

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

ADVANTA CORP

CIK: **96638** | IRS No.: **231462070** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **8-K** | Act: **34** | File No.: **000-14120** | Film No.: **99670837**
SIC: **6141** Personal credit institutions

Mailing Address

BRANDYWINE CORPORATE
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650 NAAMANS ROAD
CLAYMONT DE 19703

Business Address

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WELSH & MCKEAN ROADS
SPRING HOUSE PA 19477
2156574000

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 27, 1999

Advanta Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

0-14120

(Commission File
Number)

23-1462070

(IRS Employer
Identification No.)

Welsh and McKean Roads, P.O. Box 844, Spring House, PA

(Address of principal executive offices)

19477

(Zip Code)

Registrant's telephone number, including area code: (215) 657-4000

Item 5. Other Events

On July 27, 1999 Advanta Corp. (the "Company" or "Advanta") reported net income for the second quarter of 1999 of \$12.3 million, or \$0.49 per share on a diluted basis for its Class A and Class B shares combined. This net income reflects the Company's previously announced plan to report income for its mortgage business that is essentially equal to that of a portfolio lender. The improvement in net income from the net operating income of \$10.2 million, or \$0.40 per share, reported last quarter resulted primarily from continued decreases in operating expenses at the Company's mortgage and leasing businesses and improved yields in the business credit card portfolio.

Reported results this quarter included additional pretax gains of \$9.3 million predominantly associated with the previously announced sale by Advanta Partners of its interest in JDR Holdings. Also impacting results was a reduction in the Company's Interest Only Strip ("IO Strip") of approximately \$10 million which strengthened the balance sheet.

This quarter, Advanta continued its previously discussed initiatives to increase profits, and optimize cash flow and returns on invested capital. In addition, the Company began implementing a new automated sales and underwriting system at its mortgage business, began pilot testing a new origination and automated decisioning system to take business credit card applications over the Internet, and took significant steps to refine processes at Advanta Leasing resulting in cost efficiencies. Highlights on the Company's operations this quarter follow.

COMPANY ACHIEVES LOWER EXPENSE RATIO

The Company's vigorous implementation of cost reduction measures continues to yield benefits. Advanta's operating expense ratio for the quarter of 3.25% was lower than the 3.47% reported in the first quarter of this year and significantly lower than the 3.90% in the fourth quarter of 1998. Total pretax operating expenses for the quarter were \$82.2 million, approximately 4.9% below operating expenses of \$86.4 million reported last quarter and 11.0% below operating expenses of \$92.4 million reported in the fourth quarter of 1998.

Total managed receivables for the Company's businesses at the end of this quarter were \$10.06 billion, an increase of 1.2% from \$9.95 billion at March 31, 1999 and an increase of 25.2% from \$8.04 billion at June 30, 1998.

ADVANTA MORTGAGE - LOWER EXPENSES FUEL PROFIT GROWTH

Advanta Mortgage reported pro forma net income from operations of \$7.6 million for this quarter on a basis that is essentially the same as a portfolio lender. This compares to net income of \$5.8 million reported by this business in the first quarter of 1999 and net income of \$2.5 million reported by this business in the fourth quarter of 1998. The

increase in net income this quarter was primarily due to lower operating expenses and higher servicing revenues.

Advanta Mortgage's net income of \$1.5 million reported this quarter is approximately \$6.1 million less than a portfolio lender would have reported because it includes a \$10.0 million decrease, before taxes, in the Company's IO Strip which reduced earnings and strengthened the Company's balance sheet. In addition, the Company's IO Strip decreased by \$21 million as a result of hedging activities which had no impact on current earnings. The IO Strip and CMSR at June 30, 1999 were \$247.1 million compared to \$271.9 million reported at the end of last quarter and \$283.5 million reported at December 31, 1998.

Advanta Mortgage maintained the lending margin improvements that were accomplished last quarter and continued its focus on originating loans from its direct to consumer and broker channels. The weighted average yield of mortgage loans originated by the Company's direct to consumer channels this quarter was 12.41% compared to 12.13% last quarter. In addition to benefiting from higher yields on newly originated loans, the Company's overall portfolio yields are increasing as loans originated from direct channels, which typically have better yields, make up a larger portion of the total portfolio. Originations from the direct to consumer channels represented 56.1% of total originations this quarter compared to 56.3% in the prior quarter and 30.6% in the second quarter of 1998. Loans originated through direct to consumer channels represented approximately 37.1% of the total portfolio at June 30, 1999 compared to 28.9% at the same time last year and 34.6% at the end of the first quarter of this year.

Mortgage loan originations of \$727.7 million were slightly higher than originations of \$716.5 million last quarter. Originations from direct to consumer channels of \$407.9 million were relatively flat compared to originations of \$403.2 million in the first quarter, while originations from brokers increased by 39.3% from the prior quarter. Wholesale originations by the Company's Conduit and Corporate Finance channels decreased reflecting the Company's willingness to reduce volume levels in order to purchase loans with appropriate profitability characteristics.

