbered highly liquid securities, and available credit facility capacity that, taken together, allows us to operate and to meet our contractual and contingent obligations in the event of market-wide disruptions and enterprise-specific events. We maintain available liquidity at various entities and consider regulatory restrictions and tax implications that may limit our ability to transfer funds across entities. At December 31, 2012, we maintained $15.6 billion of total available parent company liquidity and $13.2 billion of total available liquidity at Ally Bank. Parent company liquidity is defined as our consolidated operations less Ally Bank and the subsidiaries of Ally Insurance's holding company. To optimize cash and secured facility capacity between entities, the parent company lends cash to Ally Bank on occasion under an intercompany loan agreement. At December 31, 2012, $1.6 billion was outstanding under the intercompany loan agreement. Amounts outstanding are repayable to the parent company upon demand, subject to five days notice. As a result, this amount is included in the parent company available liquidity and excluded from the available liquidity at Ally Bank.

In December 2010, the Basel Committee on Banking Supervision issued “Basel III: International framework for liquidity risk measurement, standards and monitoring”, which includes two minimum liquidity risk standards. The first standard is the Liquidity Coverage Ratio (LCR). The LCR measures the ratio of unencumbered, high-quality liquid

assets to liquidity needs for a 30-calendar-day time horizon under a severe liquidity stress scenario specified by supervisors. The second standard is the Net Stable Funding Ratio (NSFR). The NSFR is structured to ensure that long term assets are funded with at least a minimum amount of stable liabilities in relation to their liquidity risk profiles. It aims to encourage better assessment of liquidity risk across all on- and off-balance sheet items. In January 2013, the Group of Governors and Heads of Supervision (GHOS), the oversight body of the Basel Committee on Banking Supervision unanimously endorsed amendments to the Liquidity Coverage Ratio announced in December 2010. A summary of changes include: a phased-in implementation with minimum ratio of 60% in 2015, growing by 10% per year to reach 100% by 2019; an expanded definition of high quality liquid assets; and adjustments to net cash outflows. The GHOS indicated that the NSFR will be a priority for the Basel Committee over the next two years and the scheduled implementation date remains unchanged at January 2018. We continue to monitor the potential impacts of these developments and expect to be able to meet the final requirements.

Funding Strategy

Liquidity and ongoing profitability are largely dependent on our timely and cost-effective access to retail deposits and funding in different segments of the capital markets. We continue to be focused on maintaining and enhancing our liquidity. Our funding strategy largely focuses on the development of diversified funding sources across a global investor base to meet all our liquidity needs throughout different market cycles, including periods of financial distress. These funding sources include unsecured debt capital markets, unsecured retail term notes, public and private asset-backed securitizations, committed and uncommitted credit facilities, brokered certificates of deposits, and retail deposits. We also supplement these sources with a modest amount of short-term borrowings, including Demand Notes, unsecured bank loans, and repurchase arrangements. The diversity of our funding sources enhances funding flexibility, limits dependence on any one source, and

results in a more cost-effective funding strategy over the long term. We evaluate funding markets on an ongoing basis to achieve an appropriate balance of unsecured and secured funding sources and the maturity profiles of both. In addition, we further distinguish our funding strategy between Ally Bank funding and parent company or nonbank funding.

We diversify Ally Bank's overall funding in order to reduce reliance on any one source of funding and to achieve a well-balanced funding portfolio across a spectrum of risk, duration, and cost of funds characteristics. Over the past few years, we have been focused on diversifying our funding sources, in particular at Ally Bank by growing retail deposits, expanding public and private securitization programs, maintaining the maturity profile of our brokered deposit portfolio while not exceeding a $10.0 billion portfolio, establishing repurchase agreements, and continuing to access funds from the Federal Home Loan Banks.

