

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2021

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 000-20202

CREDIT ACCEPTANCE CORPORATION

(Exact name of registrant as specified in its charter)

Michigan

38-1999511

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

25505 W. Twelve Mile Road

Southfield, Michigan

(Address of principal executive offices)

48034-8339

(Zip Code)

(248) 353-2700

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 par value	CACC	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of Common Stock, \$.01 par value, outstanding on October 25, 2021 was 14,539,621.

## TABLE OF CONTENTS

### PART I. — FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

Consolidated Balance Sheets - As of September 30, 2021 and December 31, 2020 [1](#)

Consolidated Statements of Income - Three and nine months ended September 30, 2021 and 2020 [2](#)

Consolidated Statements of Comprehensive Income - Three and nine months ended September 30, 2021 and 2020 [3](#)

Consolidated Statements of Shareholders' Equity - Three and nine months ended September 30, 2021 and 2020 [4](#)

Consolidated Statements of Cash Flows - Nine months ended September 30, 2021 and 2020 [5](#)

Notes to Consolidated Financial Statements [6](#)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS [45](#)

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK [63](#)

ITEM 4. CONTROLS AND PROCEDURES [63](#)

### PART II. — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS [64](#)

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS [64](#)

ITEM 6. EXHIBITS [65](#)

SIGNATURES [66](#)

---

# PART I. - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

### CREDIT ACCEPTANCE CORPORATION CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share data)

	As of	
	September 30, 2021	December 31, 2020
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 13.3	\$ 16.0
Restricted cash and cash equivalents	429.0	380.2
Restricted securities available for sale	67.1	66.1
Loans receivable	9,685.8	10,124.8
Allowance for credit losses	(3,103.2)	(3,336.9)
Loans receivable, net	6,582.6	6,787.9
Property and equipment, net	58.3	59.4
Income taxes receivable	25.0	147.0
Other assets	23.7	32.4
Total Assets	\$ 7,199.0	\$ 7,489.0
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 251.3	\$ 186.7
Revolving secured line of credit	72.2	95.9
Secured financing	3,733.0	3,711.6
Senior notes	792.0	790.6
Mortgage note	9.9	10.5
Deferred income taxes, net	386.6	391.0
Income taxes payable	0.2	0.2
Total Liabilities	5,245.2	5,186.5
<b>Commitments and Contingencies - See Note 15</b>		
<b>Shareholders' Equity:</b>		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, \$.01 par value, 80,000,000 shares authorized, 14,716,977 and 17,092,432 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	0.1	0.2
Paid-in capital	166.0	161.9
Retained earnings	1,787.0	2,138.8
Accumulated other comprehensive income	0.7	1.6
Total Shareholders' Equity	1,953.8	2,302.5
Total Liabilities and Shareholders' Equity	\$ 7,199.0	\$ 7,489.0

See accompanying notes to consolidated financial statements.

**CREDIT ACCEPTANCE CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

(Dollars in millions, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Revenue:</b>				
Finance charges	\$ 442.1	\$ 404.4	\$ 1,312.4	\$ 1,144.5
Premiums earned	15.4	15.1	45.6	42.2
Other income	12.6	7.0	34.8	35.2
Total revenue	470.1	426.5	1,392.8	1,221.9
<b>Costs and expenses:</b>				
Salaries and wages	63.2	46.6	150.9	140.4
General and administrative	16.9	17.2	79.9	46.8
Sales and marketing	16.3	16.6	48.4	53.9
Provision for credit losses	(8.3)	(29.8)	(17.5)	464.3
Interest	39.8	46.8	125.6	146.9
Provision for claims	10.0	10.7	29.3	28.8
Loss on extinguishment of debt	—	—	—	7.4
Total costs and expenses	137.9	108.1	416.6	888.5
Income before provision for income taxes	332.2	318.4	976.2	333.4
Provision for income taxes	82.2	76.3	235.5	78.7
Net income	\$ 250.0	\$ 242.1	\$ 740.7	\$ 254.7
<b>Net income per share:</b>				
Basic	\$ 15.83	\$ 13.57	\$ 44.77	\$ 14.18
Diluted	\$ 15.79	\$ 13.56	\$ 44.73	\$ 14.17
<b>Weighted average shares outstanding:</b>				
Basic	15,795,963	17,844,785	16,543,326	17,957,931
Diluted	15,829,166	17,849,765	16,559,639	17,973,091

See accompanying notes to consolidated financial statements.

**CREDIT ACCEPTANCE CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

(In millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	\$ 250.0	\$ 242.1	\$ 740.7	\$ 254.7
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities, net of tax	(0.2)	(0.2)	(0.9)	0.9
Other comprehensive gain (loss)	(0.2)	(0.2)	(0.9)	0.9
Comprehensive income	\$ 249.8	\$ 241.9	\$ 739.8	\$ 255.6

See accompanying notes to consolidated financial statements.

**CREDIT ACCEPTANCE CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**

(Dollars in millions)

For the Three Months Ended September 30, 2021						
	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number	Amount				
Balance, beginning of period	16,003,249	\$ 0.2	\$ 150.8	\$ 2,241.1	\$ 0.9	\$ 2,393.0
Net income	—	—	—	250.0	—	250.0
Other comprehensive loss	—	—	—	—	(0.2)	(0.2)
Stock-based compensation	—	—	15.2	—	—	15.2
Restricted stock forfeitures	(26)	—	—	—	—	—
Repurchase of common stock	(1,286,246)	(0.1)	—	(704.1)	—	(704.2)
Balance, end of period	14,716,977	\$ 0.1	\$ 166.0	\$ 1,787.0	\$ 0.7	\$ 1,953.8

(Dollars in millions)

For the Three Months Ended September 30, 2020						
	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number	Amount				
Balance, beginning of period	17,649,470	\$ 0.2	\$ 158.9	\$ 1,904.1	\$ 1.9	\$ 2,065.1
Net income	—	—	—	242.1	—	242.1
Other comprehensive loss	—	—	—	—	(0.2)	(0.2)
Stock-based compensation	—	—	1.5	—	—	1.5
Restricted stock forfeitures	(88)	—	—	—	—	—
Balance, end of period	17,649,382	\$ 0.2	\$ 160.4	\$ 2,146.2	\$ 1.7	\$ 2,308.5

(Dollars in millions)

For the Nine Months Ended September 30, 2021						
	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number	Amount				
Balance, beginning of period	17,092,432	\$ 0.2	\$ 161.9	\$ 2,138.8	\$ 1.6	\$ 2,302.5
Net income	—	—	—	740.7	—	740.7
Other comprehensive loss	—	—	—	—	(0.9)	(0.9)
Stock-based compensation	—	—	5.4	—	—	5.4
Restricted stock forfeitures	(109,054)	—	—	—	—	—
Repurchase of common stock	(2,277,817)	(0.1)	(1.3)	(1,092.5)	—	(1,093.9)
Restricted stock units converted to common stock	11,416	—	—	—	—	—
Balance, end of period	14,716,977	\$ 0.1	\$ 166.0	\$ 1,787.0	\$ 0.7	\$ 1,953.8

(Dollars in millions)

For the Nine Months Ended September 30, 2020						
	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number	Amount				
Balance, beginning of period	18,352,779	\$ 0.2	\$ 157.7	\$ 2,196.6	\$ 0.8	\$ 2,355.3
Net income	—	—	—	254.7	—	254.7
Other comprehensive gain	—	—	—	—	0.9	0.9
Stock-based compensation	—	—	4.7	—	—	4.7
Restricted stock forfeitures	(148)	—	—	—	—	—
Repurchase of common stock	(725,220)	—	(2.0)	(305.1)	—	(307.1)
Restricted stock units converted to common stock	21,971	—	—	—	—	—
Balance, end of period	17,649,382	\$ 0.2	\$ 160.4	\$ 2,146.2	\$ 1.7	\$ 2,308.5

See accompanying notes to consolidated financial statements.

**CREDIT ACCEPTANCE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(In millions)	For the Nine Months Ended September 30,	
	2021	2020
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 740.7	\$ 254.7
Adjustments to reconcile cash provided by operating activities:		
Provision for credit losses	(17.5)	464.3
Depreciation	7.2	6.4
Amortization	12.5	11.1
Benefit from deferred income taxes	(4.1)	(16.4)
Stock-based compensation	5.4	4.7
Loss on extinguishment of debt	—	7.4
Other	(0.3)	(0.6)
Change in operating assets and liabilities:		
Increase (decrease) in accounts payable and accrued liabilities	65.5	(20.3)
Decrease in income taxes receivable	122.0	57.5
Decrease in other assets	6.9	14.2
Net cash provided by operating activities	938.3	783.0
<b>Cash Flows From Investing Activities:</b>		
Purchases of restricted securities available for sale	(31.4)	(37.8)
Proceeds from sale of restricted securities available for sale	12.0	19.4
Maturities of restricted securities available for sale	16.9	12.4
Principal collected on Loans receivable	2,907.5	2,412.7
Advances to Dealers	(1,626.2)	(1,751.1)
Purchases of Consumer Loans	(905.3)	(1,161.4)
Accelerated payments of Dealer Holdback	(36.0)	(34.6)
Payments of Dealer Holdback	(117.2)	(109.9)
Purchases of property and equipment	(6.1)	(7.7)
Net cash provided by (used in) in investing activities	214.2	(658.0)
<b>Cash Flows From Financing Activities:</b>		
Borrowings under revolving secured line of credit	1,066.4	4,387.8
Repayments under revolving secured line of credit	(1,090.1)	(4,262.1)
Proceeds from secured financing	1,379.8	2,071.9
Repayments of secured financing	(1,355.7)	(1,719.6)
Repayment of senior notes	—	(401.8)
Payments of debt issuance costs and debt extinguishment costs	(12.3)	(12.5)
Repurchase of common stock	(1,093.9)	(307.1)
Other	(0.6)	1.5
Net cash used in financing activities	(1,106.4)	(241.9)
Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	46.1	(116.9)
Cash and cash equivalents and restricted cash and cash equivalents beginning of period	396.2	517.7
Cash and cash equivalents and restricted cash and cash equivalents end of period	\$ 442.3	\$ 400.8
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the period for interest	\$ 115.9	\$ 147.2
Cash paid during the period for income taxes, net of refunds	\$ 112.3	\$ 35.8

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of actual results achieved for full fiscal years. The consolidated balance sheet as of December 31, 2020 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2020 for Credit Acceptance Corporation (the “Company”, “Credit Acceptance”, “we”, “our” or “us”).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

We have evaluated events and transactions occurring subsequent to the consolidated balance sheet date of September 30, 2021 for items that could potentially be recognized or disclosed in these financial statements. For additional information regarding subsequent events, see Note 16.

### 2. DESCRIPTION OF BUSINESS

Since 1972, Credit Acceptance has offered financing programs that enable automobile dealers to sell vehicles to consumers, regardless of their credit history. Our financing programs are offered through a nationwide network of automobile dealers who benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding to advertisements for our financing programs, but who actually end up qualifying for traditional financing.

Without our financing programs, consumers are often unable to purchase vehicles or they purchase unreliable ones. Further, as we report to the three national credit reporting agencies, an important ancillary benefit of our programs is that we provide consumers with an opportunity to improve their lives by improving their credit score and move on to more traditional sources of financing.

We refer to automobile dealers who participate in our programs and who share our commitment to changing consumers’ lives as “Dealers”. Upon enrollment in our financing programs, the Dealer enters into a Dealer servicing agreement with us that defines the legal relationship between Credit Acceptance and the Dealer. The Dealer servicing agreement assigns the responsibilities for administering, servicing, and collecting the amounts due on retail installment contracts (referred to as “Consumer Loans”) from the Dealers to us. We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the Dealer and assigned to us.

Substantially all of the Consumer Loans assigned to us are made to consumers with impaired or limited credit histories. The following table shows the percentage of Consumer Loans assigned to us with either FICO® scores below 650 or no FICO® scores:

Consumer Loan Assignment Volume	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Percentage of total unit volume with either FICO® scores below 650 or no FICO® scores	88.9 %	93.6 %	92.4 %	95.4 %



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

We have two programs: the Portfolio Program and the Purchase Program. Under the Portfolio Program, we advance money to Dealers (referred to as a “Dealer Loan”) in exchange for the right to service the underlying Consumer Loans. Under the Purchase Program, we buy the Consumer Loans from the Dealers (referred to as a “Purchased Loan”) and keep all amounts collected from the consumer. Dealer Loans and Purchased Loans are collectively referred to as “Loans”. The following table shows the percentage of Consumer Loans assigned to us as Dealer Loans and Purchased Loans for each of the last seven quarters:

Three Months Ended	Unit Volume		Dollar Volume (1)	
	Dealer Loans	Purchased Loans	Dealer Loans	Purchased Loans
March 31, 2020	64.9 %	35.1 %	60.5 %	39.5 %
June 30, 2020	62.5 %	37.5 %	59.1 %	40.9 %
September 30, 2020	64.1 %	35.9 %	60.9 %	39.1 %
December 31, 2020	65.3 %	34.7 %	62.7 %	37.3 %
March 31, 2021	65.4 %	34.6 %	62.7 %	37.3 %
June 30, 2021	66.9 %	33.1 %	64.0 %	36.0 %
September 30, 2021	69.9 %	30.1 %	66.8 %	33.2 %

(1) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program. Payments of Dealer Holdback (as defined below) and accelerated Dealer Holdback are not included.

### Portfolio Program

As payment for the vehicle, the Dealer generally receives the following:

- a down payment from the consumer;
- a non-recourse cash payment (“advance”) from us; and
- after the advance balance (cash advance and related Dealer Loan fees and costs) has been recovered by us, the cash from payments made on the Consumer Loan, net of certain collection costs and our servicing fee (“Dealer Holdback”).

We record the amount advanced to the Dealer as a Dealer Loan, which is classified within Loans receivable in our consolidated balance sheets. Cash advanced to the Dealer is automatically assigned to the Dealer’s open pool of advances. Dealers make an election as to how many Consumer Loans (either 50 or 100) will be assigned to an open pool before it is closed, and subsequent advances are assigned to a new pool. Unless we receive a request from the Dealer to keep a pool open, we automatically close each pool based on the Dealer’s election. All advances within a Dealer’s pool are secured by the future collections on the related Consumer Loans assigned to the pool. For Dealers with more than one pool, the pools are cross-collateralized so the performance of other pools is considered in determining eligibility for Dealer Holdback. We perfect our security interest with respect to the Dealer Loans by obtaining control or taking possession of the Consumer Loans, which list us as lien holder on the vehicle title.

The Dealer servicing agreement provides that collections received by us during a calendar month on Consumer Loans assigned by a Dealer are applied on a pool-by-pool basis as follows:

- first, to reimburse us for certain collection costs;
- second, to pay us our servicing fee, which generally equals 20% of collections;
- third, to reduce the aggregate advance balance and to pay any other amounts due from the Dealer to us; and
- fourth, to the Dealer as payment of Dealer Holdback.

If the collections on Consumer Loans from a Dealer’s pool are not sufficient to repay the advance balance and any other amounts due to us, the Dealer will not receive Dealer Holdback. Certain events may also result in Dealers forfeiting their rights to Dealer Holdback, including becoming inactive before assigning 100 Consumer Loans.

Dealers have an opportunity to receive an accelerated Dealer Holdback payment each time a pool of Consumer Loans is closed. The amount paid to the Dealer is calculated using a formula that considers the number of Consumer Loans assigned to the pool and the related forecasted collections and advance balance.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED) (UNAUDITED)

Since typically the combination of the advance and the consumer's down payment provides the Dealer with a cash profit at the time of sale, the Dealer's risk in the Consumer Loan is limited. We cannot demand repayment of the advance from the Dealer except in the event the Dealer is in default of the Dealer servicing agreement. Advances are made only after the consumer and Dealer have signed a Consumer Loan contract, we have received the executed Consumer Loan contract and supporting documentation in either physical or electronic form, and we have approved all of the related stipulations for funding.

For accounting purposes, the transactions described under the Portfolio Program are not considered to be loans to consumers. Instead, our accounting reflects that of a lender to the Dealer. The classification as a Dealer Loan for accounting purposes is primarily a result of (1) the Dealer's financial interest in the Consumer Loan and (2) certain elements of our legal relationship with the Dealer.

### Purchase Program

The Purchase Program differs from our Portfolio Program in that the Dealer receives a one-time payment from us at the time of assignment to purchase the Consumer Loan instead of a cash advance at the time of assignment and future Dealer Holdback payments. For accounting purposes, the transactions described under the Purchase Program are considered to be originated by the Dealer and then purchased by us.

### Program Enrollment

Dealers may enroll in our Portfolio Program without incurring an enrollment fee. Access to the Purchase Program is typically only granted to Dealers that meet one of the following:

- assigned at least 100 Consumer Loans under the Portfolio Program;
- franchise dealership; or
- independent dealership that meets certain criteria upon enrollment.

### **Seasonality**

Our business is seasonal with peak Consumer Loan assignments and collections occurring during the first quarter of the year. This seasonality has a material impact on our interim results, as we are required to recognize a significant provision for credit losses expense at the time of assignment. For additional information, see Note 3.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Business Segment Information**

We currently operate in one reportable segment which represents our core business of offering financing programs that enable Dealers to sell vehicles to consumers, regardless of their credit history. The consolidated financial statements reflect the financial results of our one reportable operating segment.

### **Cash and Cash Equivalents and Restricted Cash and Cash Equivalents**

Cash equivalents consist of readily marketable securities with original maturities at the date of acquisition of three months or less. As of September 30, 2021 and December 31, 2020, we had \$13.0 million and \$15.7 million, respectively, in cash and cash equivalents that were not insured by the Federal Deposit Insurance Corporation ("FDIC").

Restricted cash and cash equivalents consist of cash pledged as collateral for secured financings and cash held in a trust for future vehicle service contract claims. As of September 30, 2021 and December 31, 2020, we had \$426.0 million and \$376.9 million, respectively, in restricted cash and cash equivalents that were not insured by the FDIC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

The following table provides a reconciliation of cash and cash equivalents and restricted cash and cash equivalents reported in our consolidated balance sheets to the total shown in our consolidated statements of cash flows:

(In millions)	As of			
	September 30, 2021	December 31, 2020	September 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 13.3	\$ 16.0	\$ 8.9	\$ 187.4
Restricted cash and cash equivalents	429.0	380.2	391.9	330.3
Total cash and cash equivalents and restricted cash and cash equivalents	<u>\$ 442.3</u>	<u>\$ 396.2</u>	<u>\$ 400.8</u>	<u>\$ 517.7</u>

### Restricted Securities Available for Sale

Restricted securities available for sale consist of amounts held in a trust for future vehicle service contract claims. We determine the appropriate classification of our investments in debt securities at the time of purchase and reevaluate such determinations at each balance sheet date. Debt securities for which we do not have the intent or ability to hold to maturity are classified as available for sale, and stated at fair value with unrealized gains and losses, net of income taxes included in the determination of comprehensive income and reported as a component of shareholders' equity.

### Loans Receivable and Allowance for Credit Losses

*Consumer Loan Assignment.* For legal purposes, a Consumer Loan is considered to have been assigned to us after the following has occurred:

- the consumer and Dealer have signed a Consumer Loan contract; and
- we have received the executed Consumer Loan contract and supporting documentation in either physical or electronic form.

For accounting and financial reporting purposes, a Consumer Loan is considered to have been assigned to us after the following has occurred:

- the Consumer Loan has been legally assigned to us; and
- we have made a funding decision and generally have provided funding to the Dealer in the form of either an advance under the Portfolio Program or one-time purchase payment under the Purchase Program.

*Portfolio Segments and Classes.* Our Loan portfolio consists of two portfolio segments: Dealer Loans and Purchased Loans. Our determination is based on the following:

- We have two financing programs: the Portfolio Program and the Purchase Program. We are considered to be a lender to our Dealers for Consumer Loans assigned under the Portfolio Program and a purchaser of Consumer Loans assigned under the Purchase Program.
- The Portfolio Program and the Purchase Program have different levels of risk in relation to credit losses. Under the Portfolio Program, the impact of negative variances in Consumer Loan performance is mitigated by Dealer Holdback and the cross-collateralization of Consumer Loan assignments. Under the Purchase Program, we are impacted by the full amount of negative variances in Consumer Loan performance.
- Our business model is narrowly focused on Consumer Loan assignments from one industry with expected cash flows that are significantly lower than the contractual cash flows owed to us due to credit quality. We do not believe that it is meaningful to disaggregate our Loan portfolio beyond the Dealer Loans and Purchased Loans portfolio segments.

Each portfolio segment consists of one class of Consumer Loan assignments, which is Consumer Loans originated by Dealers to finance purchases of vehicles and related ancillary products by consumers with impaired or limited credit histories. Our determination is based on the following:

- All of the Consumer Loans assigned to us have similar risk characteristics in relation to the categorization of borrowers, type of financing receivable, industry sector and type of collateral.
- We only accept Consumer Loan assignments from Dealers located within the United States.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

*Recognition and Measurement Policies.* On January 1, 2020, we adopted Accounting Standards Update 2016-13, Measurement of Credit Losses on Financial Instruments, which is known as the current expected credit loss model, or CECL. Loans outstanding prior to the adoption date qualified for transition relief and are accounted for as purchased financial assets with credit deterioration (“PCD Method”).

