

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2019

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
(State or other jurisdiction of incorporation or organization)

38-1999511
(I.R.S. Employer Identification No.)

25505 W. Twelve Mile Road

Southfield, Michigan

(Address of principal executive offices)

48034-8339

(Zip Code)

Registrant's telephone number, including area code: **(248) 353-2700**

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 October 22, 2019 was 18,796,754.

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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	
	September 30, 2019	December 31, 2018
ASSETS:		
Cash and cash equivalents	\$ 24.7	\$ 25.7
Restricted cash and cash equivalents	329.8	303.6
Restricted securities available for sale	59.8	58.6
Loans receivable	7,072.8	6,225.2
Allowance for credit losses	(509.1)	(461.9)
Loans receivable, net	<u>6,563.7</u>	<u>5,763.3</u>
Property and equipment, net	58.5	40.2
Income taxes receivable	10.8	7.9
Other assets	23.7	38.1
Total Assets	<u>\$ 7,071.0</u>	<u>\$ 6,237.4</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 184.6	\$ 186.4
Revolving secured line of credit	52.2	171.9
Secured financing	3,228.3	3,092.7
Senior notes	940.2	544.4
Mortgage note	11.5	11.9
Deferred income taxes, net	271.2	236.7
Income taxes payable	0.2	2.5
Total Liabilities	<u>4,688.2</u>	<u>4,246.5</u>
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, 18,796,770 and 18,972,558 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	0.2	0.2
Paid-in capital	155.7	154.9
Retained earnings	2,226.0	1,836.1
Accumulated other comprehensive income (loss)	0.9	(0.3)
Total Shareholders' Equity	<u>2,382.8</u>	<u>1,990.9</u>
Total Liabilities and Shareholders' Equity	<u>\$ 7,071.0</u>	<u>\$ 6,237.4</u>

See accompanying notes to consolidated financial statements.

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(Dollars in millions, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue:				
Finance charges	\$ 349.9	\$ 303.0	\$ 1,013.3	\$ 863.0
Premiums earned	12.9	12.2	38.2	34.2
Other income	15.9	16.8	51.6	45.8
Total revenue	378.7	332.0	1,103.1	943.0
Costs and expenses:				
Salaries and wages	47.9	41.1	143.9	123.3
General and administrative	17.2	14.1	47.9	41.3
Sales and marketing	16.6	16.3	53.1	51.3
Provision for credit losses	19.3	14.0	49.2	39.2
Interest	50.4	41.1	145.2	114.3
Provision for claims	8.2	7.0	23.1	19.5
Total costs and expenses	159.6	133.6	462.4	388.9
Income before provision for income taxes	219.1	198.4	640.7	554.1
Provision for income taxes	53.7	47.4	146.5	132.0
Net income	\$ 165.4	\$ 151.0	\$ 494.2	\$ 422.1
Net income per share:				
Basic	\$ 8.73	\$ 7.76	\$ 26.08	\$ 21.69
Diluted	\$ 8.73	\$ 7.75	\$ 26.06	\$ 21.68
Weighted average shares outstanding:				
Basic	18,944,672	19,465,563	18,948,140	19,456,389
Diluted	18,950,866	19,473,978	18,967,552	19,472,197

See accompanying notes to consolidated financial statements.

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(In millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 165.4	\$ 151.0	\$ 494.2	\$ 422.1
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities, net of tax	0.1	—	1.2	(0.4)
Other comprehensive income (loss)	0.1	—	1.2	(0.4)
Comprehensive income	\$ 165.5	\$ 151.0	\$ 495.4	\$ 421.7

See accompanying notes to consolidated financial statements.

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

(Dollars in millions)

For the Three Months Ended September 30, 2019

	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number	Amount				
Balance, beginning of period	18,796,876	\$ 0.2	\$ 153.7	\$ 2,060.6	\$ 0.8	\$ 2,215.3
Net income	—	—	—	165.4	—	165.4
Other comprehensive income	—	—	—	—	0.1	0.1
Stock-based compensation	—	—	2.0	—	—	2.0
Restricted stock awards, net of forfeitures	(106)	—	—	—	—	—
Balance, end of period	18,796,770	\$ 0.2	\$ 155.7	\$ 2,226.0	\$ 0.9	\$ 2,382.8

(Dollars in millions)