Since 2009, we have been directing new bank-eligible assets in the United States to Ally Bank in order to reduce and minimize our nonbanking exposures and funding requirements and utilize our growing consumer deposit-taking capabilities. This has allowed us to use bank funding for a wider array of our automotive finance assets and to provide a sustainable long-term funding channel for the business, while also improving the cost of funds for the enterprise.

Ally Bank

Ally Bank raises deposits directly from customers through the direct banking channel via the internet and over the telephone. These deposits provide our Automotive Finance and Mortgage operations with a stable and low-cost funding source. At December 31, 2012, Ally Bank had $46.9 billion of total external deposits, including $35.0 billion of retail deposits.

At December 31, 2012, Ally Bank maintained cash liquidity of $2.7 billion and unencumbered highly liquid U.S. federal government and U.S. agency securities of $5.9 billion. In addition, at December 31, 2012, Ally Bank had unused capacity in committed secured funding facilities of $6.2 billion, including an equal allocation of shared unused capacity of $3.0 billion from a facility also available to the parent company. Our ability to access this unused capacity depends on having eligible assets to collateralize the incremental funding and, in some instances, the execution of interest rate hedges. To optimize use of cash and secured facility capacity between entities, Ally Financial lends cash to Ally Bank from time to time under an intercompany agreement. Amounts outstanding on this loan are repayable to Ally Financial at any time. Ally Bank has total available liquidity of $13.2 billion at December 31, 2012, which excludes the intercompany loan of $1.6 billion.

Maximizing bank funding continues to be a key part of our long-term liquidity strategy. We have made significant progress in migrating assets to Ally Bank and growing our retail deposit base since becoming a bank holding company in December 2008. Retail deposit growth is key to further reducing our cost of funds and decreasing our reliance on the capital markets. We believe deposits provide a stable, low-cost source of funds that are less sensitive to interest rate changes, market volatility, or changes in our credit ratings when compared to other funding sources. We have continued to expand our deposit gathering efforts through our direct and indirect marketing channels. Current retail product offerings consist of a variety of products including certificates of deposits (CDs), savings accounts, money market accounts, IRA deposit products, as well as an interest checking product. In addition, we utilize brokered deposits, which are obtained through third-party intermediaries. During 2012, the deposit base at Ally Bank grew $7.3 billion, ending the year at $46.9 billion from $39.6 billion at December 31, 2011. The growth in deposits has been primarily attributable to our retail deposit portfolio, particularly within our savings and money market checking accounts, and our CDs. Strong retention rates continue to materially contribute to our growth in retail deposits. In the fourth quarter of 2012 we retained 93% of maturing CD balances up for renewal in the same period. In addition to retail and brokered deposits, Ally Bank had access to funding through a variety of other sources including FHLB advances, public securitizations, private secured funding arrangements, and the Federal Reserve's Discount Window. At December 31, 2012, debt outstanding from the FHLB totaled $4.8 billion with no debt outstanding from the Federal Reserve. Also, as part of our liquidity and funding plans, Ally Bank utilizes certain securities as collateral to access funding from repurchase agreements with third parties. Repurchase agreements are generally short-term. At

December 31, 2012, Ally Bank had no debt outstanding under repurchase agreements. Refer to Note 14 to the Consolidated Financial Statements for a summary of deposit funding by type.

The following table shows Ally Bank's number of accounts and deposit balances by type as of the end of each quarter since 2011.

($ in millions)	4th Quarter 2012	3rd Quarter 2012	2nd Quarter 2012	1st Quarter 2012	4th Quarter 2011	3rd Quarter 2011	2nd Quarter 2011	1st Quarter 2011
Number of retail accounts	1,219,791	1,142,837	1,082,753	1,036,468	976,877	919,670	851,991	798,622
Deposits								
Retail	$35,041	$32,139	$30,403	$29,323	$27,685	$26,254	$24,562	$23,469
Brokered	9,914	9,882	9,905	9,884	9,890	9,911	9,903	9,836
Other (a)	1,977	2,487	2,411	2,314	2,029	2,704	2,405	2,064
Total deposits	$46,932	$44,508	$42,719	$41,521	$39,604	$38,869	$36,870	$35,369

(a) Other deposits include mortgage escrow and other deposits (excluding intercompany deposits).