Under the PCD Method, on January 1, 2020, we:

- calculated an effective interest rate based on expected future net cash flows; and
- increased the Loans receivable and the related allowance for credit losses balances by the present value of the difference between contractual future net cash flows and expected future net cash flows discounted at the effective interest rate. This “gross-up” did not impact the net carrying amount of Loans (Loans receivable less allowance for credit losses) or net income.

Under the PCD Method, for each reporting period subsequent to the adoption of CECL, we:

- recognize finance charge revenue using the effective interest rate that was calculated on the adoption date based on expected future net cash flows; and
- adjust the allowance for credit losses so that the net carrying amount of each Loan equals the present value of expected future net cash flows discounted at the effective interest rate. The adjustment to the allowance for credit losses is recognized as either provision for credit losses expense or a reversal of provision for credit losses expense.

Consumer Loans assigned to us on or subsequent to January 1, 2020 do not qualify for the PCD Method and are accounted for as originated financial assets (“Originated Method”). While the cash flows we expect to collect at the time of assignment are significantly lower than the contractual cash flows owed to us due to credit quality, our Loans do not qualify for the PCD Method because the assignment of the Consumer Loan to us occurs a moment after the Consumer Loan is originated by the Dealer, so “a more-than-insignificant deterioration in credit quality since origination” has not occurred at the time of assignment. In addition, Dealer Loans also do not qualify for the PCD Method because Consumer Loans assigned to us under the Portfolio Program are considered to be advances under Dealer Loans originated by us rather than Consumer Loans purchased by us.

Under the Originated Method, at the time of assignment, we:

- calculate the effective interest rate based on contractual future net cash flows;
- record a Loan receivable equal to the advance paid to the Dealer under the Portfolio Program or purchase price paid to the Dealer under the Purchase Program; and
- record an allowance for credit losses equal to the difference between the initial Loan receivable balance and the present value of expected future net cash flows discounted at the effective interest rate. The initial allowance for credit losses is recognized as provision for credit losses expense.

Under the Originated Method, for each reporting period subsequent to assignment, we:

- recognize finance charge revenue using the effective interest rate that was calculated at the time of assignment based on contractual future net cash flows; and
- adjust the allowance for credit losses so that the net carrying amount of each Loan equals the present value of expected future net cash flows discounted at the effective interest rate. The adjustment to the allowance for credit losses is recognized as either provision for credit losses expense or a reversal of provision for credit losses expense.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

*Loans Receivable.* Amounts advanced to Dealers for Consumer Loans assigned under the Portfolio Program are recorded as Dealer Loans and are aggregated by Dealer for purposes of recognizing revenue and measuring credit losses. Amounts paid to Dealers for Consumer Loans assigned under the Purchase Program are recorded as Purchased Loans and, for purposes of recognizing revenue and measuring credit losses, are:

- not aggregated, if assigned on or subsequent to January 1, 2020; or
- aggregated into pools based on the month of purchase, if assigned prior to January 1, 2020.

The outstanding balance of each Loan included in Loans receivable is comprised of the following:

- cash paid to the Dealer (or to third party ancillary product providers on the Dealer's behalf) for the Consumer Loan assignment (advance under the Portfolio Program or one-time purchase payment under the Purchase Program);
- finance charges;
- Dealer Holdback payments;
- accelerated Dealer Holdback payments;
- recoveries;
- transfers in;
- less: collections (net of certain collection costs);
- less: write-offs; and
- less: transfers out.

Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's outstanding Dealer Loan balance and the related allowance for credit losses balance to Purchased Loans in the period this forfeiture occurs. We aggregate these Purchased Loans by Dealer for purposes of recognizing revenue and measuring credit losses.

*Allowance for Credit Losses.* The outstanding balance of the allowance for credit losses of each Loan represents the amount required to reduce net carrying amount of Loans (Loans receivable less allowance for credit losses) to the present value of expected future net cash flows discounted at the effective interest rate. Expected future net cash flows for Dealer Loans are comprised of expected future collections on the assigned Consumer Loans, less any expected future Dealer Holdback payments. Expected future net cash flows for Purchased Loans are comprised of expected future collections on the assigned Consumer Loans.

Expected future collections are forecasted for each individual Consumer Loan based on the historical performance of Consumer Loans with similar characteristics, adjusted for recent trends in payment patterns and economic conditions. Our forecast of expected future collections includes estimates for prepayments and post-contractual-term cash flows. Unless the consumer is no longer contractually obligated to pay us, we forecast future collections on each Consumer Loan for a 120 month period after the origination date. Expected future Dealer Holdback payments are forecasted for each individual Dealer based on the expected future collections and current advance balance of each Dealer Loan.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

We fully write off the outstanding balances of a Loan and the related allowance for credit losses once we are no longer forecasting any expected future net cash flows on the Loan. Under our partial write-off policy, we write off the amount of the outstanding balances of a Loan and the related allowance for credit losses, if any, that exceeds 200% of the present value of expected future net cash flows on the Loan, as we deem this amount to be uncollectable.

*Credit Quality.* Substantially all of the Consumer Loans assigned to us are made to individuals with impaired or limited credit histories. Consumer Loans made to these individuals generally entail a higher risk of delinquency, default and repossession and higher losses than loans made to consumers with better credit. Since most of our revenue and cash flows are generated from these Consumer Loans, our ability to accurately forecast Consumer Loan performance is critical to our business and financial results. At the time a Consumer Loan is submitted to us for assignment, we forecast future expected cash flows from the Consumer Loan. Based on these forecasts, an advance or one-time purchase payment is made to the related Dealer at a price designed to maximize our economic profit, a non-GAAP financial measure that considers our return on capital, our cost of capital and the amount of capital invested.

We monitor and evaluate the credit quality of Consumer Loans on a monthly basis by comparing our current forecasted collection rates to our initial expectations. We use a statistical model that considers a number of credit quality indicators to estimate the expected collection rate for each Consumer Loan at the time of assignment. The credit quality indicators considered in our model include attributes contained in the consumer's credit bureau report, data contained in the consumer's credit application, the structure of the proposed transaction, vehicle information and other factors. We continue to evaluate the expected collection rate of each Consumer Loan subsequent to assignment primarily through the monitoring of consumer payment behavior. Our evaluation becomes more accurate as the Consumer Loans age, as we use actual performance data in our forecast. Since all known, significant credit quality indicators have already been factored into our forecasts and pricing, we are not able to use any specific credit quality indicators to predict or explain variances in actual performance from our initial expectations. Any variances in performance from our initial expectations are the result of Consumer Loans performing differently from historical Consumer Loans with similar characteristics. We periodically adjust our statistical pricing model for new trends that we identify through our evaluation of these forecasted collection rate variances.

When overall forecasted collection rates underperform our initial expectations, the decline in forecasted collections has a more adverse impact on the profitability of the Purchased Loans than on the profitability of the Dealer Loans. For Purchased Loans, the decline in forecasted collections is absorbed entirely by us. For Dealer Loans, the decline in the forecasted collections is substantially offset by a decline in forecasted payments of Dealer Holdback.

*Methodology Changes.* On January 1, 2020, we adopted CECL, which changed our accounting policies for Loans. During the first quarter of 2020, we reduced forecasted collection rates to reflect the estimated long-term impact of COVID-19 on Consumer Loan performance. For additional information, see Note 6. For the three and nine months ended September 30, 2021 and 2020, we did not make any other methodology changes for Loans that had a material impact on our financial statements.

## **Finance Charges**

*Sources of Revenue.* Finance charges is comprised of: (1) interest income earned on Loans; (2) administrative fees earned from ancillary products; (3) program fees charged to Dealers under the Portfolio Program; (4) Consumer Loan assignment fees charged to Dealers; and (5) direct origination costs incurred on Dealer Loans.

We provide Dealers the ability to offer vehicle service contracts to consumers through our relationships with Third Party Providers ("TPPs"). A vehicle service contract provides the consumer protection by paying for the repair or replacement of certain components of the vehicle in the event of a mechanical failure. The retail price of the vehicle service contract is included in the principal balance of the Consumer Loan. The wholesale cost of the vehicle service contract is paid to the TPP, net of an administrative fee retained by us. The difference between the wholesale cost and the retail price to the consumer is paid to the Dealer as a commission. Under the Portfolio Program, the wholesale cost of the vehicle service contract and the commission paid to the Dealer are charged to the Dealer's advance balance. TPPs process claims on vehicle service contracts that are underwritten by third party insurers. We bear the risk of loss for claims on certain vehicle service contracts that are reinsured by us. We market the vehicle service contracts directly to our Dealers.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

We provide Dealers the ability to offer Guaranteed Asset Protection (“GAP”) to consumers through our relationships with TPPs. GAP provides the consumer protection by paying the difference between the loan balance and the amount covered by the consumer’s insurance policy in the event of a total loss of the vehicle due to severe damage or theft. The retail price of GAP is included in the principal balance of the Consumer Loan. The wholesale cost of GAP is paid to the TPP, net of an administrative fee retained by us. The difference between the wholesale cost and the retail price to the consumer is paid to the Dealer as a commission. Under the Portfolio Program, the wholesale cost of GAP and the commission paid to the Dealer are charged to the Dealer’s advance balance. TPPs process claims on GAP contracts that are underwritten by third party insurers.

Program fees represent monthly fees charged to Dealers for access to our Credit Approval Processing System (“CAPS”); administration, servicing and collection services offered by us; documentation related to or affecting our program; and all tangible and intangible property owned by Credit Acceptance. We charge a monthly fee of \$599 to Dealers participating in our Portfolio Program and we collect it from future Dealer Holdback payments.

*Recognition Policy.* We recognize finance charges under the interest method such that revenue is recognized on a level-yield basis over the life of the Loan. We calculate finance charges on a monthly basis by applying the effective interest rate of the Loan to the net carrying amount of the Loan (Loan receivable less the related allowance for credit losses). For Consumer Loans assigned on or subsequent to January 1, 2020, the effective interest rate is based on contractual future net cash flows. For Consumer Loans assigned prior to January 1, 2020, the effective interest rate was determined based on expected future net cash flows.

In connection with the adoption of CECL on January 1, 2020, we have elected to report the change in the present value of credit losses attributable to the passage of time as a reduction to finance charges. As a result, we allocate finance charges recognized on each Loan between the Loan receivable and the related allowance for credit losses. The amount of finance charges allocated to the Loan receivable is equal to the effective interest rate applied to the Loans receivable balance. The reduction of finance charges allocated to the allowance for credit losses is equal to the effective interest rate applied to the allowance for credit losses balance.

## **Reinsurance**

VSC Re Company (“VSC Re”), our wholly-owned subsidiary, is engaged in the business of reinsuring coverage under vehicle service contracts sold to consumers by Dealers on vehicles financed by us. VSC Re currently reinsures vehicle service contracts that are offered through one of our third party providers. Vehicle service contract premiums, which represent the selling price of the vehicle service contract to the consumer, less fees and certain administrative costs, are contributed to a trust account controlled by VSC Re. These premiums are used to fund claims covered under the vehicle service contracts. VSC Re is a bankruptcy remote entity. As such, our exposure to fund claims is limited to the trust assets controlled by VSC Re and our net investment in VSC Re.

Premiums from the reinsurance of vehicle service contracts are recognized over the life of the policy in proportion to expected costs of servicing those contracts. Expected costs are determined based on our historical claims experience. Claims are expensed through a provision for claims in the period the claim was incurred. Capitalized acquisition costs are comprised of premium taxes and are amortized as general and administrative expense over the life of the contracts in proportion to premiums earned.

We have consolidated the trust within our financial statements based on our determination of the following:

- *We have a variable interest in the trust.* We have a residual interest in the assets of the trust, which is variable in nature, given that it increases or decreases based upon the actual loss experience of the related service contracts. In addition, VSC Re is required to absorb any losses in excess of the trust’s assets.
- *The trust is a variable interest entity.* The trust has insufficient equity at risk as no parties to the trust were required to contribute assets that provide them with any ownership interest.
- *We are the primary beneficiary of the trust.* We control the amount of premiums written and placed in the trust through Consumer Loan assignments under our Programs, which is the activity that most significantly impacts the economic performance of the trust. We have the right to receive benefits from the trust that could potentially be significant. In addition, VSC Re has the obligation to absorb losses of the trust that could potentially be significant.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

**New Accounting Update Adopted During the Current Year**

*Simplifying the Accounting for Income Taxes.* In December 2019, the FASB issued ASU 2019-12, which intends to enhance and simplify various aspects of the income tax accounting guidance, including requirements impacting the allocation of income tax expense to certain legal entities and interim-period accounting for enacted changes in tax law. The adoption of ASU 2019-12 on January 1, 2021 did not have a material impact on our consolidated financial statements and related disclosures.

**4. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate their value.

*Cash and Cash Equivalents and Restricted Cash and Cash Equivalents.* The carrying amounts approximate their fair value due to the short maturity of these instruments.

*Restricted Securities Available for Sale.* The fair value of U.S. Government and agency securities and corporate bonds is based on quoted market values in active markets. For asset-backed securities, mortgage-backed securities and commercial paper we use model-based valuation techniques for which all significant assumptions are observable in the market.

*Loans Receivable, net.* The fair value is determined by calculating the present value of expected future net cash flows estimated by us utilizing a discount rate comparable with the rate used to calculate the value of our Loans under our non-GAAP floating yield methodology.

*Revolving Secured Line of Credit.* The fair value is determined by calculating the present value of the debt instrument based on current rates for debt with a similar risk profile and maturity.

*Secured Financing.* The fair value of our asset-backed secured financings (“Term ABS”) is determined using quoted market prices; however, these instruments trade in a market with a low trading volume. For our warehouse facilities, the fair values are determined by calculating the present value of each debt instrument based on current rates for debt with similar risk profiles and maturities.

*Senior Notes.* The fair value is determined using quoted market prices in an active market.

*Mortgage Note.* The fair value is determined by calculating the present value of the debt instrument based on current rates for debt with a similar risk profile and maturity.

A comparison of the carrying amount and estimated fair value of these financial instruments is as follows:

(In millions)	As of September 30, 2021		As of December 31, 2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 13.3	\$ 13.3	\$ 16.0	\$ 16.0
Restricted cash and cash equivalents	429.0	429.0	380.2	380.2
Restricted securities available for sale	67.1	67.1	66.1	66.1
Loans receivable, net	6,582.6	6,833.9	6,787.9	7,216.4
<b>Liabilities</b>				
Revolving secured line of credit	\$ 72.2	\$ 72.2	\$ 95.9	\$ 95.9
Secured financing	3,733.0	3,783.0	3,711.6	3,793.9
Senior notes	792.0	834.6	790.6	842.0
Mortgage note	9.9	9.9	10.5	10.5



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. We group assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1	Valuation is based upon quoted prices for identical instruments traded in active markets.
Level 2	Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3	Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates or assumptions that market participants would use in pricing the asset or liability.

The following table provides the level of measurement used to determine the fair value for each of our financial instruments measured or disclosed at fair value:

(In millions)	As of September 30, 2021			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets</b>				
Cash and cash equivalents (1)	\$ 13.3	\$ —	\$ —	\$ 13.3
Restricted cash and cash equivalents (1)	429.0	—	—	429.0
Restricted securities available for sale (2)	53.7	13.4	—	67.1
Loans receivable, net (1)	—	—	6,833.9	6,833.9
<b>Liabilities</b>				
Revolving secured line of credit (1)	\$ —	\$ 72.2	\$ —	\$ 72.2
Secured financing (1)	—	3,783.0	—	3,783.0
Senior notes (1)	834.6	—	—	834.6
Mortgage note (1)	—	9.9	—	9.9

(In millions)	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets</b>				
Cash and cash equivalents (1)	\$ 16.0	\$ —	\$ —	\$ 16.0
Restricted cash and cash equivalents (1)	380.2	—	—	380.2
Restricted securities available for sale (2)	52.8	13.3	—	66.1
Loans receivable, net (1)	—	—	7,216.4	7,216.4
<b>Liabilities</b>				
Revolving secured line of credit (1)	\$ —	\$ 95.9	\$ —	\$ 95.9
Secured financing (1)	—	3,793.9	—	3,793.9
Senior notes (1)	842.0	—	—	842.0
Mortgage note (1)	—	10.5	—	10.5

- (1) Measured at amortized cost with fair value disclosed.  
(2) Measured at fair value on a recurring basis.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

**5. RESTRICTED SECURITIES AVAILABLE FOR SALE**

Restricted securities available for sale consist of the following:

(In millions)

	As of September 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	\$ 33.2	\$ 0.4	\$ (0.1)	\$ 33.5
U.S. Government and agency securities	19.8	0.4	—	20.2
Asset-backed securities	12.9	0.1	—	13.0
Mortgage-backed securities	0.4	—	—	0.4
Total restricted securities available for sale	<u>\$ 66.3</u>	<u>\$ 0.9</u>	<u>\$ (0.1)</u>	<u>\$ 67.1</u>

(In millions)

	As of December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	\$ 31.3	\$ 1.1	\$ —	\$ 32.4
U.S. Government and agency securities	19.7	0.7	—	20.4
Asset-backed securities	12.7	0.2	—	12.9
Mortgage-backed securities	0.4	—	—	0.4
Total restricted securities available for sale	<u>\$ 64.1</u>	<u>\$ 2.0</u>	<u>\$ —</u>	<u>\$ 66.1</u>

The fair value and gross unrealized losses for restricted securities available for sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

(In millions)

	Securities Available for Sale with Gross Unrealized Losses as of September 30, 2021					
	Less than 12 Months		12 Months or More		Total Estimated Fair Value	Total Gross Unrealized Losses
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses		
Corporate bonds	\$ 15.7	\$ (0.1)	\$ 0.9	\$ —	\$ 16.6	\$ (0.1)
U.S. Government and agency securities	6.2	—	—	—	6.2	—
Asset-backed securities	4.6	—	—	—	4.6	—
Mortgage-backed securities	—	—	—	—	—	—
Total restricted securities available for sale	<u>\$ 26.5</u>	<u>\$ (0.1)</u>	<u>\$ 0.9</u>	<u>\$ —</u>	<u>\$ 27.4</u>	<u>\$ (0.1)</u>

(In millions)

	Securities Available for Sale with Gross Unrealized Losses as of December 31, 2020					
	Less than 12 Months		12 Months or More		Total Estimated Fair Value	Total Gross Unrealized Losses
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses		
Corporate bonds	\$ 2.2	\$ —	\$ —	\$ —	\$ 2.2	\$ —
U.S. Government and agency securities	—	—	—	—	—	—
Asset-backed securities	—	—	—	—	—	—
Mortgage-backed securities	—	—	—	—	—	—
Total restricted securities available for sale	<u>\$ 2.2</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2.2</u>	<u>\$ —</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

The cost and estimated fair values of debt securities by contractual maturity were as follows (securities with multiple maturity dates are classified in the period of final maturity). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Contractual Maturity	As of			
	September 30, 2021		December 31, 2020	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	\$ 2.1	\$ 2.1	\$ 1.1	\$ 1.1
Over one year to five years	61.2	62.0	58.1	60.0
Over five years to ten years	2.9	2.9	4.7	4.8
Over ten years	0.1	0.1	0.2	0.2
Total restricted securities available for sale	<u>\$ 66.3</u>	<u>\$ 67.1</u>	<u>\$ 64.1</u>	<u>\$ 66.1</u>

**6. LOANS RECEIVABLE**

Loans receivable and allowance for credit losses consist of the following:

	As of September 30, 2021		
	Dealer Loans	Purchased Loans	Total
Loans receivable	\$ 5,776.6	\$ 3,909.2	\$ 9,685.8
Allowance for credit losses	(1,746.0)	(1,357.2)	(3,103.2)
Loans receivable, net	<u>\$ 4,030.6</u>	<u>\$ 2,552.0</u>	<u>\$ 6,582.6</u>

  

	As of December 31, 2020		
	Dealer Loans	Purchased Loans	Total
Loans receivable	\$ 5,869.6	\$ 4,255.2	\$ 10,124.8
Allowance for credit losses	(1,702.1)	(1,634.8)	(3,336.9)
Loans receivable, net	<u>\$ 4,167.5</u>	<u>\$ 2,620.4</u>	<u>\$ 6,787.9</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

A summary of changes in Loans receivable and allowance for credit losses is as follows:

