

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 March 31, 2020

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

48034-8339

(Address of principal executive offices)

(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:

| <u>Title of each class</u> | <u>Trading symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|--------------------------------|--------------------------|--|
| Common Stock, \$0.01 par value | CACC | The Nasdaq Stock Market |

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, \$0.01 par value, outstanding on May 20, 2020 was 17,649,478.

EXPLANATORY NOTE

Credit Acceptance Corporation (the “Company”) is relying on the order issued by the U.S. Securities and Exchange Commission (the “SEC”) on March 25, 2020 in SEC Release No. 34-88465 pursuant to the SEC’s authority under Section 36 of the Securities Exchange Act of 1934 (the “Exchange Act”) granting exemptions from certain provisions of the Exchange Act and the rules thereunder related to the reporting requirements for certain public companies, subject to certain conditions (such order, the “Order”), with respect to the filing of this Quarterly Report on Form 10-Q. The Company’s operations and business have experienced disruptions due to the unprecedented conditions surrounding COVID-19 in the United States, resulting in the Company’s having to modify its business practices. Since early March, the Company has been following the recommendations of state and local health authorities to minimize the exposure risk for the Company’s team members, including restricting access to the Company’s physical offices. The Company’s management has had to devote significant time and attention to assessing the potential impact of COVID-19 and related events on the Company’s operations and financial position and developing operational and financial plans to address those matters, which diverted management resources from completing tasks necessary to file this Quarterly Report on Form 10-Q by its original due date.

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PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CREDIT ACCEPTANCE CORPORATION CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share data)

| | As of | |
|--|----------------|-------------------|
| | March 31, 2020 | December 31, 2019 |
| ASSETS: | | |
| Cash and cash equivalents | \$ 25.7 | \$ 187.4 |
| Restricted cash and cash equivalents | 408.1 | 330.3 |
| Restricted securities available for sale | 63.2 | 59.3 |
| | | |
| Loans receivable | 9,859.0 | 7,221.2 |
| Allowance for credit losses | (3,240.5) | (536.0) |
| Loans receivable, net | 6,618.5 | 6,685.2 |
| | | |
| Property and equipment, net | 62.3 | 59.7 |
| Income taxes receivable | 59.6 | 66.2 |
| Other assets | 22.2 | 35.1 |
| Total Assets | \$ 7,259.6 | \$ 7,423.2 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 170.6 | \$ 206.4 |
| Revolving secured line of credit | 79.9 | — |
| Secured financing | 3,957.6 | 3,339.7 |
| Senior notes | 789.2 | 1,187.8 |
| Mortgage note | 11.1 | 11.3 |
| Deferred income taxes, net | 284.9 | 322.5 |
| Income taxes payable | 0.2 | 0.2 |
| Total Liabilities | 5,293.5 | 5,067.9 |
| Commitments and Contingencies - See Note 15 | | |
| Shareholders' Equity: | | |
| Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued | — | — |
| Common stock, \$0.01 par value, 80,000,000 shares authorized, 17,649,478 and 18,352,779 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively | 0.2 | 0.2 |
| Paid-in capital | 157.5 | 157.7 |
| Retained earnings | 1,807.7 | 2,196.6 |
| Accumulated other comprehensive income | 0.7 | 0.8 |
| Total Shareholders' Equity | 1,966.1 | 2,355.3 |
| Total Liabilities and Shareholders' Equity | \$ 7,259.6 | \$ 7,423.2 |

See accompanying notes to consolidated financial statements.

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(Dollars in millions, except per share data)

| | For the Three Months Ended March 31, | |
|---|---|------------|
| | 2020 | 2019 |
| Revenue: | | |
| Finance charges | \$ 361.9 | \$ 321.9 |
| Premiums earned | 12.9 | 12.2 |
| Other income | 14.3 | 19.7 |
| Total revenue | 389.1 | 353.8 |
| Costs and expenses: | | |
| Salaries and wages | 45.0 | 48.7 |
| General and administrative | 15.0 | 13.9 |
| Sales and marketing | 19.1 | 18.8 |
| Provision for credit losses | 354.7 | 14.5 |
| Interest | 51.9 | 45.0 |
| Provision for claims | 8.8 | 6.6 |
| Loss on extinguishment of debt | 7.4 | — |
| Total costs and expenses | 501.9 | 147.5 |
| Income (loss) before provision (benefit) for income taxes | (112.8) | 206.3 |
| Provision (benefit) for income taxes | (29.0) | 41.9 |
| Net income (loss) | \$ (83.8) | \$ 164.4 |
| Net income (loss) per share: | | |
| Basic | \$ (4.61) | \$ 8.67 |
| Diluted | \$ (4.61) | \$ 8.65 |
| Weighted average shares outstanding: | | |
| Basic | 18,185,465 | 18,955,191 |
| Diluted | 18,185,465 | 19,004,498 |

See accompanying notes to consolidated financial statements.

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

| (In millions) | For the Three Months Ended March 31, | |
|--|---|-----------------|
| | 2020 | 2019 |
| Net income (loss) | \$ (83.8) | \$ 164.4 |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized gain (loss) on securities, net of tax | (0.1) | 0.6 |
| Other comprehensive income (loss) | (0.1) | 0.6 |
| Comprehensive income (loss) | <u>\$ (83.9)</u> | <u>\$ 165.0</u> |

See accompanying notes to consolidated financial statements.

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

(Dollars in millions)

| | For the Three Months Ended March 31, 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 (loss) | — | — | — | (83.8) | — | (83.8) |
| Other comprehensive gain (loss) | — | — | — | — | (0.1) | (0.1) |
| Stock-based compensation | — | — | 1.8 | — | — | 1.8 |
| Restricted stock awards, net of forfeitures | (52) | — | — | — | — | — |
| 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 | 17,649,478 | \$ 0.2 | \$ 157.5 | \$ 1,807.7 | \$ 0.7 | \$ 1,966.1 |

(Dollars in millions)

| | For the Three Months Ended March 31, 2019 | | | | | |
|--|---|--------|-----------------|-------------------|---|----------------------------|
| | Common Stock | | Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
| | Number | Amount | | | | |
| Balance, beginning of period | 18,972,558 | \$ 0.2 | \$ 154.9 | \$ 1,836.1 | \$ (0.3) | \$ 1,990.9 |
| Net income (loss) | — | — | — | 164.4 | — | 164.4 |
| Other comprehensive gain (loss) | — | — | — | — | 0.6 | 0.6 |
| Stock-based compensation | — | — | 2.2 | — | — | 2.2 |
| Restricted stock awards, net of forfeitures | 5,282 | — | — | — | — | — |
| Repurchase of common stock | (268,611) | — | (4.9) | (104.3) | — | (109.2) |
| Restricted stock units converted to common stock | 87,842 | — | — | — | — | — |
| Balance, end of period | 18,797,071 | \$ 0.2 | \$ 152.2 | \$ 1,896.2 | \$ 0.3 | \$ 2,048.9 |

See accompanying notes to consolidated financial statements.

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In millions)

| | For the Three Months Ended March 31, | |
|---|--------------------------------------|-----------|
| | 2020 | 2019 |
| Cash Flows From Operating Activities: | | |
| Net income (loss) | \$ (83.8) | \$ 164.4 |
| Adjustments to reconcile cash provided by operating activities: | | |
| Provision for credit losses | 354.7 | 14.5 |
| Depreciation | 1.8 | 1.5 |
| Amortization | 3.7 | 3.6 |
| Provision (benefit) for deferred income taxes | (37.5) | 19.5 |
| Stock-based compensation | 1.8 | 2.2 |
| Loss on extinguishment of debt | 7.4 | — |
| Other | (0.2) | (0.1) |
| Change in operating assets and liabilities: | | |
| Decrease in accounts payable and accrued liabilities | (35.5) | (2.6) |
| Decrease in income taxes receivable | 6.6 | 0.4 |
| Increase in income taxes payable | — | 18.9 |
| Decrease in other assets | 12.3 | 7.4 |
| Net cash provided by operating activities | 231.3 | 229.7 |
| Cash Flows From Investing Activities: | | |
| Purchases of restricted securities available for sale | (16.0) | (15.4) |
| Proceeds from sale of restricted securities available for sale | 8.1 | 9.4 |
| Maturities of restricted securities available for sale | 4.0 | 3.4 |
| Principal collected on Loans receivable | 815.3 | 757.4 |
| Advances to Dealers | (638.1) | (719.0) |
| Purchases of Consumer Loans | (417.2) | (386.4) |
| Accelerated payments of Dealer Holdback | (11.4) | (12.3) |
| Payments of Dealer Holdback | (36.6) | (34.6) |
| Purchases of property and equipment | (4.4) | (4.7) |
| Net cash used in investing activities | (296.3) | (402.2) |
| Cash Flows From Financing Activities: | | |
| Borrowings under revolving secured line of credit | 1,121.8 | 1,066.9 |
| Repayments under revolving secured line of credit | (1,041.9) | (1,238.8) |
| Proceeds from secured financing | 1,115.9 | 814.0 |
| Repayments of secured financing | (497.1) | (625.9) |
| Proceeds from issuance of senior notes | — | 400.0 |
| Repayment of senior notes | (401.8) | — |
| Payments of debt issuance costs and debt extinguishment costs | (8.5) | (8.9) |
| Repurchase of common stock | (307.1) | (109.2) |
| Other | (0.2) | 4.3 |
| Net cash provided (used) by financing activities | (18.9) | 302.4 |
| Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents | (83.9) | 129.9 |
| Cash and cash equivalents and restricted cash and cash equivalents beginning of period | 517.7 | 329.3 |
| Cash and cash equivalents and restricted cash and cash equivalents end of period | \$ 433.8 | \$ 459.2 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for interest | \$ 58.2 | \$ 48.8 |
| Cash paid during the period for income taxes | \$ 0.8 | \$ 1.8 |

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, 2019 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, 2019 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 March 31, 2020 for items that could potentially be recognized or disclosed in these financial statements. We did not identify any items which would require disclosure in or adjustment to the consolidated financial statements.

Reclassification

Certain amounts for prior periods have been reclassified to conform to the current presentation.

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 March 31, | |
|---|--------------------------------------|-------|
| | 2020 | 2019 |
| Percentage of total unit volume with either FICO® scores below 650 or no FICO® scores | 96.5% | 96.6% |

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 five quarters:

| Three Months Ended | Unit Volume | | Dollar Volume (1) | |
|--------------------|--------------|-----------------|-------------------|-----------------|
| | Dealer Loans | Purchased Loans | Dealer Loans | Purchased Loans |
| March 31, 2019 | 67.4% | 32.6% | 65.0% | 35.0% |
| June 30, 2019 | 66.7% | 33.3% | 63.7% | 36.3% |
| September 30, 2019 | 67.2% | 32.8% | 64.1% | 35.9% |
| December 31, 2019 | 67.4% | 32.6% | 64.0% | 36.0% |
| March 31, 2020 | 64.9% | 35.1% | 60.5% | 39.5% |

- (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. Prior to August 5, 2019, we generally required Dealers to group advances into pools of at least 100 Consumer Loans. Beginning August 5, 2019, Dealers may also elect to close a pool containing at least 50 Consumer Loans and assign subsequent advances 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.

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.

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

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

Beginning August 5, 2019, Dealers may enroll in our Portfolio Program without incurring an enrollment fee. Prior to August 5, 2019, Dealers enrolled in our Portfolio Program by (1) paying an up-front, one-time fee of \$9,850, or (2) agreeing to allow us to retain 50% of their accelerated Dealer Holdback payment(s) on the first 100 Consumer Loan assignments.

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. Historically, this seasonality did not have a material impact on our interim results. However, upon adoption of the current expected credit loss ("CECL") impairment model on January 1, 2020, this seasonality now 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 March 31, 2020 and December 31, 2019, we had \$25.1 million and \$186.1 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 March 31, 2020 and December 31, 2019, we had \$404.3 million and \$326.7 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 | | | |
|--|-----------------|-------------------|-----------------|-------------------|
| | March 31, 2020 | December 31, 2019 | March 31, 2019 | December 31, 2018 |
| Cash and cash equivalents | \$ 25.7 | \$ 187.4 | \$ 41.3 | \$ 25.7 |
| Restricted cash and cash equivalents | 408.1 | 330.3 | 417.9 | 303.6 |
| Total cash and cash equivalents and restricted cash and cash equivalents | <u>\$ 433.8</u> | <u>\$ 517.7</u> | <u>\$ 459.2</u> | <u>\$ 329.3</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 (loss) 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)

2020 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 our 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 subsequent to December 31, 2019 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)

2019 Recognition and Measurement Policies. Prior to the adoption of CECL on January 1, 2020, we accounted for our Loans as loans acquired with significant credit deterioration.