In addition to building a larger deposit base, we continue to remain active in the securitization markets to finance our Ally Bank automotive loan portfolios. During 2012, Ally Bank completed eleven term securitization transactions backed by retail and dealer floorplan automotive loans and lease notes raising $11.8 billion. Securitization has proven to be a reliable and cost-effective funding source. Additionally, for retail automotive loans and lease notes, the term structure of the transaction locks in funding for a specified pool of loans

and leases for the life of the underlying asset creating an effective tool for managing interest rate and liquidity risk. We manage the execution risk arising from secured funding by maintaining a diverse investor base and maintaining capacity in our committed secured facilities. At December 31, 2012, Ally Bank had exclusive access to $8.5 billion from committed credit facilities. Ally Bank also had access to a $4.1 billion committed facility that is shared with the parent company.

Nonbank Funding

At December 31, 2012, the parent company maintained liquid cash in the amount of $4.2 billion and unencumbered highly liquid U.S. federal government and U.S. agency securities of $0.9 billion. In addition, at December 31, 2012, the parent company had available liquidity from unused capacity in committed credit facilities of $7.2 billion, including an equal allocation of shared unused capacity of $3.0 billion from a facility also available to Ally Bank. Parent company funding is defined as our consolidated operations less our Insurance operations and Ally Bank. Our ability to access unused capacity in secured facilities depends on the availability of eligible assets to collateralize the incremental funding and, in some instances, the funding also relies on the execution of interest rate hedges. Funding sources at the parent company generally consist of longer-term unsecured debt, unsecured retail term notes, committed credit facilities, asset-backed securitizations, and a modest amount of short-term borrowings. To optimize use of cash and secured facility capacity between entities, Ally Financial lends cash to Ally Bank from time to time under an intercompany agreement. Amounts outstanding on this loan are repayable to Ally Financial at any time. The parent company has total available liquidity of $15.6 billion at December 31, 2012, which includes the intercompany loan of $1.6 billion. The total available liquidity amount at December 31, 2012 also includes $1.7 billion of availability that is sourced from certain committed funding arrangements generally reliant upon the origination of future automotive receivables over the next twelve months.

During 2012, we completed five transactions totaling $3.6 billion in funding through the U.S. debt capital markets. We will continue to access the unsecured debt capital markets on an opportunistic basis to help pre-fund upcoming debt maturities. In addition, we have short-term and long-term unsecured debt outstanding from a legacy retail term note program known as SmartNotes. This program generally consisted of fixed-rate instruments with fixed-maturity dates ranging from 9 months to 30 years that were issued through a network of participating broker-dealers. During 2012, we launched a new retail term note program known as Ally Term Notes. There were $7.9 billion and $9.0 billion of combined retail term notes outstanding at December 31, 2012, and December 31, 2011, respectively.

We also obtain unsecured funding from the sale of floating-rate demand notes under our Demand Notes program. The holder has the option to require us to redeem these notes at any time without restriction. Demand Notes outstanding were $3.1 billion at December 31, 2012, compared to $2.8 billion at December 31, 2011. Unsecured short-term bank loans also provide short-term funding. At December 31, 2012, we had $167 million in short-term bank loans, a decrease of $1.4 billion from December 31, 2011. Refer to Note 15 and Note 16 to the Consolidated Financial Statements for additional information about our outstanding short-term borrowings and long-term unsecured debt, respectively.