(In millions)	For the Three Months Ended September 30, 2021								
	Loans Receivable			Allowance for Credit Losses			Loans Receivable, Net		
	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 5,869.3	\$ 4,097.2	\$ 9,966.5	\$ (1,733.4)	\$ (1,465.0)	\$ (3,198.4)	\$ 4,135.9	\$ 2,632.2	\$ 6,768.1
Finance charges	347.5	283.2	630.7	(103.9)	(84.7)	(188.6)	243.6	198.5	442.1
Provision for credit losses	—	—	—	9.5	(1.2)	8.3	9.5	(1.2)	8.3
New Consumer Loan assignments (1)	467.5	232.5	700.0	—	—	—	467.5	232.5	700.0
Collections (2)	(860.7)	(524.6)	(1,385.3)	—	—	—	(860.7)	(524.6)	(1,385.3)
Accelerated Dealer Holdback payments	9.4	—	9.4	—	—	—	9.4	—	9.4
Dealer Holdback payments	37.8	—	37.8	—	—	—	37.8	—	37.8
Transfers (3)	(20.8)	20.8	—	6.2	(6.2)	—	(14.6)	14.6	—
Write-offs	(75.7)	(200.6)	(276.3)	75.7	200.6	276.3	—	—	—
Recoveries (4)	0.1	0.7	0.8	(0.1)	(0.7)	(0.8)	—	—	—
Deferral of Loan origination costs	2.2	—	2.2	—	—	—	2.2	—	2.2
Balance, end of period	<u>\$ 5,776.6</u>	<u>\$ 3,909.2</u>	<u>\$ 9,685.8</u>	<u>\$ (1,746.0)</u>	<u>\$ (1,357.2)</u>	<u>\$ (3,103.2)</u>	<u>\$ 4,030.6</u>	<u>\$ 2,552.0</u>	<u>\$ 6,582.6</u>

  

(In millions)	For the Three Months Ended September 30, 2020								
	Loans Receivable			Allowance for Credit Losses			Loans Receivable, Net		
	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 5,810.8	\$ 4,285.1	\$ 10,095.9	\$ (1,623.6)	\$ (1,722.5)	\$ (3,346.1)	\$ 4,187.2	\$ 2,562.6	\$ 6,749.8
Finance charges	336.8	259.8	596.6	(95.6)	(96.6)	(192.2)	241.2	163.2	404.4
Provision for credit losses	—	—	—	26.4	3.4	29.8	26.4	3.4	29.8
New Consumer Loan assignments (1)	519.0	333.1	852.1	—	—	—	519.0	333.1	852.1
Collections (2)	(780.2)	(440.1)	(1,220.3)	—	—	—	(780.2)	(440.1)	(1,220.3)
Accelerated Dealer Holdback payments	11.7	—	11.7	—	—	—	11.7	—	11.7
Dealer Holdback payments	35.5	—	35.5	—	—	—	35.5	—	35.5
Transfers (3)	(30.0)	30.0	—	9.9	(9.9)	—	(20.1)	20.1	—
Write-offs	(48.3)	(150.1)	(198.4)	48.3	150.1	198.4	—	—	—
Recoveries (4)	0.2	0.6	0.8	(0.2)	(0.6)	(0.8)	—	—	—
Deferral of Loan origination costs	2.2	—	2.2	—	—	—	2.2	—	2.2
Balance, end of period	<u>\$ 5,857.7</u>	<u>\$ 4,318.4</u>	<u>\$ 10,176.1</u>	<u>\$ (1,634.8)</u>	<u>\$ (1,676.1)</u>	<u>\$ (3,310.9)</u>	<u>\$ 4,222.9</u>	<u>\$ 2,642.3</u>	<u>\$ 6,865.2</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

(In millions)	For the Nine Months Ended September 30, 2021								
	Loans Receivable			Allowance for Credit Losses			Loans Receivable, Net		
	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 5,869.6	\$ 4,255.2	\$ 10,124.8	\$ (1,702.1)	\$ (1,634.8)	\$ (3,336.9)	\$ 4,167.5	\$ 2,620.4	\$ 6,787.9
Finance charges	1,043.4	844.8	1,888.2	(308.7)	(267.1)	(575.8)	734.7	577.7	1,312.4
Provision for credit losses	—	—	—	36.8	(19.3)	17.5	36.8	(19.3)	17.5
New Consumer Loan assignments (1)	1,626.2	905.3	2,531.5	—	—	—	1,626.2	905.3	2,531.5
Collections (2)	(2,633.9)	(1,592.5)	(4,226.4)	—	—	—	(2,633.9)	(1,592.5)	(4,226.4)
Accelerated Dealer Holdback payments	36.0	—	36.0	—	—	—	36.0	—	36.0
Dealer Holdback payments	117.2	—	117.2	—	—	—	117.2	—	117.2
Transfers (3)	(87.7)	87.7	—	27.3	(27.3)	—	(60.4)	60.4	—
Write-offs	(201.9)	(593.2)	(795.1)	201.9	593.2	795.1	—	—	—
Recoveries (4)	1.2	1.9	3.1	(1.2)	(1.9)	(3.1)	—	—	—
Deferral of Loan origination costs	6.5	—	6.5	—	—	—	6.5	—	6.5
Balance, end of period	<u>\$ 5,776.6</u>	<u>\$ 3,909.2</u>	<u>\$ 9,685.8</u>	<u>\$ (1,746.0)</u>	<u>\$ (1,357.2)</u>	<u>\$ (3,103.2)</u>	<u>\$ 4,030.6</u>	<u>\$ 2,552.0</u>	<u>\$ 6,582.6</u>

(In millions)	For the Nine Months Ended September 30, 2020								
	Loans Receivable			Allowance for Credit Losses			Loans Receivable, Net		
	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 4,623.3	\$ 2,597.9	\$ 7,221.2	\$ (428.0)	\$ (108.0)	\$ (536.0)	\$ 4,195.3	\$ 2,489.9	\$ 6,685.2
Adoption of CECL (5)	940.2	1,523.4	2,463.6	(940.2)	(1,523.4)	(2,463.6)	—	—	—
Finance charges	972.3	722.0	1,694.3	(270.3)	(279.5)	(549.8)	702.0	442.5	1,144.5
Provision for credit losses	—	—	—	(202.8)	(261.5)	(464.3)	(202.8)	(261.5)	(464.3)
New Consumer Loan assignments (1)	1,751.1	1,161.4	2,912.5	—	—	—	1,751.1	1,161.4	2,912.5
Collections (2)	(2,313.1)	(1,250.8)	(3,563.9)	—	—	—	(2,313.1)	(1,250.8)	(3,563.9)
Accelerated Dealer Holdback payments	34.6	—	34.6	—	—	—	34.6	—	34.6
Dealer Holdback payments	109.9	—	109.9	—	—	—	109.9	—	109.9
Transfers (3)	(90.3)	90.3	—	29.5	(29.5)	—	(60.8)	60.8	—
Write-offs	(177.8)	(527.1)	(704.9)	177.8	527.1	704.9	—	—	—
Recoveries (4)	0.8	1.3	2.1	(0.8)	(1.3)	(2.1)	—	—	—
Deferral of Loan origination costs	6.7	—	6.7	—	—	—	6.7	—	6.7
Balance, end of period	<u>\$ 5,857.7</u>	<u>\$ 4,318.4</u>	<u>\$ 10,176.1</u>	<u>\$ (1,634.8)</u>	<u>\$ (1,676.1)</u>	<u>\$ (3,310.9)</u>	<u>\$ 4,222.9</u>	<u>\$ 2,642.3</u>	<u>\$ 6,865.2</u>

- (1) The Dealer Loans amount represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program. The Purchased Loans amount represents one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program.
- (2) Represents repayments that we collected on Consumer Loans assigned under our programs.
- (3) Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's outstanding Dealer Loan balance and related allowance for credit losses balance to Purchased Loans in the period this forfeiture occurs.
- (4) The Dealer Loans amount represents net cash flows received (collections less any related Dealer Holdback payments) on Dealer Loans that were previously written off in full. The Purchased Loans amount represents collections received on Purchased Loans that were previously written off in full.
- (5) Represents the gross-up of Loans receivable and allowance for credit losses on January 1, 2020 upon the adoption of CECL for the present value of the difference between contractual future net cash flows and expected future net cash flows discounted at the effective interest rate.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

We recognize provision for credit losses on new Consumer Loan assignments for contractual net cash flows that were not expected to be realized at the time of assignment. We also recognize provision for credit losses on forecast changes in the amount and timing of expected future net cash flows subsequent to assignment. The following table summarizes the provision for credit losses for each of these components:

(In millions)

Provision for Credit Losses	For the Three Months Ended September 30, 2021		
	Dealer Loans	Purchased Loans	Total
New Consumer Loan assignments	\$ 32.0	\$ 43.5	\$ 75.5
Forecast changes	(41.5)	(42.3)	(83.8)
Total	<u>\$ (9.5)</u>	<u>\$ 1.2</u>	<u>\$ (8.3)</u>

(In millions)

Provision for Credit Losses	For the Three Months Ended September 30, 2020		
	Dealer Loans	Purchased Loans	Total
New Consumer Loan assignments	\$ 45.6	\$ 68.5	\$ 114.1
Forecast changes	(72.0)	(71.9)	(143.9)
Total	<u>\$ (26.4)</u>	<u>\$ (3.4)</u>	<u>\$ (29.8)</u>

(In millions)

Provision for Credit Losses	For the Nine Months Ended September 30, 2021		
	Dealer Loans	Purchased Loans	Total
New Consumer Loan assignments	\$ 123.2	\$ 175.7	\$ 298.9
Forecast changes	(160.0)	(156.4)	(316.4)
Total	<u>\$ (36.8)</u>	<u>\$ 19.3</u>	<u>\$ (17.5)</u>

(In millions)

Provision for Credit Losses	For the Nine Months Ended September 30, 2020		
	Dealer Loans	Purchased Loans	Total
New Consumer Loan assignments	\$ 171.3	\$ 254.9	\$ 426.2
Forecast changes	31.5	6.6	38.1
Total	<u>\$ 202.8</u>	<u>\$ 261.5</u>	<u>\$ 464.3</u>

The net Loan income (finance charge revenue less provision for credit losses expense) that we will recognize over the life of a Loan equals the cash we collect from the underlying Consumer Loan less the cash we pay to the Dealer. Under CECL, we are required to recognize a significant provision for credit losses expense at the time of assignment for contractual net cash flows we never expect to realize and to recognize in subsequent periods finance charge revenue that is significantly in excess of our expected yields. Additional information related to new Consumer Loan assignments is as follows:

(In millions)

New Consumer Loan Assignments	For the Three Months Ended September 30, 2021		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	\$ 718.5	\$ 479.8	\$ 1,198.3
Expected net cash flows at the time of assignment (2)	647.6	323.2	970.8
Loans receivable at the time of assignment (3)	467.5	232.5	700.0
Provision for credit losses expense at the time of assignment	\$ (32.0)	\$ (43.5)	\$ (75.5)
Expected future finance charges at the time of assignment (4)	212.1	134.2	346.3
Expected net Loan income at the time of assignment (5)	<u>\$ 180.1</u>	<u>\$ 90.7</u>	<u>\$ 270.8</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

(In millions)	New Consumer Loan Assignments	For the Three Months Ended September 30, 2020		
		Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)		\$ 823.0	\$ 730.8	\$ 1,553.8
Expected net cash flows at the time of assignment (2)		733.6	475.3	1,208.9
Loans receivable at the time of assignment (3)		519.0	333.1	852.1
Provision for credit losses expense at the time of assignment		\$ (45.6)	\$ (68.5)	\$ (114.1)
Expected future finance charges at the time of assignment (4)		260.2	210.7	470.9
Expected net Loan income at the time of assignment (5)		<u>\$ 214.6</u>	<u>\$ 142.2</u>	<u>\$ 356.8</u>

(In millions)	New Consumer Loan Assignments	For the Nine Months Ended September 30, 2021		
		Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)		\$ 2,538.8	\$ 1,919.0	\$ 4,457.8
Expected net cash flows at the time of assignment (2)		2,283.6	1,272.6	3,556.2
Loans receivable at the time of assignment (3)		1,626.2	905.3	2,531.5
Provision for credit losses expense at the time of assignment		\$ (123.2)	\$ (175.7)	\$ (298.9)
Expected future finance charges at the time of assignment (4)		780.6	543.0	1,323.6
Expected net Loan income at the time of assignment (5)		<u>\$ 657.4</u>	<u>\$ 367.3</u>	<u>\$ 1,024.7</u>

(In millions)	New Consumer Loan Assignments	For the Nine Months Ended September 30, 2020		
		Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)		\$ 2,787.2	\$ 2,566.4	\$ 5,353.6
Expected net cash flows at the time of assignment (2)		2,471.7	1,633.5	4,105.2
Loans receivable at the time of assignment (3)		1,751.1	1,161.4	2,912.5
Provision for credit losses expense at the time of assignment		\$ (171.3)	\$ (254.9)	\$ (426.2)
Expected future finance charges at the time of assignment (4)		891.9	727.0	1,618.9
Expected net Loan income at the time of assignment (5)		<u>\$ 720.6</u>	<u>\$ 472.1</u>	<u>\$ 1,192.7</u>

- (1) The Dealer Loans amount represents repayments that we were contractually owed at the time of assignment on Consumer Loans assigned under our Portfolio Program, less the related Dealer Holdback payments that we would be required to make if we collected all of the contractual repayments. The Purchased Loans amount represents repayments that we were contractually owed at the time of assignment on Consumer Loans assigned under our Purchase Program.
- (2) The Dealer Loans amount represents repayments that we expected to collect at the time of assignment on Consumer Loans assigned under our Portfolio Program, less the related Dealer Holdback payments that we expected to make. The Purchased Loans amount represents repayments that we expected to collect at the time of assignment on Consumer Loans assigned under our Purchase Program.
- (3) The Dealer Loans amount represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program. The Purchased Loans amount represents one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program.
- (4) Represents revenue that is expected to be recognized on a level-yield basis over the lives of the Loans.
- (5) Represents the amount that expected net cash flows at the time of assignment (2) exceed Loans receivable at the time of assignment (3).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

A summary of changes in expected future net cash flows is as follows:

(In millions)	Expected Future Net Cash Flows	For the Three Months Ended September 30, 2021		
		Dealer Loans	Purchased Loans	Total
Balance, beginning of period		\$ 5,626.5	\$ 3,984.7	\$ 9,611.2
New Consumer Loan assignments (1)		647.6	323.2	970.8
Realized net cash flows (2)		(813.5)	(524.6)	(1,338.1)
Forecast changes		20.3	62.0	82.3
Transfers (3)		(21.5)	23.5	2.0
Balance, end of period		<u>\$ 5,459.4</u>	<u>\$ 3,868.8</u>	<u>\$ 9,328.2</u>

(In millions)	Expected Future Net Cash Flows	For the Three Months Ended September 30, 2020		
		Dealer Loans	Purchased Loans	Total
Balance, beginning of period		\$ 5,745.2	\$ 3,731.6	\$ 9,476.8
New Consumer Loan assignments (1)		733.6	475.3	1,208.9
Realized net cash flows (2)		(733.0)	(440.1)	(1,173.1)
Forecast changes		39.5	99.0	138.5
Transfers (3)		(28.7)	30.5	1.8
Balance, end of period		<u>\$ 5,756.6</u>	<u>\$ 3,896.3</u>	<u>\$ 9,652.9</u>

(In millions)	Expected Future Net Cash Flows	For the Nine Months Ended September 30, 2021		
		Dealer Loans	Purchased Loans	Total
Balance, beginning of period		\$ 5,664.3	\$ 3,880.1	\$ 9,544.4
New Consumer Loan assignments (1)		2,283.6	1,272.6	3,556.2
Realized net cash flows (2)		(2,480.7)	(1,592.5)	(4,073.2)
Forecast changes		79.9	214.3	294.2
Transfers (3)		(87.7)	94.3	6.6
Balance, end of period		<u>\$ 5,459.4</u>	<u>\$ 3,868.8</u>	<u>\$ 9,328.2</u>

(In millions)	Expected Future Net Cash Flows	For the Nine Months Ended September 30, 2020		
		Dealer Loans	Purchased Loans	Total
Balance, beginning of period		\$ 5,577.0	\$ 3,428.2	\$ 9,005.2
New Consumer Loan assignments (1)		2,471.7	1,633.5	4,105.2
Realized net cash flows (2)		(2,168.6)	(1,250.8)	(3,419.4)
Forecast changes		(36.5)	(7.1)	(43.6)
Transfers (3)		(87.0)	92.5	5.5
Balance, end of period		<u>\$ 5,756.6</u>	<u>\$ 3,896.3</u>	<u>\$ 9,652.9</u>

- (1) The Dealer Loans amount represents repayments that we expected to collect at the time of assignment on Consumer Loans assigned under our Portfolio Program, less the related Dealer Holdback payments that we expected to make. The Purchased Loans amount represents repayments that we expected to collect at the time of assignment on Consumer Loans assigned under our Purchase Program.
- (2) The Dealer Loans amount represents repayments that we collected on Consumer Loans assigned under our Portfolio Program, less the Dealer Holdback and Accelerated Dealer Holdback payments that we made. Purchased Loans amount represents repayments that we collected on Consumer Loans assigned under our Purchase Program.
- (3) Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's outstanding Dealer Loan balance, related allowance for credit losses balance and related expected future net cash flows to Purchased Loans in the period this forfeiture occurs.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

**Credit Quality**

We monitor and evaluate the credit quality of Consumer Loans assigned under our Portfolio and Purchase Programs on a monthly basis by comparing our current forecasted collection rates to our prior forecasted collection rates and our initial expectations. For additional information regarding credit quality, see Note 3.

The following table compares our forecast of Consumer Loan collection rates as of September 30, 2021 with the forecasts as of June 30, 2021, December 31, 2020 and at the time of assignment, segmented by year of assignment:

Total Loans as of September 30, 2021								
Consumer Loan Assignment Year	Forecasted Collection Percentage as of (1)				Current Forecast Variance from			Initial Forecast
	September 30, 2021	June 30, 2021	December 31, 2020	Initial Forecast	June 30, 2021	December 31, 2020	Initial Forecast	
2012	73.8 %	73.8 %	73.8 %	71.4 %	0.0 %	0.0 %	2.4 %	
2013	73.4 %	73.4 %	73.4 %	72.0 %	0.0 %	0.0 %	1.4 %	
2014	71.6 %	71.6 %	71.6 %	71.8 %	0.0 %	0.0 %	-0.2 %	
2015	65.1 %	65.2 %	65.2 %	67.7 %	-0.1 %	-0.1 %	-2.6 %	
2016	63.6 %	63.7 %	63.6 %	65.4 %	-0.1 %	0.0 %	-1.8 %	
2017	64.4 %	64.4 %	64.1 %	64.0 %	0.0 %	0.3 %	0.4 %	
2018	65.0 %	64.7 %	64.0 %	63.6 %	0.3 %	1.0 %	1.4 %	
2019	66.2 %	65.8 %	64.4 %	64.0 %	0.4 %	1.8 %	2.2 %	
2020	67.7 %	67.0 %	64.8 %	63.4 %	0.7 %	2.9 %	4.3 %	
2021	66.4 %	65.8 %	—	66.0 %	0.6 %	—	0.4 %	

  

Dealer Loans as of September 30, 2021								
Consumer Loan Assignment Year	Forecasted Collection Percentage as of (1) (2)				Current Forecast Variance from			Initial Forecast
	September 30, 2021	June 30, 2021	December 31, 2020	Initial Forecast	June 30, 2021	December 31, 2020	Initial Forecast	
2012	73.6 %	73.6 %	73.6 %	71.3 %	0.0 %	0.0 %	2.3 %	
2013	73.3 %	73.3 %	73.4 %	72.1 %	0.0 %	-0.1 %	1.2 %	
2014	71.5 %	71.5 %	71.5 %	71.9 %	0.0 %	0.0 %	-0.4 %	
2015	64.4 %	64.5 %	64.5 %	67.5 %	-0.1 %	-0.1 %	-3.1 %	
2016	62.9 %	62.9 %	62.8 %	65.1 %	0.0 %	0.1 %	-2.2 %	
2017	63.7 %	63.7 %	63.4 %	63.8 %	0.0 %	0.3 %	-0.1 %	
2018	64.4 %	64.2 %	63.5 %	63.6 %	0.2 %	0.9 %	0.8 %	
2019	65.9 %	65.4 %	64.1 %	63.9 %	0.5 %	1.8 %	2.0 %	
2020	67.4 %	66.6 %	64.5 %	63.3 %	0.8 %	2.9 %	4.1 %	
2021	66.2 %	65.6 %	—	66.0 %	0.6 %	—	0.2 %	

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

Consumer Loan Assignment Year	Purchased Loans as of September 30, 2021						
	Forecasted Collection Percentage as of (1) (2)				Current Forecast Variance from		
	September 30, 2021	June 30, 2021	December 31, 2020	Initial Forecast	June 30, 2021	December 31, 2020	Initial Forecast
2012	75.9 %	75.9 %	75.9 %	71.4 %	0.0 %	0.0 %	4.5 %
2013	74.2 %	74.3 %	74.3 %	71.6 %	-0.1 %	-0.1 %	2.6 %
2014	72.4 %	72.5 %	72.4 %	70.9 %	-0.1 %	0.0 %	1.5 %
2015	68.9 %	68.9 %	68.8 %	68.5 %	0.0 %	0.1 %	0.4 %
2016	65.8 %	65.8 %	65.8 %	66.5 %	0.0 %	0.0 %	-0.7 %
2017	66.0 %	65.9 %	65.6 %	64.6 %	0.1 %	0.4 %	1.4 %
2018	66.2 %	65.9 %	65.1 %	63.5 %	0.3 %	1.1 %	2.7 %
2019	66.9 %	66.4 %	65.1 %	64.2 %	0.5 %	1.8 %	2.7 %
2020	68.2 %	67.5 %	65.4 %	63.6 %	0.7 %	2.8 %	4.6 %
2021	66.8 %	66.0 %	—	65.9 %	0.8 %	—	0.9 %

- (1) Represents the total forecasted collections we expect to collect on the Consumer Loans as a percentage of the repayments that we were contractually owed on the Consumer Loans at the time of assignment. Contractual repayments include both principal and interest. Forecasted collection rates are negatively impacted by canceled Consumer Loans as the contractual amount owed is not removed from the denominator for purposes of computing forecasted collection rates in the table.
- (2) The forecasted collection rates presented for Dealer Loans and Purchased Loans reflect the Consumer Loan classification at the time of assignment.