For the Three Months Ended September 30, 2018

	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number	Amount				
Balance, beginning of period	19,309,645	\$ 0.2	\$ 149.7	\$ 1,660.3	\$ (0.6)	\$ 1,809.6
Net income	—	—	—	151.0	—	151.0
Other comprehensive loss	—	—	—	—	—	—
Stock-based compensation	—	—	2.7	—	—	2.7
Restricted stock awards, net of forfeitures	(31)	—	—	—	—	—
Balance, end of period	19,309,614	\$ 0.2	\$ 152.4	\$ 1,811.3	\$ (0.6)	\$ 1,963.3

(Dollars in millions)

For the Nine Months Ended September 30, 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	—	—	—	494.2	—	494.2
Other comprehensive income	—	—	—	—	1.2	1.2
Stock-based compensation	—	—	5.7	—	—	5.7
Restricted stock awards, net of forfeitures	4,981	—	—	—	—	—
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	18,796,770	\$ 0.2	\$ 155.7	\$ 2,226.0	\$ 0.9	\$ 2,382.8

(Dollars in millions)

For the Nine Months Ended September 30, 2018

	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number	Amount				
Balance, beginning of period	19,310,049	\$ 0.2	\$ 145.5	\$ 1,390.3	\$ (0.2)	\$ 1,535.8
Net income	—	—	—	422.1	—	422.1
Other comprehensive income	—	—	—	—	(0.4)	(0.4)
Stock-based compensation	—	—	7.8	—	—	7.8
Restricted stock awards, net of forfeitures	4,311	—	—	—	—	—
Repurchase of common stock	(6,185)	—	(0.9)	(1.1)	—	(2.0)
Restricted stock units converted to common stock	1,439	—	—	—	—	—
Balance, end of period	19,309,614	\$ 0.2	\$ 152.4	\$ 1,811.3	\$ (0.6)	\$ 1,963.3

See accompanying notes to consolidated financial statements.

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In millions)

	For the Nine Months Ended September 30,	
	2019	2018
Cash Flows From Operating Activities:		
Net income	\$ 494.2	\$ 422.1
Adjustments to reconcile cash provided by operating activities:		
Provision for credit losses	49.2	39.2
Depreciation	5.3	3.9
Amortization	11.3	10.0
Provision for deferred income taxes	34.2	48.5
Stock-based compensation	5.7	7.8
Other	0.1	(0.2)
Change in operating assets and liabilities:		
Increase (decrease) in accounts payable and accrued liabilities	(4.8)	21.0
Increase in income taxes receivable	(2.9)	(18.0)
Decrease in income taxes payable	(2.3)	(39.7)
Decrease in other assets	18.0	6.4
Net cash provided by operating activities	<u>608.0</u>	<u>501.0</u>
Cash Flows From Investing Activities:		
Purchases of restricted securities available for sale	(32.8)	(35.6)
Proceeds from sale of restricted securities available for sale	24.9	17.3
Maturities of restricted securities available for sale	8.1	7.2
Principal collected on Loans receivable	2,254.9	1,949.0
Advances to Dealers	(1,901.1)	(1,870.2)
Purchases of Consumer Loans	(1,053.9)	(917.0)
Accelerated payments of Dealer Holdback	(44.1)	(41.0)
Payments of Dealer Holdback	(105.4)	(98.0)
Purchases of property and equipment	(23.6)	(22.1)
Net cash used in investing activities	<u>(873.0)</u>	<u>(1,010.4)</u>
Cash Flows From Financing Activities:		
Borrowings under revolving secured line of credit	3,027.2	1,724.7
Repayments under revolving secured line of credit	(3,146.9)	(1,738.6)
Proceeds from secured financing	1,698.4	2,696.6
Repayments of secured financing	(1,563.0)	(1,886.0)
Proceeds from issuance of senior notes	400.0	—
Proceeds from mortgage note	—	12.0
Payments of debt issuance costs	(15.9)	(13.0)
Repurchase of common stock	(109.2)	(2.0)
Other	(0.4)	(4.8)
Net cash provided by financing activities	<u>290.2</u>	<u>788.9</u>
Net increase in cash and cash equivalents and restricted cash and cash equivalents	25.2	279.5
Cash and cash equivalents and restricted cash and cash equivalents beginning of period	329.3	263.8
Cash and cash equivalents and restricted cash and cash equivalents end of period	<u>\$ 354.5</u>	<u>\$ 543.3</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	\$ 141.6	\$ 112.0
Cash paid during the period for income taxes	\$ 116.7	\$ 136.6

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, 2018 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, 2018 for Credit Acceptance Corporation (the “Company”, “Credit Acceptance”, “we”, “our” or “us”).