Secured funding continues to be a significant source of financing at the parent company. During 2012, the parent company completed automotive-related transactions that included the renewal and extension of $22.3 billion of committed secured funding capacity, the creation of incremental private secured funding capacity totaling $7.1 billion, and $2.4 billion in public term securitizations in Europe and Canada. In January 2013 we completed a public retail securitization using the Capital Auto Receivables Asset Trust (CARAT) platform, our first since 2008, raising more than $1.5 billion. We continue to maintain significant funding capacity at the parent company to fund automotive-related assets, including a $7.5 billion syndicated facility that can fund automotive retail and commercial loans, as well as leases. In March 2012, this facility was renewed by a syndicate of nineteen lenders and extended such that half of the capacity will mature in March 2013 and the other half will mature in March 2014. In addition to this facility, there are a variety of others that provide funding in various countries. At December 31, 2012, the parent company had $30.3 billion of exclusive commitments globally in various facilities secured by automotive assets. The

parent company also had access to a $4.1 billion committed facility that is shared with Ally Bank.

Recent Funding Developments

In summary, during 2012, we completed funding transactions totaling more than $28.0 billion and renewed key existing funding facilities as we realized access to both the public and private markets. Key funding highlights from 2012 and 2013 to date were as follows:

- We accessed the unsecured debt capital markets in February, June, August, and December of 2012 and raised $3.6 billion.
- In 2012, we have continued to access the public asset-backed securitization markets completing eleven U.S. transactions that raised $11.8 billion. Included within the total amount is Ally Bank's inaugural term lease transaction in the U.S. totaling $1.3 billion in funding. Additionally, we completed European and Canadian (retail and dealer floorplan) transactions that raised $1.9 billion and $516 million, respectively.
- We created $7.1 billion of new private capacity to fund automotive assets.
- We renewed and extended more than $22.0 billion of key automotive funding facilities. The automotive facility renewal amount includes the March 2012 refinancing of $15.0 billion in credit facilities at both the parent company and Ally Bank with a syndicate of nineteen lenders. The $15.0 billion capacity is secured by retail, lease and dealer floorplan automotive assets and is allocated to two separate $7.5 billion facilities, one of which is available to the parent company and a Canadian subsidiary while the other is available to Ally Bank. Half of the capacity matures in March 2013 and the other half matures in March 2014. We are currently working on the renewal of the $15.0 billion facility and expect to reduce the total capacity.

- In January 2013, Ally Financial issued its first public securitization since 2008 using its existing CARAT platform. This transaction raised more than $1.5 billion in funding.
- In February 2013, Ally Bank issued a public dealer floorplan securitization. This deal raised $1.0 billion in funding.

In October and December of 2012, we repaid $2.9 billion and $4.5 billion in debt issued under the FDIC's Temporary Liquidity Guarantee Program, respectively. As of December 31, 2012, there is no outstanding TLGP debt.

Funding Sources

The following table summarizes debt and other sources of funding and the amount outstanding under each category for the periods shown.

As a result of our funding strategy to maximize funding sources at Ally Bank and grow our retail deposit base, the percentage of funding sources from Ally Bank has increased in 2012 from 2011 levels. In addition, deposits represent a larger portion of the overall funding mix.

December 31, ($ in millions)	Bank	Nonbank	Total	%
2012				
Secured financings	$29,161	$15,950	$45,111	35
Institutional term debt	—	22,200	22,200	17
Retail debt programs (a)	—	13,451	13,451	10
Bank loans and other	2	164	166	—
Total debt (b)	29,163	51,765	80,928	62
Deposits (c)	46,932	983	47,915	38
Total on-balance sheet funding	$76,095	$52,748	$128,843	100
2011				
Secured financings	$25,533	$27,432	$52,965	37
Institutional term debt	—	22,456	22,456	15
Retail debt programs (a)	—	14,148	14,148	10
Temporary Liquidity Guarantee Program (d)	—	7,400	7,400	5
Bank loans and other	1	2,446	2,447	2
Total debt (b)	25,534	73,882	99,416	69
Deposits (c)	39,604	5,446	45,050	31
Total on-balance sheet funding	$65,138	$79,328	$144,466	100
Off-balance sheet securitizations				
Mortgage loans	$—	$60,630	$60,630	
Total off-balance sheet securitizations	$—	$60,630	$60,630	