We evaluate and adjust the expected collection rate of each Consumer Loan subsequent to assignment primarily through the monitoring of consumer payment behavior. The following table summarizes the past-due status of Consumer Loan assignments as of September 30, 2021 and December 31, 2020, segmented by year of assignment:

(In millions)

Consumer Loan Assignment Year	Total Loans as of September 30, 2021 (1) (2)				
	Pre-term Consumer Loans (3)				Total
	Current (5)	Past Due 11-90 Days	Past Due Over 90 Days	Post-term Consumer Loans (4)	
2016 and Prior	\$ 16.8	\$ 6.3	\$ 56.4	\$ 121.5	\$ 201.0
2017	137.5	46.1	187.1	24.6	395.3
2018	573.0	197.3	418.1	4.7	1,193.1
2019	1,315.7	455.6	584.3	0.5	2,356.1
2020	1,911.1	561.7	346.5	—	2,819.3
2021	2,284.7	391.8	44.5	—	2,721.0
	<u>\$ 6,238.8</u>	<u>\$ 1,658.8</u>	<u>\$ 1,636.9</u>	<u>\$ 151.3</u>	<u>\$ 9,685.8</u>

(In millions)

Consumer Loan Assignment Year	Dealer Loans as of September 30, 2021 (1)				
	Pre-term Consumer Loans (3)				Total
	Current (5)	Past Due 11-90 Days	Past Due Over 90 Days	Post-term Consumer Loans (4)	
2016 and Prior	\$ 6.0	\$ 2.2	\$ 20.4	\$ 87.6	\$ 116.2
2017	66.9	22.6	91.3	16.2	197.0
2018	292.9	98.2	207.9	3.0	602.0
2019	649.5	216.9	280.2	0.3	1,146.9
2020	1,246.9	355.1	218.2	—	1,820.2
2021	1,595.3	268.8	30.2	—	1,894.3
	<u>\$ 3,857.5</u>	<u>\$ 963.8</u>	<u>\$ 848.2</u>	<u>\$ 107.1</u>	<u>\$ 5,776.6</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

(In millions)

Consumer Loan Assignment Year	Purchased Loans as of September 30, 2021 (2)				
	Pre-term Consumer Loans (3)			Post-term Consumer Loans (4)	Total
	Current (5)	Past Due 11-90 Days	Past Due Over 90 Days		
2016 and Prior	\$ 10.8	\$ 4.1	\$ 36.0	\$ 33.9	\$ 84.8
2017	70.6	23.5	95.8	8.4	198.3
2018	280.1	99.1	210.2	1.7	591.1
2019	666.2	238.7	304.1	0.2	1,209.2
2020	664.2	206.6	128.3	—	999.1
2021	689.4	123.0	14.3	—	826.7
	<u>\$ 2,381.3</u>	<u>\$ 695.0</u>	<u>\$ 788.7</u>	<u>\$ 44.2</u>	<u>\$ 3,909.2</u>

(In millions)

Consumer Loan Assignment Year	Total Loans as of December 31, 2020 (1) (2)				
	Pre-term Consumer Loans (3)			Post-term Consumer Loans (4)	Total
	Current (5)	Past Due 11-90 Days	Past Due Over 90 Days		
2015 and Prior	\$ 4.8	\$ 2.2	\$ 16.1	\$ 99.0	\$ 122.1
2016	73.5	29.1	119.3	41.7	263.6
2017	320.9	121.0	277.5	7.2	726.6
2018	962.8	374.6	513.9	1.0	1,852.3
2019	1,985.2	745.6	610.8	—	3,341.6
2020	3,002.0	663.8	152.8	—	3,818.6
	<u>\$ 6,349.2</u>	<u>\$ 1,936.3</u>	<u>\$ 1,690.4</u>	<u>\$ 148.9</u>	<u>\$ 10,124.8</u>

(In millions)

Consumer Loan Assignment Year	Dealer Loans as of December 31, 2020 (1)				
	Pre-term Consumer Loans (3)			Post-term Consumer Loans (4)	Total
	Current (5)	Past Due 11-90 Days	Past Due Over 90 Days		
2015 and Prior	\$ 2.1	\$ 1.0	\$ 7.9	\$ 76.1	\$ 87.1
2016	31.9	12.3	55.7	31.1	131.0
2017	170.5	62.7	143.3	5.1	381.6
2018	523.3	197.5	267.4	0.7	988.9
2019	1,046.9	383.5	310.2	—	1,740.6
2020	2,009.5	433.1	97.8	—	2,540.4
	<u>\$ 3,784.2</u>	<u>\$ 1,090.1</u>	<u>\$ 882.3</u>	<u>\$ 113.0</u>	<u>\$ 5,869.6</u>

(In millions)

Consumer Loan Assignment Year	Purchased Loans as of December 31, 2020 (2)				
	Pre-term Consumer Loans (3)			Post-term Consumer Loans (4)	Total
	Current (5)	Past Due 11-90 Days	Past Due Over 90 Days		
2015 and Prior	\$ 2.7	\$ 1.2	\$ 8.2	\$ 22.9	\$ 35.0
2016	41.6	16.8	63.6	10.6	132.6
2017	150.4	58.3	134.2	2.1	345.0
2018	439.5	177.1	246.5	0.3	863.4
2019	938.3	362.1	300.6	—	1,601.0
2020	992.5	230.7	55.0	—	1,278.2
	<u>\$ 2,565.0</u>	<u>\$ 846.2</u>	<u>\$ 808.1</u>	<u>\$ 35.9</u>	<u>\$ 4,255.2</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

- (1) As Consumer Loans are aggregated by Dealer for purposes of recognizing revenue and measuring credit losses, the Dealer Loan amount was estimated by allocating the balance of each Dealer Loan to the underlying Consumer Loans based on the forecasted future collections of each Consumer Loan.
- (2) As certain Consumer Loans are aggregated by Dealer or month of purchase for purposes of recognizing revenue and measuring credit losses, the Purchased Loan amount was estimated by allocating the balance of certain Purchased Loans to the underlying Consumer Loans based on the forecasted future collections of each Consumer Loan.
- (3) Represents the Loan balance attributable to Consumer Loans outstanding within their initial loan terms.
- (4) Represents the Loan balance attributable to Consumer Loans outstanding beyond their initial loan terms.
- (5) We consider a Consumer Loan to be current for purposes of forecasting expected collection rates if contractual repayments are less than 11 days past due.

During the first quarter of 2020, we reduced our estimate of future net cash flows from our Loan portfolio by \$206.5 million, or 2.3% of the forecasted net cash flows at the start of the period, primarily due to the impact of the COVID-19 pandemic. The reduction was comprised of: (1) \$44.3 million calculated by our forecasting model, which reflected lower realized collections during the first quarter of 2020 and (2) an additional \$162.2 million, which represented our best estimate of the future impact of the COVID-19 pandemic on future net cash flows. Under CECL, changes in the amount and timing of forecasted net cash flows are recorded as a provision for credit losses in the current period. We have continued to apply this adjustment to our forecast through the third quarter of 2021 as it continues to represent our best estimate of the impact of the COVID-19 pandemic on future net cash flows. The COVID-19 pandemic has created conditions that increase the level of uncertainty associated with our estimate of the amount and timing of future net cash flows from our Loan portfolio.

## 7. REINSURANCE

A summary of reinsurance activity is as follows:

(In millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Net assumed written premiums	\$ 12.1	\$ 14.7	\$ 45.9	\$ 49.3
Net premiums earned	15.4	15.1	45.6	42.2
Provision for claims	10.0	10.7	29.3	28.8
Amortization of capitalized acquisition costs	0.2	0.4	1.0	1.0

The trust assets and related reinsurance liabilities are as follows:

(In millions)	Balance Sheet location	As of	
		September 30, 2021	December 31, 2020
Trust assets	Restricted cash and cash equivalents	\$ 0.1	\$ 0.7
Trust assets	Restricted securities available for sale	67.1	66.1
Unearned premium	Accounts payable and accrued liabilities	48.8	48.5
Claims reserve (1)	Accounts payable and accrued liabilities	2.5	2.3

- (1) The claims reserve represents our liability for incurred-but-not-reported claims and is estimated based on historical claims experience.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

**8. OTHER INCOME**

Other income consists of the following:

(In millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Ancillary product profit sharing	\$ 9.6	\$ 4.1	\$ 25.0	\$ 22.3
Remarketing fees	1.9	1.1	6.0	5.7
Dealer enrollment fees	0.5	0.7	1.6	2.5
Dealer support products and services	0.2	0.5	0.9	1.5
Interest	0.2	0.4	0.9	2.6
Other	0.2	0.2	0.4	0.6
<b>Total</b>	<b>\$ 12.6</b>	<b>\$ 7.0</b>	<b>\$ 34.8</b>	<b>\$ 35.2</b>

Ancillary product profit sharing consists of payments received from TPPs based upon the performance of vehicle service contracts and GAP contracts, and is recognized as income over the life of the vehicle service contracts and GAP contracts.

Remarketing fees consist of fees retained from the sale of repossessed vehicles by Vehicle Remarketing Services, Inc. (“VRS”), our wholly-owned subsidiary that is responsible for remarketing vehicles for Credit Acceptance. VRS coordinates vehicle repossessions with a nationwide network of repossession contractors, the redemption of the vehicles by the consumers, and the sale of the vehicles through a nationwide network of vehicle auctions. VRS recognizes income from the retained fees at the time of the sale and does not retain a fee if a repossessed vehicle is redeemed by the consumer prior to the sale.

Dealer enrollment fees include fees from Dealers that enrolled in our Portfolio Program prior to August 5, 2019. Depending on the enrollment option selected by the Dealer, Dealers may have enrolled by paying us an upfront, one-time fee, or by agreeing to allow us to retain 50% of their accelerated Dealer Holdback payment(s) on the first 100 Consumer Loan assignments. For additional information regarding program enrollment, see Note 2 to the consolidated financial statements. A portion of the \$9,850 upfront, one-time fee is considered to be Dealer support products and services revenue. The remaining portion of the \$9,850 fee is considered to be a Dealer enrollment fee, which is amortized on a straight-line basis over the estimated life of the Dealer relationship. The 50% portion of the accelerated Dealer Holdback payment(s) on the first 100 Consumer Loan assignments is also considered to be a Dealer enrollment fee. We do not recognize any of this Dealer enrollment fee until the Dealer has met the eligibility requirements to receive the accelerated Dealer Holdback payment(s) and the amount(s) of the payment(s), if any, have been calculated. Once the accelerated Dealer Holdback payment(s) have been calculated, we defer the 50% portion that we keep and recognize it on a straight-line basis over the remaining estimated life of the Dealer relationship. Beginning August 5, 2019, Dealers may enroll in our Portfolio Program without incurring an enrollment fee.

Dealer support products and services consist of income earned from products and services provided to Dealers to assist with their operations, including sales and marketing, purchasing supplies and materials and acquiring vehicle inventory. Income is recognized in the period the product or service is provided.

Interest consists of income earned on cash and cash equivalents, restricted cash and cash equivalents, and restricted securities available for sale. Interest income is generally recognized over time as it is earned. Interest income on restricted securities available for sale is recognized over the life of the underlying financial instruments using the interest method.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

The following table disaggregates our other income by major source of income and timing of the revenue recognition:

(In millions)	For the Three Months Ended September 30, 2021						
	Ancillary product profit sharing	Remarketing fees	Dealer enrollment fees	Dealer support products and services	Interest	Other	Total Other Income
Source of income							
Third Party Providers	\$ 9.6	\$ —	\$ —	\$ —	\$ 0.2	\$ 0.2	\$ 10.0
Dealers	—	1.9	0.5	0.2	—	—	2.6
Total	\$ 9.6	\$ 1.9	\$ 0.5	\$ 0.2	\$ 0.2	\$ 0.2	\$ 12.6
Timing of revenue recognition							
Over time	\$ 9.6	\$ —	\$ 0.5	\$ —	\$ 0.2	\$ —	\$ 10.3
At a point in time	—	1.9	—	0.2	—	0.2	2.3
Total	\$ 9.6	\$ 1.9	\$ 0.5	\$ 0.2	\$ 0.2	\$ 0.2	\$ 12.6
(In millions)	For the Nine Months Ended September 30, 2021						
	Ancillary product profit sharing	Remarketing fees	Dealer enrollment fees	Dealer support products and services	Interest	Other	Total Other Income
Source of income							
Third Party Providers	\$ 25.0	\$ —	\$ —	\$ —	\$ 0.9	\$ 0.4	\$ 26.3
Dealers	—	6.0	1.6	0.9	—	—	8.5
Total	\$ 25.0	\$ 6.0	\$ 1.6	\$ 0.9	\$ 0.9	\$ 0.4	\$ 34.8
Timing of revenue recognition							
Over time	\$ 25.0	\$ —	\$ 1.6	\$ —	\$ 0.9	\$ —	\$ 27.5
At a point in time	—	6.0	—	0.9	—	0.4	7.3
Total	\$ 25.0	\$ 6.0	\$ 1.6	\$ 0.9	\$ 0.9	\$ 0.4	\$ 34.8

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

**9. DEBT**

Debt consists of the following:

(In millions)	As of September 30, 2021		
	Principal Outstanding	Unamortized Debt Issuance Costs	Carrying Amount
Revolving secured line of credit (1)	\$ 72.2	\$ —	\$ 72.2
Secured financing (2)	3,752.7	(19.7)	3,733.0
Senior notes	800.0	(8.0)	792.0
Mortgage note	9.9	—	9.9
Total debt	<u>\$ 4,634.8</u>	<u>\$ (27.7)</u>	<u>\$ 4,607.1</u>

(In millions)	As of December 31, 2020		
	Principal Outstanding	Unamortized Debt Issuance Costs	Carrying Amount
Revolving secured line of credit (1)	\$ 95.9	\$ —	\$ 95.9
Secured financing (2)	3,728.7	(17.1)	3,711.6
Senior notes	800.0	(9.4)	790.6
Mortgage note	10.5	—	10.5
Total debt	<u>\$ 4,635.1</u>	<u>\$ (26.5)</u>	<u>\$ 4,608.6</u>

(1) Excludes deferred debt issuance costs of \$2.3 million and \$3.2 million as of September 30, 2021 and December 31, 2020, respectively, which are included in other assets.

(2) Warehouse facilities and Term ABS.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

General information for each of our financing transactions in place as of September 30, 2021 is as follows:

(Dollars in millions)

Financings	Wholly-owned Subsidiary	Maturity Date	Financing Amount	Interest Rate Basis as of September 30, 2021
Revolving Secured Line of Credit	n/a	06/22/2023	\$ 340.0 (1)	At our option, either LIBOR plus 187.5 basis points or the prime rate plus 87.5 basis points
Warehouse Facility II (2)	CAC Warehouse Funding LLC II	04/30/2024 (3)	400.0	LIBOR plus 175 basis points (4)
Warehouse Facility IV (2)	CAC Warehouse Funding LLC IV	11/17/2023 (3)	300.0	LIBOR plus 210 basis points (4)
Warehouse Facility V (2)	CAC Warehouse Funding LLC V	12/18/2023 (5)	125.0	LIBOR plus 225 basis points (4)
Warehouse Facility VI (2)	CAC Warehouse Funding LLC VI	09/30/2022 (3)	75.0	LIBOR plus 200 basis points
Warehouse Facility VII (2)	CAC Warehouse Funding LLC VII	12/16/2021 (6)	150.0	Commercial paper rate plus 200 basis points (4)
Warehouse Facility VIII (2)	CAC Warehouse Funding LLC VIII	09/01/2024 (3)	200.0	LIBOR plus 190 basis points (4)
Term ABS 2018-3 (2)	Credit Acceptance Funding LLC 2018-3	08/17/2020 (3)	398.3	Fixed rate
Term ABS 2019-1 (2)	Credit Acceptance Funding LLC 2019-1	02/15/2021 (3)	402.5	Fixed rate
Term ABS 2019-2 (2)	Credit Acceptance Funding LLC 2019-2	08/15/2022 (7)	500.0	Fixed rate
Term ABS 2019-3 (2)	Credit Acceptance Funding LLC 2019-3	11/15/2021 (3)	351.7	Fixed rate
Term ABS 2020-1 (2)	Credit Acceptance Funding LLC 2020-1	02/15/2022 (3)	500.0	Fixed rate
Term ABS 2020-2 (2)	Credit Acceptance Funding LLC 2020-2	07/15/2022 (3)	481.8	Fixed rate
Term ABS 2020-3 (2)	Credit Acceptance Funding LLC 2020-3	10/17/2022 (3)	600.0	Fixed rate
Term ABS 2021-1 (2)	Credit Acceptance Funding LLC 2021-1	02/15/2023 (3)	100.0	LIBOR plus 198.5 basis points (4)
Term ABS 2021-2 (2)	Credit Acceptance Funding LLC 2021-2	02/15/2023 (3)	500.0	Fixed rate
Term ABS 2021-3 (2)	Credit Acceptance Funding LLC 2021-3	05/15/2023 (3)	450.0	Fixed rate
2024 Senior Notes	n/a	12/31/2024	400.0	Fixed rate
2026 Senior Notes	n/a	03/15/2026	400.0	Fixed rate
Mortgage Note (2)	Chapter 4 Properties, LLC	08/06/2023	12.0	LIBOR plus 150 basis points

(1) The amount of the facility will decrease by \$35.0 million on June 22, 2022. For additional information, see Note 16.

(2) Financing made available only to a specified subsidiary of the Company.

(3) Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date based on the cash flows of the pledged assets.

(4) Interest rate cap agreements are in place to limit the exposure to increasing interest rates.

(5) Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date and any amounts remaining on December 16, 2025 will be due on that date.

(6) Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date and any amounts remaining on December 16, 2023 will be due on that date.