At the time of assignment, we:

- calculated an effective interest rate based on expected future net cash flows; and
- recorded 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.

For each reporting period subsequent to assignment, we:

- recalculated an effective interest rate based on expected future net cash flows;
- recognized finance charge revenue using the greater of the effective interest rate that was calculated for the reporting period or the effective interest rate that was calculated at the time of assignment, both of which were based on expected future net cash flows; and
- recorded or adjusted an allowance for credit losses, if necessary, to reduce the net carrying amount of each Loan to the present value of expected future net cash flows discounted at the effective interest rate that was calculated at the time of assignment. The initial allowance for credit losses was recognized as provision for credit losses expense and the adjustment to the allowance for credit losses was recognized as either provision for credit losses expense or a reversal of provision for credit losses expense.

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 evaluating impairment. Amounts paid to Dealers for Consumer Loans assigned under the Purchase Program are recorded as Purchased Loans and, for purposes of recognizing revenue and evaluating impairment, are:

- not aggregated, if assigned subsequent to December 31, 2019; 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 evaluating impairment.

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)
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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. In addition, on January 1, 2020, we adopted a partial write-off policy in connection with our adoption of CECL. 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 or higher debt-to-income ratios than are permitted by traditional lenders. 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 than 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.

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 3 and Note 6. For the three months ended March 31, 2020 and 2019, 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)
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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 subsequent to December 31, 2019, the effective interest rate is based on contractual future net cash flows. For Consumer Loan assigned prior to January 1, 2020, the effective interest rate was based on expected future net cash flows.

In connection with our 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, for financial statement periods beginning after December 31, 2019, 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. For financial statement periods beginning prior to January 1, 2020, the entire amount of finance charges recognized on each Loan was allocated to the Loan receivable.

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 Updates Adopted During the Current Year

Accounting for Costs of Implementing Cloud Computing. In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-15, which reduces complexity in the accounting for costs of implementing a cloud computing service arrangement. This standard aligns the accounting for implementation costs of hosting arrangements, regardless of whether they convey a license to the hosted software. Under the current guidance, the classification of an arrangement as either a software license or a service contract determines whether or not we capitalize implementation costs. If an arrangement meets the definition of a software license, implementation costs are capitalized. If an arrangement meets the definition of a service contract, implementation costs are expensed as incurred. Under the new guidance, implementation costs will be capitalized regardless of their classification. The adoption of ASU 2018-15 on January 1, 2020 changed how we account for our cloud computing arrangements. However, its adoption did not have a material impact on our consolidated financial statements and related disclosures.

Measurement of Credit Losses on Financial Instruments. In June 2016, the FASB issued ASU 2016-13, which included an impairment model known as the current expected credit loss model, or CECL, that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes an allowance for credit losses based on the difference between contractual future net cash flows and its estimate of expected future net cash flows. The new guidance also changed the scope of the special accounting for loans acquired with significant credit deterioration. Our adoption of ASU 2016-13 on January 1, 2020 had a material impact on our consolidated financial statements and related disclosures, as it changed our accounting policies for Loans.

Upon adoption of CECL on January 1, 2020, we increased both our Loans receivable and the related allowance for credit losses balances by \$2,463.6 million. This gross-up did not impact the net carrying amount of Loans (Loans receivable less allowance for credit losses) or net income. This gross-up also reflected the impact of our adoption of a partial write-off policy on January 1, 2020 in connection with our adoption of CECL.

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. While the total amount of net Loan income we will recognize over the life of the Loan is not impacted by CECL, the timing of when we will recognize this income changes significantly from our prior accounting method, as CECL requires us to recognize a significant provision for credit losses expense at the time of assignment for amounts we never expected to realize and finance charge revenue in subsequent periods that significantly exceeds our expected yields. Given the significant change in timing of net Loan income recognition, we believe net income for the year ending December 31, 2020 will be significantly lower under CECL than what would be reported under our prior accounting method, with the greatest impact occurring in the quarter of adoption. For the three months ended March 31, 2020, we recognized \$157.9 million provision for credit losses on new Consumer Loan assignments related to our adoption of CECL on January 1, 2020, which reduced consolidated net income by \$121.6 million, or \$6.69 per diluted share. The ultimate financial statement impact of CECL will depend on Consumer Loan assignment volume and the percentage of Consumer Loans assigned to us as Purchased Loans, the size and composition of our Loan portfolio, the Loan portfolio’s credit quality and economic conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
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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 March 31, 2020 | | As of December 31, 2019 | |
|--|----------------------|----------------------|-------------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets | | | | |
| Cash and cash equivalents | \$ 25.7 | \$ 25.7 | \$ 187.4 | \$ 187.4 |
| Restricted cash and cash equivalents | 408.1 | 408.1 | 330.3 | 330.3 |
| Restricted securities available for sale | 63.2 | 63.2 | 59.3 | 59.3 |
| Loans receivable, net | 6,618.5 | 7,044.3 | 6,685.2 | 6,777.2 |
| Liabilities | | | | |
| Revolving secured line of credit | \$ 79.9 | \$ 79.9 | \$ — | \$ — |
| Secured financing | 3,957.6 | 3,915.7 | 3,339.7 | 3,397.5 |
| Senior notes | 789.2 | 738.6 | 1,187.8 | 1,257.6 |
| Mortgage note | 11.1 | 11.1 | 11.3 | 11.3 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
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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 March 31, 2020 | | | |
|--|----------------------|---------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets | | | | |
| Cash and cash equivalents (1) | \$ 25.7 | \$ — | \$ — | \$ 25.7 |
| Restricted cash and cash equivalents (1) | 408.1 | — | — | 408.1 |
| Restricted securities available for sale (2) | 48.9 | 14.3 | — | 63.2 |
| Loans receivable, net (1) | — | — | 7,044.3 | 7,044.3 |
| Liabilities | | | | |
| Revolving secured line of credit (1) | \$ — | \$ 79.9 | \$ — | \$ 79.9 |
| Secured financing (1) | — | 3,915.7 | — | 3,915.7 |
| Senior notes (1) | 738.6 | — | — | 738.6 |
| Mortgage note (1) | — | 11.1 | — | 11.1 |

| (In millions) | As of December 31, 2019 | | | |
|--|-------------------------|---------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets | | | | |
| Cash and cash equivalents (1) | \$ 187.4 | \$ — | \$ — | \$ 187.4 |
| Restricted cash and cash equivalents (1) | 330.3 | — | — | 330.3 |
| Restricted securities available for sale (2) | 47.5 | 11.8 | — | 59.3 |
| Loans receivable, net (1) | — | — | 6,777.2 | 6,777.2 |
| Liabilities | | | | |
| Revolving secured line of credit (1) | \$ — | \$ — | \$ — | \$ — |
| Secured financing (1) | — | 3,397.5 | — | 3,397.5 |
| Senior notes (1) | 1,257.6 | — | — | 1,257.6 |
| Mortgage note (1) | — | 11.3 | — | 11.3 |

- (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 March 31, 2020 | | | |
|--|----------------------|------------------------|-------------------------|----------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Corporate bonds | \$ 25.3 | \$ 0.3 | \$ (0.3) | \$ 25.3 |
| U.S. Government and agency securities | 22.8 | 0.8 | — | 23.6 |
| Asset-backed securities | 10.8 | 0.1 | (0.1) | 10.8 |
| Commercial paper | 3.0 | — | — | 3.0 |
| Mortgage-backed securities | 0.5 | — | — | 0.5 |
| Total restricted securities available for sale | <u>\$ 62.4</u> | <u>\$ 1.2</u> | <u>\$ (0.4)</u> | <u>\$ 63.2</u> |

| (In millions) | As of December 31, 2019 | | | |
|--|-------------------------|------------------------|-------------------------|----------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Corporate bonds | \$ 25.3 | \$ 0.5 | \$ — | \$ 25.8 |
| U.S. Government and agency securities | 21.3 | 0.4 | — | 21.7 |
| Asset-backed securities | 11.2 | 0.1 | — | 11.3 |
| Mortgage-backed securities | 0.5 | — | — | 0.5 |
| Total restricted securities available for sale | <u>\$ 58.3</u> | <u>\$ 1.0</u> | <u>\$ —</u> | <u>\$ 59.3</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 March 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 | \$ 12.2 | \$ (0.3) | \$ — | \$ — | \$ 12.2 | \$ (0.3) |
| U.S. Government and agency securities | — | — | — | — | — | — |
| Asset-backed securities | 6.3 | (0.1) | — | — | 6.3 | (0.1) |
| Commercial paper | — | — | — | — | — | — |
| Mortgage-backed securities | 0.3 | — | — | — | 0.3 | — |
| Total restricted securities available for sale | <u>\$ 18.8</u> | <u>\$ (0.4)</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 18.8</u> | <u>\$ (0.4)</u> |

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

| | Securities Available for Sale with Gross Unrealized Losses as of December 31, 2019 | | | | | |
|--|--|-------------------------------|-------------------------|-------------------------------|----------------------------------|--|
| | 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 | \$ 1.4 | \$ — | \$ — | \$ — | \$ 1.4 | \$ — |
| U.S. Government and agency securities | 1.9 | — | — | — | 1.9 | — |
| Asset-backed securities | 1.9 | — | — | — | 1.9 | — |
| Mortgage-backed securities | — | — | — | — | — | — |
| Total restricted securities available for sale | \$ 5.2 | \$ — | \$ — | \$ — | \$ 5.2 | \$ — |

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 | | | |
|--|----------------|----------------------|-------------------|----------------------|
| | March 31, 2020 | | December 31, 2019 | |
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Within one year | \$ 7.0 | \$ 7.0 | \$ 5.7 | \$ 5.7 |
| Over one year to five years | 52.4 | 53.3 | 50.8 | 51.8 |
| Over five years to ten years | 2.7 | 2.6 | 1.5 | 1.5 |
| Over ten years | 0.3 | 0.3 | 0.3 | 0.3 |
| Total restricted securities available for sale | \$ 62.4 | \$ 63.2 | \$ 58.3 | \$ 59.3 |

6. LOANS RECEIVABLE

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

| | As of March 31, 2020 | | |
|-----------------------------|----------------------|-----------------|------------|
| | Dealer Loans | Purchased Loans | Total |
| Loans receivable | \$ 5,677.7 | \$ 4,181.3 | \$ 9,859.0 |
| Allowance for credit losses | (1,532.3) | (1,708.2) | (3,240.5) |
| Loans receivable, net | \$ 4,145.4 | \$ 2,473.1 | \$ 6,618.5 |

| | As of December 31, 2019 | | |
|-----------------------------|-------------------------|-----------------|------------|
| | Dealer Loans | Purchased Loans | Total |
| Loans receivable | \$ 4,623.3 | \$ 2,597.9 | \$ 7,221.2 |
| Allowance for credit losses | (428.0) | (108.0) | (536.0) |
| Loans receivable, net | \$ 4,195.3 | \$ 2,489.9 | \$ 6,685.2 |

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 March 31, 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 (1) | 940.2 | 1,523.4 | 2,463.6 | (940.2) | (1,523.4) | (2,463.6) | — | — | — |
| Finance charges | 311.8 | 222.0 | 533.8 | (83.7) | (88.2) | (171.9) | 228.1 | 133.8 | 361.9 |
| Provision for credit losses | — | — | — | (168.1) | (186.6) | (354.7) | (168.1) | (186.6) | (354.7) |
| New Consumer Loan assignments (2) | 638.1 | 417.2 | 1,055.3 | — | — | — | 638.1 | 417.2 | 1,055.3 |
| Collections (3) | (776.6) | (402.8) | (1,179.4) | — | — | — | (776.6) | (402.8) | (1,179.4) |
| Accelerated Dealer Holdback payments | 11.4 | — | 11.4 | — | — | — | 11.4 | — | 11.4 |
| Dealer Holdback payments | 36.6 | — | 36.6 | — | — | — | 36.6 | — | 36.6 |
| Transfers (4) | (31.3) | 31.3 | — | 9.7 | (9.7) | — | (21.6) | 21.6 | — |
| Write-offs | (78.3) | (208.0) | (286.3) | 78.3 | 208.0 | 286.3 | — | — | — |
| Recoveries (5) | 0.3 | 0.3 | 0.6 | (0.3) | (0.3) | (0.6) | — | — | — |
| Deferral of Loan origination costs | 2.2 | — | 2.2 | — | — | — | 2.2 | — | 2.2 |
| Balance, end of period | \$ 5,677.7 | \$ 4,181.3 | \$ 9,859.0 | \$ (1,532.3) | \$ (1,708.2) | \$ (3,240.5) | \$ 4,145.4 | \$ 2,473.1 | \$ 6,618.5 |

| (In millions) | For the Three Months Ended March 31, 2019 | | | | | | | | |
|--------------------------------------|---|-----------------|------------|-----------------------------|-----------------|------------|-----------------------|-----------------|------------|
| | 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 | \$ 4,141.0 | \$ 2,084.2 | \$ 6,225.2 | \$ (378.1) | \$ (83.8) | \$ (461.9) | \$ 3,762.9 | \$ 2,000.4 | \$ 5,763.3 |
| Finance charges | 213.5 | 108.4 | 321.9 | — | — | — | 213.5 | 108.4 | 321.9 |
| Provision for credit losses | — | — | — | (11.6) | (2.9) | (14.5) | (11.6) | (2.9) | (14.5) |
| New Consumer Loan assignments (2) | 719.0 | 386.4 | 1,105.4 | — | — | — | 719.0 | 386.4 | 1,105.4 |
| Collections (3) | (747.0) | (334.5) | (1,081.5) | — | — | — | (747.0) | (334.5) | (1,081.5) |
| Accelerated Dealer Holdback payments | 12.3 | — | 12.3 | — | — | — | 12.3 | — | 12.3 |
| Dealer Holdback payments | 34.6 | — | 34.6 | — | — | — | 34.6 | — | 34.6 |
| Transfers (4) | (25.7) | 25.7 | — | 4.2 | (4.2) | — | (21.5) | 21.5 | — |
| Write-offs | (2.8) | (0.1) | (2.9) | 2.8 | 0.1 | 2.9 | — | — | — |
| Recoveries (5) | 0.4 | 0.3 | 0.7 | (0.4) | (0.3) | (0.7) | — | — | — |
| Deferral of Loan origination costs | 2.2 | — | 2.2 | — | — | — | 2.2 | — | 2.2 |
| Balance, end of period | \$ 4,347.5 | \$ 2,270.4 | \$ 6,617.9 | \$ (383.1) | \$ (91.1) | \$ (474.2) | \$ 3,964.4 | \$ 2,179.3 | \$ 6,143.7 |

