CREDIT ACCEPTANCE CORPORATION

Moderator: Douglas Busk
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Operator: Good day, everyone, and welcome to the Credit Acceptance Corporation Fourth Quarter 2013 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 Web site.

At this time I would like to turn the call over to Credit Acceptance Senior Vice President and Treasurer Doug Busk. Sir, please go ahead.

Douglas Busk: Thank you, Huey. Good afternoon and welcome to the Credit Acceptance Corporation Fourth Quarter 2013 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 estimates. 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 Adjusted Financial Results section of our new 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, sir. And at this time ladies and gentlemen, to queue up for a phone question, you may press star then one on your touchtone telephone. If your question has been answered, or you wish to remove yourself from the phone queue, you may press the pound key. Again, if you would like to queue up for a question, please press star then one on your touchtone telephone.

One moment for questions to queue. And it looks likes our first question will come from the line of Kyle Joseph with Stephens. Please go ahead. Your line is open.

Kyle Joseph: Good afternoon, guys, and thanks for taking my questions. In terms of the dealership expansion, are you guys expanding to new geographies or going to dealerships in existing geographies?

Brett Roberts: We're currently in every state, so we're just expanding in the states that we're already in.

Kyle Joseph: OK. And then a modeling question, on the refi you guys did this quarter – or sorry – in January, can you tell us what you expect that to do to your weighted average cost of funds?

Douglas Busk: Yes. We expect that the – after you get through the period where we have both sets of notes outstanding, it should reduce our effective interest rate by slightly less than a point. And again, that's given the current mix of debt that we have today.

Kyle Joseph: Great. Thanks. And then can you guys talk a little bit about competition and trends you're seeing there, whether it's increasing, decreasing or been somewhat stable? Because, I mean, we saw good growth from you guys, but we also saw a little uptick in the advance rates and what not. So just what's going on there.

Brett Roberts: Again, the best sense we have for the competitive environment is just looking at the volume numbers. So as you mentioned the overall unit growth was the best it's been in quite a while, but that was due to the expansion of the dealer base. Volume per dealer did decline again, so with current revenue yields at really the low point of the last ten or so years and volume per dealer also at the low point, we still assess it as a very competitive environment.

Kyle Joseph: All right. And then credit looked very good in the quarter. Can you tell us are you doing anything differently there, because for other companies we cover we have seen a little bit of a reversion to the mean with credit, but you guys seem to still be improving.

Brett Roberts: We haven't changed anything there.

Kyle Joseph: Thanks for answering my questions.

Operator: Thank you, Mr. Joseph. Our next phone question will come from Kenneth Bruce with Bank of America Merrill Lynch. Please go ahead.

Kenneth Bruce: Thanks, good afternoon, gentlemen. I would like to pick up on the competition issue. Just more broadly we're hearing from a number of auto lenders that there's been a pickup or – this is obviously not new, but your competition has been increasing. Can you give us some sense as to what that competitive dynamic looks like? If it's coming from either certain areas, whether that be geographies or competitors? What the state of play is and how do you think that manifests itself? You've seen those spreads coming down, and we're just kind of struggling here to figure out how this is impacting the business on a little longer term basis.

Brett Roberts: Again, I would just point to the volume per dealer. We didn't change pricing in the quarter. We haven't changed it now for five quarters, so the volume per dealer I think is a pretty good indication of what we think of the competitive environment.

Douglas Busk: In terms of how it impacts the business, it obviously impacts volume per dealer, which shows up in unit volume. And as Brett mentioned it impacts loan yields, and we have seen that in recent years.

Kenneth Bruce: All right. Well, can you – maybe you've provided it in the statistics, and I missed it. Can you give us how much your sales force has either increased or decreased, or any update in terms of operationally how you're looking to continue to drive the active dealer count?

Douglas Busk: The number of sales people in the field increased – actually was very constant over the course of 2013. You may recall that we increased the sales force a lot in 2011, 2012 and have really just been focused on refining and enhancing the sales force over the course of the last year.

Kenneth Bruce: Are there any plans to expand it further at this point? Do you feel like you've basically hit the level of penetration you can with the existing sales force?

Brett Roberts: No plans to expand it further from where we are now, but I think we have a lot of room still to fill in from a volume perspective with the people we've already added.

Kenneth Bruce: OK. Thank you for your comments.

Operator: Thank you, sir. Next question in queue comes from John Hopkins with Chartwell Investment Partners. Please go ahead. Your line is open.

John Hopkins: Thank you, gentlemen. Is there any material change in the percentage of loans that were purchased versus dealer loans during the quarter?

Douglas Busk: Not materially. It's a couple percentage points different, but it's not a material thing.

John Hopkins: And strategically, going forward do you kind of keep the pipeline full? Are you expecting you might have to do more purchase loans as opposed to dealer loans?

Brett Roberts: We don't expect that percentage to change. We offer both programs, and we let the dealers choose which one they prefer. So far dealers overwhelmingly prefer the traditional portfolio program.

John Hopkins: Right. And I noticed in one of your notes you discussed a new profit sharing arrangement you entered into with a third-party provider. Could you talk a little bit more about that? I don't remember what that was.

Douglas Busk: It relates to one of our vehicle service contract products that dealers can sell to consumers, and during 2012 we just renegotiated the terms of that arrangement.

John Hopkins: OK. OK. Great. Thank you, gentlemen.