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

We have evaluated events and transactions occurring subsequent to the consolidated balance sheet date of September 30, 2019 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 September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Percentage of total unit volume with either FICO® scores below 650 or no FICO® scores	95.5%	95.2%	96.0%	95.7%

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

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

Three Months Ended	Unit Volume		Dollar Volume (1)	
	Dealer Loans	Purchased Loans	Dealer Loans	Purchased Loans
March 31, 2018	70.1%	29.9%	67.4%	32.6%
June 30, 2018	69.7%	30.3%	66.8%	33.2%
September 30, 2018	69.5%	30.5%	67.0%	33.0%
December 31, 2018	69.4%	30.6%	67.4%	32.6%
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%

(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.

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

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

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

Purchase Program

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

Program Enrollment

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Segment Information

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

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Cash equivalents consist of readily marketable securities with original maturities at the date of acquisition of three months or less. As of September 30, 2019 and December 31, 2018, we had \$24.0 million and \$25.1 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 September 30, 2019 and December 31, 2018, we had \$326.5 million and \$303.0 million, respectively, in restricted cash and cash equivalents that were not insured by the FDIC.

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:

	As of			
	September 30, 2019	December 31, 2018	September 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 24.7	\$ 25.7	\$ 195.7	\$ 8.2
Restricted cash and cash equivalents	329.8	303.6	347.6	255.6
Total cash and cash equivalents and restricted cash and cash equivalents	\$ 354.5	\$ 329.3	\$ 543.3	\$ 263.8

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

Restricted Securities Available for Sale

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

Loans Receivable and Allowance for Credit Losses

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

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

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

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

Portfolio Segments and Classes. We are considered to be a lender to our Dealers for Consumer Loans assigned under our Portfolio Program and a purchaser of Consumer Loans assigned under our Purchase Program. As a result, our Loan portfolio consists of two portfolio segments: Dealer Loans and Purchased Loans. Each portfolio segment is comprised 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.

Dealer Loans. 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. We account for Dealer Loans based on forecasted cash flows instead of contractual cash flows as we do not expect to collect all of the contractually specified amounts due to the credit quality of the underlying Consumer Loans. The outstanding balance of each Dealer Loan included in Loans receivable is comprised of the following:

- the aggregate amount of all cash advances paid;
- finance charges;
- Dealer Holdback payments;
- accelerated Dealer Holdback payments; and
- recoveries.

Less:

- collections (net of certain collection costs);
- write-offs; and
- transfers.

An allowance for credit losses is maintained at an amount that reduces the net asset value (Dealer Loan balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the time of assignment. This allowance calculation is completed for each individual Dealer. Future cash flows are comprised of estimated future collections on the Consumer Loans, less any estimated Dealer Holdback payments. We write off Dealer Loans once there are no forecasted future cash flows on any of the associated Consumer Loans, which generally occurs 120 months after the last Consumer Loan assignment.

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

Future collections on Dealer Loans are forecasted for each individual Dealer based on the historical performance of Consumer Loans with similar characteristics, adjusted for recent trends in payment patterns. Dealer Holdback is forecasted for each individual Dealer based on the expected future collections and current advance balance of each Dealer Loan. Cash flows from any individual Dealer Loan are often different than estimated cash flows at the time of assignment. If such difference is favorable, the difference is recognized prospectively into income over the remaining life of the Dealer Loan through a yield adjustment. If such difference is unfavorable, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established. Because differences between estimated cash flows at the time of assignment and actual cash flows occur often, an allowance is required for a significant portion of our Dealer Loan portfolio. An allowance for credit losses does not necessarily indicate that a Dealer Loan is unprofitable, and seldom are cash flows from a Dealer Loan insufficient to repay the initial amounts advanced to the Dealer.