- (1) 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.
- (2) 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.
- (3) Represents repayments that we collected on Consumer Loans assigned under our programs.
- (4) 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.
- (5) The Dealer Loans amount represents net cash flows received (collection 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.

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

Under CECL, which we adopted on January 1, 2020, we are required to 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. Under both CECL and our prior accounting method, we also recognize provision for credit losses for 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 March 31, 2020 | | |
|-------------------------------|-----------------------------|---|-----------------|----------|
| | | Dealer Loans | Purchased Loans | Total |
| New Consumer Loan assignments | | \$ 64.8 | \$ 93.1 | \$ 157.9 |
| Forecast changes | | 103.3 | 93.5 | 196.8 |
| Total | | \$ 168.1 | \$ 186.6 | \$ 354.7 |

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. While the total amount of net Loan income we will recognize over the life of the Loan is not impacted by the adoption of CECL on January 1, 2020, the timing of when we will recognize this income changes significantly from our prior accounting method, as CECL requires us to recognize a significant provision for credit losses expense at the time of assignment for amounts we never expected to realize and finance charge revenue in subsequent periods that significantly exceeds 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 March 31, 2020 | | |
|---|-------------------------------|---|-----------------|------------|
| | | Dealer Loans | Purchased Loans | Total |
| Contractual net cash flows at the time of assignment (1) | | \$ 1,013.5 | \$ 911.6 | \$ 1,925.1 |
| Expected net cash flows at the time of assignment (2) | | 897.6 | 576.8 | 1,474.4 |
| Loans receivable at the time of assignment (3) | | 638.1 | 417.2 | 1,055.3 |
| Provision for credit losses expense at the time of assignment | | \$ (64.8) | \$ (93.1) | \$ (157.9) |
| Expected future finance charges at the time of assignment (4) | | 324.3 | 252.7 | 577.0 |
| Expected net Loan income at the time of assignment (5) | | \$ 259.5 | \$ 159.6 | \$ 419.1 |

| (In millions) | New Consumer Loan Assignments | For the Three Months Ended March 31, 2019 | | |
|---|-------------------------------|---|-----------------|------------|
| | | Dealer Loans | Purchased Loans | Total |
| Contractual net cash flows at the time of assignment (1) | | \$ 1,131.5 | \$ 850.3 | \$ 1,981.8 |
| Expected net cash flows at the time of assignment (2) | | 1,010.3 | 546.4 | 1,556.7 |
| Loans receivable at the time of assignment (3) | | 719.0 | 386.4 | 1,105.4 |
| Provision for credit losses expense at the time of assignment | | \$ — | \$ — | \$ — |
| Expected future finance charges at the time of assignment (4) | | 291.3 | 160.0 | 451.3 |
| Expected net Loan income at the time of assignment (5) | | \$ 291.3 | \$ 160.0 | \$ 451.3 |

- (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. The Loan amounts also represent the fair value at the time of assignment.
- (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 March 31, 2020 | | |
|-----------------------------------|--------------------------------|---|-----------------|------------|
| | | Dealer Loans | Purchased Loans | Total |
| Balance, beginning of period | | \$ 5,577.0 | \$ 3,428.2 | \$ 9,005.2 |
| New Consumer Loan assignments (1) | | 897.6 | 576.8 | 1,474.4 |
| Realized net cash flows (2) | | (728.6) | (402.8) | (1,131.4) |
| Forecast changes | | (75.9) | (130.6) | (206.5) |
| Transfers (3) | | (31.3) | 33.5 | 2.2 |
| Balance, end of period | | \$ 5,638.8 | \$ 3,505.1 | \$ 9,143.9 |

| (In millions) | Expected Future Net Cash Flows | For the Three Months Ended March 31, 2019 | | |
|-----------------------------------|--------------------------------|---|-----------------|------------|
| | | Dealer Loans | Purchased Loans | Total |
| Balance, beginning of period | | \$ 5,045.9 | \$ 2,782.9 | \$ 7,828.8 |
| New Consumer Loan assignments (1) | | 1,010.3 | 546.4 | 1,556.7 |
| Realized net cash flows (2) | | (700.1) | (334.5) | (1,034.6) |
| Forecast changes | | 0.5 | 16.2 | 16.7 |
| Transfers (3) | | (31.0) | 33.3 | 2.3 |
| Balance, end of period | | \$ 5,325.6 | \$ 3,044.3 | \$ 8,369.9 |

- (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.

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 March 31, 2020 with the forecasts as of December 31, 2019 and at the time of assignment, segmented by year of assignment:

| Consumer Loan Assignment Year | Total Loans as of March 31, 2020 | | | | |
|-------------------------------|--|-------------------|------------------|--------------------------------|------------------|
| | Forecasted Collection Percentage as of (1) | | | Current Forecast Variance from | |
| | March 31, 2020 | December 31, 2019 | Initial Forecast | December 31, 2019 | Initial Forecast |
| 2011 | 74.8% | 74.8% | 72.5% | 0.0 % | 2.3 % |
| 2012 | 73.8% | 73.9% | 71.4% | -0.1 % | 2.4 % |
| 2013 | 73.4% | 73.5% | 72.0% | -0.1 % | 1.4 % |
| 2014 | 71.7% | 71.7% | 71.8% | 0.0 % | -0.1 % |
| 2015 | 65.3% | 65.4% | 67.7% | -0.1 % | -2.4 % |
| 2016 | 63.6% | 64.1% | 65.4% | -0.5 % | -1.8 % |
| 2017 | 63.8% | 64.8% | 64.0% | -1.0 % | -0.2 % |
| 2018 | 63.6% | 65.1% | 63.6% | -1.5 % | 0.0 % |
| 2019 | 63.0% | 64.6% | 64.0% | -1.6 % | -1.0 % |
| 2020 | 61.3% | — | 62.5% | — | -1.2 % |

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

| Dealer Loans as of March 31, 2020 | | | | | |
|-----------------------------------|--|-------------------|------------------|--------------------------------|------------------|
| Consumer Loan Assignment Year | Forecasted Collection Percentage as of (1) | | | Current Forecast Variance from | |
| | March 31, 2020 | December 31, 2019 | Initial Forecast | December 31, 2019 | Initial Forecast |
| 2011 | 74.6% | 74.6% | 72.4% | 0.0 % | 2.2 % |
| 2012 | 73.6% | 73.7% | 71.3% | -0.1 % | 2.3 % |
| 2013 | 73.4% | 73.4% | 72.1% | 0.0 % | 1.3 % |
| 2014 | 71.6% | 71.6% | 71.9% | 0.0 % | -0.3 % |
| 2015 | 64.6% | 64.8% | 67.5% | -0.2 % | -2.9 % |
| 2016 | 62.8% | 63.2% | 65.1% | -0.4 % | -2.3 % |
| 2017 | 63.2% | 64.2% | 63.8% | -1.0 % | -0.6 % |
| 2018 | 63.1% | 64.7% | 63.6% | -1.6 % | -0.5 % |
| 2019 | 62.6% | 64.4% | 63.9% | -1.8 % | -1.3 % |
| 2020 | 61.2% | — | 62.4% | — | -1.2 % |

| Purchased Loans as of March 31, 2020 | | | | | |
|--------------------------------------|--|-------------------|------------------|--------------------------------|------------------|
| Consumer Loan Assignment Year | Forecasted Collection Percentage as of (1) | | | Current Forecast Variance from | |
| | March 31, 2020 | December 31, 2019 | Initial Forecast | December 31, 2019 | Initial Forecast |
| 2011 | 76.3% | 76.4% | 72.7% | -0.1 % | 3.6 % |
| 2012 | 75.9% | 75.9% | 71.4% | 0.0 % | 4.5 % |
| 2013 | 74.3% | 74.4% | 71.6% | -0.1 % | 2.7 % |
| 2014 | 72.5% | 72.5% | 70.9% | 0.0 % | 1.6 % |
| 2015 | 69.0% | 69.3% | 68.5% | -0.3 % | 0.5 % |
| 2016 | 66.0% | 66.6% | 66.5% | -0.6 % | -0.5 % |
| 2017 | 65.4% | 66.3% | 64.6% | -0.9 % | 0.8 % |
| 2018 | 64.6% | 66.0% | 63.5% | -1.4 % | 1.1 % |
| 2019 | 63.6% | 65.1% | 64.2% | -1.5 % | -0.6 % |
| 2020 | 61.6% | — | 62.8% | — | -1.2 % |

- (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.

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

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 segmented by year of assignment:

(In millions)

| Total Loans as of March 31, 2020 (1) (2) | | | | | |
|--|-----------------------------|---------------------|-----------------------|------------------------------|-------------------|
| Consumer Loan Assignment Year | 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 | \$ 27.5 | \$ 11.2 | \$ 47.6 | \$ 131.0 | \$ 217.3 |
| 2016 | 183.3 | 74.8 | 198.2 | 18.1 | 474.4 |
| 2017 | 568.2 | 226.2 | 334.6 | 2.0 | 1,131.0 |
| 2018 | 1,458.4 | 583.6 | 528.9 | 0.1 | 2,571.0 |
| 2019 | 2,944.8 | 962.7 | 328.2 | — | 4,235.7 |
| 2020 | 1,154.2 | 75.4 | — | — | 1,229.6 |
| | <u>\$ 6,336.4</u> | <u>\$ 1,933.9</u> | <u>\$ 1,437.5</u> | <u>\$ 151.2</u> | <u>\$ 9,859.0</u> |

(In millions)

| Dealer Loans as of March 31, 2020 (1) | | | | | |
|---------------------------------------|-----------------------------|---------------------|-----------------------|------------------------------|-------------------|
| Consumer Loan Assignment Year | 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 | \$ 15.1 | \$ 6.0 | \$ 28.9 | \$ 103.5 | \$ 153.5 |
| 2016 | 95.3 | 37.6 | 107.5 | 13.5 | 253.9 |
| 2017 | 326.0 | 123.5 | 179.4 | 1.4 | 630.3 |
| 2018 | 844.7 | 328.5 | 286.1 | 0.1 | 1,459.4 |
| 2019 | 1,661.2 | 529.3 | 175.5 | — | 2,366.0 |
| 2020 | 765.9 | 48.7 | — | — | 814.6 |
| | <u>\$ 3,708.2</u> | <u>\$ 1,073.6</u> | <u>\$ 777.4</u> | <u>\$ 118.5</u> | <u>\$ 5,677.7</u> |

(In millions)

| Purchased Loans as of March 31, 2020 (2) | | | | | |
|--|-----------------------------|---------------------|-----------------------|------------------------------|-------------------|
| Consumer Loan Assignment Year | 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 | \$ 12.4 | \$ 5.2 | \$ 18.7 | \$ 27.5 | \$ 63.8 |
| 2016 | 88.0 | 37.2 | 90.7 | 4.6 | 220.5 |
| 2017 | 242.2 | 102.7 | 155.2 | 0.6 | 500.7 |
| 2018 | 613.7 | 255.1 | 242.8 | — | 1,111.6 |
| 2019 | 1,283.6 | 433.4 | 152.7 | — | 1,869.7 |
| 2020 | 388.3 | 26.7 | — | — | 415.0 |
| | <u>\$ 2,628.2</u> | <u>\$ 860.3</u> | <u>\$ 660.1</u> | <u>\$ 32.7</u> | <u>\$ 4,181.3</u> |

- (1) As Consumer Loans are aggregated by Dealer for purposes of recognizing revenue and evaluating impairment, 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 evaluating impairment, 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.