Operator: Thank you, Mr. Hopkins. Our next phone question will come from Robert Dodd with Raymond James. Please go ahead. Your line is now open.

Robert Dodd: Hi, guys. Just on the dealership growth again, I mean how much – can you give us any color on how much of that is from brand new dealers to your product versus dealers who have been active in the past? Obviously we can see that with some of the data you give, but dealers who have been active in the past but not active in recent quarters. Are you doing anything to incent guys who have been familiar with the product to come back to fold?

Brett Roberts: The new active dealers are dealers who are new to our program. There may be a small number of those that are the same dealer at the same location that we didn't flag as being the same dealers as we had in our program in years past, but it's a very small number.

Robert Dodd: OK. All right. Thanks.

Operator: Thank you, sir. Our next question in queue will come from Nick Zulovich with SubPrime Auto Financial News. Please go ahead. Your line is open.

Nick Zulovich: Thank you very much for the time this afternoon, gentlemen, and congratulations on the quarter and the year. Again, continuing the theme of the dealer network questions, could you elaborate on whether you're drilling down deeper in the franchise dealer side or independents? Metro markets versus rural markets? What categories of dealerships are you all bringing into the fold?

Brett Roberts: There's a wide variety of dealerships that would work in our program. It works in a very small independent. It works at some of the largest franchise dealers in the country. So there's no real – we're not targeting one group or the other, and the increases we're seeing are really across all groups.

Nick Zulovich: And just looking at the full year numbers that the Company was able to generate, just how satisfied are you with that performance, and just what's your evaluation of the Company's performance as a whole?

Douglas Busk: I would say that we continue to be satisfied with the performance. We continue to grow net income, earnings per share, economic profit. We're growing the business in a challenging economic environment, so I would say we're satisfied with the year.

Nick Zulovich: And, again, looking forward, just what do you foresee as the impact to maintain compliance in light of the regulatory world changing? Just how is the Company preparing to remain compliant as that element of the business continues to intensify?

Brett Roberts: Compliance is something that we have always taken seriously. We are regulated in all 50 states we do business, so we're certainly used to having a strong compliance function. We've been doing this a long time, so we look at it as just a continuation of what we have done in the past.

Nick Zulovich: Very good. Thank you, gentlemen.

Operator: Thank you, sir. Our next phone question will come from David Henley with DLH Capital. Please go ahead. Your line is open.

David Henley: I just wondered, you made a distinction on your collection rates between October through December versus January through September. Does that 71.8 percent – given current kind of the competitive environment – is that what we should kind of expect going into 2014?

Douglas Busk: That will depend on the mix of business that we receive. Again, we're indifferent between a collection rate of 75 percent and a collection rate of 70 percent, since we vary the amount of capital that we deploy based on the expected performance of a loan. Over the last ten years the average collection rate has been 72 percent, 73 percent, so that's kind of a reasonable zip code to think in terms of.

David Henley: And then, I was just curious. I didn't see all the details of your recent refinancing, but I'm curious, given kind of the consistency that you guys have generated over many, many years, if the rating agencies are more inclined to think favorably about you and where your credit ratings are headed over time versus perhaps when you were newer in the business?

Douglas Busk: We haven't been new in the business for a long time. We've been around for 40 years.

Having said that, I think that the rating agencies acknowledge that we have demonstrated quite impressive results and operate with modest degrees of financial leverage. If you read their reports, they will cite other concerns that have an impact on the ratings; uncertainty around the regulatory environment, monoline asset focus and wholesale funding being a couple of concerns.

But I think that – in answer to your question, I think they see our financial performance and that we get credit for that.

David Henley: OK. Thank you.

Operator: Thank you, sir. And once again ladies and gentlemen, just as a reminder, to queue up for a phone question, you may press star then one on your touchtone phone. Again, star one to queue up for a question.

And it looks like our next question in queue will come from Moshe Orenbuch with Credit Suisse. Please go ahead. Your line is open.

Moshe Orenbuch: Great. Thanks. You had mentioned that you expected greater productivity from the sales force. Is that just a function of maturity, or is there something else going on there?

Brett Roberts: No, a function of maturity. So someone starts new, and it's challenging to grow the dealer base, particularly in and area where maybe we haven't had much success in the past, but over time they – as they pick up knowledge and expertise it becomes easier.

Moshe Orenbuch: Right. And just a detailed question. You raised $300 million of debt and are refinancing $350 million. Is the remaining $50 million going to come from existing cash, or how should we think about that?

Douglas Busk: It will come from borrowings on our revolving credit facilities.

Moshe Orenbuch: Got it. And you alluded to being in a challenging economic environment. I mean, some of the elements of the economic environment – obviously the level of market interest rates and the like – are pretty favorable. As you look out into 2014, does that economic environment get better, worse? I mean, how do you think about it, and how do you position your business in light of that?

Brett Roberts: I think when Doug talked about the economic environment, he was referring to the financial crisis and our performance through that period. The thing that is most challenging now isn't so much the economic environment but the competitive environment.

Moshe Orenbuch: OK. OK. You kind of talked about how – your views on that. All right, thank you very much.

Operator: Thank you, sir. And with no further questions in the queue I would like to turn the conference back over it Mr. Busk for any additional or closing remarks.

Douglas Busk: We would like to thank for everyone in their support and for joining us in the 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: Thank you, presenters. Once again, this does conclude today's conference. We thank you for your participation. Attendees, you may log off at this time.

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