(7) Represents the revolving maturity date. The Company has the option to redeem and retire the indebtedness after the revolving maturity date. If we do not elect this option, the outstanding balance will amortize based on the cash flows of the pledged assets.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

Additional information related to the amounts outstanding on each facility is as follows:

(In millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Revolving Secured Line of Credit</b>				
Maximum outstanding principal balance	\$ 72.2	\$ 287.7	\$ 216.0	\$ 296.6
Average outstanding principal balance	1.5	124.9	26.9	119.7
<b>Warehouse Facility II</b>				
Maximum outstanding principal balance	—	201.0	201.0	201.0
Average outstanding principal balance	—	161.5	15.6	127.8
<b>Warehouse Facility IV</b>				
Maximum outstanding principal balance	—	—	—	—
Average outstanding principal balance	—	—	—	—
<b>Warehouse Facility V</b>				
Maximum outstanding principal balance	—	75.0	—	75.0
Average outstanding principal balance	—	17.9	—	25.5
<b>Warehouse Facility VI</b>				
Maximum outstanding principal balance	—	50.0	—	50.0
Average outstanding principal balance	—	50.0	—	20.3
<b>Warehouse Facility VII</b>				
Maximum outstanding principal balance	—	125.0	—	125.0
Average outstanding principal balance	—	102.5	—	75.0
<b>Warehouse Facility VIII</b>				
Maximum outstanding principal balance	—	149.0	—	149.0
Average outstanding principal balance	—	35.6	—	37.7

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

(Dollars in millions)

	As of	
	September 30, 2021	December 31, 2020
<b>Revolving Secured Line of Credit</b>		
Principal balance outstanding	\$ 72.2	\$ 95.9
Amount available for borrowing (1)	267.8	244.1
Interest rate	2.53 %	2.02 %
<b>Warehouse Facility II</b>		
Principal balance outstanding	\$ —	\$ 75.0
Amount available for borrowing (1)	400.0	325.0
Loans pledged as collateral	—	91.8
Restricted cash and cash equivalents pledged as collateral	1.0	3.0
Interest rate	— %	1.90 %
<b>Warehouse Facility IV</b>		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	300.0	300.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	— %	— %
<b>Warehouse Facility V</b>		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	125.0	125.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	— %	— %
<b>Warehouse Facility VI</b>		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	75.0	75.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	—	—
Interest rate	— %	— %
<b>Warehouse Facility VII</b>		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	150.0	150.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	— %	— %
<b>Warehouse Facility VIII</b>		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	200.0	200.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	—	—
Interest rate	— %	— %
<b>Term ABS 2017-3</b>		
Principal balance outstanding	\$ —	\$ 70.9
Loans pledged as collateral	—	215.8
Restricted cash and cash equivalents pledged as collateral	—	23.2
Interest rate	— %	3.41 %

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

<b>Term ABS 2018-1</b>			
Principal balance outstanding	\$	—	\$ 196.4
Loans pledged as collateral		—	394.1
Restricted cash and cash equivalents pledged as collateral		—	36.2
Interest rate		— %	3.61 %
<b>Term ABS 2018-2</b>			
Principal balance outstanding	\$	—	\$ 254.3
Loans pledged as collateral		—	410.0
Restricted cash and cash equivalents pledged as collateral		—	34.6
Interest rate		— %	3.85 %
<b>Term ABS 2018-3</b>			
Principal balance outstanding	\$	72.9	\$ 296.1
Loans pledged as collateral		262.9	408.8
Restricted cash and cash equivalents pledged as collateral		30.5	32.9
Interest rate		4.04 %	3.78 %
<b>Term ABS 2019-1</b>			
Principal balance outstanding	\$	196.3	\$ 402.5
Loans pledged as collateral		340.8	482.3
Restricted cash and cash equivalents pledged as collateral		35.4	35.4
Interest rate		3.73 %	3.53 %
<b>Term ABS 2019-2</b>			
Principal balance outstanding	\$	500.0	\$ 500.0
Loans pledged as collateral		586.4	575.4
Restricted cash and cash equivalents pledged as collateral		51.8	41.2
Interest rate		3.13 %	3.13 %
<b>Term ABS 2019-3</b>			
Principal balance outstanding	\$	351.7	\$ 351.7
Loans pledged as collateral		407.9	420.9
Restricted cash and cash equivalents pledged as collateral		37.9	30.8
Interest rate		2.56 %	2.56 %
<b>Term ABS 2020-1</b>			
Principal balance outstanding	\$	500.0	\$ 500.0
Loans pledged as collateral		605.8	749.3
Restricted cash and cash equivalents pledged as collateral		53.1	48.8
Interest rate		2.18 %	2.18 %
<b>Term ABS 2020-2</b>			
Principal balance outstanding	\$	481.8	\$ 481.8
Loans pledged as collateral		581.1	606.6
Restricted cash and cash equivalents pledged as collateral		49.6	41.1
Interest rate		1.65 %	1.65 %
<b>Term ABS 2020-3</b>			
Principal balance outstanding	\$	600.0	\$ 600.0
Loans pledged as collateral		709.5	759.1
Restricted cash and cash equivalents pledged as collateral		58.7	49.3
Interest rate		1.44 %	1.44 %
<b>Term ABS 2021-1</b>			
Principal balance outstanding	\$	100.0	\$ —
Loans pledged as collateral		151.7	—

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

Restricted cash and cash equivalents pledged as collateral		10.7		—
Interest rate		2.07 %		— %
<b>Term ABS 2021-2</b>				
Principal balance outstanding	\$	500.0	\$	—
Loans pledged as collateral		667.8		—
Restricted cash and cash equivalents pledged as collateral		51.8		—
Interest rate		1.12 %		— %
<b>Term ABS 2021-3</b>				
Principal balance outstanding	\$	450.0	\$	—
Loans pledged as collateral		642.3		—
Restricted cash and cash equivalents pledged as collateral		45.4		—
Interest rate		1.14 %		— %
<b>2024 Senior Notes</b>				
Principal balance outstanding	\$	400.0	\$	400.0
Interest rate		5.125 %		5.125 %
<b>2026 Senior Notes</b>				
Principal balance outstanding	\$	400.0	\$	400.0
Interest rate		6.625 %		6.625 %
<b>Mortgage Note</b>				
Principal balance outstanding	\$	9.9	\$	10.5
Interest rate		1.59 %		1.65 %

(1) Availability may be limited by the amount of assets pledged as collateral.

### Revolving Secured Line of Credit Facility

We have a \$340.0 million revolving secured line of credit facility with a commercial bank syndicate. The amount of the facility will decrease by \$35.0 million on June 22, 2022. For additional information, see Note 16. Borrowings under the revolving secured line of credit facility, including any letters of credit issued under the facility, are subject to a borrowing-base limitation. This limitation equals 80% of the value of Loans, as defined in the agreement, less a hedging reserve (not exceeding \$1.0 million), and the amount of other debt secured by the collateral which secures the revolving secured line of credit facility. Borrowings under the revolving secured line of credit facility agreement are secured by a lien on most of our assets.

### Warehouse Facilities

We have six Warehouse facilities with total borrowing capacity of \$1,250.0 million. Each of the facilities is with a different lender or group of lenders. Under each Warehouse facility, we can contribute Loans to our wholly-owned subsidiaries in return for cash and equity in each subsidiary. In turn, each subsidiary pledges the Loans as collateral to lenders to secure financing that will fund the cash portion of the purchase price of the Loans. The financing provided to each subsidiary under the applicable facility is generally limited to the lesser of 80% of the value of the contributed Loans, as defined in the agreements, plus the restricted cash and cash equivalents pledged as collateral on such Loans or the facility limit.

The financings create indebtedness for which the subsidiaries are liable and which is secured by all the assets of each subsidiary. Such indebtedness is non-recourse to us, even though we are consolidated for financial reporting purposes with the subsidiaries. Because the subsidiaries are organized as legal entities separate from us, their assets (including the contributed Loans) are not available to our creditors.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

The subsidiaries pay us a monthly servicing fee equal to 6% (4% for Warehouse Facility II and Warehouse Facility VIII) of the collections received with respect to the contributed Loans. The servicing fee is paid out of the collections. Except for the servicing fee and holdback payments due to Dealers, if a facility is amortizing, we do not have any rights in any portion of such collections until all outstanding principal, accrued and unpaid interest, fees and other related costs have been paid in full. If a facility is not amortizing, the applicable subsidiary may be entitled to retain a portion of such collections provided that the borrowing base requirements of the facility are satisfied.

### Term ABS Financings

We have wholly-owned subsidiaries (the “Funding LLCs”) that have completed secured financing transactions with qualified institutional investors or lenders. In connection with these transactions, we contributed Loans on an arms-length basis to each Funding LLC for cash and the sole membership interest in that Funding LLC. In turn, each Funding LLC, other than those of Term ABS 2019-2 and 2021-1, contributed the Loans to the respective trusts that issued notes to qualified institutional investors. The Funding LLCs for the Term ABS 2019-2 and 2021-1 transactions pledged the Loans to the respective lenders. The Term ABS 2018-3, 2019-1, 2019-3, 2020-1, 2020-2, 2020-3, 2021-2 and 2021-3 transactions each consist of three classes of notes.

Each financing at the time of issuance has a specified revolving period during which we are likely to contribute additional Loans to each Funding LLC. Each Funding LLC will then contribute the Loans to its respective trust. At the end of the applicable revolving period, the debt outstanding under each financing will begin to amortize.

The financings create indebtedness for which the trusts or Funding LLCs are liable and which is secured by all the assets of each trust or Funding LLC. Such indebtedness is non-recourse to us, even though we are consolidated for financial reporting purposes with the trusts and the Funding LLCs. Because the Funding LLCs are organized as legal entities separate from us, their assets (including the contributed Loans) are not available to our creditors. We receive a monthly servicing fee on each financing equal to 6% (4% for Term ABS 2021-2 and 2021-3) of the collections received with respect to the contributed Loans. The fee is paid out of the collections. Except for the servicing fee and Dealer Holdback payments due to Dealers, if a facility is amortizing, we do not have any rights in any portion of such collections until all outstanding principal, accrued and unpaid interest, fees and other related costs have been paid in full. If a facility is not amortizing, the applicable subsidiary may be entitled to retain a portion of such collections provided that the borrowing base requirements of the facility are satisfied. However, in our capacity as servicer of the Loans, we do have a limited right to exercise a “clean-up call” option to purchase Loans from the Funding LLCs and/or the trusts under certain specified circumstances. For those Funding LLCs with a trust, when the trust’s underlying indebtedness is paid in full, either through collections or through a prepayment of the indebtedness, the trust is to pay any remaining collections over to its Funding LLC as the sole beneficiary of the trust. For all Funding LLCs, after the indebtedness is paid in full, any remaining collections will ultimately be available to be distributed to us as the sole member of the respective Funding LLC.

The table below sets forth certain additional details regarding the outstanding Term ABS financings:

(Dollars in millions)

Term ABS Financings	Close Date	Net Book Value of Loans Contributed at Closing	Revolving Period
Term ABS 2018-3	August 23, 2018	\$ 500.1	Through August 17, 2020
Term ABS 2019-1	February 21, 2019	503.1	Through February 15, 2021
Term ABS 2019-2	August 28, 2019	625.1	Through August 15, 2022
Term ABS 2019-3	November 21, 2019	439.6	Through November 15, 2021
Term ABS 2020-1	February 20, 2020	625.1	Through February 15, 2022
Term ABS 2020-2	July 23, 2020	602.3	Through July 15, 2022
Term ABS 2020-3	October 22, 2020	750.1	Through October 17, 2022
Term ABS 2021-1	January 29, 2021	125.1	Through February 15, 2023
Term ABS 2021-2	February 18, 2021	625.1	Through February 15, 2023
Term ABS 2021-3	May 20, 2021	562.6	Through May 15, 2023

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

### (UNAUDITED)

#### Senior Notes

On December 18, 2019, we issued \$400.0 million aggregate principal amount of 5.125% senior notes due 2024 (the “2024 senior notes”). The 2024 senior notes were issued pursuant to an indenture, dated as of December 18, 2019, among the Company, as issuer, the Company’s subsidiaries Buyers Vehicle Protection Plan, Inc. and Vehicle Remarketing Services, Inc., as guarantors (collectively, the “Guarantors”), and U.S. Bank National Association, as trustee.

The 2024 senior notes mature on December 31, 2024 and bear interest at a rate of 5.125% per annum, computed on the basis of a 360-day year composed of twelve 30-day months and payable semi-annually on June 30 and December 31 of each year, beginning on June 30, 2020. We used a portion of the net proceeds from the 2024 senior notes to repurchase or redeem all of the \$300.0 million outstanding principal amount of our 6.125% senior notes due 2021 (the “2021 senior notes”), of which \$148.2 million was repurchased on December 18, 2019 and the remaining \$151.8 million was redeemed on January 17, 2020. We used the remaining net proceeds from the 2024 senior notes, together with borrowings under our revolving credit facility, to redeem in full the \$250.0 million outstanding principal amount of our 7.375% senior notes due 2023 (the “2023 senior notes”) on March 15, 2020. During the fourth quarter of 2019, we recognized a pre-tax loss on extinguishment of debt of \$1.8 million related to the repurchase of the 2021 senior notes in the fourth quarter of 2019 and the irrevocable notice given in December 2019 for the redemption of the remaining 2021 senior notes in the first quarter of 2020. During the first quarter of 2020, we recognized a pre-tax loss on extinguishment of debt of \$7.4 million related to the redemption of the 2023 senior notes.

On March 7, 2019, we issued \$400.0 million aggregate principal amount of 6.625% senior notes due 2026 (the “2026 senior notes”). The 2026 senior notes were issued pursuant to an indenture, dated as of March 7, 2019, among the Company, as issuer, the Guarantors and U.S. Bank National Association, as trustee.

The 2026 senior notes mature on March 15, 2026 and bear interest at a rate of 6.625% per annum, computed on the basis of a 360-day year composed of twelve 30-day months and payable semi-annually on March 15 and September 15 of each year, beginning on September 15, 2019. We used the net proceeds from the offering of the 2026 senior notes for general corporate purposes, including repayment of outstanding borrowings under our revolving secured line of credit facility.

The 2024 senior notes and 2026 senior notes (the “senior notes”) are guaranteed on a senior basis by the Guarantors, which are also guarantors of obligations under our revolving secured line of credit facility. Other existing and future subsidiaries of ours may become guarantors of the senior notes in the future. The indentures for the senior notes provide for a guarantor of the senior notes to be released from its obligations under its guarantee of the senior notes under specified circumstances.

#### Mortgage Note

On August 6, 2018, we entered into a \$12.0 million mortgage note with a commercial bank that is secured by a first mortgage lien on a building acquired by us and an assignment of all leases, rents, revenues and profits under all present and future leases of the building. The note matures on August 6, 2023, and bears interest at LIBOR plus 150 basis points.

#### Debt Covenants

As of September 30, 2021, we were in compliance with our covenants under the revolving secured line of credit facility and our Warehouse facilities, including those that require the maintenance of certain financial ratios and other financial conditions. These covenants require a minimum ratio of (1) our net earnings, adjusted for specified items, before income taxes, depreciation, amortization and fixed charges to (2) our fixed charges, as defined in the agreements. These covenants also limit the maximum ratio of our funded debt less unrestricted cash and cash equivalents to tangible net worth. Additionally, we must maintain consolidated net income, as defined in the agreements, of not less than \$1 for the two most recently ended fiscal quarters. Some of these covenants may indirectly limit the repurchase of common stock or payment of dividends on common stock. Our Warehouse facilities also contain covenants that measure the performance of the contributed assets.

Our Term ABS financings also contain covenants that measure the performance of the contributed assets. As of September 30, 2021, we were in compliance with all such covenants. As of the end of the quarter, we were also in compliance with our covenants under the senior notes indentures.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

**10. DERIVATIVE AND HEDGING INSTRUMENTS**

*Interest Rate Caps.* We utilize interest rate cap agreements to manage the interest rate risk on certain secured financings. The following tables provide the terms of our interest rate cap agreements that were in effect as of September 30, 2021 and December 31, 2020:

(Dollars in millions)

As of September 30, 2021						
Facility Amount	Facility Name	Purpose	Start	End	Notional	Cap Interest Rate (1)
\$ 400.0	Warehouse Facility II	Cap Floating Rate	12/2020	7/2022	\$ 205.0	5.50 %
300.0	Warehouse Facility IV	Cap Floating Rate	07/2019	07/2023	300.0	6.50 %
125.0	Warehouse Facility V	Cap Floating Rate	12/2020	01/2026	94.0	5.50 %
150.0	Warehouse Facility VII	Cap Floating Rate	12/2017	11/2021	31.3	5.50 %
		Cap Floating Rate	01/2020	12/2023	118.7	5.50 %
					150.0	
200.0	Warehouse Facility VIII	Cap Floating Rate	08/2019	08/2023	200.0	5.50 %
100.0	Term ABS 2021-1	Cap Floating Rate	02/2021	06/2024	100.0	5.50 %

(Dollars in millions)

As of December 31, 2020						
Facility Amount	Facility Name	Purpose	Start	End	Notional	Cap Interest Rate (1)
\$ 400.0	Warehouse Facility II	Cap Floating Rate	12/2020	7/2022	\$ 205.0	5.50 %
300.0	Warehouse Facility IV	Cap Floating Rate	05/2017	04/2021	33.3	6.50 %
		Cap Floating Rate	05/2018	04/2021	50.0	6.50 %
		Cap Floating Rate	07/2019	07/2023	216.7	6.50 %
					300.0	
125.0	Warehouse Facility V	Cap Floating Rate	12/2020	01/2026	94.0	5.50 %
150.0	Warehouse Facility VII	Cap Floating Rate	12/2017	11/2021	68.7	5.50 %
		Cap Floating Rate	01/2020	12/2023	81.3	5.50 %
					150.0	
200.0	Warehouse Facility VIII	Cap Floating Rate	08/2019	08/2023	200.0	5.50 %

(1) Rate excludes the spread over the corresponding LIBOR or commercial paper rate.

The interest rate caps have not been designated as hedging instruments. As of September 30, 2021 and December 31, 2020, the interest rate caps had a fair value of \$0.1 million as the capped rates were significantly above market rates.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

**11. INCOME TAXES**

A reconciliation of the U.S. federal statutory income tax rate to our effective income tax rate is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
U.S. federal statutory income tax rate	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes	3.3 %	2.9 %	3.1 %	3.0 %
Excess tax benefits from stock-based compensation plans	— %	— %	-0.1 %	-0.8 %
Other	0.4 %	0.1 %	0.1 %	0.4 %
Effective income tax rate	24.7 %	24.0 %	24.1 %	23.6 %

State income taxes

State income taxes include non-deductible expenses related to uncertain tax positions. The impact of these non-deductible expenses on our effective income tax rate for the three months ended September 30, 2021 increased from the same period in 2020 primarily due to an increase in the proportion of pre-tax income reserved for uncertain tax positions.

Excess tax benefits from stock-based compensation plans

During the first quarter of each year, we receive a tax benefit upon the vesting of restricted stock and the conversion of restricted stock units to common stock based on the fair value of the shares. The amount by which this tax benefit exceeds the grant-date fair value that was recognized as stock-based compensation expense is referred to as an excess tax benefit. Excess tax benefits are recognized in provision for income taxes and reduce our effective income tax rate. The impact of excess tax benefits on our effective income tax rate decreased from 2020 to 2021 due to an increase in pre-tax income and a decrease in the number of restricted stock units that were converted to common stock during the first quarter of 2021 due to the timing of long-term stock award grants.

Other

Other items impacting our effective income tax rate primarily consist of non-deductible executive compensation expenses. The impact of other items on our effective income tax rate for the three months ended September 30, 2021 increased from the same period in 2020 primarily due to an increase in non-deductible executive compensation, which was primarily the result of stock options granted under our Amended and Restated Incentive Compensation Plan, which was approved by shareholders in July 2021. The impact of other items on our effective income tax rate for the nine months ended September 30, 2021 decreased from the same period in 2020 primarily due to the increase in pre-tax income.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

**12. NET INCOME PER SHARE**

Basic net income per share has been computed by dividing net income by the basic number of weighted average shares outstanding. Diluted net income per share has been computed by dividing net income by the diluted number of weighted average shares outstanding using the treasury stock method. The share effect is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Weighted average shares outstanding:				
Common shares	15,430,120	17,526,660	16,186,518	17,645,184
Vested restricted stock units	365,843	318,125	356,808	312,747
Basic number of weighted average shares outstanding	15,795,963	17,844,785	16,543,326	17,957,931
Dilutive effect of restricted stock, restricted stock units and stock options	33,203	4,980	16,313	15,160
Dilutive number of weighted average shares outstanding	15,829,166	17,849,765	16,559,639	17,973,091

For the three and nine months ended September 30, 2021, there were 120,217 and 204,557 stock options outstanding, respectively, that were excluded from the computation of diluted net income per share because their inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2021, there were no shares of restricted stock or restricted stock units outstanding that were excluded from the computation of diluted net income per share because their inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2020, there were no stock options, shares of restricted stock, or restricted stock units outstanding that were excluded from the computation of diluted net income per share because their inclusion would have been anti-dilutive.

**13. STOCK REPURCHASES**

The following table summarizes our stock repurchases for the three and nine months ended September 30, 2021 and 2020:

(Dollars in millions)

	For the Three Months Ended September 30,			
	2021		2020	
	Number of Shares Repurchased	Cost	Number of Shares Repurchased	Cost
Open Market (1)	1,286,246	\$ 704.1	—	\$ —

(Dollars in millions)

Stock Repurchases	For the Nine Months Ended September 30,			
	2021		2020	
	Number of Shares Repurchased	Cost	Number of Shares Repurchased	Cost
Open Market (1)	2,270,751	\$ 1,091.2	710,157	\$ 300.6
Other (2)	7,066	2.7	15,063	6.5
Total	2,277,817	\$ 1,093.9	725,220	\$ 307.1

- (1) Represents repurchases under authorizations by the board of directors for the repurchase of shares by us from time to time in the open market through privately negotiated transactions, through block trades, pursuant to trading plans adopted in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934 or otherwise. On September 28, 2021, the board of directors authorized the repurchase of up to two million shares of our common stock in addition to the board's prior authorizations. As of September 30, 2021, we had authorization to repurchase 2,231,859 shares of our common stock.
- (2) Represents shares of common stock released to us by team members as payment of tax withholdings upon the vesting of restricted stock and restricted stock units and the conversion of restricted stock units to common stock.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

**14. STOCK-BASED COMPENSATION PLANS**

Stock-based compensation expense consists of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Stock options	\$ 14.7	\$ —	\$ 14.7	\$ —
Restricted stock	0.1	0.4	(7.8)	1.5
Restricted stock units	0.4	1.1	(1.5)	3.2
Total	<u>\$ 15.2</u>	<u>\$ 1.5</u>	<u>\$ 5.4</u>	<u>\$ 4.7</u>

During the third quarter of 2021, we recognized \$14.7 million in stock-based compensation expense for stock options granted under our Amended and Restated Incentive Compensation Plan, which was approved by shareholders in July 2021. During the second quarter of 2021, we recognized an \$11.5 million reversal of stock-based compensation expense due to the forfeiture of unvested restricted stock and restricted stock units upon the retirement of our former Chief Executive Officer in May 2021.