Advanta Mortgage's sub-serviced portfolio increased to \$9.4 billion at the end of this quarter from \$8.9 billion at the end of last quarter.

Credit quality trends remain consistent with the Company's experience. However, due to the increase in the average age of the portfolio from 14 months at the end of the prior quarter to 17 months at June 30, 1999, the Company experienced increases in charge-off and delinquency rates. This seasoning of the Company's portfolio is associated with slower portfolio growth. The net managed charge-off rate for home equity loans was 0.66% this quarter compared to 0.51% reported last quarter and the over 30 day delinquency rate was 8.54% compared to 8.00% reported last quarter.

ADVANTA BUSINESS CARDS REPORTS HIGHER YIELDS

Advanta Business Cards reported net income of \$5.6 million this quarter compared to \$4.0 million last quarter. The increase resulted from significant improvements in portfolio yields. The average yield on the Company's business credit card portfolio, including fee income, increased this quarter to 21.72% from 20.36% last quarter due to increases in rates and higher fee income. A decrease in the net managed charge-off rate on business credit card loans from 5.61% last quarter to 5.22% this quarter also contributed to the increase in net income. Managed receivables for Advanta Business Cards at the end of the quarter were \$886 million, up 6.5% from last quarter and 16.4% from the same quarter last year.

ADVANTA LEASING SERVICES - EXPENSE REDUCTION LEADS TO HIGHER PROFITS

Advanta Leasing Services reported net income of \$1.5 million this quarter, a significant increase from net income of \$0.8 million that was reported last quarter. The increase in net income was caused primarily by a decrease in operating expenses resulting from the Company's ongoing program to improve processes at the leasing business and from expense reduction measures that were implemented toward the end of the first quarter. Operating expenses decreased from \$8.81 million last quarter to \$7.47 million this quarter. The Company originated \$113.4 million in lease receivables this quarter and closed the quarter with a managed portfolio of leases of \$744 million. This represents an increase of 6.1% from managed lease receivables of \$701 million last quarter. Over 30-day delinquencies improved considerably this quarter to 7.33% from 8.38% last quarter. The net managed charge-off rate for Advanta Leasing Services of 3.23% this quarter was slightly higher than the 2.94% reported last quarter.

ADVANTA REPORTS CONTINUED POSITIVE OPERATING CASH FLOW

Advanta had positive operating cash flow of approximately \$26.8 million this quarter after considering key non-cash income and expense items and the cash impact of loan originations. This positive cash flow is largely attributable to increases in operating income and the proportion of mortgage loans originated from direct channels. This quarter, origination fees collected by the Company exceeded premiums and broker fees paid by approximately \$13.5 million. This positive cash flow was offset by a net investment in subordinated trust assets of \$37.9 million. This investment is consistent with the structure of the Company's securitizations and results primarily from the growth in the Company's managed receivables during 1998.

The Company's use of deposit funding at its two FDIC-insured banks for its lending activities continues to bolster liquidity at the parent and at the Company's banks. After paying down approximately \$47 million of Medium Term

Notes and other parent debt this quarter, the Company had approximately \$437 million in unrestricted cash and equivalents at the parent compared to \$429 million at March 31, 1999. At the end of the quarter, the Company had approximately \$934 million of unrestricted cash and

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equivalents at its two banks. In addition, the Company had financed, with parent and bank funds, loan receivables on its books totaling \$1.1 billion and had available approximately \$1.4 billion in unused warehouse lines and Commercial Paper conduit facilities.

Advanta is a highly focused financial services company with over 2,400 employees, approximately \$12.4 billion in managed assets and approximately \$9.4 billion in assets serviced for third parties. Advanta provides consumers and small businesses with innovative products and services including mortgages, equipment leases, business credit cards, insurance and deposit products. The Company also provides a full range of loan purchasing, contract servicing and securitization services to the mortgage industry.

This Current Report on Form 8-K contains forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The most significant among these risks and uncertainties are: (1) factors that affect consumer debt; (2) competitive pressures; (3) the level of delinquencies and charge-offs; (4) the rate of prepayments; (5) the level of expenses; (6) the timing of the securitizations of the Company's receivables; and (7) the ratings on the debt of the Company and its subsidiaries. Additional risks that may affect the Company's future performance are detailed in the Company's filings with the Securities and Exchange Commission, including its most recent Annual Report on Form 10-K and its Quarterly Reports on Form 10-Q.

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Form 8-K
July 27, 1999

Advanta Corp.

Item 7. Financial Statements and Exhibits.

(c) Exhibits:

The following exhibits are filed as part of this Report on Form 8-K.