Purchased Loans. Amounts paid to Dealers for Consumer Loans assigned under the Purchase Program are recorded as Purchased Loans and are aggregated into pools based on the month of purchase for purposes of recognizing revenue and evaluating impairment. We account for Purchased Loans based on forecasted cash flows instead of contractual cash flows as we do not expect to collect all of the contractually specified amounts due to the credit quality of the assigned Consumer Loans. The outstanding balance of each Purchased Loan pool included in Loans receivable is comprised of the following:

- the aggregate amount of all amounts paid during the month of purchase to purchase Consumer Loans from Dealers;
- finance charges;
- recoveries; and
- transfers.

Less:

- collections (net of certain collection costs); and
- write-offs.

An allowance for credit losses is maintained at an amount that reduces the net asset value (Purchased Loan pool balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the time of assignment. This allowance calculation is completed for each individual monthly pool of Purchased Loans. Future cash flows are comprised of estimated future collections on the pool of Purchased Loans. We write off pools of Purchased Loans once there are no forecasted future cash flows on any of the Purchased Loans included in the pool, which generally occurs 120 months after the month of purchase.

Future collections on Purchased Loans are forecasted for each individual pool based on the historical performance of Consumer Loans with similar characteristics, adjusted for recent trends in payment patterns. Cash flows from any individual pool of Purchased Loans are often different than estimated cash flows at the time of assignment. If such difference is favorable, the difference is recognized prospectively into income over the remaining life of the pool of Purchased Loans through a yield adjustment. If such difference is unfavorable, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established.

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.

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 the 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 economic profit, a non-GAAP financial measure that considers our return on capital, our cost of capital and the amount of capital invested.

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

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.

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

Methodology Changes. For the three and nine months ended September 30, 2019 and 2018, we did not make any methodology changes for Loans that had a material impact on our financial statements.

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.

New Accounting Update Adopted During the Current Year

Leases. In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, which required lessees to recognize a right-of-use asset and related lease liability for leases classified as operating leases at the commencement date that have lease terms of more than 12 months. This ASU retains the classification distinction between finance leases and operating leases. The standard required application using a retrospective transition method. Our population of leases consists of operating leases for office space and office equipment. The adoption of ASU 2016-02 on January 1, 2019 required us to record a \$3.0 million right-of-use asset and a \$3.2 million lease liability on our consolidated balance sheets as of September 30, 2019. The right-of-use asset and the lease liability were recognized within Other assets and Accounts payable and accrued liabilities, respectively, in our consolidated balance sheets. The adoption of ASU 2016-02 did not materially change the recognition of operating lease expense in our consolidated statements of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
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New Accounting Updates Not Yet Adopted

Accounting for Costs of Implementing Cloud Computing. In August 2018, the FASB issued 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. ASU 2018-15 is effective for fiscal years, and interim periods, beginning after December 15, 2019. Early application is permitted, but we have not yet adopted ASU 2018-15. The adoption of ASU 2018-15 will change how we account for our cloud computing arrangements. However, we do not believe that its adoption will 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 (“CECL”) model) 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 changes the scope of the special accounting for loans acquired with significant credit deterioration. ASU 2016-13 is effective for fiscal years, and interim periods, beginning after December 15, 2019. Early application is permitted, but we have not yet adopted ASU 2016-13. We believe the adoption of ASU 2016-13 will have a material impact on our consolidated financial statements and related disclosures as it will change our accounting policies for Loans.

Application of CECL to Existing Loans

We believe that Loans outstanding prior to the adoption date will qualify for transition relief under ASU 2016-13 and will be accounted for as purchased financial assets with credit deterioration (“PCD Method”). Under the PCD Method, on the adoption date, we will:

- calculate an effective interest rate based on expected future net cash flows; and
- increase the Loans receivable and 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” will not impact the net carrying amount of Loans (Loans receivable less allowance for credit losses) or net income.

For each reporting period subsequent to adoption, we will:

- 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 will be recognized as either provision for credit losses expense or a reversal of provision for credit losses expense.

Application of CECL to Future Loans

We believe that Consumer Loans assigned subsequent to the adoption of ASU 2016-13 will not qualify for the PCD Method and will be 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 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. In addition, Dealer Loans do not qualify for the PCD Method because Consumer Loans assigned 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 will:

- calculate the effective interest rate based on contractual future net cash flows; and
- record an allowance for credit losses equal to the difference between the initial balance of the Loan (advance or purchase amount) and the present value of expected future net cash flows discounted at the effective interest rate. The initial allowance for credit losses will be recognized as provision for credit losses expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
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For each reporting period subsequent to assignment, we will:

- 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 will be recognized as either provision for credit losses expense or a reversal of provision for credit losses expense.