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

In March 2020, COVID-19 began to spread rapidly across the United States. In an effort to slow the spread of the virus, authorities implemented various measures, including travel bans, stay-at-home orders and shutdowns of non-essential businesses. These measures have caused a significant decline in economic activity and a dramatic increase in the number of individuals who are no longer employed. Starting in mid-March, we experienced a substantial reduction in demand for our product and a significant decline in cash flows from our Loan portfolio that lasted through mid-April, after which collections and new loan volumes improved significantly. As the virus is not yet contained, the ultimate impact of the pandemic on our business is not yet known. The impact will depend on future developments, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the disease or mitigate its impact, and the duration, timing and severity of the impact on consumer behavior and economic activity.

During the first quarter, 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 is comprised of: (1) \$44.3 million calculated by our forecasting model, which reflects lower realized collections during the quarter and (2) an additional \$162.2 million, which represents our best estimate of the future impact of the COVID-19 pandemic on future net cash flows. Under CECL, changes in forecasted net cash flows are recorded as a provision for credit losses in the current period. While the adjustment to our forecast represents our best estimate at this time, the COVID-19 pandemic has created conditions that do not allow us to forecast future cash flows from our Loan portfolio with confidence.

Forecasted collection rates in the tables above reflect a reduction in collection rates calculated by our forecasting model and an additional subjective adjustment which considers the future impact of COVID-19. The COVID-19 adjustment for total loans is detailed by year of assignment as follows:

| Consumer Loan Assignment Year | Forecasted Collection Percentage as of March 31, 2020 | | |
|-------------------------------|---|---------------------|---------------------------|
| | Prior to COVID-19 Adjustment | COVID-19 Adjustment | After COVID-19 Adjustment |
| 2011 | 74.8% | 0.0 % | 74.8% |
| 2012 | 73.9% | -0.1 % | 73.8% |
| 2013 | 73.5% | -0.1 % | 73.4% |
| 2014 | 71.8% | -0.1 % | 71.7% |
| 2015 | 65.4% | -0.1 % | 65.3% |
| 2016 | 64.0% | -0.4 % | 63.6% |
| 2017 | 64.4% | -0.6 % | 63.8% |
| 2018 | 64.5% | -0.9 % | 63.6% |
| 2019 | 64.5% | -1.5 % | 63.0% |
| 2020 | 63.2% | -1.9 % | 61.3% |

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

Additional Prior Year Loan Disclosures

The adoption of CECL on January 1, 2020 eliminated the following disclosures for 2020 that were required in prior years.

The excess of expected net cash flows over the outstanding balance of Loans receivable, net is referred to as the accretable yield and is recognized on a level-yield basis as finance charge income over the remaining lives of the Loans. A summary of changes in the accretable yield is as follows:

| | For the Three Months Ended March 31, 2019 | | |
|-----------------------------------|---|-----------------|------------|
| | Dealer Loans | Purchased Loans | Total |
| Balance, beginning of period | \$ 1,283.0 | \$ 782.5 | \$ 2,065.5 |
| New Consumer Loan assignments (1) | 291.3 | 160.0 | 451.3 |
| Accretion (2) | (215.7) | (108.4) | (324.1) |
| Provision for credit losses | 11.6 | 2.9 | 14.5 |
| Forecast changes | 0.5 | 16.2 | 16.7 |
| Transfers (3) | (9.5) | 11.8 | 2.3 |
| Balance, end of period | \$ 1,361.2 | \$ 865.0 | \$ 2,226.2 |

- (1) The Dealer Loans amount represents the net cash flows expected at the time of assignment on Consumer Loans assigned under our Portfolio Program, less the related advances paid to Dealers. The Purchased Loans amount represents the net cash flows expected at the time of assignment on Consumer Loans assigned under our Purchase Program, less the related one-time payments made to Dealers.
- (2) Represents finance charges excluding the amortization of deferred direct origination costs for Dealer Loans.
- (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, the related allowance for credit losses balance and related expected future net cash flows to Purchased Loans in the period this forfeiture occurs.

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 are aggregated into pools for purposes of recognizing revenue and evaluating impairment. As a result of this aggregation, we are not able to segment the carrying amounts of the majority of our Loan portfolio by year of assignment. We are able to segment our Loan portfolio by the performance of the Loan pools. Performance considers both the amount and timing of expected net cash flows and is measured by comparing the balance of the Loan pool to the discounted value of the expected future net cash flows of each Loan pool using the yield established at the time of assignment. The following table segments our Loan portfolio by the performance of the Loan pools:

| | As of December 31, 2019 | | | | | |
|-----------------------------|---|-----------------|------------|--|-----------------|------------|
| | Loan Pool Performance Meets or Exceeds Initial Estimates | | | Loan Pool Performance Less than Initial Estimates | | |
| | Dealer Loans | Purchased Loans | Total | Dealer Loans | Purchased Loans | Total |
| Loans receivable | \$ 1,591.3 | \$ 2,006.9 | \$ 3,598.2 | \$ 3,032.0 | \$ 591.0 | \$ 3,623.0 |
| Allowance for credit losses | — | — | — | (428.0) | (108.0) | (536.0) |
| Loans receivable, net | \$ 1,591.3 | \$ 2,006.9 | \$ 3,598.2 | \$ 2,604.0 | \$ 483.0 | \$ 3,087.0 |

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

7. REINSURANCE

A summary of reinsurance activity is as follows:

(In millions)

| | For the Three Months Ended March 31, | |
|---|---|---------|
| | 2020 | 2019 |
| Net assumed written premiums | \$ 17.3 | \$ 15.8 |
| Net premiums earned | 12.9 | 12.2 |
| Provision for claims | 8.8 | 6.6 |
| Amortization of capitalized acquisition costs | 0.4 | 0.3 |

The trust assets and related reinsurance liabilities are as follows:

(In millions)

| | | As of | |
|--------------------|--|----------------|-------------------|
| | | March 31, 2020 | December 31, 2019 |
| Trust assets | Restricted cash and cash equivalents | \$ 0.9 | \$ 0.9 |
| Trust assets | Restricted securities available for sale | 63.2 | 59.3 |
| Unearned premium | Accounts payable and accrued liabilities | 48.5 | 44.1 |
| Claims reserve (1) | Accounts payable and accrued liabilities | 2.1 | 1.8 |

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

8. OTHER INCOME

Other income consists of the following:

(In millions)

| | | For the Three Months Ended March 31, | |
|--------------------------------------|--|--------------------------------------|---------|
| | | 2020 | 2019 |
| Ancillary product profit sharing | | \$ 8.2 | \$ 10.4 |
| Remarketing fees | | 2.8 | 3.4 |
| Interest | | 1.7 | 2.3 |
| Dealer enrollment fees | | 0.9 | 1.0 |
| Dealer support products and services | | 0.5 | 0.7 |
| GPS-SID fees | | — | 1.4 |
| Other | | 0.2 | 0.5 |
| Total | | \$ 14.3 | \$ 19.7 |

Ancillary product profit sharing consists of payments received from Third Party Providers (“TPPs”) based upon the performance of vehicle service contracts and Guaranteed Asset Protection (“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.

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)

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 an accelerated Dealer Holdback payment and the amount of the first payment, if any, has been calculated. Once an accelerated Dealer Holdback payment has 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.

GPS-SID fees consist of fees we received from a TPP for providing Dealers in certain states the ability to purchase GPS Starter Interrupt Devices ("GPS-SID"). Through this program, Dealers can install GPS-SID on vehicles financed by us that can be activated if the consumer fails to make payments on their account, and can result in the prompt repossession of the vehicle. Dealers purchased GPS-SID directly from the TPP and the TPP paid us a vendor fee for each device sold. GPS-SID fee income was recognized when the units were sold. Effective during the second quarter of 2019, we no longer provide Dealers the ability to purchase GPS-SID through this program. We allowed Dealers to install previously purchased GPS-SID on vehicles financed by us until September 1, 2019.

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

| | | For the Three Months Ended March 31, 2020 | | | | | |
|--------------------------------------|----|---|------------------|----------|---------------------------|--|-----------------------|
| | | Ancillary product profit sharing | Remarketing fees | Interest | Dealer enrollment fees | Dealer support products and services | Total Other Income |
| Source of income | | | | | | | |
| Third Party Providers | \$ | 8.2 | \$ — | \$ 1.7 | \$ — | \$ — | \$ 10.1 |
| Dealers | | — | 2.8 | — | 0.9 | 0.5 | 4.2 |
| Total | \$ | 8.2 | \$ 2.8 | \$ 1.7 | \$ 0.9 | \$ 0.5 | \$ 14.3 |
| Timing of revenue recognition | | | | | | | |
| Over time | \$ | 8.2 | \$ — | \$ 1.7 | \$ 0.9 | \$ — | \$ 10.8 |
| At a point in time | | — | 2.8 | — | — | 0.5 | 3.5 |
| Total | \$ | 8.2 | \$ 2.8 | \$ 1.7 | \$ 0.9 | \$ 0.5 | \$ 14.3 |

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

9. DEBT

Debt consists of the following:

(In millions)

| | As of March 31, 2020 | | | |
|--------------------------------------|-----------------------|---------------------------------|----------------------|-------------------|
| | Principal Outstanding | Unamortized Debt Issuance Costs | Unamortized Discount | Carrying Amount |
| Revolving secured line of credit (1) | \$ 79.9 | \$ — | \$ — | \$ 79.9 |
| Secured financing (2) | 3,974.4 | (16.8) | — | 3,957.6 |
| Senior notes | 800.0 | (10.8) | — | 789.2 |
| Mortgage note | 11.1 | — | — | 11.1 |
| Total debt | <u>\$ 4,865.4</u> | <u>\$ (27.6)</u> | <u>\$ —</u> | <u>\$ 4,837.8</u> |

(In millions)

| | As of December 31, 2019 | | | |
|--------------------------------------|-------------------------|---------------------------------|----------------------|-------------------|
| | Principal Outstanding | Unamortized Debt Issuance Costs | Unamortized Discount | Carrying Amount |
| Revolving secured line of credit (1) | \$ — | \$ — | \$ — | \$ — |
| Secured financing (2) | 3,355.6 | (15.9) | — | 3,339.7 |
| Senior notes | 1,201.8 | (13.2) | (0.8) | 1,187.8 |
| Mortgage note | 11.3 | — | — | 11.3 |
| Total debt | <u>\$ 4,568.7</u> | <u>\$ (29.1)</u> | <u>\$ (0.8)</u> | <u>\$ 4,538.8</u> |

(1) Excludes deferred debt issuance costs of \$2.8 million and \$3.2 million as of March 31, 2020 and December 31, 2019, 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 March 31, 2020 is as follows:

(Dollars in millions)

| Financings | Wholly-owned Subsidiary | Maturity Date | Financing Amount | Interest Rate as of March 31, 2020 |
|----------------------------------|---|----------------|---------------------|--|
| Revolving Secured Line of Credit | n/a | 06/22/2022 | \$ 340.0 | At our option, either LIBOR plus 187.5 basis points or the prime rate plus 87.5 basis points |
| Warehouse Facility II (1) | CAC Warehouse Funding Corp. II | 07/12/2022 (2) | 400.0 | LIBOR plus 175 basis points (3) |
| Warehouse Facility IV (1) | CAC Warehouse Funding LLC IV | 07/26/2022 (2) | 300.0 | LIBOR plus 200 basis points (3) |
| Warehouse Facility V (1) | CAC Warehouse Funding LLC V | 08/17/2021 (4) | 100.0 | LIBOR plus 190 basis points (3) |
| Warehouse Facility VI (1) | CAC Warehouse Funding LLC VI | 09/30/2022 (2) | 75.0 | LIBOR plus 200 basis points |
| Warehouse Facility VII (1) | CAC Warehouse Funding LLC VII | 12/16/2021 (5) | 150.0 | Commercial paper rate plus 200 basis points (3) |
| Warehouse Facility VIII (1) | CAC Warehouse Funding LLC VIII | 07/26/2022 (2) | 200.0 | LIBOR plus 190 basis points (3) |
| Term ABS 2017-1 (1) | Credit Acceptance Funding LLC 2017-1 | 02/15/2019 (2) | 350.0 | Fixed rate |
| Term ABS 2017-2 (1) | Credit Acceptance Funding LLC 2017-2 | 06/17/2019 (2) | 450.0 | Fixed rate |
| Term ABS 2017-3 (1) | Credit Acceptance Funding LLC 2017-3 | 10/15/2019 (2) | 350.0 | Fixed rate |
| Term ABS 2018-1 (1) | Credit Acceptance Funding LLC 2018-1 | 02/17/2020 (2) | 500.0 | Fixed rate |
| Term ABS 2018-2 (1) | Credit Acceptance Funding LLC 2018-2 | 05/15/2020 (2) | 450.0 | Fixed rate |
| Term ABS 2018-3 (1) | Credit Acceptance Funding LLC 2018-3 | 08/17/2020 (2) | 398.3 | Fixed rate |
| Term ABS 2019-1 (1) | Credit Acceptance Funding LLC 2019-1 | 02/15/2021 (2) | 402.5 | Fixed rate |
| Term ABS 2019-2 (1) | Credit Acceptance Funding LLC 2019-2 | 08/15/2022 (6) | 500.0 | Fixed rate |
| Term ABS 2019-3 (1) | Credit Acceptance Funding LLC 2019-3 | 11/15/2021 (2) | 351.7 | Fixed rate |
| Term ABS 2020-1 (1) | Credit Acceptance Funding LLC 2020-1 | 02/15/2022 (2) | 500.0 | 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 (1) | Chapter 4 Properties, LLC | 08/06/2023 | 12.0 | LIBOR plus 150 basis points |

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

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

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

(4) Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date and any amounts remaining on August 17, 2023 will be due on that date.