99 Selected Summary Financial Data.

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Form 8-K
July 27, 1999

Advanta Corp.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Advanta Corp.

By: /s/ Elizabeth H. Mai

Elizabeth H. Mai, Senior Vice President,
Secretary and General Counsel

July 27, 1999

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Form 8-K
July 27, 1999

Advanta Corp.

Index to Exhibits

Exhibit Number Per
Item 601 of
Regulation S-K

Description of Document

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Selected Summary Financial Data

ADVANTA CORP.
HIGHLIGHTS
SUPPLEMENTAL CONSOLIDATING INCOME STATEMENT
(IN THOUSANDS)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED JUNE 30, 1999				
	ADVANTA MORTGAGE	ADVANTA LEASING SERVICES	ADVANTA BUSINESS CARDS	OTHER (a)	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES:					
Gain on sale of receivables	\$ 28,416	\$ 4,942	\$ 7,758	\$	\$ 41,116
Interest income	30,534	2,725	7,785	18,157	59,201
Servicing revenues	25,001	1,526	3,522		30,049
Other	861	4,489	8,528	11,306	25,184
	-----	-----	-----	-----	-----
Total revenues	84,812	13,682	27,593	29,463	155,550
	-----	-----	-----	-----	-----
EXPENSES:					
Operating expenses	56,133	7,465	11,148	7,433	82,179
Interest expense	21,820	2,689	2,851	15,957	43,317
Provision for credit losses	2,364	908	4,135		7,407
Minority int. in inc. of consolidated sub	1,865	155	200		2,220
	-----	-----	-----	-----	-----
Total expenses	82,182	11,217	18,334	23,390	135,123
	-----	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	2,630	2,465	9,259	6,073	20,427
Income tax expense	1,122	979	3,694	2,320	8,115
	-----	-----	-----	-----	-----
NET INCOME, AS REPORTED	\$ 1,508	\$ 1,486	\$ 5,565	\$ 3,753	\$ 12,312
	=====	=====	=====	=====	=====
PRO FORMA NET OPERATING INCOME, WITH RESULTS OF ADVANTA MORTGAGE REPORTED AS A PORTFOLIO LENDER					
	\$ 7,558 (b)	\$ 1,486	\$ 5,565	\$ (1,887) (c)	\$ 12,722
	=====	=====	=====	=====	=====

</TABLE>

- (a) Other includes the insurance and venture capital divisions.
- (b) Adjusted to reflect the after-tax effect on earnings of the decrease in the Interest Only Strip.
- (c) Adjusted to reflect the after-tax gain associated with the sale of an Advanta Partners investment.

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ADVANTA CORP.
HIGHLIGHTS
RECONCILIATION TO PORTFOLIO LENDER EARNINGS FORMAT
(IN THOUSANDS)

<TABLE>
<CAPTION>

THREE MONTHS ENDED JUNE 30, 1999

	ADVANTA MORTGAGE AS REPORTED	PRO FORMA ADJUSTMENTS	ADVANTA MORTGAGE AS PORTFOLIO LENDER	PROFORMA REMAINING BUSINESSES [f]	PRO FORMA CONSOLIDATED
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES:					
Gain on sale of receivables	\$ 28,416	\$ (28,416) [a]	\$	\$ 12,700	\$ 12,700
Interest income	30,534	175,799 [b]	206,333	28,667	235,000
Servicing revenues	25,001	(8,846) [c]	16,155	5,048	21,203
Other	861		861	15,001 [f]	15,862
Total revenues	84,812	138,537	223,349	61,416	284,765
EXPENSES:					
Operating expenses	56,133	1,883 [d]	58,016	26,046	84,062
Interest expense	21,820	114,970 [b]	136,790	21,497	158,287
Provision for credit losses	2,364	11,684 [e]	14,048	5,043	19,091
Minority interest in income of consolidated subsidiary	1,865		1,865	355	2,220
Unusual charges					
Total expenses	82,182	128,537	210,719	52,941	263,660
INCOME BEFORE INCOME TAXES	2,630	10,000	12,630	8,475	21,105
Pro forma income taxes	1,122	3,950	5,072	3,311	8,383
PRO FORMA NET INCOME	\$ 1,508	\$ 6,050	\$ 7,558	\$ 5,164	\$ 12,722

</TABLE>

FOOTNOTES FOR PRO FORMA ADJUSTMENTS:

- [a] Represents the reclassification of net gains recognized on the sale of mortgage loans for the period.
- [b] Represents the adjustment to interest income and interest expense as if the securitized mortgage loans were still owned by the Company and remained on the balance sheet for the period presented.
- [c] Represents the reclassification of servicing revenues on securitized mortgage loans for the period presented.
- [d] Represents the reclassification of securitization costs incurred by the Company.
- [e] Represents the amount by which the provision for credit losses would have increased had the securitized mortgage loans remained on the balance sheet and the provision for credit losses on securitized receivables been equal to actual reported charge-offs.
- [f] Adjusted to exclude the gain associated with the sale of an Advanta Partners investment.