A summary of the non-vested restricted stock activity is presented below:

Restricted Stock	Number of Shares	Weighted Average Grant- Date Fair Value Per Share
Non-vested as of December 31, 2020	122,718	\$ 117.88
Vested	(12,130)	177.77
Forfeited	(109,054)	106.67
Non-vested as of September 30, 2021	<u>1,534</u>	<u>\$ 441.54</u>

A summary of the restricted stock unit activity is presented below:

Restricted Stock Units	Number of Restricted Stock Units	Weighted Average Grant- Date Fair Value Per Share
Outstanding as of December 31, 2020	412,602	\$ 138.65
Granted	7,302	366.07
Converted	(11,416)	190.32
Forfeited	(31,418)	110.33
Outstanding as of September 30, 2021	<u>377,070</u>	<u>\$ 143.85</u>

*Stock option grants*

From December 2020 through June 2021, we granted 770,500 time-based stock options with a weighted average exercise price of \$346.94 per share to certain team members and a new member of our board of directors, subject to shareholder approval of an amendment to our Amended and Restated Incentive Compensation Plan (“Shareholder Approval”). Based on the terms of individual stock option grant agreements, the stock options:

- vest and become exercisable in four equal annual installments beginning on the first anniversary of the date on which the options were granted, based on continuous employment or service, and
- expire either six or ten years from the date of the grant.

Under GAAP, if a stock award is subject to shareholder approval, it is not considered granted for accounting purposes until that approval is received. Shareholder Approval was received at our annual meeting of shareholders on July 21, 2021. Accordingly, the accounting grant date of the 770,500 previously-awarded time-based stock options was July 21, 2021. The \$145.3 million grant date fair value of those stock options is being recognized as stock-based compensation expense over the requisite service period.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

During the third quarter of 2021, we granted an additional 8,000 time-based stock options with an exercise price of \$563.10 per share and a grant date fair value of \$171.36 per share.

We expect to recognize the future expense of the stock options as follows:

(in millions)

Year	Total Projected Expense of Stock Options
Remainder of 2021	\$ 18.9
2022	36.9
2023	36.3
2024	36.3
2025	2.2
Total	<u>\$ 130.6</u>

## 15. COMMITMENTS AND CONTINGENCIES

### Litigation and Other Legal Matters

In the normal course of business and as a result of the consumer-oriented nature of the industry in which we operate, we and other industry participants are frequently subject to various consumer claims, litigation and regulatory investigations seeking damages, fines and statutory penalties. The claims allege, among other theories of liability, violations of state, federal and foreign truth-in-lending, credit availability, credit reporting, consumer protection, warranty, debt collection, insurance and other consumer-oriented laws and regulations, including claims seeking damages for alleged physical and mental harm relating to the repossession and sale of consumers' vehicles and other debt collection activities. As the assignee of Consumer Loans originated by Dealers, we may also be named as a co-defendant in lawsuits filed by consumers principally against Dealers. We may also have disputes and litigation with Dealers. The claims may allege, among other theories of liability, that we breached our Dealer servicing agreement. We may also have disputes and litigation with vendors and other third parties. The claims may allege, among other theories of liability, that we breached a license agreement or contract. The damages, fines and penalties that may be claimed by consumers, regulatory agencies, Dealers, vendors or other third parties in these types of matters can be substantial. The relief requested by plaintiffs varies but may include requests for compensatory, statutory and punitive damages and injunctive relief, and plaintiffs may seek treatment as purported class actions. The following matters include current actions to which we are a party and updates to matters that were disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

On October 2, 2020, a shareholder filed a putative class action complaint against the Company, its Chief Executive Officer and its Chief Financial Officer in the United States District Court for the Eastern District of Michigan, Southern Division, alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5, promulgated thereunder, based on alleged false and/or misleading statements or omissions regarding the Company and its business, and seeking class certification, unspecified damages plus interest and attorney and expert witness fees and other costs on behalf of a purported class consisting of all persons and entities (subject to specified exceptions) that purchased or otherwise acquired Credit Acceptance common stock from November 1, 2019 through August 28, 2020. On May 28, 2021, the court issued an opinion and order appointing lead plaintiff and lead counsel. On July 22, 2021, the lead plaintiffs filed an amended complaint asserting similar violations, seeking similar relief and expanding the putative class to include all persons and entities (subject to specified exceptions) that purchased or otherwise acquired Credit Acceptance common stock from May 4, 2018 through August 28, 2020. We cannot predict the duration or outcome of this lawsuit at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this lawsuit. The Company intends to vigorously defend itself in this matter.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

On May 7, 2019, we received a subpoena from the Consumer Frauds and Protection Bureau of the Office of the New York State Attorney General, relating to the Company's origination and collection policies and procedures in the state of New York. On July 30, 2020, we received two additional subpoenas from the Office of the New York State Attorney General, both from the Consumer Frauds and Protection Bureau and the Investor Protection Bureau, relating to the Company's origination and collection policies and procedures in the state of New York and its securitizations. On August 28, 2020, we were informed that one of the two additional subpoenas was being withdrawn. On November 16, 2020, we received an additional subpoena for documents from the Office of the New York State Attorney General. On November 19, 2020, the Company received a letter from the Office of the New York State Attorney General stating that the New York State Attorney General is considering bringing claims against the Company under the Dodd-Frank Wall Street Reform and Consumer Protection Act, New York Executive Law § 63(12), the New York Martin Act and New York General Business Law § 349 in connection with the Company's origination and securitization practices. On December 9, 2020, we responded to the New York State Attorney General's letter disputing the assertions contained therein. On December 21, 2020, we received two additional subpoenas from the Office of the New York State Attorney General, one relating to data and the other seeking testimony. On February 24 and April 30, 2021, we received additional subpoenas from the Office of the New York State Attorney General seeking information relating to its investigation. We are cooperating with the inquiry and cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this investigation.

On April 22, 2019, we received a civil investigative demand from the Bureau of Consumer Financial Protection (the "Bureau") seeking, among other things, certain information relating to the Company's origination and collection of Consumer Loans, TPPs and credit reporting. On May 7, 2020, we received another civil investigative demand from the Bureau seeking additional information relating to its investigation. The Company raised various objections to the May 7, 2020 civil investigative demand, and on May 26, 2020, we were notified that it was withdrawn. On June 1, 2020, we received another civil investigative demand that was similar to the May 7, 2020 demand, and which raised many of the same objections. We formally petitioned the Bureau to modify the June 1, 2020 civil investigative demand. On September 3, 2020, the Director of the Bureau denied our petition to modify the June 1, 2020 civil investigative demand. On December 23, 2020, we received a civil investigative demand for investigational hearings in connection with the Bureau's investigation. The Company objected to certain portions of the civil investigative demands for hearings and, on January 19, 2021, the Bureau notified the Company that it had withdrawn such portions from the December 23, 2020 civil investigative demands. On March 11, 2021, we received another civil investigative demand from the Bureau seeking additional information relating to its investigation and an investigational hearing. On June 3, 2021, we received another civil investigative demand from the Bureau seeking additional information relating to its investigation. We continue to cooperate with the investigation, but cannot predict the eventual scope, duration, or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this investigation.

On August 14, 2017, we received a subpoena from the Attorney General of the State of Mississippi, relating to the origination and collection of non-prime auto loans in the state of Mississippi. The Company cooperated with the inquiry. On April 23, 2019, the Attorney General of the State of Mississippi, on behalf of the State of Mississippi, filed a complaint in the Chancery Court of the First Judicial District of Hinds County, Mississippi, alleging that the Company engaged in unfair and deceptive trade practices in subprime auto lending, loan servicing, vehicle repossession and debt collection in the State of Mississippi in violation of the Mississippi Consumer Protection Act. The complaint seeks injunctive relief, including civil penalties and disgorgement, and payment of the State's attorney's fees and costs. We cannot predict the duration or outcome of this lawsuit at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this lawsuit. The Company intends to vigorously defend itself in this matter.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)**  
**(UNAUDITED)**

On March 18, 2016, we received a subpoena from the Attorney General of the State of Maryland, relating to the Company's repossession and sale policies and procedures in the state of Maryland. On April 3, 2020, we received a subpoena from the Attorney General of the State of Maryland relating to the Company's origination and collection policies and procedures in the state of Maryland. On August 11, 2020, we received a subpoena from the Attorney General of the State of Maryland restating most of the requests contained in the March 18, 2016 and April 3, 2020 subpoenas, making additional requests, and expanding the inquiry to include 40 other states (Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, and Wisconsin) and the District of Columbia. Also on August 11, 2020, we received from the Attorney General of the State of New Jersey a subpoena that is essentially identical to the August 11, 2020 Maryland subpoena, both as to substance and as to the jurisdictions identified. We are cooperating with these inquiries and cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from these investigations.

On December 9, 2014, we received a civil investigative subpoena from the U.S. Department of Justice pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 directing us to produce certain information relating to subprime automotive finance and related securitization activities. We have cooperated with the inquiry, but cannot predict the eventual scope, duration or outcome at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from this investigation.

On December 4, 2014, we received a civil investigative demand from the Office of the Attorney General of the Commonwealth of Massachusetts relating to the origination and collection of non-prime auto loans in Massachusetts. On November 20, 2017 we received a second civil investigative demand from the Office of the Attorney General seeking updated information on its original civil investigative demand, additional information related to the Company's origination and collection of Consumer Loans, and information regarding securitization activities. In connection with this inquiry, we were informed by representatives of the Office of the Attorney General that it believes that the Company may have engaged in unfair and deceptive acts or practices related to the origination and collection of auto loans, which may have caused some of the Company's representations and warranties contained in securitization documents to be inaccurate. On July 22, 2020, we received a third civil investigative demand from the Office of the Attorney General seeking updates on previously produced data and additional information related to the Company's origination of Consumer Loans. On August 30, 2020, we were served with a complaint, filed by the Attorney General in Massachusetts Superior Court in Suffolk County, alleging that the Company engaged in unfair and deceptive trade practices in subprime auto lending, debt collection and asset-backed securitizations in the Commonwealth of Massachusetts, in violation of the Massachusetts Consumer Protection Law, M.G.L. c. 93A. The complaint seeks injunctive relief, restitution, disgorgement, civil penalties and payment of the Commonwealth's attorney's fees and costs. On March 15, 2021, the court entered an order denying a motion by the Company to dismiss four of the Commonwealth's seven claims and granting in part and denying in part a motion by the Commonwealth for partial summary judgment on three of its claims. On April 27, 2021, the Company and the Commonwealth reached an agreement in principle to settle this lawsuit, and, as a result, we estimated a probable loss of \$27.2 million, all of which was recognized as a contingent loss during the first quarter of 2021. On September 1, 2021, we entered into a settlement agreement with the Office of the Attorney General, reflecting the parties' agreement to settle and fully resolve the claims asserted against us. We agreed to make a payment in the total amount of \$27.2 million to an independent trust for purposes of making payments to provide relief for eligible Massachusetts consumers, paying costs of implementation of the agreement and paying the Attorney General's costs of investigation, and to pay up to \$95,000 to cover costs and expenses incurred by an independent trustee for management of the independent trust.

An adverse ultimate disposition in any action to which we are a party or otherwise subject could have a material adverse impact on our financial position, liquidity and results of operations.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONCLUDED)**  
**(UNAUDITED)**

**16. SUBSEQUENT EVENTS**

On October 6, 2021, we increased the financing amount on our revolving secured line of credit facility with a commercial bank syndicate from \$340.0 million to \$385.0 million. We also extended the maturity of the facility from June 22, 2023 to June 22, 2024. The amount of the facility will decrease from \$385.0 million to \$350.0 million on June 22, 2022, and will further decrease from \$350.0 million to \$325.0 million on June 22, 2023.

On October 15, 2021, we extended the date on which our \$75.0 million Warehouse Facility VI will cease to revolve from September 30, 2022 to September 30, 2024.

On October 28, 2021, we completed a \$250.1 million Term ABS financing, which was used to repay outstanding indebtedness and for general corporate purposes. The financing has an expected annualized cost of approximately 1.8% (including the initial purchasers' fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included in Item 8 - Financial Statements and Supplementary Data, of our 2020 Annual Report on Form 10-K, as well as Part I - Item 1 - Financial Statements, of this Form 10-Q, which is incorporated herein by reference.

### Overview

We offer financing programs that enable automobile dealers to sell vehicles to consumers, regardless of their credit history. Our financing programs are offered through a nationwide network of automobile dealers who benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding to advertisements for our financing programs, but who actually end up qualifying for traditional financing.

For the three months ended September 30, 2021, consolidated net income was \$250.0 million, or \$15.79 per diluted share, compared to consolidated net income of \$242.1 million, or \$13.56 per diluted share, for the same period in 2020 primarily due to an increase in finance charges, partially offset by a smaller reversal of provision for credit losses. The increase in finance charges was primarily due to an increase in the average yield on our Loan portfolio, which was primarily the result of the adoption of CECL on January 1, 2020. The smaller reversal of provision for credit losses was primarily due to a smaller improvement in Consumer Loan performance, partially offset by a decrease in new Consumer Loan assignment volume. Our results for the three months ended September 30, 2021 included:

- An increase in forecasted collection rates for Consumer Loans assigned in 2018 through 2021, which increased forecasted net cash flows from our loan portfolio by \$82.3 million.
- Forecasted profitability per Consumer Loan assignment that is in excess of our initial estimate for Consumer Loans assigned in 2021 and significantly in excess of our initial estimates for Consumer Loans assigned in 2018 through 2020.
- A decline in Consumer Loan assignment volume, as unit and dollar volumes declined 29.4% and 17.9%, respectively, as compared to the third quarter of 2020.
- Stock repurchases of approximately 1.3 million shares, which represented 8.0% of the shares outstanding at the beginning of the quarter.

For the nine months ended September 30, 2021, consolidated net income was \$740.7 million, or \$44.73 per diluted share, compared to consolidated net income of \$254.7 million, or \$14.17 per diluted share, for the same period in 2020 primarily due to a decrease in provision for credit losses and an increase in finance charges. The decrease in provision for credit losses was primarily due to an improvement in Consumer Loan performance and a decrease in new Consumer Loan assignment volume. The increase in finance charges was primarily due to an increase in the average yield on our Loan portfolio, which was primarily the result of the adoption of CECL on January 1, 2020. Our results for the nine months ended September 30, 2021 included:

- An increase in forecasted collection rates for Consumer Loans assigned in 2017 through 2021, which increased forecasted net cash flows from our loan portfolio by \$294.2 million.
- Forecasted profitability per Consumer Loan assignment that is consistent with our initial estimate for Consumer Loans assigned in 2021 and significantly in excess of our initial estimates for Consumer Loans assigned in 2018 through 2020.
- A decline in Consumer Loan assignment volume, as unit and dollar volumes declined 21.1% and 13.1%, respectively, as compared to the same period of 2020.
- Stock repurchases of approximately 2.3 million shares, which represented 13.3% of the shares outstanding at the beginning of the year.

### Critical Success Factors

Critical success factors include our ability to accurately forecast Consumer Loan performance, access capital on acceptable terms, and maintain or grow Consumer Loan volume at the level and on the terms that we anticipate, with an objective to maximize economic profit. Economic profit is a non-GAAP financial measure we use to evaluate our financial results and determine incentive compensation. Economic profit measures how efficiently we utilize our total capital, both debt and equity, and is a function of the return on capital in excess of the cost of capital and the amount of capital invested in the business.

## Consumer Loan Metrics

At the time a Consumer Loan is submitted to us for assignment, we forecast future expected cash flows from the Consumer Loan. Based on the amount and timing of these forecasts and expected expense levels, an advance or one-time purchase payment is made to the related Dealer at a price designed to maximize economic profit.

We use a statistical model to estimate the expected collection rate for each Consumer Loan at the time of assignment. We continue to evaluate the expected collection rate of each Consumer Loan subsequent to assignment. Our evaluation becomes more accurate as the Consumer Loans age, as we use actual performance data in our forecast. By comparing our current expected collection rate for each Consumer Loan with the rate we projected at the time of assignment, we are able to assess the accuracy of our initial forecast. The following table compares our forecast of Consumer Loan collection rates as of September 30, 2021 with the forecasts as of June 30, 2021, as of December 31, 2020 and at the time of assignment, segmented by year of assignment:

Consumer Loan Assignment Year	Forecasted Collection Percentage as of (1)				Current Forecast Variance from		
	September 30, 2021	June 30, 2021	December 31, 2020	Initial Forecast	June 30, 2021	December 31, 2020	Initial Forecast
2012	73.8 %	73.8 %	73.8 %	71.4 %	0.0 %	0.0 %	2.4 %
2013	73.4 %	73.4 %	73.4 %	72.0 %	0.0 %	0.0 %	1.4 %
2014	71.6 %	71.6 %	71.6 %	71.8 %	0.0 %	0.0 %	-0.2 %
2015	65.1 %	65.2 %	65.2 %	67.7 %	-0.1 %	-0.1 %	-2.6 %
2016	63.6 %	63.7 %	63.6 %	65.4 %	-0.1 %	0.0 %	-1.8 %
2017	64.4 %	64.4 %	64.1 %	64.0 %	0.0 %	0.3 %	0.4 %
2018	65.0 %	64.7 %	64.0 %	63.6 %	0.3 %	1.0 %	1.4 %
2019	66.2 %	65.8 %	64.4 %	64.0 %	0.4 %	1.8 %	2.2 %
2020	67.7 %	67.0 %	64.8 %	63.4 %	0.7 %	2.9 %	4.3 %
2021 (2)	66.4 %	65.8 %	—	66.0 %	0.6 %	—	0.4 %

- (1) Represents the total forecasted collections we expect to collect on the Consumer Loans as a percentage of the repayments that we were contractually owed on the Consumer Loans at the time of assignment. Contractual repayments include both principal and interest. Forecasted collection rates are negatively impacted by canceled Consumer Loans as the contractual amount owed is not removed from the denominator for purposes of computing forecasted collection rates in the table.
- (2) The forecasted collection rate for 2021 Consumer Loans as of September 30, 2021 includes both Consumer Loans that were in our portfolio as of June 30, 2021 and Consumer Loans assigned during the most recent quarter. The following table provides forecasted collection rates for each of these segments:

2021 Consumer Loan Assignment Period	Forecasted Collection Percentage as of			Current Forecast Variance from	
	September 30, 2021	June 30, 2021	Initial Forecast	June 30, 2021	Initial Forecast
January 1, 2021 through June 30, 2021	66.4 %	65.8 %	65.7 %	0.6 %	0.7 %
July 1, 2021 through September 30, 2021	66.4 %	—	66.9 %	—	-0.5 %

Consumer Loans assigned in 2012, 2013 and 2018 through 2020 have yielded forecasted collection results significantly better than our initial estimates, while Consumer Loans assigned in 2015 and 2016 have yielded forecasted collection results significantly worse than our initial estimates. For all other assignment years presented, actual results have been close to our initial estimates. For the three months ended September 30, 2021, forecasted collection rates improved for Consumer Loans assigned in 2018 through 2021 and were generally consistent with expectations at the start of the period for all other assignment years presented. For the nine months ended September 30, 2021, forecasted collection rates improved for Consumer Loans assigned in 2017 through 2021 and were generally consistent with expectations at the start of the period for all other assignment years presented.



The changes in forecasted collection rates for the three and nine months ended September 30, 2021 and 2020 impacted forecasted net cash flows (forecasted collections less forecasted Dealer Holdback payments) as follows:

(In millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Increase (Decrease) in Forecasted Net Cash Flows				
Dealer Loans	\$ 20.3	\$ 39.5	\$ 79.9	\$ (36.5)
Purchased Loans	62.0	99.0	214.3	(7.1)
Total	\$ 82.3	\$ 138.5	\$ 294.2	\$ (43.6)

During the first quarter of 2020, we reduced our estimate of future net cash flows from our Loan portfolio by \$206.5 million, or 2.3% of the forecasted net cash flows at the start of the period, primarily due to the impact of the COVID-19 pandemic. The reduction was comprised of: (1) \$44.3 million calculated by our forecasting model, which reflected lower realized collections during the first quarter of 2020 and (2) an additional \$162.2 million, which represented our best estimate of the future impact of the COVID-19 pandemic on future net cash flows. Under the GAAP methodology that we employ (known as CECL), changes in the amount and timing of forecasted net cash flows are recorded as a provision for credit losses in the current period. We have continued to apply this adjustment to our forecast through the third quarter of 2021 as it continues to represent our best estimate of the impact of the COVID-19 pandemic on future net cash flows. The COVID-19 pandemic has created conditions that increase the level of uncertainty associated with our estimate of the amount and timing of future net cash flows from our Loan portfolio.