We believe the Originated Method will result in financial reporting that is inconsistent with the economics of our Loans as:

- the effective interest rate will be significantly inflated for contractual amounts that were not expected to be collected at the time of assignment; and
- the provision for credit losses expense recognized at the time of assignment does not represent an economic loss to us.

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 new guidance, the timing of when we will recognize this income changes significantly. 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. The Originated Method diverges from economic reality by requiring us to recognize a significant provision for credit losses expense at the time of assignment for contractual amounts we never expected to realize and finance charge revenue in subsequent periods that is significantly in excess of our expected yields.

Evaluation of the Fair Value Option

Under ASC 825, Financial Instruments, we have the ability to choose to measure Loans at fair value on an instrument-by-instrument basis at specified election dates, with changes in fair value reported in net income (the fair value option). Dealer Loans are only eligible for fair value election at the time a new active Dealer assigns the first Consumer Loan under the Portfolio Program. All Purchased Loans are eligible for fair value election at the time of assignment. The fair value election may not be revoked once an election is made. In May 2019, the FASB issued ASU 2016-13, which also allows us to irrevocably elect the fair value option for all of our existing Loans upon adoption of CECL.

Given that we believe CECL will result in financial reporting that is inconsistent with the economics of our Loans, we evaluated the fair value option as an alternative to CECL. The fair value of our Loans would be determined by calculating the present value of future expected net cash flows estimated by us utilizing a discount rate based on market participant discount rates for comparable investments. While we believe the fair value option would likely result in financial reporting that approximates the economics of our Loans in a stable rate environment, this option could cause our reported results to be volatile in periods when interest rates are rapidly changing.

Based on our evaluation, we intend to account for our Loans under CECL and not elect the fair value option based on the following:

- We want to minimize volatility in our reported results related to a changing interest rate environment. In addition, we believe the election of the fair value option could materially adversely affect our financial position, liquidity and results of operations in a financial crisis period due to the impact of rapidly increasing market participant discount rates on fair value.
- We have modified our revolving secured line of credit and warehouse facilities so that the adoption of CECL will not materially impact the amount we are able to borrow under these facilities or materially impact our ability to comply with the financial covenants in these facilities. We believe that we will be able to structure our Term ABS financings issued after the adoption of CECL so that the amount that we will be able to borrow will not be materially impacted.
- We believe we will be able to quantify and explain to shareholders how CECL diverges from economic reality.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
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Estimated Financial Statement Impact of the Adoption of CECL

We have developed CECL models that we are running in parallel with our current accounting, and we will continue to validate and refine these models through the remainder of 2019. Provided below are our best estimates of the expected financial statement impact of the adoption of CECL based on our implementation efforts to date. These estimates are subject to further refinement based on continuing reviews of models, methodologies and judgements.

Upon adoption of CECL on January 1, 2020, we expect to increase our Loans receivable balance by approximately 30% to 40%. This increase will be offset by an increase in the related allowance for credit losses balance for an equal dollar amount and will not impact the net carrying amount of Loans (Loans receivable less allowance for credit losses) or net income. To the extent the characteristics of our Loan portfolio on January 1, 2020, differ from our current estimates, the actual increases to our Loans receivable and related allowance for credit losses balances upon adoption of CECL could vary from this expectation, and such variance could be material.

For Consumer Loans assigned subsequent to the adoption of CECL on January 1, 2020, the total amount of net Loan income we will recognize over the life of the Loan is not impacted by the adoption of CECL, but the timing of when we will recognize this income changes significantly. The provision for credit losses expense recorded at the time of assignment will vary based on the characteristics of each Consumer Loan. Based on recent Consumer Loan assignments, we estimate the provision for credit losses expense recorded at the time of assignment will be approximately 12% to 15% of the amount of the Loan at the time of assignment. An equivalent amount will be recorded as additional finance charge revenue over the life of the Loan. To the extent the characteristics of future Consumer Loan assignments differ from recent Consumer Loan assignments, the actual amount of provision for credit losses expense recorded at the time of assignment under CECL could vary from this estimate, and such variance could be material.