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ADVANTA CORP.
HIGHLIGHTS
(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED				PERCENT CHANGE FROM PRIOR QUARTER
	JUNE 30, 1999	MARCH 31, 1999	JUNE 30, 1998		
<S>	<C>	<C>	<C>	<C>	
Direct	\$ 407,880	\$ 403,204	\$ 382,242		1.2%
Broker	152,533	109,538	106,188		39.3
Conduit	153,575	181,835	376,145		-15.5

Corp. Finance	13,701	16,773	324,484	-18.3
Auto	0	5,103	58,356	-100.0
Total Advanta Mortgage loans	\$ 727,689	\$ 716,453	\$ 1,247,415	1.6
Leases	\$ 113,384	\$ 109,836	\$74,352	3.2%
Business cards	471,239	400,428	348,222	17.7
SECURITIZATION/SALES VOLUME				
Advanta Mortgage	\$ 635,896	\$ 634,147	\$ 1,215,097	0.3%
Leases	105,909	95,574	72,636	10.8
Business cards	0	24,248	62,790	-100.0
Total securitization/sales volume	\$ 741,805	\$ 753,969	\$ 1,350,523	-1.6
AVERAGE MANAGED RECEIVABLES				
Mortgage loans	\$ 8,263,300	\$ 8,114,144	\$ 6,021,777	1.8%
Auto loans	140,560	198,321	220,477	-29.1
Leases	693,921	671,118	601,283	3.4
Business cards	866,732	822,852	739,654	5.3
Other loans	17,019	17,820	14,784	-4.5
Total average managed receivables	9,981,532	9,824,255	\$ 7,597,975	1.6
Total average serviced receivables	\$19,182,200	\$18,404,342	\$15,898,544	4.2
ENDING MANAGED RECEIVABLES				
Mortgage loans	\$ 8,293,166	\$ 8,212,797	\$ 6,394,835	1.0%
Auto loans	122,836	185,621	251,166	-33.8
Leases	744,121	701,178	615,740	6.1
Business cards	886,237	832,086	761,576	6.5
Other loans	17,187	17,093	17,649	0.5
Total managed receivables	\$10,063,547	\$ 9,948,775	\$ 8,040,966	1.2
Total serviced receivables	\$19,503,442	\$18,859,606	\$16,213,193	3.4
IO AND CMSR ROLLFORWARD				
Beginning Balance (A)	\$ 271,876	\$ 283,521		
Retained IO on sales, net	38,529	31,297		
Hedge impact	(20,819)	(3,614)		
Write-down related to auto loans	0	(7,828)		
Transaction expenses	2,507	1,472		
Interest income	7,970	11,118		
Additional reserves	(10,000)			
Cash received	(42,966)	(43,217)		
Other, net	(26)	(873)		
Ending balance	247,071	271,876		

(A) Includes reclassification of amounts due from Trustee

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ADVANTA CORP.
HIGHLIGHTS
(\$ IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED			PERCENT CHANGE FROM PRIOR QUARTER
	JUNE 30, 1999	MAR. 31, 1999	JUNE 30, 1998	
<S> EARNINGS	<C>	<C>	<C>	<C>

As a % of average managed receivables:				
Operating expenses	3.25%	3.47%	3.73%	-6.3%
Charge-offs	1.46	1.36	1.49	7.4
Earnings per common share	\$ 0.49	\$ 0.25	\$ 0.35	96.0
Diluted earnings per share	0.49	0.25	0.35	96.0
Return on average common equity	8.94%	4.54%	6.37%	96.9

COMMON STOCK DATA

Weighted average common shares

Used to compute:				
Earnings per common share	23,163	23,087	24,523	0.3%
Diluted earnings per share	23,373	23,178	24,702	0.8
Ending shares outstanding	25,445	25,310	25,368	0.5%

Stock price:

Class A				
High	\$18.250	\$15.188	\$26.250	20.2%
Low	9.625	10.313	19.250	-6.7
Closing	18.063	11.063	21.938	63.3
Class B				
High	\$14.750	\$12.313	\$24.250	19.8%
Low	7.594	7.750	17.500	-2.0
Closing	13.563	8.938	19.875	51.7

Cash dividends declared

Class A	\$ 0.063	\$ 0.063	\$ 0.063	0.0%
Class B	0.076	0.076	0.076	0.0

Book value per common share (A)	\$ 22.51	\$ 22.41	\$ 21.26	0.4%
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</TABLE>

(A) Assumes conversion of the Class B Preferred Stock.

-Statistical Supplement Available Upon Request-