The following table presents information on the average Consumer Loan assignment for each of the last 10 years:

Consumer Loan Assignment Year	Average		Initial Loan Term (in months)
	Consumer Loan (1)	Advance (2)	
2012	\$ 15,468	\$ 7,165	47
2013	15,445	7,344	47
2014	15,692	7,492	47
2015	16,354	7,272	50
2016	18,218	7,976	53
2017	20,230	8,746	55
2018	22,158	9,635	57
2019	23,139	10,174	57
2020	24,262	10,656	59
2021 (3)	25,333	11,548	59

(1) Represents the repayments that we were contractually owed on Consumer Loans at the time of assignment, which include both principal and interest.

(2) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

(3) The averages for 2021 Consumer Loans include both Consumer Loans that were in our portfolio as of June 30, 2021 and Consumer Loans assigned during the most recent quarter. The following table provides averages for each of these segments:

2021 Consumer Loan Assignment Period	Average		Initial Loan Term (in months)
	Consumer Loan	Advance	
January 1, 2021 through June 30, 2021	\$ 24,788	\$ 11,216	60
July 1, 2021 through September 30, 2021	26,938	12,527	59

The increase in the average Consumer Loan from the first six months of 2021 to the third quarter of 2021 was primarily the result of an increase in the average vehicle selling price.

Forecasting collection rates accurately at Loan inception is difficult. With this in mind, we establish advance rates that are intended to allow us to achieve acceptable levels of profitability, even if collection rates are less than we initially forecast.

The following table presents forecasted Consumer Loan collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that had been realized as of September 30, 2021. All amounts, unless otherwise noted, are presented as a percentage of the initial balance of the Consumer Loan (principal + interest). The table includes both Dealer Loans and Purchased Loans.

Consumer Loan Assignment Year	As of September 30, 2021			
	Forecasted Collection %	Advance % (1)	Spread %	% of Forecast Realized (2)
2012	73.8 %	46.3 %	27.5 %	99.8 %
2013	73.4 %	47.6 %	25.8 %	99.6 %
2014	71.6 %	47.7 %	23.9 %	99.3 %
2015	65.1 %	44.5 %	20.6 %	98.6 %
2016	63.6 %	43.8 %	19.8 %	97.0 %
2017	64.4 %	43.2 %	21.2 %	91.7 %
2018	65.0 %	43.5 %	21.5 %	80.1 %
2019	66.2 %	44.0 %	22.2 %	63.1 %
2020	67.7 %	43.9 %	23.8 %	39.8 %
2021 (3)	66.4 %	45.6 %	20.8 %	12.4 %

(1) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program as a percentage of the initial balance of the Consumer Loans. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

(2) Presented as a percentage of total forecasted collections.

(3) The forecasted collection rate, advance rate and spread for 2021 Consumer Loans as of September 30, 2021 include both Consumer Loans that were in our portfolio as of June 30, 2021 and Consumer Loans assigned during the most recent quarter. The following table provides forecasted collection rates, advance rates, and spreads for each of these segments:

2021 Consumer Loan Assignment Period	As of September 30, 2021		
	Forecasted Collection %	Advance %	Spread %
January 1, 2021 through June 30, 2021	66.4 %	45.2 %	21.2 %
July 1, 2021 through September 30, 2021	66.4 %	46.5 %	19.9 %

The risk of a material change in our forecasted collection rate declines as the Consumer Loans age. For 2017 and prior Consumer Loan assignments, the risk of a material forecast variance is modest, as we have currently realized in excess of 90% of the expected collections. Conversely, the forecasted collection rates for more recent Consumer Loan assignments are less certain as a significant portion of our forecast has not been realized.

The spread between the forecasted collection rate and the advance rate has ranged from 19.8% to 27.5%, on an annual basis, over the last 10 years. The spread was at the high end of this range in 2012, when the competitive environment was unusually favorable, and much lower during other years (2015 through 2019 and 2021) when competition was more intense. Despite intense competition, the spread in 2020 was higher than other recent years due to Consumer Loan performance, which has exceeded our initial estimates by a significantly greater margin than the other years presented. The decrease in the spread from 2020 to 2021 was primarily the result of the performance of 2020 Consumer Loans, partially offset by a higher initial spread on 2021 Consumer Loans, primarily due to a higher initial forecast on 2021 Consumer Loans. The decrease in the spread from the first six months of 2021 to the third quarter of 2021 was primarily due to Consumer Loan performance.

The following table compares our forecast of Consumer Loan collection rates as of September 30, 2021 with the forecasts at the time of assignment, for Dealer Loans and Purchased Loans separately:

Consumer Loan Assignment Year	Dealer Loans			Purchased Loans		
	Forecasted Collection Percentage as of (1)			Forecasted Collection Percentage as of (1)		
	September 30, 2021	Initial Forecast	Variance	September 30, 2021	Initial Forecast	Variance
2012	73.6 %	71.3 %	2.3 %	75.9 %	71.4 %	4.5 %
2013	73.3 %	72.1 %	1.2 %	74.2 %	71.6 %	2.6 %
2014	71.5 %	71.9 %	-0.4 %	72.4 %	70.9 %	1.5 %
2015	64.4 %	67.5 %	-3.1 %	68.9 %	68.5 %	0.4 %
2016	62.9 %	65.1 %	-2.2 %	65.8 %	66.5 %	-0.7 %
2017	63.7 %	63.8 %	-0.1 %	66.0 %	64.6 %	1.4 %
2018	64.4 %	63.6 %	0.8 %	66.2 %	63.5 %	2.7 %
2019	65.9 %	63.9 %	2.0 %	66.9 %	64.2 %	2.7 %
2020	67.4 %	63.3 %	4.1 %	68.2 %	63.6 %	4.6 %
2021	66.2 %	66.0 %	0.2 %	66.8 %	65.9 %	0.9 %

- (1) The forecasted collection rates presented for Dealer Loans and Purchased Loans reflect the Consumer Loan classification at the time of assignment. The forecasted collection rates represent the total forecasted collections we expect to collect on the Consumer Loans as a percentage of the repayments that we were contractually owed on the Consumer Loans at the time of assignment. Contractual repayments include both principal and interest. Forecasted collection rates are negatively impacted by canceled Consumer Loans as the contractual amount owed is not removed from the denominator for purposes of computing forecasted collection rates in the table.

The following table presents forecasted Consumer Loan collection rates, advance rates, and the spread (the forecasted collection rate less the advance rate) as of September 30, 2021 for Dealer Loans and Purchased Loans separately. All amounts are presented as a percentage of the initial balance of the Consumer Loan (principal + interest).

Consumer Loan Assignment Year	Dealer Loans			Purchased Loans		
	Forecasted Collection % (1)	Advance % (1)(2)	Spread %	Forecasted Collection % (1)	Advance % (1)(2)	Spread %
2012	73.6 %	46.0 %	27.6 %	75.9 %	50.0 %	25.9 %
2013	73.3 %	47.2 %	26.1 %	74.2 %	51.5 %	22.7 %
2014	71.5 %	47.2 %	24.3 %	72.4 %	51.8 %	20.6 %
2015	64.4 %	43.4 %	21.0 %	68.9 %	50.2 %	18.7 %
2016	62.9 %	42.1 %	20.8 %	65.8 %	48.6 %	17.2 %
2017	63.7 %	42.1 %	21.6 %	66.0 %	45.8 %	20.2 %
2018	64.4 %	42.7 %	21.7 %	66.2 %	45.2 %	21.0 %
2019	65.9 %	43.1 %	22.8 %	66.9 %	45.6 %	21.3 %
2020	67.4 %	43.0 %	24.4 %	68.2 %	45.5 %	22.7 %
2021	66.2 %	44.7 %	21.5 %	66.8 %	47.2 %	19.6 %

- (1) The forecasted collection rates and advance rates presented for Dealer Loans and Purchased Loans reflect the Consumer Loan classification at the time of assignment.
- (2) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program as a percentage of the initial balance of the Consumer Loans. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

Although the advance rate on Purchased Loans is higher as compared to the advance rate on Dealer Loans, Purchased Loans do not require us to pay Dealer Holdback.

The spread on Dealer Loans decreased from 24.4% in 2020 to 21.5% in 2021 primarily as a result of the performance of the 2020 Consumer Loans in our Dealer Loan portfolio, which has exceeded our initial estimates by a greater margin than those assigned to us in 2021, partially offset by a higher initial spread on 2021 Consumer Loans in our Dealer Loan portfolio, primarily due to a higher initial forecast on 2021 Consumer Loans in our Dealer Loan portfolio. The spread on Purchased Loans decreased from 22.7% in 2020 to 19.6% in 2021 primarily as a result of the performance of the 2020 Consumer Loans in our Purchased Loan portfolio, which has exceeded our initial estimates by a greater margin than those assigned to us in 2021.

partially offset by a higher initial spread on 2021 Consumer Loans in our Purchased Loan portfolio, primarily due to a higher initial forecast on 2021 Consumer Loans in our Purchased Loan portfolio.

## Access to Capital

Our strategy for accessing capital on acceptable terms needed to maintain and grow the business is to: (1) maintain consistent financial performance; (2) maintain modest financial leverage; and (3) maintain multiple funding sources. Our funded debt to equity ratio was 2.4 to 1 as of September 30, 2021. We currently utilize the following primary forms of debt financing: (1) a revolving secured line of credit; (2) Warehouse facilities; (3) Term ABS financings; and (4) senior notes.

## Consumer Loan Volume

The following table summarizes changes in Consumer Loan assignment volume in each of the last eleven quarters as compared to the same period in the previous year:

Three Months Ended	Year over Year Percent Change	
	Unit Volume	Dollar Volume (1)
March 31, 2019	0.4 %	5.1 %
June 30, 2019	0.0 %	5.6 %
September 30, 2019	0.4 %	7.6 %
December 31, 2019	-5.3 %	1.1 %
March 31, 2020	-10.1 %	-4.5 %
June 30, 2020	5.7 %	5.2 %
September 30, 2020	-8.8 %	-4.7 %
December 31, 2020	-18.1 %	-10.8 %
March 31, 2021	-7.5 %	-2.2 %
June 30, 2021	-28.7 %	-20.5 %
September 30, 2021	-29.4 %	-17.9 %

- (1) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

Consumer Loan assignment volumes depend on a number of factors including (1) the overall demand for our financing programs, (2) the amount of capital available to fund new Loans, and (3) our assessment of the volume that our infrastructure can support. Our pricing strategy is intended to maximize the amount of economic profit we generate, within the confines of capital and infrastructure constraints.

Unit and dollar volumes declined 29.4% and 17.9%, respectively, during the third quarter of 2021 as the number of active Dealers declined 15.0% and the average unit volume per active Dealer declined 17.0%. Dollar volume declined less than unit volume during the third quarter of 2021 due to an increase in the average advance paid per unit. This increase was the result of an increase in the average size of the Consumer Loans assigned, primarily due to an increase in the average vehicle selling price.

The following table summarizes changes in Consumer Loan assignment unit volume in each of the last three quarters as compared to the same periods in 2019:

Three Months Ended	Percent Change in Unit Volume Compared to the Same Periods in 2019
March 31, 2021	-16.8 %
June 30, 2021	-24.6 %
September 30, 2021	-35.6 %

Starting in mid-March 2020, we experienced a significant decline in unit volume that we believe was primarily due to the impact of COVID-19, which resulted in many Dealers temporarily closing or restricting their operations and a deterioration in consumer demand for Dealers that remained open. During the latter part of April 2020 and continuing into July 2020, unit volumes improved. We believe the improvement resulted from a combination of Dealers gradually reopening their operations and the distribution of federal stimulus and enhanced unemployment benefit payments. Starting in late July 2020 and continuing through February 2021, we experienced another significant decline in unit volume as federal stimulus and enhanced unemployment benefit payments lapsed, dealer inventories declined and used vehicle prices increased. Unit volumes improved again in March and April 2021 as additional federal stimulus payments were distributed. Starting in May 2021 and continuing through October 2021, we experienced another significant decline in unit volume. We believe that this decline is primarily due to low dealer inventories and elevated used vehicle prices, which we believe are primarily due to the downstream impact of supply chain disruptions in the automotive industry. Unit volume for October 2021 declined 25.6% and 38.9% compared to unit volume for October 2020 and October 2019, respectively.

The following table summarizes the changes in Consumer Loan unit volume and active Dealers:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Consumer Loan unit volume	55,620	78,737	-29.4 %	219,303	278,068	-21.1 %
Active Dealers (1)	7,588	8,930	-15.0 %	10,815	11,988	-9.8 %
Average volume per active Dealer	7.3	8.8	-17.0 %	20.3	23.2	-12.5 %
Consumer Loan unit volume from Dealers active both periods	47,470	65,662	-27.7 %	199,404	252,493	-21.0 %
Dealers active both periods	5,659	5,659	—	8,554	8,554	—
Average volume per Dealer active both periods	8.4	11.6	-27.7 %	23.3	29.5	-21.0 %
Consumer Loan unit volume from Dealers <u>not</u> active both periods	8,150	13,075	-37.7 %	19,899	25,575	-22.2 %
Dealers <u>not</u> active both periods	1,929	3,271	-41.0 %	2,261	3,434	-34.2 %
Average volume per Dealer <u>not</u> active both periods	4.2	4.0	5.0 %	8.8	7.4	18.9 %

(1) Active Dealers are Dealers who have received funding for at least one Consumer Loan during the period.

The following table provides additional information on the changes in Consumer Loan unit volume and active Dealers:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Consumer Loan unit volume from new active Dealers	1,476	2,423	-39.1 %	12,361	21,295	-42.0 %
New active Dealers (1)	460	630	-27.0 %	1,615	2,122	-23.9 %
Average volume per new active Dealer	3.2	3.8	-15.8 %	7.7	10.0	-23.0 %
Attrition (2)	-16.6 %	-18.6 %		-9.2 %	-9.9 %	

(1) New active Dealers are Dealers who enrolled in our program and have received funding for their first Loan from us during the period.

(2) Attrition is measured according to the following formula: decrease in Consumer Loan unit volume from Dealers who have received funding for at least one Loan during the comparable period of the prior year but did not receive funding for any Loans during the current period divided by prior year comparable period Consumer Loan unit volume.

The following table shows the percentage of Consumer Loans assigned to us as Dealer Loans and Purchased Loans for each of the last seven quarters:

Three Months Ended	Unit Volume		Dollar Volume (1)	
	Dealer Loans	Purchased Loans	Dealer Loans	Purchased Loans
March 31, 2020	64.9 %	35.1 %	60.5 %	39.5 %
June 30, 2020	62.5 %	37.5 %	59.1 %	40.9 %
September 30, 2020	64.1 %	35.9 %	60.9 %	39.1 %
December 31, 2020	65.3 %	34.7 %	62.7 %	37.3 %
March 31, 2021	65.4 %	34.6 %	62.7 %	37.3 %
June 30, 2021	66.9 %	33.1 %	64.0 %	36.0 %
September 30, 2021	69.9 %	30.1 %	66.8 %	33.2 %

(1) Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program. Payments of Dealer Holdback and accelerated Dealer Holdback are not included.

As of September 30, 2021 and December 31, 2020, the net Dealer Loans receivable balance was 61.2% and 61.4%, respectively, of the total net Loans receivable balance.

## Results of Operations

The net Loan income (finance charge revenue less provision for credit losses expense) that we recognize over the life of a Loan equals the cash we collect from the underlying Consumer Loan less the cash we pay to the Dealer. We believe the economics of our business are best exhibited by recognizing net Loan income on a level-yield basis over the life of the Loan based on expected future net cash flows. We do not believe the GAAP methodology we employ (known as CECL) provides sufficient transparency into the economics of our business due to its asymmetry requiring us to recognize a significant provision for credit losses expense at the time of assignment for contractual net cash flows we never expect to realize and to recognize in subsequent periods finance charge revenue that is significantly in excess of our expected yields. For additional information, see Note 3 and Note 6 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.

### Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

The following is a discussion of our results of operations and income statement data on a consolidated basis.

(Dollars in millions, except per share data)

	For the Three Months Ended September 30,			
	2021	2020	\$ Change	% Change
<b>Revenue:</b>				
Finance charges	\$ 442.1	\$ 404.4	\$ 37.7	9.3 %
Premiums earned	15.4	15.1	0.3	2.0 %
Other income	12.6	7.0	5.6	80.0 %
Total revenue	470.1	426.5	43.6	10.2 %
<b>Costs and expenses:</b>				
Salaries and wages (1)	63.2	46.6	16.6	35.6 %
General and administrative (1)	16.9	17.2	(0.3)	-1.7 %
Sales and marketing (1)	16.3	16.6	(0.3)	-1.8 %
Provision for credit losses	(8.3)	(29.8)	21.5	-72.1 %
Interest	39.8	46.8	(7.0)	-15.0 %
Provision for claims	10.0	10.7	(0.7)	-6.5 %
Total costs and expenses	137.9	108.1	29.8	27.6 %
Income before provision for income taxes	332.2	318.4	13.8	4.3 %
Provision for income taxes	82.2	76.3	5.9	7.7 %
Net income	\$ 250.0	\$ 242.1	\$ 7.9	3.3 %
Net income per share:				
Basic	\$ 15.83	\$ 13.57	\$ 2.26	16.7 %
Diluted	\$ 15.79	\$ 13.56	\$ 2.23	16.4 %
Weighted average shares outstanding:				
Basic	15,795,963	17,844,785	(2,048,822)	-11.5 %
Diluted	15,829,166	17,849,765	(2,020,599)	-11.3 %
(1) Operating expenses	\$ 96.4	\$ 80.4	\$ 16.0	19.9 %

*Finance Charges.* The increase of \$37.7 million, or 9.3%, was primarily the result of an increase in the average yield on our Loan portfolio, as follows:

(Dollars in millions)

	For the Three Months Ended September 30,		
	2021	2020	Change
Average net Loans receivable balance	\$ 6,676.8	\$ 6,823.8	\$ (147.0)
Average yield on our Loan portfolio	26.5 %	23.7 %	2.8 %

The following table summarizes the impact each component had on the overall increase in finance charges for the three months ended September 30, 2021:

(In millions)

	Year over Year Change For the Three Months Ended September 30, 2021
<b>Impact on finance charges:</b>	
Due to an increase in the average yield	\$ 45.7
Due to a decrease in the average net Loans receivable balance	(8.0)
<b>Total increase in finance charges</b>	<b>\$ 37.7</b>

The average yield on our Loan portfolio for the three months ended September 30, 2021 increased as compared to the same period in 2020 primarily due to the adoption of CECL on January 1, 2020, which requires us to recognize finance charges on new Consumer Loan assignments using effective interest rates based on contractual future net cash flows, which are significantly in excess of our expected yields.

*Other Income.* The increase of \$5.6 million, or 80.0%, was primarily due to an increase in ancillary product profit sharing income due to a decrease in average vehicle service contract claim rates.

*Operating Expenses.* The increase of \$16.0 million, or 19.9%, was due to an increase in salaries and wages expense of \$16.6 million, or 35.6%, primarily due to a \$14.7 million increase in stock-based compensation expense related to stock options. From December 2020 through June 2021, we granted stock options, subject to shareholder approval of an amendment to our incentive compensation plan, that vest and become exercisable in four equal annual installments beginning on the first anniversary of the date on which the options were granted. Stock compensation expense is normally recognized over the vesting period starting from the grant date. However, since our grants were dependent upon shareholder approval, no stock compensation expense could be recognized until we received shareholder approval at the annual meeting in July 2021. At that time, we began recognizing the fair value of the stock options as stock-based compensation expense over the remaining vesting period. This resulted in the expense for the first annual vesting installment being recognized over a shorter time period as it is being recognized over the period from July 2021 through the first anniversary of the date on which the options were granted. The expense for subsequent annual vesting installments will be recognized over their respective annual vesting periods. For additional information, see Note 14 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.



*Provision for Credit Losses.* The increase of \$21.5 million, or 72.1%, was due to a smaller reversal of provision for credit losses on forecast changes, partially offset by a decrease in provision for credit losses on new Consumer Loan assignments.

We recognize provision for credit losses on new Consumer Loan assignments for contractual net cash flows that are not expected to be realized at the time of assignment. We also recognize provision for credit losses on forecast changes in the amount and timing of expected future net cash flows subsequent to assignment. The following table summarizes the provision for credit losses for each of these components:

(In millions)	Provision for Credit Losses	For the Three Months Ended September 30,		
		2021	2020	Change
New Consumer Loan assignments		\$ 75.5	\$ 114.1	\$ (38.6)
Forecast changes		(83.8)	(143.9)	60.1
Total		\$ (8.3)	\$ (29.8)	\$ 21.5

The decrease in provision for credit losses related to new Consumer Loan assignments was due to a 29.4% decrease in Consumer Loan assignment unit volume and a decrease in the average provision for credit losses per Consumer Loan assignment primarily due to a higher initial forecast on 2021 Consumer Loan assignments.