Given the significant change in timing of net Loan income recognition for new Consumer Loan assignments discussed above, we believe the amount of net income that we will report in 2020 under CECL will be significantly lower than what would be reported under current GAAP. 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 at the time of adoption as well as any refinements to our models, methodologies and judgements. Using reasonable estimates for the preceding factors, we believe 2020 net income will be approximately 30% to 60% lower under CECL than what would be reported under current GAAP, with the greatest impact occurring in the quarter of adoption. To the extent those factors differ from our current estimates, the actual impact of CECL on 2020 net income could vary from this expectation, and such variance could be material.

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 future net cash flows estimated by us utilizing a discount rate comparable with the rate used to calculate our allowance for credit losses.

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

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

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

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

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

(In millions)

	As of September 30, 2019		As of December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$ 24.7	\$ 24.7	\$ 25.7	\$ 25.7
Restricted cash and cash equivalents	329.8	329.8	303.6	303.6
Restricted securities available for sale	59.8	59.8	58.6	58.6
Loans receivable, net	6,563.7	6,647.0	5,763.3	5,855.1
Liabilities				
Revolving secured line of credit	\$ 52.2	\$ 52.2	\$ 171.9	\$ 171.9
Secured financing	3,228.3	3,292.2	3,092.7	3,100.9
Senior notes	940.2	990.9	544.4	556.3
Mortgage note	11.5	11.5	11.9	11.9

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 September 30, 2019			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents (1)	\$ 24.7	\$ —	\$ —	\$ 24.7
Restricted cash and cash equivalents (1)	329.8	—	—	329.8
Restricted securities available for sale (2)	47.9	11.9	—	59.8
Loans receivable, net (1)	—	—	6,647.0	6,647.0
Liabilities				
Revolving secured line of credit (1)	\$ —	\$ 52.2	\$ —	\$ 52.2
Secured financing (1)	—	3,292.2	—	3,292.2
Senior notes (1)	990.9	—	—	990.9
Mortgage note (1)	—	11.5	—	11.5

(In millions)	As of December 31, 2018			
	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)	303.6	—	—	303.6
Restricted securities available for sale (2)	47.9	10.7	—	58.6
Loans receivable, net (1)	—	—	5,855.1	5,855.1
Liabilities				
Revolving secured line of credit (1)	\$ —	\$ 171.9	\$ —	\$ 171.9
Secured financing (1)	—	3,100.9	—	3,100.9
Senior notes (1)	556.3	—	—	556.3
Mortgage note (1)	—	11.9	—	11.9

(1) Measured at amortized cost with fair value disclosed.

(2) Measured at fair value on a recurring basis.

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5. RESTRICTED SECURITIES AVAILABLE FOR SALE

Restricted securities available for sale consist of the following:

(In millions)

	As of September 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	\$ 24.9	\$ 0.6	\$ —	\$ 25.5
U.S. Government and agency securities	22.0	0.4	—	22.4
Asset-backed securities	11.0	0.1	—	11.1
Mortgage-backed securities	0.8	—	—	0.8
Total restricted securities available for sale	\$ 58.7	\$ 1.1	\$ —	\$ 59.8

(In millions)

	As of December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate bonds	\$ 23.4	\$ —	\$ (0.2)	\$ 23.2
U.S. Government and agency securities	24.8	0.1	(0.2)	24.7
Asset-backed securities	9.4	—	(0.1)	9.3
Mortgage-backed securities	1.4	—	—	1.4
Total restricted securities available for sale	\$ 59.0	\$ 0.1	\$ (0.5)	\$ 58.6

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

(In millions)

	Securities Available for Sale with Gross Unrealized Losses as of September 30, 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	\$ 0.9	\$ —	\$ —	\$ —	\$ 0.9	\$ —
U.S. Government and agency securities	3.0	—	—	—	3.0	—
Asset-backed securities	0.4	—	1.0	—	1.4	—
Mortgage-backed securities	—	—	0.3	—	0.3	—
Total restricted securities available for sale	\$ 4.3	\$ —	\$ 1.3	\$ —	\$ 5.6	\$ —

(In millions)

	Securities Available for Sale with Gross Unrealized Losses as of December 31, 2018					
	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	\$ 12.0	\$ (0.1)	\$ 6.5	\$ (0.1)	\$ 18.5	\$ (0.2)
U.S. Government and agency securities	2.2	—	10.5	(0.2)	12.7	(0.2)
Asset-backed securities	4.7	—	3.3	(0.1)	8.0	(0.1)
Mortgage-backed securities	—	—	1.4	—	1.4	—
Total restricted securities available for sale	\$ 18.9	\$ (0.1)	\$ 21.7	\$ (0.4)	\$ 40.6	\$ (0.5)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)
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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.