(5) 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.

(6) 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:

| | For the Three Months Ended March 31, | |
|---|---|----------|
| | 2020 | 2019 |
| Revolving Secured Line of Credit | | |
| Maximum outstanding principal balance | \$ 268.2 | \$ 276.4 |
| Average outstanding principal balance | 85.2 | 88.4 |
| Warehouse Facility II | | |
| Maximum outstanding principal balance | 201.0 | 201.0 |
| Average outstanding principal balance | 20.4 | 93.0 |
| Warehouse Facility IV | | |
| Maximum outstanding principal balance | — | 100.0 |
| Average outstanding principal balance | — | 4.4 |
| Warehouse Facility V | | |
| Maximum outstanding principal balance | 50.0 | — |
| Average outstanding principal balance | 8.2 | — |
| Warehouse Facility VI | | |
| Maximum outstanding principal balance | — | 101.5 |
| Average outstanding principal balance | — | 2.3 |
| Warehouse Facility VII | | |
| Maximum outstanding principal balance | 100.0 | — |
| Average outstanding principal balance | 21.7 | — |
| Warehouse Facility VIII | | |
| Maximum outstanding principal balance | 49.0 | — |
| Average outstanding principal balance | 7.6 | — |

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

(Dollars in millions)

| | As of | |
|--|----------------|-------------------|
| | March 31, 2020 | December 31, 2019 |
| Revolving Secured Line of Credit | | |
| Principal balance outstanding | \$ 79.9 | \$ — |
| Amount available for borrowing (1) | 260.1 | 340.0 |
| Interest rate | 2.87% | —% |
| Warehouse Facility II | | |
| Principal balance outstanding | \$ 201.0 | \$ — |
| Amount available for borrowing (1) | 199.0 | 400.0 |
| Loans pledged as collateral | 248.9 | — |
| Restricted cash and cash equivalents pledged as collateral | 4.8 | 1.0 |
| Interest rate | 3.33% | —% |
| Warehouse Facility IV | | |
| 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 | —% | —% |
| Warehouse Facility V | | |
| Principal balance outstanding | \$ 50.0 | \$ — |
| Amount available for borrowing (1) | 50.0 | 100.0 |
| Loans pledged as collateral | 63.2 | — |
| Restricted cash and cash equivalents pledged as collateral | 2.3 | 1.0 |
| Interest rate | 3.48% | —% |
| Warehouse Facility VI | | |
| 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 | —% | —% |
| Warehouse Facility VII | | |
| Principal balance outstanding | \$ 100.0 | \$ — |
| Amount available for borrowing (1) | 50.0 | 150.0 |
| Loans pledged as collateral | 123.8 | — |
| Restricted cash and cash equivalents pledged as collateral | 3.4 | 1.0 |
| Interest rate | 3.64% | —% |
| Warehouse Facility VIII | | |
| Principal balance outstanding | \$ 49.0 | \$ — |
| Amount available for borrowing (1) | 151.0 | 200.0 |
| Loans pledged as collateral | 64.0 | — |
| Restricted cash and cash equivalents pledged as collateral | 2.2 | — |
| Interest rate | 2.82% | —% |
| Term ABS 2016-3 | | |
| Principal balance outstanding | \$ — | \$ 51.8 |
| Loans pledged as collateral | — | 219.5 |
| Restricted cash and cash equivalents pledged as collateral | — | 23.5 |
| Interest rate | —% | 3.60% |

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

| | | | |
|--|----|-------|----------|
| Term ABS 2017-1 | | | |
| Principal balance outstanding | \$ | 66.8 | \$ 120.9 |
| Loans pledged as collateral | | 248.5 | 292.8 |
| Restricted cash and cash equivalents pledged as collateral | | 27.4 | 26.1 |
| Interest rate | | 3.36% | 3.19% |
| Term ABS 2017-2 | | | |
| Principal balance outstanding | \$ | 202.9 | \$ 277.2 |
| Loans pledged as collateral | | 357.3 | 426.7 |
| Restricted cash and cash equivalents pledged as collateral | | 37.2 | 35.1 |
| Interest rate | | 2.94% | 2.83% |
| Term ABS 2017-3 | | | |
| Principal balance outstanding | \$ | 238.6 | \$ 303.2 |
| Loans pledged as collateral | | 332.6 | 393.0 |
| Restricted cash and cash equivalents pledged as collateral | | 31.6 | 29.3 |
| Interest rate | | 2.98% | 2.91% |
| Term ABS 2018-1 | | | |
| Principal balance outstanding | \$ | 463.6 | \$ 500.0 |
| Loans pledged as collateral | | 570.0 | 609.5 |
| Restricted cash and cash equivalents pledged as collateral | | 48.3 | 43.8 |
| Interest rate | | 3.26% | 3.24% |
| Term ABS 2018-2 | | | |
| Principal balance outstanding | \$ | 450.0 | \$ 450.0 |
| Loans pledged as collateral | | 528.7 | 550.4 |
| Restricted cash and cash equivalents pledged as collateral | | 43.4 | 37.6 |
| Interest rate | | 3.68% | 3.68% |
| Term ABS 2018-3 | | | |
| Principal balance outstanding | \$ | 398.3 | \$ 398.3 |
| Loans pledged as collateral | | 469.8 | 487.7 |
| Restricted cash and cash equivalents pledged as collateral | | 37.8 | 32.3 |
| Interest rate | | 3.72% | 3.72% |
| Term ABS 2019-1 | | | |
| Principal balance outstanding | \$ | 402.5 | \$ 402.5 |
| Loans pledged as collateral | | 473.0 | 490.2 |
| Restricted cash and cash equivalents pledged as collateral | | 36.7 | 31.9 |
| Interest rate | | 3.53% | 3.53% |
| Term ABS 2019-2 | | | |
| Principal balance outstanding | \$ | 500.0 | \$ 500.0 |
| Loans pledged as collateral | | 642.0 | 628.5 |
| Restricted cash and cash equivalents pledged as collateral | | 45.2 | 38.6 |
| Interest rate | | 3.13% | 3.13% |
| Term ABS 2019-3 | | | |
| Principal balance outstanding | \$ | 351.7 | \$ 351.7 |
| Loans pledged as collateral | | 515.4 | 428.6 |
| Restricted cash and cash equivalents pledged as collateral | | 36.4 | 27.2 |
| Interest rate | | 2.56% | 2.56% |

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

| | | | | |
|--|----|--------|----|--------|
| Term ABS 2020-1 | | | | |
| Principal balance outstanding | \$ | 500.0 | \$ | — |
| Loans pledged as collateral | | 836.9 | | — |
| Restricted cash and cash equivalents pledged as collateral | | 49.5 | | — |
| Interest rate | | 2.18% | | —% |
| 2021 Senior Notes | | | | |
| Principal balance outstanding | \$ | — | \$ | 151.8 |
| Interest rate | | —% | | 6.125% |
| 2023 Senior Notes | | | | |
| Principal balance outstanding | \$ | — | \$ | 250.0 |
| Interest rate | | —% | | 7.375% |
| 2024 Senior Notes | | | | |
| Principal balance outstanding | \$ | 400.0 | \$ | 400.0 |
| Interest rate | | 5.125% | | 5.125% |
| 2026 Senior Notes | | | | |
| Principal balance outstanding | \$ | 400.0 | \$ | 400.0 |
| Interest rate | | 6.625% | | 6.625% |
| Mortgage Note | | | | |
| Principal balance outstanding | \$ | 11.1 | \$ | 11.3 |
| Interest rate | | 3.08% | | 3.21% |

(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. 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 \$1,225.0 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.

The subsidiaries pay us a monthly servicing fee equal to 6% 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.

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

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 that of Term ABS 2019-2, contributed the Loans to a respective trust that issued notes to qualified institutional investors. The Funding LLC for the Term ABS 2019-2 transaction pledged the Loans to a lender. The Term ABS 2017-1, 2017-2, 2017-3, 2018-1, 2018-2, 2018-3, 2019-1, 2019-3 and 2020-1 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% 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 2017-1 | February 23, 2017 | \$ 437.8 | Through February 15, 2019 |
| Term ABS 2017-2 | June 29, 2017 | 563.2 | Through June 17, 2019 |
| Term ABS 2017-3 | October 26, 2017 | 437.6 | Through October 15, 2019 |
| Term ABS 2018-1 | February 22, 2018 | 625.1 | Through February 17, 2020 |
| Term ABS 2018-2 | May 24, 2018 | 562.6 | Through May 15, 2020 |
| 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 |

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.

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

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 March 31, 2020, 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. 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 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 March 31, 2020, 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 March 31, 2020 and December 31, 2019:

(Dollars in millions)

| As of March 31, 2020 | | | | | | |
|----------------------|-------------------------|-------------------|---------|---------|----------|--------------------------|
| Facility Amount | Facility Name | Purpose | Start | End | Notional | Cap Interest Rate (1) |
| \$ 400.0 | Warehouse Facility II | Cap Floating Rate | 12/2017 | 12/2020 | \$ 205.0 | 5.50% |
| 300.0 | Warehouse Facility IV | Cap Floating Rate | 05/2017 | 04/2021 | 100.0 | 6.50% |
| | | Cap Floating Rate | 05/2018 | 04/2021 | 150.0 | 6.50% |
| | | Cap Floating Rate | 07/2019 | 07/2023 | 50.0 | 6.50% |
| | | | | | 300.0 | |
| 100.0 | Warehouse Facility V | Cap Floating Rate | 08/2018 | 08/2023 | 75.0 | 6.50% |
| 150.0 | Warehouse Facility VII | Cap Floating Rate | 12/2017 | 11/2021 | 125.0 | 5.50% |
| | | Cap Floating Rate | 01/2020 | 12/2023 | 25.0 | 5.50% |
| | | | | | 150.0 | |
| 200.0 | Warehouse Facility VIII | Cap Floating Rate | 08/2019 | 08/2023 | 200.0 | 5.50% |

(Dollars in millions)

| As of December 31, 2019 | | | | | | |
|-------------------------|-------------------------|-------------------|---------|---------|----------|--------------------------|
| Facility Amount | Facility Name | Purpose | Start | End | Notional | Cap Interest Rate (1) |
| \$ 400.0 | Warehouse Facility II | Cap Floating Rate | 12/2017 | 12/2020 | \$ 205.0 | 5.50% |
| 300.0 | Warehouse Facility IV | Cap Floating Rate | 05/2017 | 04/2021 | 100.0 | 6.50% |
| | | Cap Floating Rate | 05/2018 | 04/2021 | 150.0 | 6.50% |
| | | Cap Floating Rate | 07/2019 | 07/2023 | 50.0 | 6.50% |
| | | | | | 300.0 | |
| 100.0 | Warehouse Facility V | Cap Floating Rate | 08/2018 | 08/2023 | 75.0 | 6.50% |
| 150.0 | Warehouse Facility VII | Cap Floating Rate | 12/2017 | 11/2021 | 143.8 | 5.50% |
| 200.0 | Warehouse Facility VIII | Cap Floating Rate | 08/2019 | 08/2023 | 200.0 | 5.50% |

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

The interest rate caps have not been designated as hedging instruments. As of March 31, 2020 and December 31, 2019, the interest rate caps had a fair value of \$0.0 million and \$0.1 million, respectively, 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 March 31, | |
|---|---|-------------|
| | 2020 | 2019 |
| U.S. federal statutory income tax rate | 21.0 % | 21.0 % |
| State income taxes | 3.3 % | 2.8 % |
| Excess tax benefits from stock-based compensation plans | 2.3 % | -3.8 % |
| Other | -0.9 % | 0.3 % |
| Effective income tax rate | 25.7 % | 20.3 % |

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 (benefit) for income taxes and reduce (increase) our effective income tax rate. The impact of excess tax benefits on the effective income tax rate decreased in magnitude from 2019 to 2020 primarily due to a decrease in the number of restricted stock units that were converted to common stock due to the timing of long-term stock award grants.

12. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share has been computed by dividing net income (loss) by the basic number of weighted average shares outstanding. Diluted net income (loss) per share has been computed by dividing net income (loss) 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 March 31, | |
|--|---|-------------|
| | 2020 | 2019 |
| Weighted average shares outstanding: | | |
| Common shares | 17,883,535 | 18,669,719 |
| Vested restricted stock units | 301,930 | 285,472 |
| Basic number of weighted average shares outstanding | 18,185,465 | 18,955,191 |
| Dilutive effect of restricted stock and restricted stock units | — | 49,307 |
| Dilutive number of weighted average shares outstanding | 18,185,465 | 19,004,498 |

For the three months ended March 31, 2020 and 2019, there were 73,655 and 5,296 shares of restricted stock and restricted stock units that were not included in the computation of diluted net income (loss) per share because their inclusion would have been anti-dilutive.

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

13. STOCK REPURCHASES

The following table summarizes our stock repurchases for the three months ended March 31, 2020 and 2019:

(Dollars in millions)

| Stock Repurchases | For the Three Months Ended March 31, | | | |
|-------------------|--------------------------------------|----------|------------------------------|----------|
| | 2020 | | 2019 | |
| | Number of Shares Repurchased | Cost | Number of Shares Repurchased | Cost |
| Open Market (1) | 710,157 | \$ 300.6 | 225,915 | \$ 91.0 |
| Other (2) | 15,063 | 6.5 | 42,696 | 18.2 |
| Total | 725,220 | \$ 307.1 | 268,611 | \$ 109.2 |

- (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 or in privately negotiated transactions. On March 5, 2020, the board of directors authorized the repurchase of up to three million shares of our common stock in addition to the board's prior authorizations. As of March 31, 2020, we had authorization to repurchase 3,059,556 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.

14. STOCK-BASED COMPENSATION PLANS

Stock-based compensation expense consists of the following:

(In millions)

| | For the Three Months Ended March 31, | |
|------------------------|--------------------------------------|--------|
| | 2020 | 2019 |
| Restricted stock | \$ 0.6 | \$ 0.8 |
| Restricted stock units | 1.2 | 1.4 |
| Total | \$ 1.8 | \$ 2.2 |

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, 2019 | 137,503 | \$ 125.04 |
| Vested | (14,633) | 182.61 |
| Forfeited | (52) | 318.41 |
| Non-vested as of March 31, 2020 | 122,818 | \$ 118.10 |

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, 2019 | 428,831 | \$ 132.99 |
| Granted | 500 | 461.53 |
| Converted | (21,971) | 105.97 |
| Outstanding as of March 31, 2020 | 407,360 | \$ 134.85 |

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

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, 2019.

On May 7, 2019, we received a subpoena from 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. 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, and that the Bureau would be issuing another, similar civil investigative demand. 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 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.

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. 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.

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

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 investigation demand from the Office of the Attorney General seeking updated information on its original civil investigation 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. The investigation relating to the origination, collection and securitization of non-prime auto loans and securities transactions by the Office of the Attorney General remains ongoing. 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.

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.

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 2019 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 March 31, 2020, consolidated net loss was \$83.8 million, or \$4.61 per diluted share, compared to consolidated net income of \$164.4 million, or \$8.65 per diluted share, for the same period in 2019.

In March 2020, COVID-19 began to spread rapidly across the United States. In an effort to slow the spread of the virus, authorities implemented various measures, including travel bans, stay-at-home orders and shutdowns of non-essential businesses. These measures have caused a significant decline in economic activity and a dramatic increase in the number of individuals who are no longer employed. As detailed below, starting in mid-March, we experienced a substantial reduction in demand for our product and a significant decline in cash flows from our Loan portfolio that lasted through mid-April, after which collections and new loan volumes improved significantly. As the virus is not yet contained, the ultimate impact of the pandemic on our business is not yet known. The impact will depend on future developments, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the disease or mitigate its impact, and the duration, timing and severity of the impact on consumer behavior and economic activity.

Results for the quarter ended March 31, 2020 include a provision for credit losses of \$354.7 million reflecting the adoption of CECL on January 1, 2020 and the impact of a reduction in forecasted future cash flows from our Loan portfolio. Under CECL, we are required to record a provision for credit losses for every new loan at the time that loan is originated equal to the difference between the amount we paid to acquire the loan and present value of forecasted net cash flows using an effective interest rate prescribed under CECL. The effective interest rate under CECL is calculated assuming 100% of the contractually scheduled payments of each loan are received. Since we do not expect to receive this amount, the effective rate under CECL is higher than the rate we expect to earn. Using the higher effective rate prescribed by CECL to record the loan results in a value for each loan that is less than amount we paid to acquire the loan. This difference is recorded as an allowance for credit losses along with a corresponding provision for credit losses. During the most recent quarter, we recorded a provision for credit losses of \$157.9 million related to new Consumer Loan assignments. Over the life of the loan, assuming actual cash flows are equal to our forecast, an amount equivalent to this provision for credit losses will be recorded as finance charge revenue, which is recognized using the same effective interest rate used to record the loan.

The remaining provision for credit losses of \$196.8 million reflects a reduction in our estimate of future net cash flows from our Loan portfolio discussed below. Under CECL, the net present value of the change in our net cash flow forecast is recorded as a provision for credit losses.

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 March 31, 2020 with the forecasts as of December 31, 2019 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 | |
|-------------------------------|--|-------------------|------------------|--------------------------------|------------------|
| | March 31, 2020 | December 31, 2019 | Initial Forecast | December 31, 2019 | Initial Forecast |
| 2011 | 74.8% | 74.8% | 72.5% | 0.0 % | 2.3 % |
| 2012 | 73.8% | 73.9% | 71.4% | -0.1 % | 2.4 % |
| 2013 | 73.4% | 73.5% | 72.0% | -0.1 % | 1.4 % |
| 2014 | 71.7% | 71.7% | 71.8% | 0.0 % | -0.1 % |
| 2015 | 65.3% | 65.4% | 67.7% | -0.1 % | -2.4 % |
| 2016 | 63.6% | 64.1% | 65.4% | -0.5 % | -1.8 % |
| 2017 | 63.8% | 64.8% | 64.0% | -1.0 % | -0.2 % |
| 2018 | 63.6% | 65.1% | 63.6% | -1.5 % | 0.0 % |
| 2019 | 63.0% | 64.6% | 64.0% | -1.6 % | -1.0 % |
| 2020 | 61.3% | — | 62.5% | — | -1.2 % |

- (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.

Consumer Loans assigned in 2011 through 2013 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2015, 2016, 2019 and 2020 have yielded forecasted collection results materially worse than our initial estimates. For Consumer Loans assigned in 2014, 2017 and 2018, actual results have been close to our initial estimates. For the three months ended March 31, 2020, forecasted collection rates declined for Consumer Loans assigned in 2016 through 2020 and were generally consistent with expectations at the start of the period for all other assignment years presented.

Forecasted collection rates in the table above reflect a reduction in collection rates calculated by our forecasting model and an additional subjective adjustment which considers the future impact of COVID-19. The COVID-19 adjustment is detailed by year of assignment as follows:

| Consumer Loan Assignment Year | Forecasted Collection Percentage as of March 31, 2020 | | |
|-------------------------------|---|---------------------|---------------------------|
| | Prior to COVID-19 Adjustment | COVID-19 Adjustment | After COVID-19 Adjustment |
| 2011 | 74.8% | 0.0 % | 74.8% |
| 2012 | 73.9% | -0.1 % | 73.8% |
| 2013 | 73.5% | -0.1 % | 73.4% |
| 2014 | 71.8% | -0.1 % | 71.7% |
| 2015 | 65.4% | -0.1 % | 65.3% |
| 2016 | 64.0% | -0.4 % | 63.6% |
| 2017 | 64.4% | -0.6 % | 63.8% |
| 2018 | 64.5% | -0.9 % | 63.6% |
| 2019 | 64.5% | -1.5 % | 63.0% |
| 2020 | 63.2% | -1.9 % | 61.3% |

The changes in forecasted collection rates for the three months ended March 31, 2020 and 2019 impacted forecasted net cash flows (forecasted collections less forecasted Dealer Holdback payments) as follows:

| (In millions) | Increase (Decrease) in Forecasted Net Cash Flows | For the Three Months Ended March 31, | |
|-----------------|--|--------------------------------------|---------|
| | | 2020 | 2019 |
| Dealer Loans | | \$ (75.9) | \$ 0.5 |
| Purchased Loans | | (130.6) | 16.2 |
| Total | | \$ (206.5) | \$ 16.7 |

During the first quarter, 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 is comprised of: (1) \$44.3 million calculated by our forecasting model, which reflects lower realized collections during the quarter and (2) an additional \$162.2 million, which represents our best estimate of the future impact of the COVID-19 pandemic on future net cash flows. Under CECL, changes in forecasted net cash flows are recorded as a provision for credit losses in the current period. While the adjustment to our forecast represents our best estimate at this time, the COVID-19 pandemic has created conditions that do not allow us to forecast future cash flows from our Loan portfolio with confidence.

The following table summarizes changes in realized collections in each of the last five months as compared to the same period in the previous year:

| Month Ended | Year over Year Percent Change | |
|--------------------------------|-------------------------------|-------------------|
| | Front End Collections (1) | Total Collections |
| January 31, 2020 | 15.9 % | 20.0 % |
| February 29, 2020 | 13.4 % | 13.2 % |
| March 31, 2020 | -1.3 % | -3.1 % |
| April 30, 2020 | 7.7 % | -1.1 % |
| May 26, 2020 Month-to-Date (2) | 8.5 % | 4.9 % |

(1) Represents collections realized on Consumer Loans that are either current or in the early stages of delinquency.

(2) The 2020 period had one less business day than the comparable 2019 period.

Starting in mid-March, we experienced a reduction in realized collections at the same time government authorities began to implement restrictions that limited economic activity. The reduction in Front End Collections reflects a lower volume of payments from customers while the reduction in Total Collections also includes lower realized collections from repossessions, which were suspended as the crisis began to unfold. Starting in mid-April, Front End Collections improved at the same time federal stimulus payments began to be distributed and such improvement has continued into May.

When comparing year over year changes in collections on a monthly basis, variations in the calendar can have a meaningful impact on the results as collections fluctuate according to the day of the week. In addition, February of 2020 had 29 days as compared to 28 in the prior year. The following table presents year over year collection results after adjusting for these differences:

| Month Ended | Year over Year Percent Change | |
|----------------------------|-------------------------------|-------------------|
| | Front End Collections (1) | Total Collections |
| January 31, 2020 | 9.7% | 13.3 % |
| February 29, 2020 | 8.4% | 9.0 % |
| March 31, 2020 | 2.2% | -0.6 % |
| April 30, 2020 | 7.8% | -0.4 % |
| May 26, 2020 Month-to-Date | 12.2% | 7.3 % |

(1) Represents collections realized on Consumer Loans that are either current or in the early stages of delinquency.

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

| Consumer Loan Assignment Year | Average | | |
|-------------------------------|-------------------|-------------|-------------------------------|
| | Consumer Loan (1) | Advance (2) | Initial Loan Term (in months) |
| 2011 | 15,686 | 7,137 | 46 |
| 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 | 23,717 | 10,405 | 58 |

(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.

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 March 31, 2020. 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 March 31, 2020 | | | |
|-------------------------------|-------------------------|---------------|----------|----------------------------|
| | Forecasted Collection % | Advance % (1) | Spread % | % of Forecast Realized (2) |
| 2011 | 74.8% | 45.5% | 29.3% | 99.7% |
| 2012 | 73.8% | 46.3% | 27.5% | 99.4% |
| 2013 | 73.4% | 47.6% | 25.8% | 99.0% |
| 2014 | 71.7% | 47.7% | 24.0% | 98.4% |
| 2015 | 65.3% | 44.5% | 20.8% | 95.8% |
| 2016 | 63.6% | 43.8% | 19.8% | 88.1% |
| 2017 | 63.8% | 43.2% | 20.6% | 74.2% |
| 2018 | 63.6% | 43.5% | 20.1% | 52.6% |
| 2019 | 63.0% | 44.0% | 19.0% | 24.1% |
| 2020 | 61.3% | 43.9% | 17.4% | 2.6% |

(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.