The smaller reversal of provision for credit losses related to forecast changes was primarily due to a smaller improvement in Consumer Loan performance. During the third quarters of 2021 and 2020, we increased our estimate of future net cash flows by \$82.3 million and \$138.5 million, respectively, to reflect improvements in Consumer Loan performance during the periods.

*Interest.* The decrease of \$7.0 million, or 15.0%, was primarily due to a decrease in our average cost of debt, as follows:

(Dollars in millions)	For the Three Months Ended September 30,		
	2021	2020	Change
Interest expense	\$ 39.8	\$ 46.8	\$ (7.0)
Average outstanding debt principal balance (1)	4,705.2	4,760.9	(55.7)
Average cost of debt	3.4 %	3.9 %	-0.5 %

(1) Includes the unamortized debt discount and excludes deferred debt issuance costs.

The decrease in our average cost of debt was primarily the result of lower interest rates on recently-completed secured financings.

*Provision for Income Taxes.* For the three months ended September 30, 2021, the effective income tax rate increased to 24.7% from 24.0% for the three months ended September 30, 2020. The increase was due to an increase in non-deductible executive compensation expenses and higher effective tax rates in certain state tax jurisdictions. For additional information, see Note 11 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.

# Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

The following is a discussion of our results of operations and income statement data on a consolidated basis.

(Dollars in millions, except per share data)

	For the Nine Months Ended September 30,			
	2021	2020	\$ Change	% Change
<b>Revenue:</b>				
Finance charges	\$ 1,312.4	\$ 1,144.5	\$ 167.9	14.7 %
Premiums earned	45.6	42.2	3.4	8.1 %
Other income	34.8	35.2	(0.4)	-1.1 %
Total revenue	1,392.8	1,221.9	170.9	14.0 %
<b>Costs and expenses:</b>				
Salaries and wages (1)	150.9	140.4	10.5	7.5 %
General and administrative (1)	79.9	46.8	33.1	70.7 %
Sales and marketing (1)	48.4	53.9	(5.5)	-10.2 %
Provision for credit losses	(17.5)	464.3	(481.8)	-103.8 %
Interest	125.6	146.9	(21.3)	-14.5 %
Provision for claims	29.3	28.8	0.5	1.7 %
Loss on extinguishment of debt	—	7.4	(7.4)	-100.0 %
Total costs and expenses	416.6	888.5	(471.9)	-53.1 %
Income before provision for income taxes	976.2	333.4	642.8	192.8 %
Provision for income taxes	235.5	78.7	156.8	199.2 %
Net income	\$ 740.7	\$ 254.7	\$ 486.0	190.8 %
<b>Net income per share:</b>				
Basic	\$ 44.77	\$ 14.18	\$ 30.59	215.7 %
Diluted	\$ 44.73	\$ 14.17	\$ 30.56	215.7 %
<b>Weighted average shares outstanding:</b>				
Basic	16,543,326	17,957,931	(1,414,605)	-7.9 %
Diluted	16,559,639	17,973,091	(1,413,452)	-7.9 %
(1) Operating expenses	\$ 279.2	\$ 241.1	\$ 38.1	15.8 %

*Finance Charges.* The increase of \$167.9 million, or 14.7%, was primarily the result of an increase in the average yield on our Loan portfolio, as follows:

(Dollars in millions)

	For the Nine Months Ended September 30,		
	2021	2020	Change
Average net Loans receivable balance	\$ 6,772.6	\$ 6,724.3	\$ 48.3
Average yield on our Loan portfolio	25.8 %	22.7 %	3.1 %

The following table summarizes the impact each component had on the overall increase in finance charges for the nine months ended September 30, 2021:

(In millions)

Impact on finance charges:	Year over Year Change For the Nine Months Ended September 30, 2021	
	\$	
Due to an increase in the average yield	\$ 159.7	
Due to an increase in the average net Loans receivable balance	8.2	
Total increase in finance charges	\$ 167.9	

The average yield on our Loan portfolio for the nine months ended September 30, 2021 increased as compared to the same period in 2020 primarily due to the adoption of CECL on January 1, 2020, which requires us to recognize finance charges on new Consumer Loan assignments using effective interest rates based on contractual future net cash flows, which are significantly in excess of our expected yields.

*Operating Expenses.* The increase of \$38.1 million, or 15.8%, was primarily due to:

- An increase in general and administrative expense of \$33.1 million, or 70.7%, primarily due to an increase in legal expenses, which included a \$27.2 million settlement with the Commonwealth of Massachusetts to settle and fully resolve the claims asserted against the Company. For additional information, see Note 15 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.
- An increase in salaries and wages expense of \$10.5 million, or 7.5%, primarily due to:
  - An increase of \$13.8 million, excluding fringe benefits and cash-based incentive compensation expense, related to increases of \$7.7 million for our support function, \$4.4 million for our servicing function and \$1.7 million for our originations function. The increase in our support function was primarily related to a \$7.0 million increase related to our information technology department.
  - An increase of \$4.0 million in fringe benefits primarily due to higher medical claims.
  - A decrease of \$7.3 million in cash-based incentive compensation expense, primarily due to a change in the incentive compensation program for senior management, which eliminated annual cash awards in favor of longer-term equity awards, partially offset by an increase in profit sharing primarily due to an improvement in Company performance measures.

*Provision for Credit Losses.* The decrease of \$481.8 million, or 103.8%, was due to decreases in provision for credit losses on forecast changes and provision for credit losses on new Consumer Loan assignments.

We recognize provision for credit losses on new Consumer Loan assignments for contractual net cash flows that are not expected to be realized at the time of assignment. We also recognize provision for credit losses on forecast changes in the amount and timing of expected future net cash flows subsequent to assignment. The following table summarizes the provision for credit losses for each of these components:

(In millions)	Provision for Credit Losses	For the Nine Months Ended September 30,		
		2021	2020	Change
New Consumer Loan assignments		\$ 298.9	\$ 426.2	\$ (127.3)
Forecast changes		(316.4)	38.1	(354.5)
Total		\$ (17.5)	\$ 464.3	\$ (481.8)

The decrease in provision for credit losses related to new Consumer Loan assignments was due to a 21.1% decrease in Consumer Loan assignment unit volume and a decrease in the average provision for credit losses per Consumer Loan assignment primarily due to a higher initial forecast on 2021 Consumer Loan assignments.

The decrease in provision for credit losses related to forecast changes was primarily due to an improvement in Consumer Loan performance. During the first nine months of 2021, we increased our estimate of future net cash flows by \$294.2 million to reflect an improvement in Consumer Loan performance during the period. During the first nine months of 2020, we reduced our estimate of future net cash flows from our Loan portfolio by \$43.6 million to reflect the estimated long-term impact of COVID-19 on Consumer Loan performance. For additional information, see Note 6 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.

*Interest.* The decrease of \$21.3 million, or 14.5%, was primarily due to a decrease in our average cost of debt, as follows:

(Dollars in millions)

	For the Nine Months Ended September 30,		
	2021	2020	Change
Interest expense	\$ 125.6	\$ 146.9	\$ (21.3)
Average outstanding debt principal balance (1)	4,738.9	4,733.1	5.8
Average cost of debt	3.5 %	4.1 %	-0.6 %

(1) Includes the unamortized debt discount and excludes deferred debt issuance costs.

The decrease in our average cost of debt was primarily the result of lower interest rates on recently-completed secured financings.

*Loss on Extinguishment of Debt.* For the nine months ended September 30, 2020, we recognized a loss on extinguishment of debt of \$7.4 million related to the redemption of the 2023 senior notes in March 2020.

*Provision for Income Taxes.* For the nine months ended September 30, 2021, our effective income tax rate increased to 24.1% from 23.6% for the nine months ended September 30, 2020. The increase was primarily due to the impact of tax benefits related to our stock-based compensation plan and non-deductible expenses on our effective income tax rate, which decreased from 2020 to 2021 primarily due to an increase in pre-tax income. For additional information, see Note 11 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.

## Liquidity and Capital Resources

We need capital to maintain and grow our business. Our primary sources of capital are cash flows from operating activities, collections of Consumer Loans and borrowings under: (1) a revolving secured line of credit; (2) Warehouse facilities; (3) Term ABS financings; and (4) senior notes. There are various restrictive covenants to which we are subject under each financing arrangement and we were in compliance with those covenants as of September 30, 2021. For information regarding these financings and the covenants included in the related documents, see Note 9 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.

On January 29, 2021, we completed a \$100.0 million Term ABS financing, which was used to repay outstanding indebtedness. The financing will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

On January 29, 2021, we extended the date on which our \$300.0 million Warehouse Facility IV will cease to revolve from July 26, 2022 to November 17, 2023. The interest rate on borrowings under the facility has been increased from LIBOR plus 200 basis points to LIBOR plus 210 basis points.

On February 3, 2021, we extended the date on which our \$400.0 million Warehouse Facility II will cease to revolve from July 12, 2022 to April 30, 2024.

On February 18, 2021, we completed a \$500.0 million Term ABS financing, which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 1.4% (including the initial purchasers' fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

On May 20, 2021, we completed a \$450.0 million Term ABS financing, which was used to repay outstanding indebtedness and for general corporate purposes. The financing has an expected annualized cost of approximately 1.5% (including the initial purchasers' fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

On September 1, 2021, we extended the date on which our \$200.0 million Warehouse Facility VIII will cease to revolve from July 26, 2022 to September 1, 2024.

On October 6, 2021, we increased the financing amount on our revolving secured line of credit facility with a commercial bank syndicate from \$340.0 million to \$385.0 million. We also extended the maturity of the facility from June 22, 2023 to June 22, 2024. The amount of the facility will decrease from \$385.0 million to \$350.0 million on June 22, 2022, and will further decrease from \$350.0 million to \$325.0 million on June 22, 2023.

On October 15, 2021, we extended the date on which our \$75.0 million Warehouse Facility VI will cease to revolve from September 30, 2022 to September 30, 2024.

On October 28, 2021, we completed a \$250.1 million Term ABS financing, which was used to repay outstanding indebtedness and for general corporate purposes. The financing has an expected annualized cost of approximately 1.8% (including the initial purchasers' fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

Cash and cash equivalents as of September 30, 2021 and December 31, 2020 was \$13.3 million and \$16.0 million, respectively. As of September 30, 2021 and December 31, 2020, we had \$1,517.8 million and \$1,419.1 million, respectively, in unused and available lines of credit. Our total balance sheet indebtedness as of September 30, 2021 and December 31, 2020 was \$4,607.1 million and \$4,608.6 million, respectively.

**Contractual Obligations**

A summary of our scheduled principal debt maturities as of September 30, 2021 is as follows:

(In millions)

Year	Scheduled Principal Debt Maturities (1)
Remainder of 2021	\$ 163.8
2022	1,430.4
2023	1,725.0
2024	915.6
2025	—
Over five years	400.0
<b>Total</b>	<b>\$ 4,634.8</b>

(1) The principal maturities of certain financings are estimated based on forecasted collections.

Based upon anticipated cash flows, management believes that cash flows from operations and our various financing alternatives will provide sufficient financing for debt maturities and for future operations. Our ability to borrow funds may be impacted by economic and financial market conditions. If the various financing alternatives were to become limited or unavailable to us, our operations and liquidity could be materially and adversely affected.

**Critical Accounting Estimates**

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we review our accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2020 discusses several critical accounting estimates, which we believe involve a high degree of judgment and complexity. There have been no material changes to the estimates and assumptions associated with these accounting estimates from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2020.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

## Forward-Looking Statements

We make forward-looking statements in this report and may make such statements in future filings with the Securities and Exchange Commission (“SEC”). We may also make forward-looking statements in our press releases or other public or shareholder communications. Our forward-looking statements are subject to risks and uncertainties and include information about our expectations and possible or assumed future results of operations. When we use any of the words “may,” “will,” “should,” “believe,” “expect,” “anticipate,” “assume,” “forecast,” “estimate,” “intend,” “plan,” “target” or similar expressions, we are making forward-looking statements.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of our forward-looking statements. These forward-looking statements represent our outlook only as of the date of this report. While we believe that our forward-looking statements are reasonable, actual results could differ materially since the statements are based on our current expectations, which are subject to risks and uncertainties. Factors that might cause such a difference include, but are not limited to, the factors set forth in Item 1A of our Form 10-K for the year ended December 31, 2020, other risk factors discussed herein or listed from time to time in our reports filed with the SEC and the following:

### **Industry, Operational and Macroeconomic Risks**

- The outbreak of COVID-19 has adversely impacted our business, and the continuance of this pandemic, or any future outbreak of any contagious diseases or other public health emergency, could materially and adversely affect our business, financial condition, liquidity and results of operations.
- Our inability to accurately forecast and estimate the amount and timing of future collections could have a material adverse effect on results of operations.
- Due to competition from traditional financing sources and non-traditional lenders, we may not be able to compete successfully.
- Reliance on third parties to administer our ancillary product offerings could adversely affect our business and financial results.
- We are dependent on our senior management and the loss of any of these individuals or an inability to hire additional team members could adversely affect our ability to operate profitably.
- Our reputation is a key asset to our business, and our business may be affected by how we are perceived in the marketplace.
- The concentration of our dealers in several states could adversely affect us.
- Reliance on our outsourced business functions could adversely affect our business.
- Our ability to hire and retain foreign information technology personnel could be hindered by immigration restrictions.
- We may be unable to execute our business strategy due to current economic conditions.
- Adverse changes in economic conditions, the automobile or finance industries, or the non-prime consumer market could adversely affect our financial position, liquidity and results of operations, the ability of key vendors that we depend on to supply us with services, and our ability to enter into future financing transactions.
- Natural disasters, acts of war, terrorist attacks and threats or the escalation of military activity in response to these attacks or otherwise may negatively affect our business, financial condition and results of operations.
- A small number of our shareholders have the ability to significantly influence matters requiring shareholder approval and such shareholders have interests which may conflict with the interests of our other security holders.

### **Capital and Liquidity Risks**

- We may be unable to continue to access or renew funding sources and obtain capital needed to maintain and grow our business.
- The terms of our debt limit how we conduct our business.
- A violation of the terms of our asset-backed secured financing facilities or revolving secured warehouse facilities could have a material adverse impact on our operations.
- Our substantial debt could negatively impact our business, prevent us from satisfying our debt obligations and adversely affect our financial condition.
- We may not be able to generate sufficient cash flows to service our outstanding debt and fund operations and may be forced to take other actions to satisfy our obligations under such debt.
- Interest rate fluctuations may adversely affect our borrowing costs, profitability and liquidity.
- The phaseout of the London Interbank Offered Rate (“LIBOR”), or the replacement of LIBOR with a different reference rate, could result in a material adverse effect on our business.

- Reduction in our credit rating could increase the cost of our funding from, and restrict our access to, the capital markets and adversely affect our liquidity, financial condition and results of operations.
- We may incur substantially more debt and other liabilities. This could exacerbate further the risks associated with our current debt levels.
- The conditions of the U.S. and international capital markets may adversely affect lenders with which we have relationships, causing us to incur additional costs and reducing our sources of liquidity, which may adversely affect our financial position, liquidity and results of operations.

**Information Technology and Cybersecurity Risks**

- Our dependence on technology could have a material adverse effect on our business.
- Our use of electronic contracts could impact our ability to perfect our ownership or security interest in Consumer Loans.
- Failure to properly safeguard confidential consumer and team member information could subject us to liability, decrease our profitability and damage our reputation.

**Legal and Regulatory Risks**

- Litigation we are involved in from time to time may adversely affect our financial condition, results of operations and cash flows.
- Changes in tax laws and the resolution of uncertain income tax matters could have a material adverse effect on our results of operations and cash flows from operations.
- The regulations to which we are or may become subject could result in a material adverse effect on our business.

Other factors not currently anticipated by management may also materially and adversely affect our business, financial condition and results of operations. We do not undertake, and expressly disclaim any obligation, to update or alter our statements whether as a result of new information, future events or otherwise, except as required by applicable law.



**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Refer to our Annual Report on Form 10-K for the year ended December 31, 2020 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2020 Annual Report on Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES.**

(a) *Disclosure Controls and Procedures.* Our management, with the participation of our principal executive and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on such evaluation, our principal executive and principal financial officer has concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) *Internal Control Over Financial Reporting.* There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In the normal course of business and as a result of the consumer-oriented nature of the industry in which we operate, we and other industry participants are frequently subject to various consumer claims, litigation and regulatory investigations seeking damages, fines and statutory penalties. The claims allege, among other theories of liability, violations of state, federal and foreign truth-in-lending, credit availability, credit reporting, consumer protection, warranty, debt collection, insurance and other consumer-oriented laws and regulations, including claims seeking damages for alleged physical and mental harm relating to the repossession and sale of consumers' vehicles and other debt collection activities. As the assignee of Consumer Loans originated by Dealers, we may also be named as a co-defendant in lawsuits filed by consumers principally against Dealers. We may also have disputes and litigation with Dealers. The claims may allege, among other theories of liability, that we breached our Dealer servicing agreement. We may also have disputes and litigation with vendors and other third parties. The claims may allege, among other theories of liability, that we breached a license agreement or contract. The damages, fines and penalties that may be claimed by consumers, regulatory agencies, Dealers, vendors or other third parties in these types of matters can be substantial. The relief requested by plaintiffs varies but may include requests for compensatory, statutory and punitive damages and injunctive relief, and plaintiffs may seek treatment as purported class actions. An adverse ultimate disposition in any action to which we are a party or otherwise subject could have a material adverse impact on our financial position, liquidity and results of operations.

For a description of significant litigation to which we are a party, see Note 15 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### Stock Repurchases

The following table summarizes stock repurchases for the three months ended September 30, 2021:

#### ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1 to July 31, 2021	364,963	\$ 454.67	364,963	1,153,142
August 1 to August 31, 2021	406,680	566.33	406,680	746,462
September 1 to September 30, 2021	514,603	598.20	514,603	2,231,859
	1,286,246	\$ 547.40	1,286,246	

- (1) On March 5, 2020, our board of directors authorized the repurchase by us from time to time up to three million shares of our common stock (the "March 2020 Authorization"). The March 2020 Authorization, which was announced on March 11, 2020, does not have a specified expiration date. On September 28, 2021, our board of directors authorized the repurchase by us from time to time of up to two million shares of our common stock (the "September 2021 Authorization") in addition to the March 2020 Authorization. The September 2021 Authorization, which was announced on October 1, 2021, does not have a specified expiration date. Repurchases under the March 2020 Authorization and the September 2021 Authorization may be made in the open market, through privately negotiated transactions, through block trades, pursuant to trading plans adopted in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934 or otherwise.

**ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
<a href="#">4.119</a>	First Amendment to Loan and Security Agreement, dated as of September 1, 2021, by and among the Company, CAC Warehouse Funding LLC VIII, Citizens Bank, N.A. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.119 to the Company's Current Report on Form 8 K filed September 8, 2021).
<a href="#">4.120</a>	Eighth Amendment to Sixth Amended and Restated Credit Agreement and Extension Agreement, dated as of October 6, 2021, by and among the Company, Comerica Bank and the other banks signatory thereto and Comerica Bank, as administrative agent for the banks (incorporated by reference to Exhibit 4.120 to the Company's Current Report on Form 8-K filed October 12, 2021).
<a href="#">4.121</a>	Third Amendment to Loan and Security Agreement, dated as of October 15, 2021, among the Company, CAC Warehouse Funding LLC VI and Flagstar Bank, fsb (incorporated by reference to Exhibit 4.121 to the Company's Current Report on Form 8-K filed October 21, 2021).
<a href="#">10.19</a>	Settlement Agreement and Assurance of Discontinuance (incorporated by reference to Exhibit 10.19 to the Company's Current Report on Form 8 K filed September 1, 2021).
<a href="#">31.1</a>	Certification of principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">32.1</a>	Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101(SCH)	Inline XBRL Taxonomy Extension Schema Document.
101(CAL)	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101(DEF)	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101(LAB)	Inline XBRL Taxonomy Extension Label Linkbase Document.
101(PRE)	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (included in the Exhibit 101 Inline XBRL Document Set).
*	Management contract or compensatory plan or arrangement.

**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.

CREDIT ACCEPTANCE CORPORATION  
(Registrant)

By:	<u>/s/ Jay D. Martin</u> Jay D. Martin Senior Vice President - Finance & Accounting (Chief Accounting Officer)
Date:	November 1, 2021

**CERTIFICATIONS**

I, Kenneth S. Booth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Credit Acceptance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2021

/s/ Kenneth S. Booth

Kenneth S. Booth  
Chief Executive Officer  
(Principal Executive Officer and Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Credit Acceptance Corporation (the "Company") for the quarterly period ended September 30, 2021 (the "Report"), I, Kenneth S. Booth, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- and
- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
  - (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2021

/s/ Kenneth S. Booth  
\_\_\_\_\_  
Kenneth S. Booth  
Chief Executive Officer  
(Principal Executive Officer and Principal Financial Officer)