(In millions)

Contractual Maturity	As of			
	September 30, 2019		December 31, 2018	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	\$ 6.6	\$ 6.6	\$ 1.7	\$ 1.7
Over one year to five years	50.6	51.7	55.1	54.7
Over five years to ten years	1.0	1.0	0.8	0.8
Over ten years	0.5	0.5	1.4	1.4
Total restricted securities available for sale	\$ 58.7	\$ 59.8	\$ 59.0	\$ 58.6

6. LOANS RECEIVABLE

Loans receivable consists of the following:

(In millions)

	As of September 30, 2019		
	Dealer Loans	Purchased Loans	Total
Loans receivable	\$ 4,559.3	\$ 2,513.5	\$ 7,072.8
Allowance for credit losses	(409.3)	(99.8)	(509.1)
Loans receivable, net	\$ 4,150.0	\$ 2,413.7	\$ 6,563.7

(In millions)

	As of December 31, 2018		
	Dealer Loans	Purchased Loans	Total
Loans receivable	\$ 4,141.0	\$ 2,084.2	\$ 6,225.2
Allowance for credit losses	(378.1)	(83.8)	(461.9)
Loans receivable, net	\$ 3,762.9	\$ 2,000.4	\$ 5,763.3

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

A summary of changes in Loans receivable is as follows:

(In millions)	For the Three Months Ended September 30, 2019		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 4,466.0	\$ 2,407.6	\$ 6,873.6
New Consumer Loan assignments (1)	573.3	321.1	894.4
Principal collected on Loans receivable	(510.8)	(235.5)	(746.3)
Accelerated Dealer Holdback payments	16.1	—	16.1
Dealer Holdback payments	34.8	—	34.8
Transfers (2)	(20.3)	20.3	—
Write-offs	(0.3)	(0.2)	(0.5)
Recoveries (3)	0.5	0.2	0.7
Balance, end of period	<u>\$ 4,559.3</u>	<u>\$ 2,513.5</u>	<u>\$ 7,072.8</u>

(In millions)	For the Three Months Ended September 30, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 3,918.4	\$ 1,861.7	\$ 5,780.1
New Consumer Loan assignments (1)	556.7	274.3	831.0
Principal collected on Loans receivable	(466.0)	(181.3)	(647.3)
Accelerated Dealer Holdback payments	11.6	—	11.6
Dealer Holdback payments	31.9	—	31.9
Transfers (2)	(20.2)	20.2	—
Write-offs	(2.5)	(0.2)	(2.7)
Recoveries (3)	0.3	0.3	0.6
Balance, end of period	<u>\$ 4,030.2</u>	<u>\$ 1,975.0</u>	<u>\$ 6,005.2</u>

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

(In millions)

	For the Nine Months Ended September 30, 2019		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 4,141.0	\$ 2,084.2	\$ 6,225.2
New Consumer Loan assignments (1)	1,901.1	1,053.9	2,955.0
Principal collected on Loans receivable	(1,562.2)	(692.7)	(2,254.9)
Accelerated Dealer Holdback payments	44.1	—	44.1
Dealer Holdback payments	105.4	—	105.4
Transfers (2)	(67.6)	67.6	—
Write-offs	(3.7)	(0.4)	(4.1)
Recoveries (3)	1.2	0.9	2.1
Balance, end of period	<u>\$ 4,559.3</u>	<u>\$ 2,513.5</u>	<u>\$ 7,072.8</u>

(In millions)

	For the Nine Months Ended September 30, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 3,518.1	\$ 1,530.9	\$ 5,049.0
New Consumer Loan assignments (1)	1,870.2	917.0	2,787.2
Principal collected on Loans receivable	(1,425.2)	(523.8)	(1,949.0)
Accelerated Dealer Holdback payments	41.0	—	41.0
Dealer Holdback payments	98.0	—	98.0
Transfers (2)	(53.3)	53.3	—
Write-offs	(21.3)	(3.2)	(24.5)
Recoveries (3)	2.7	0.8	3.5
Balance, end of period	<u>\$ 4,030.2</u>	<u>\$ 1,975.0</u>	<u>\$ 6,005.2</u>

(1) The Dealer Loans amount represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program. The Purchased Loans amount represents one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program.