The risk of a material change in our forecasted collection rate declines as the Consumer Loans age. For 2015 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 17.4% to 29.3%, on an annual basis, over the last 10 years. The spread was at the high end of this range in 2011, when the competitive environment was unusually favorable, and much lower during other years (2015 through 2020) when competition was more intense. The decrease in the spread from 2019 to 2020 was primarily the result of a lower initial forecast on Consumer Loans assigned to us in 2020 and the performance of 2020 Consumer Loans in our Purchased Loan portfolio, which has deteriorated from our initial estimates by a greater margin than those assigned to us in 2019.

The following table compares our forecast of Consumer Loan collection rates as of March 31, 2020 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) | | |
| | March 31, 2020 | Initial Forecast | Variance | March 31, 2020 | Initial Forecast | Variance |
| 2011 | 74.6% | 72.4% | 2.2 % | 76.3% | 72.7% | 3.6 % |
| 2012 | 73.6% | 71.3% | 2.3 % | 75.9% | 71.4% | 4.5 % |
| 2013 | 73.4% | 72.1% | 1.3 % | 74.3% | 71.6% | 2.7 % |
| 2014 | 71.6% | 71.9% | -0.3 % | 72.5% | 70.9% | 1.6 % |
| 2015 | 64.6% | 67.5% | -2.9 % | 69.0% | 68.5% | 0.5 % |
| 2016 | 62.8% | 65.1% | -2.3 % | 66.0% | 66.5% | -0.5 % |
| 2017 | 63.2% | 63.8% | -0.6 % | 65.4% | 64.6% | 0.8 % |
| 2018 | 63.1% | 63.6% | -0.5 % | 64.6% | 63.5% | 1.1 % |
| 2019 | 62.6% | 63.9% | -1.3 % | 63.6% | 64.2% | -0.6 % |
| 2020 | 61.2% | 62.4% | -1.2 % | 61.6% | 62.8% | -1.2 % |

(1) The forecasted collection rates presented for Dealer Loans and Purchased Loans reflect the Consumer Loan classification at the time of assignment.

The following table presents forecasted Consumer Loan collection rates, advance rates, and the spread (the forecasted collection rate less the advance rate) as of March 31, 2020 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 % |
| 2011 | 74.6% | 45.1% | 29.5% | 76.3% | 49.3% | 27.0% |
| 2012 | 73.6% | 46.0% | 27.6% | 75.9% | 50.0% | 25.9% |
| 2013 | 73.4% | 47.2% | 26.2% | 74.3% | 51.5% | 22.8% |
| 2014 | 71.6% | 47.2% | 24.4% | 72.5% | 51.8% | 20.7% |
| 2015 | 64.6% | 43.4% | 21.2% | 69.0% | 50.2% | 18.8% |
| 2016 | 62.8% | 42.1% | 20.7% | 66.0% | 48.6% | 17.4% |
| 2017 | 63.2% | 42.1% | 21.1% | 65.4% | 45.8% | 19.6% |
| 2018 | 63.1% | 42.7% | 20.4% | 64.6% | 45.2% | 19.4% |
| 2019 | 62.6% | 43.1% | 19.5% | 63.6% | 45.6% | 18.0% |
| 2020 | 61.2% | 42.7% | 18.5% | 61.6% | 45.8% | 15.8% |

(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 19.5% in 2019 to 18.5% in 2020, primarily as a result of a lower initial forecast on Dealer Loans assigned to us in 2020. The spread on Purchased Loans decreased from 18.0% in 2019 to 15.8% in 2020, primarily as a result of a lower initial forecast on Purchased Loans assigned to us in 2020 and the performance of 2020 Consumer Loans in our Purchased Loan portfolio, which has deteriorated from our initial estimates by a greater margin than those assigned to us in 2019.

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 2.5 to 1 as of March 31, 2020. 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 five 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 % |

(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 10.1% and 4.5%, respectively, during the first quarter of 2020 as the number of active Dealers grew 2.2% while average unit volume per active Dealer declined 12.0%. Dollar volume declined less than unit volume declined during the first quarter of 2020 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 increases in the average vehicle selling price and average initial loan term and an increase in Purchased Loans as a percentage of total unit volume.

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

| Month Ended | Year over Year Percent Change | |
|--------------------------------|-------------------------------|--|
| | Unit Volume | |
| January 31, 2020 | -0.7 % | |
| February 29, 2020 | 0.9 % | |
| March 31, 2020 | -22.3 % | |
| April 30, 2020 | -22.3 % | |
| May 26, 2020 Month-to-Date (1) | 21.8 % | |

(1) The 2020 period had one less business day than the comparable 2019 period.

We believe the declines in unit volume for the months ended March 31, 2020 and April 30, 2020 were 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 have remained open. During the latter part of April and continuing into May, unit volumes improved. We believe the improvement resulted from a combination of Dealers gradually reopening their operations and the release of federal stimulus payments.

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

| | For the Three Months Ended March 31, | | |
|---|--------------------------------------|---------|----------|
| | 2020 | 2019 | % Change |
| Consumer Loan unit volume | 101,477 | 112,844 | -10.1 % |
| Active Dealers (1) | 9,843 | 9,633 | 2.2 % |
| Average volume per active Dealer | 10.3 | 11.7 | -12.0 % |
| Consumer Loan unit volume from Dealers active both periods | 81,029 | 96,732 | -16.2 % |
| Dealers active both periods | 6,681 | 6,681 | — |
| Average volume per Dealer active both periods | 12.1 | 14.5 | -16.2 % |
| Consumer Loan unit volume from Dealers <u>not</u> active both periods | 20,448 | 16,112 | 26.9 % |
| Dealers <u>not</u> active both periods | 3,162 | 2,952 | 7.1 % |
| Average volume per Dealer <u>not</u> active both periods | 6.5 | 5.5 | 18.2 % |

(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 March 31, | | |
|---|--------------------------------------|---------|----------|
| | 2020 | 2019 | % Change |
| Consumer Loan unit volume from new active Dealers | 4,644 | 6,082 | -23.6 % |
| New active Dealers (1) | 902 | 1,224 | -26.3 % |
| Average volume per new active Dealer | 5.1 | 5.0 | 2.0 % |
| Attrition (2) | -14.3 % | -14.2 % | |

(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 five quarters:

| Three Months Ended | Unit Volume | | Dollar Volume (1) | |
|--------------------|--------------|-----------------|-------------------|-----------------|
| | Dealer Loans | Purchased Loans | Dealer Loans | Purchased Loans |
| March 31, 2019 | 67.4% | 32.6% | 65.0% | 35.0% |
| June 30, 2019 | 66.7% | 33.3% | 63.7% | 36.3% |
| September 30, 2019 | 67.2% | 32.8% | 64.1% | 35.9% |
| December 31, 2019 | 67.4% | 32.6% | 64.0% | 36.0% |
| March 31, 2020 | 64.9% | 35.1% | 60.5% | 39.5% |

(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 March 31, 2020 and December 31, 2019, the net Dealer Loans receivable balance was 62.6% and 62.8%, respectively, of the total net Loans receivable balance.

Results of Operations

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

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

| | For the Three Months Ended March 31, | | | |
|---|---|------------|------------|-----------|
| | 2020 | 2019 | \$ Change | % Change |
| Revenue: | | | | |
| Finance charges | \$ 361.9 | \$ 321.9 | \$ 40.0 | 12.4 % |
| Premiums earned | 12.9 | 12.2 | 0.7 | 5.7 % |
| Other income | 14.3 | 19.7 | (5.4) | -27.4 % |
| Total revenue | 389.1 | 353.8 | 35.3 | 10.0 % |
| Costs and expenses: | | | | |
| Salaries and wages (1) | 45.0 | 48.7 | (3.7) | -7.6 % |
| General and administrative (1) | 15.0 | 13.9 | 1.1 | 7.9 % |
| Sales and marketing (1) | 19.1 | 18.8 | 0.3 | 1.6 % |
| Provision for credit losses | 354.7 | 14.5 | 340.2 | 2,346.2 % |
| Interest | 51.9 | 45.0 | 6.9 | 15.3 % |
| Provision for claims | 8.8 | 6.6 | 2.2 | 33.3 % |
| Loss on extinguishment of debt | 7.4 | — | 7.4 | — % |
| Total costs and expenses | 501.9 | 147.5 | 354.4 | 240.3 % |
| Income (loss) before provision (benefit) for income taxes | (112.8) | 206.3 | (319.1) | -154.7 % |
| Provision (benefit) for income taxes | (29.0) | 41.9 | (70.9) | -169.2 % |
| Net income (loss) | \$ (83.8) | \$ 164.4 | \$ (248.2) | -151.0 % |
| Net income (loss) per share: | | | | |
| Basic | \$ (4.61) | \$ 8.67 | \$ (13.28) | -153.2 % |
| Diluted | \$ (4.61) | \$ 8.65 | \$ (13.26) | -153.3 % |
| Weighted average shares outstanding: | | | | |
| Basic | 18,185,465 | 18,955,191 | (769,726) | -4.1 % |
| Diluted | 18,185,465 | 19,004,498 | (819,033) | -4.3 % |
| (1) Operating expenses | \$ 79.1 | \$ 81.4 | \$ (2.3) | -2.8 % |

The Financial Accounting Standards Board issued a new accounting standard (known as CECL) that changed how we account for our Loans effective January 1, 2020. 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. While the total amount of net Loan income we will recognize over the life of the Loan is not impacted by CECL, the timing of when we will recognize this income has changed significantly from our prior accounting method. We believe that recognizing net Loan income on a level-yield basis over the life of the Loan based on expected future net cash flows matches the economics of our business. We believe CECL diverges from economic reality by requiring us to recognize a significant provision for credit losses expense at the time of assignment for amounts we never expected to realize and finance charge revenue in subsequent periods that is significantly in excess of our expected yields. Given the significant change in timing of net Loan income recognition, we believe net income for the year ending December 31, 2020 will be significantly lower under CECL than what would be reported under our prior accounting method, with the greatest impact occurring in the quarter of adoption. The ultimate financial statement impact of CECL will depend on Consumer Loan assignment volume and the percentage of Consumer Loans assigned to us as Purchased Loans, the size and composition of our Loan portfolio, the Loan portfolio's credit quality and economic conditions. For additional information, see Note 3 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.

Finance Charges. The increase of \$40.0 million, or 12.4%, was primarily the result of an increase in the average net Loans receivable balance partially offset by a decrease in the average yield on our Loan portfolio, as follows:

(Dollars in millions)

| | For the Three Months Ended March 31, | | |
|--------------------------------------|--------------------------------------|------------|----------|
| | 2020 | 2019 | Change |
| Average net Loans receivable balance | \$ 6,682.9 | \$ 5,894.1 | \$ 788.8 |
| Average yield on our Loan portfolio | 21.7% | 21.8% | -0.1 % |

The following table summarizes the impact each component had on the overall increase in finance charges for the three months ended March 31, 2020:

(In millions)

| Impact on finance charges: | Year over Year Change For the Three Months Ended March 31, 2020 | |
|--|--|-------|
| | | |
| Due to an increase in the average net Loans receivable balance | \$ | 43.1 |
| Due to a decrease in the average yield | | (3.1) |
| Total increase in finance charges | \$ | 40.0 |

The increase in the average net Loans receivable balance was primarily due to the dollar volume of new Consumer Loan assignments exceeding the principal collected on Loans receivable. The average yield on our Loan portfolio for the three months ended March 31, 2020 decreased as compared to the same period in 2019 due to lower yields on more recent Consumer Loan assignments.

Operating Expenses. The decrease of \$2.3 million, or 2.8%, was primarily due to a decrease in salaries and wages expense of \$3.7 million, or 7.6%, primarily due to a decrease in cash-based incentive compensation expense due to a decline in Company performance measures, partially offset by an increase in fringe benefits primarily due to higher medical claims.

Provision for Credit Losses. The increase of \$340.2 million, or 2,346.2%, was primarily due to a decline in Consumer Loan performance and the impact of our adoption of CECL on January 1, 2020.

Under CECL, we are required to 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. Under both CECL and our prior accounting method, we also recognize provision for credit losses for 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 March 31, | | |
|-------------------------------|--------------------------------------|---------|----------|
| | 2020 | 2019 | Change |
| New Consumer Loan assignments | \$ 157.9 | \$ — | \$ 157.9 |
| Forecast changes | 196.8 | 14.5 | 182.3 |
| Total | \$ 354.7 | \$ 14.5 | \$ 340.2 |

The increase in provision for credit losses related to forecast changes is primarily due to a decline in Consumer Loan performance. 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 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.

