

CREDIT ACCEPTANCE CORPORATION

Moderator: Douglas Busk

July 31, 2018

5:00 p.m. ET

Operator

Good day, everyone, and welcome to the Credit Acceptance Corporation Second Quarter 2018 Earnings Call. Today's call is being recorded. A webcast and transcript of today's earnings call will be made available on Credit Acceptance's website. At this time, I would like to turn the call over to Credit Acceptance's Senior Vice President and Treasurer, Doug Busk.

Douglas Busk – Credit Acceptance Corporation

Thank you. Good afternoon, and welcome to the Credit Acceptance Corporation Second Quarter 2018 Earnings Call. As you read our news release posted on the Investor Relations section of our website at creditacceptance.com and as you listen to this conference call, please recognize that both contain forward-looking statements within the meaning of federal securities law.

These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control and which could cause actual results to differ materially from such statements. These risks and uncertainties include those spelled out in the Cautionary Statement Regarding Forward-Looking Information included in the news release. Consider all forward-looking statements in light of those and other risks and uncertainties.

Additionally, I should mention that to comply with the SEC's Regulation G, please refer to the Financial Results section of our news release, which provides tables showing how non-GAAP measures reconcile to GAAP measures.

At this time, Brett Roberts, our Chief Executive Officer; Ken Booth, our Chief Financial Officer; and I will take your questions.

Operator

Thank you. Ladies and Gentleman, if you have a question at this time, please press the star and then the number one key on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key.

Our first question comes from Moshe Orenbuch with Cr dit Suisse. Your line is open.

Moshe Orenbuch – Cr dit Suisse

Great. Thanks. Obviously, the quarter had a big benefit from a smaller loan loss provision, actually, smaller -- probably the second smallest for quite some time. How should we think about that going forward? Obviously, you had some good performance in your expected collections in the quarter, but how can we kind of think about that in terms of the impact on future periods?

Brett Roberts – Credit Acceptance Corporation

I think the way we think about it is we focus on adjusted results where there is no provision for credit losses. That's, I think, the clearest way to view the financial performance so that's the way we look at it internally.

Moshe Orenbuch – Cr dit Suisse

And you did expand your disclosures relating to the potential application of CECL both for the existing portfolio and future loans, and I was hoping you can kind of just expand a little bit. I mean it sounded like that -- you talked a little bit about how CECL would be applied to purchased loans, but not to dealer loans and then the potential for using the fair value option. Could you maybe just kind of flesh that out a little bit?

Douglas Busk – Credit Acceptance Corporation

Yes. We have quite a bit of disclosure on this point in the 10-Q. To be clear, certain loans outstanding prior to whatever date we would adopt CECL, basically inactive dealer loans and all purchased loans would qualify for transition relief. Without getting in the details, we think the accounting for those loans would do a decent job of reflecting the underlying economics of our business. We have not determined how active dealer loans outstanding prior to the adoption date would be accounted for under CECL. The situation is a little bit different though as we disclosed in the 10-Q for future loans that we originate under CECL. And as we disclosed in the 10-Q, we don't think that this method of accounting would reflect the underlying economics of our loans, primarily because it would require us to recognize a significant provision for credit losses at the time of origination for amounts that we never expected to collect in the first place, and then recognize finance charge yield revenue over time at a yield that's higher than that of which we actually expect to attain. So as a result, as we say in the 10-Q, we are closely evaluating fair value.

Moshe Orenbuch – Crédit Suisse

And Okay, thank you. I'll get back in the queue.

Operator

Thank you, and as a reminder to ask a question at this time, please press star then one. Your next question comes from Kyle Joseph with Jefferies. Your line is open.

Kyle Joseph – Jefferies

Good afternoon guys and thanks for taking my questions. Going through Moshe's questions on credit, it did look like the forecasted collections did improve for the vast majority, if not all of your vintages. I wondered if you guys could comment on the health of your underlying borrower and are they seeing the impacts of wage growth? Or what is driving that specifically?

Brett Roberts – Credit Acceptance Corporation

We had a small positive change in our forecast during the quarter that's disclosed. In terms of net cash flows, it's \$28.2 million. Again, it's a positive number that's nice, but it's very small relative to the cash flow that we're trying to project. So I would look at that similar to prior releases in that it is, basically, our forecast is very consistent during the quarter.

Kyle Joseph – Jefferies

Alright. And then, if you could give us an update on competitive trends and demand for your products. Obviously, we're seeing very good volume growth in the quarter, but if you can just update us on what you're seeing competitively?

Brett Roberts – Credit Acceptance Corporation

Yes. So as we've said on prior quarters, I think the best number to look at in the release is the change in volume per active dealer. It was up 5.9% for the quarter. So that's certainly a positive mark. Loan growth was very solid for the quarter. I think deciding how much of that is internal and how much of that is external is always difficult. Maybe we got a more favorable environment. Maybe the expansion of our sales force had something to do with it. It's hard to tell. But it was a strong quarter nonetheless.

Kyle Joseph – Jefferies

Got it. Thanks very much for answering my questions.

Operator

Your next question comes from Jeff Zhang with JMP Securities. Your line is open.

Jeff Zhang – JMP Securities

Hi guys, this is Jeff, dialing in for David. I just have a question that relates to the provision expense for this quarter. Was there any material allowance reversal that led to the -- only around \$2 million provision for the quarter?

Brett Roberts - *Credit Acceptance Corporation*

The provision was calculated the same way as it has been every quarter. So in every quarter, including this one, some of that provision is a reversal of prior provisions and it's no different this quarter than any other quarter.

Jeff Zhang – *JMP Securites*

Okay. Thanks

Operator

Thank you. With no further questions in the queue, I would now like to turn the conference back over to Mr. Busk for any additional or closing remarks.

Douglas Busk – *Credit Acceptance Corporation*

We'd like to thank everyone for their support and for joining us on our conference call today. If you have any additional follow-up questions, please direct them to our investor relations mailbox at IR@creditacceptance.com. We look forward to talking to you again next quarter. Thank you.

Operator

Once again, this does conclude today's conference. We thank you for your participation. You may now disconnect. Everyone have a wonderful day.

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