(a) Primarily includes $7.9 billion and $9.0 billion of Retail Term Notes at December 31, 2012 and December 31, 2011, respectively.
(b) Excludes fair value adjustment as described in Note 25 to the Consolidated Financial Statements.
(c) Bank deposits include retail, brokered, mortgage escrow, and other deposits. Nonbank deposits include dealer deposits. Intercompany deposits are not included.
(d) The $7.4 billion of TLGP matured and was repaid in the fourth quarter of 2012.

Refer to Note 16 to the Consolidated Financial Statements for a summary of the scheduled maturity of long-term debt at December 31, 2012.

Funding Facilities

We utilize both committed and uncommitted credit facilities. The financial institutions providing the uncommitted facilities are not contractually obligated to advance funds under them. The amounts outstanding under our various funding facilities are included on our Consolidated Balance Sheet.

The total capacity in our committed funding facilities is provided by banks and other financial institutions through private transactions. The committed secured funding facilities can be revolving in nature and allow for additional

funding during the commitment period, or they can be amortizing and not allow for any further funding after the closing date. At December 31, 2012, $34.3 billion of our $43.0 billion of committed capacity was revolving. Our revolving facilities generally have an original tenor ranging from 364 days to two years. As of December 31, 2012, we had $13.9 billion of committed funding capacity from revolving facilities with a remaining tenor greater than 364 days.

Committed Funding Facilities

December 31, ($ in billions)	Outstanding 2012	Outstanding 2011	Unused capacity (a) 2012	Unused capacity (a) 2011	Total capacity 2012	Total capacity 2011
Bank funding						
Secured - U.S.	$3.8	$5.8	$4.7	$3.7	$8.5	$9.5
Nonbank funding						
Unsecured						
Automotive Finance — U.S.	—	—	—	0.5	—	0.5
Automotive Finance — International	0.1	0.3	—	—	0.1	0.3
Secured						
Automotive Finance — U.S. (b) (c)	12.9	4.2	5.4	10.2	18.3	14.4
Automotive Finance — International (b)	9.6	10.1	2.4	3.0	12.0	13.1
Mortgage operations	—	0.7	—	0.5	—	1.2
Total nonbank funding	22.6	15.3	7.8	14.2	30.4	29.5
Shared capacity (d)						
U.S.	1.0	1.5	3.0	2.5	4.0	4.0
International	0.1	0.1	—	—	0.1	0.1
Total committed facilities	$27.5	$22.7	$15.5	$20.4	$43.0	$43.1

(a) Funding from committed secured facilities is available on request in the event excess collateral resides in certain facilities or is available to the extent incremental collateral is available and contributed to the facilities.

(b) Total unused capacity includes $2.2 billion as of December 31, 2012, and $4.9 billion as of December 31, 2011, from certain committed funding arrangements that are generally reliant upon the origination of future automotive receivables and that are available in 2013.

(c) Includes the secured facilities of our Commercial Finance Group.

(d) Funding is generally available for assets originated by Ally Bank or the parent company, Ally Financial Inc.

Uncommitted Funding Facilities

December 31, ($ in billions)	Outstanding 2012	Outstanding 2011	Unused capacity 2012	Unused capacity 2011	Total capacity 2012	Total capacity 2011
Bank funding						
Secured — U.S.						
Federal Reserve funding programs	$—	$—	$1.8	$3.2	$1.8	$3.2
FHLB advances	4.8	5.4	0.4	—	5.2	5.4
Total bank funding	4.8	5.4	2.2	3.2	7.0	8.6
Nonbank funding						
Unsecured						
Automotive Finance — International	2.1	1.9	0.4	0.5	2.5	2.4
Secured						
Automotive Finance — International						