Interest. The increase of \$6.9 million, or 15.3%, was due to an increase in the average outstanding debt principal balance. The following table shows interest expense, the average outstanding debt balance, and the average cost of debt for the three months ended March 31, 2020 and 2019:

| | For the Three Months Ended March 31, | | |
|--|--------------------------------------|---------|--------|
| | 2020 | 2019 | Change |
| Interest expense | \$ 51.9 | \$ 45.0 | \$ 6.9 |
| Average outstanding debt principal balance (1) | 4,625.7 | 4,019.5 | 606.2 |
| Average cost of debt | 4.5% | 4.5% | —% |

(Dollars in millions)

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

The increase in the average outstanding debt principal balance was primarily due to borrowings used to fund the growth in our Loan portfolio and stock repurchases.

Loss on Extinguishment of Debt. For the three months ended March 31, 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. We used the net proceeds from the December 2019 issuance of the 2024 senior notes, together with borrowings under our revolving credit facilities, to fund the redemption of the 2023 senior notes. For additional information, 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.

Provision for Income Taxes. For the three months ended March 31, 2020, the effective income tax rate increased to 25.7% from 20.3% for the three months ended March 31, 2019. The increase was primarily due to a decrease in tax benefits related to our stock-based compensation plan. 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 March 31, 2020. 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 17, 2020, we used a portion of the net proceeds from the 2024 senior notes to redeem the remaining \$151.8 million outstanding principal amount of the 2021 senior notes.

On February 20, 2020, 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 2.5% (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 March 15, 2020, we redeemed the \$250.0 million outstanding principal amount of the 2023 senior notes in accordance with the terms of the indenture governing the 2023 notes at a redemption price equal to 101.844% of the principal amount thereof.

Cash and cash equivalents as of March 31, 2020 and December 31, 2019 was \$25.7 million and \$187.4 million, respectively. As of March 31, 2020 and December 31, 2019, we had \$1,085.1 million and \$1,565.0 million, respectively, in unused and available lines of credit. Our total balance sheet indebtedness increased \$299.0 million to \$4,837.8 million as of March 31, 2020 from \$4,538.8 million as of December 31, 2019 primarily due to the growth in new Consumer Loan assignments and stock repurchases.

Contractual Obligations

A summary of our scheduled principal debt maturities as of March 31, 2020 is as follows:

(In millions)

| Year | Scheduled Principal Debt Maturities (1) |
|-------------------|---|
| Remainder of 2020 | \$ 1,076.9 |
| 2021 | 1,049.6 |
| 2022 | 1,542.9 |
| 2023 | 396.0 |
| 2024 | 400.0 |
| Over five years | 400.0 |
| Total | \$ 4,865.4 |

(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, 2019 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, 2019, except as described below:

The accounting for finance charge revenue and allowance for credit losses involves significant estimates related to the amount and timing of future collections and Dealer Holdback payments. 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. In addition, we adopted CECL on January 1, 2020, which changed our accounting policies for finance charge revenue and allowance for credit losses. Our provision for credit losses for the three months ended March 31, 2020, included:

- \$196.8 million provision for credit losses on forecasts changes during the first quarter of 2020 primarily related to the COVID-19 forecast adjustment, which reduced consolidated net income by \$151.5 million, or \$8.33 per diluted share; and
- \$157.9 million provision for credit losses on new Consumer Loan assignments related to our adoption of CECL on January 1, 2020, which reduced consolidated net income by \$121.6 million, or \$6.69 per diluted share.

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.

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, 2019 and Item 1A in Part II of this report, other risk factors discussed herein or listed from time to time in our reports filed with the SEC and the following:

- Our inability to accurately forecast and estimate the amount and timing of future collections could have a material adverse effect on results of operations.
- We may be unable to execute our business strategy due to current economic conditions.
- 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 Term ABS facilities or Warehouse facilities could have a material adverse impact on our operations.
- 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.
- Our substantial debt could negatively impact our business, prevent us from satisfying our debt obligations and adversely affect our financial condition.
- Due to competition from traditional financing sources and non-traditional lenders, we may not be able to compete successfully.
- 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 regulation to which we are or may become subject could result in a material adverse effect on our business.

- 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.
- 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.
- 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.
- 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.
- Failure to properly safeguard confidential consumer and team member information could subject us to liability, decrease our profitability and damage our reputation.
- 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.
- 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.
- 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.
- The current 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.

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, 2019 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2019 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES.

(a) *Disclosure Controls and Procedures.* Our management, with the participation of our Chief Executive Officer and Chief 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 Chief Executive Officer and Chief Financial Officer have 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 Chief Executive Officer and Chief 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 1A. RISK FACTORS

The following risk factor updates and supplements, and should be read in conjunction with, the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019

The current 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.

The COVID-19 pandemic has caused a deterioration in the U.S. economy and our industry and could result in a period of substantial economic and financial turmoil. The impact of this event on our business and the severity of an economic downturn are uncertain; however, it is likely that the pandemic will adversely affect our business, team members, current and potential consumers, automobile dealers, and vendors, as well as our financial condition, liquidity, and results of operations. Many of our team members, consumers, automobile dealers, and vendors are located in areas impacted by COVID-19.

In an attempt to slow the spread of COVID-19, state governments have implemented social distancing guidelines, travel bans and restrictions, quarantines, shelter-in-place orders and shutdowns. These actions have caused economic hardship in the areas in which they have been implemented and have led to an increase in unemployment and resulted in many consumers delaying payments or re-allocating resources, leading to a significant decrease in our realized collections. We are working with our consumers to provide temporary relief where possible, including the suspension of involuntary vehicle repossessions. Additionally, many automobile dealers have been required to temporarily close or restrict their operations, and even for dealerships that have remained open, consumer demand has deteriorated. As a result, we have recently experienced a significant decline in Consumer Loan assignments. The spread of COVID-19 has also caused us to modify our business practices in an effort to increase team member safety, including reconfiguring workstations to increase physical distance between team members, limiting travel, and canceling physical participation in meetings and events, and we may take further actions as required by government authorities or that we determine are in the best interests of our team members. Our business operations may be disrupted further if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, or other restrictions in connection with the COVID-19 pandemic.

There is no certainty that such measures will be sufficient to mitigate the risks posed by the disease, and our ability to perform certain functions could be negatively impacted. While the potential impact and duration of the COVID-19 pandemic on the U.S. economy and our industry in particular are difficult to assess or predict, the pandemic has resulted in significant disruption of financial markets, which may reduce our ability to access capital or our consumers' ability to repay past or future Consumer Loans, and could negatively affect our liquidity and results of operations. In addition, a recession or further financial market correction resulting from the spread of COVID-19 could adversely affect demand for used vehicles. A continued disruption in our workforce, decrease in collections from our consumers or decline in Consumer Loan assignments could cause a material adverse effect on our financial position, liquidity, and results of operations.

The COVID-19 pandemic is rapidly evolving, and we will continue to monitor the situation closely. The ultimate impact of this pandemic or a similar health epidemic is highly uncertain and subject to change. The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the disease or mitigate its impact, related restrictions on travel, and the duration, timing and severity of the impact on consumer behavior, including any recession resulting from the pandemic, all of which are uncertain and cannot be predicted. An extended period of economic disruption as a result of the COVID-19 pandemic could have a material negative impact on our business, financial position, liquidity, and results of operations, though the full extent and duration is uncertain. The COVID-19 pandemic may also intensify the risks described in the other risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019. The COVID-19 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.

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

Stock Repurchases

The following table summarizes stock repurchases for the three months ended March 31, 2020:

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) |
|---------------------------------|----------------------------------|------------------------------|--|--|
| January 1 to January 31, 2020 | 138,034 (2) | \$ 431.23 | 137,136 | 632,577 |
| February 1 to February 29, 2020 | 328,250 (3) | 422.98 | 318,995 | 313,582 |
| March 1 to March 31, 2020 | 258,936 (4) | 419.50 | 254,026 | 3,059,556 |
| | <u>725,220</u> | <u>\$ 423.31</u> | <u>710,157</u> | |

(1) On November 7, 2019, our board of directors authorized the repurchase by us from time to time in the open market or in privately negotiated transactions of up to one million shares of our common stock (the "November 2019 Authorization"). The November 2019 Authorization, which was announced on November 13, 2019, does not have a specified expiration date. On March 5, 2020, our board of directors authorized the repurchase by us from time to time in the open market or in privately negotiated transactions of up to three million shares of our common stock (the "March 2020 Authorization") in addition to the November 2019 Authorization. The March 2020 Authorization, which was announced on March 11, 2020, does not have a specified expiration date.

(2) Amount includes 898 shares of common stock released to us by team members as payment of tax withholdings upon the vesting of restricted stock units and the conversion of restricted stock units to common stock.

(3) Amount includes 9,255 shares of common stock released to us by team members as payment of tax withholdings upon the conversion of restricted stock units to common stock and the vesting of restricted stock.

(4) Amount includes 4,910 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.

ITEM 6. EXHIBITS

| Exhibit No. | Description |
|-----------------------|---|
| 4.107 | Indenture dated as of February 20, 2020, between Credit Acceptance Auto Loan Trust 2020-1 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.107 to the Company's Current Report on Form 8-K filed February 24, 2020). |
| 4.108 | Sale and Servicing Agreement, dated as of February 20, 2020, among the Company, Credit Acceptance Auto Loan Trust 2020-1, Credit Acceptance Funding LLC 2020-1 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.108 to the Company's Current Report on Form 8-K filed February 24, 2020). |
| 4.109 | Backup Servicing Agreement, dated as of February 20, 2020, among the Company, Credit Acceptance Funding LLC 2020-1, Credit Acceptance Auto Loan Trust 2020-1 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.109 to the Company's Current Report on Form 8-K filed February 24, 2020). |
| 4.110 | Amended and Restated Trust Agreement, dated as of February 20, 2020, among Credit Acceptance Funding LLC 2020-1 and U.S. Bank Trust National Association (incorporated by reference to Exhibit 4.110 to the Company's Current Report on Form 8-K filed February 24, 2020). |
| 4.111 | Sale and Contribution Agreement, dated as of February 20, 2020, between the Company and Credit Acceptance Funding LLC 2020-1 (incorporated by reference to Exhibit 4.111 to the Company's Current Report on Form 8-K filed February 24, 2020). |
| 4.112 | Amended and Restated Intercreditor Agreement, dated February 20, 2020, among the Company, CAC Warehouse Funding Corporation II, CAC Warehouse Funding LLC IV, CAC Warehouse Funding LLC V, CAC Warehouse Funding LLC VI, CAC Warehouse Funding LLC VII, CAC Warehouse Funding LLC VIII, Credit Acceptance Funding LLC 2020-1, Credit Acceptance Funding LLC 2019-3, Credit Acceptance Funding LLC 2019-2, Credit Acceptance Funding LLC 2019-1, Credit Acceptance Funding LLC 2018-3, Credit Acceptance Funding LLC 2018-2, Credit Acceptance Funding LLC 2018-1, Credit Acceptance Funding LLC 2017-3, Credit Acceptance Funding LLC 2017-2, Credit Acceptance Funding LLC 2017-1, Credit Acceptance Auto Loan Trust 2020-1, Credit Acceptance Auto Loan Trust 2019-3, Credit Acceptance Auto Loan Trust 2019-1, Credit Acceptance Auto Loan Trust 2018-3, Credit Acceptance Auto Loan Trust 2018-2, Credit Acceptance Auto Loan Trust 2018-1, Credit Acceptance Auto Loan Trust 2017-3, Credit Acceptance Auto Loan Trust 2017-2, Credit Acceptance Auto Loan Trust 2017-1, Wells Fargo Bank, National Association, as agent, Fifth Third Bank, as agent, Bank of Montreal, as agent, Flagstar Bank, FSB, as agent, Citizens Bank, N.A., as agent and Comerica Bank, as agent (incorporated by reference to Exhibit 4.112 to the Company's Current Report on Form 8-K filed February 24, 2020). |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief 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 Exhibit 101). |

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/ Kenneth S. Booth</u> Kenneth S. Booth Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) |
| Date: | May 27, 2020 |

Credit Acceptance Corporation

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Brett A. Roberts, 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: May 27, 2020

By: /s/ Brett A. Roberts

Brett A. Roberts
Chief Executive Officer
(Principal Executive Officer)

Credit Acceptance Corporation**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

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: May 27, 2020

By: /s/ Kenneth S. Booth

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

Credit Acceptance Corporation**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 ending March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brett A. Roberts, 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:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 27, 2020

By: /s/ Brett A. Roberts

Brett A. Roberts

Chief Executive Officer

(Principal Executive Officer)

Credit Acceptance Corporation**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 ending March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth S. Booth, as Chief Financial 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:

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

Date: May 27, 2020

By: /s/ Kenneth S. Booth
Kenneth S. Booth
Chief Financial Officer
(Principal Financial Officer)