(2) 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.

(3) Represents collections received on previously written off Loans.

Contractual net cash flows are comprised of the contractual repayments of the underlying Consumer Loans for Dealer Loans and Purchased Loans, less the related Dealer Holdback payments for Dealer Loans. The difference between the contractual net cash flows and the expected net cash flows is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded in our balance sheets. We do not believe that the contractual net cash flows of our Loan portfolio are relevant in assessing our financial position. We are contractually owed repayments on many Consumer Loans, primarily those older than 120 months, where we are not forecasting any future net cash flows.

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

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:

(In millions)

	For the Three Months Ended September 30, 2019		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 1,390.4	\$ 911.9	\$ 2,302.3
New Consumer Loan assignments (1)	224.0	134.6	358.6
Accretion (2)	(227.6)	(124.7)	(352.3)
Provision for credit losses	17.9	1.4	19.3
Forecast changes	(4.2)	6.8	2.6
Transfers (3)	(7.9)	10.0	2.1
Balance, end of period	<u>\$ 1,392.6</u>	<u>\$ 940.0</u>	<u>\$ 2,332.6</u>

(In millions)

	For the Three Months Ended September 30, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 1,246.6	\$ 708.4	\$ 1,955.0
New Consumer Loan assignments (1)	227.8	112.6	340.4
Accretion (2)	(208.6)	(96.6)	(305.2)
Provision for credit losses	12.4	1.6	14.0
Forecast changes	(0.1)	17.2	17.1
Transfers (3)	(7.8)	10.2	2.4
Balance, end of period	<u>\$ 1,270.3</u>	<u>\$ 753.4</u>	<u>\$ 2,023.7</u>

(In millions)

	For the Nine Months Ended September 30, 2019		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 1,283.0	\$ 782.5	\$ 2,065.5
New Consumer Loan assignments (1)	759.9	438.7	1,198.6
Accretion (2)	(668.1)	(352.0)	(1,020.1)
Provision for credit losses	44.0	5.2	49.2
Forecast changes	(0.3)	32.6	32.3
Transfers (3)	(25.9)	33.0	7.1
Balance, end of period	<u>\$ 1,392.6</u>	<u>\$ 940.0</u>	<u>\$ 2,332.6</u>

(In millions)

	For the Nine Months Ended September 30, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 1,088.6	\$ 576.9	\$ 1,665.5
New Consumer Loan assignments (1)	768.1	380.2	1,148.3
Accretion (2)	(603.5)	(266.1)	(869.6)
Provision for credit losses	34.3	4.9	39.2
Forecast changes	3.5	31.0	34.5
Transfers (3)	(20.7)	26.5	5.8
Balance, end of period	<u>\$ 1,270.3</u>	<u>\$ 753.4</u>	<u>\$ 2,023.7</u>

(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.

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

Additional information related to new Consumer Loan assignments is as follows:

(In millions)

	For the Three Months Ended September 30, 2019		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	\$ 895.1	\$ 704.4	\$ 1,599.5
Expected net cash flows at the time of assignment (2)	797.3	455.7	1,253.0
Fair value at the time of assignment (3)	573.3	321.1	894.4

(In millions)

	For the Three Months Ended September 30, 2018		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	\$ 883.1	\$ 606.1	\$ 1,489.2
Expected net cash flows at the time of assignment (2)	784.5	386.9	1,171.4
Fair value at the time of assignment (3)	556.7	274.3	831.0

(In millions)

	For the Nine Months Ended September 30, 2019		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	\$ 2,982.2	\$ 2,308.0	\$ 5,290.2
Expected net cash flows at the time of assignment (2)	2,661.0	1,492.6	4,153.6
Fair value at the time of assignment (3)	1,901.1	1,053.9	2,955.0

(In millions)

	For the Nine Months Ended September 30, 2018		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	\$ 2,965.7	\$ 2,028.4	\$ 4,994.1
Expected net cash flows at the time of assignment (2)	2,638.3	1,297.2	3,935.5
Fair value at the time of assignment (3)	1,870.2	917.0	2,787.2

- (1) The Dealer Loans amount represents the 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 the 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 the 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 the 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.

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

Credit Quality

We monitor and evaluate the credit quality of Consumer Loans assigned under our Portfolio and Purchase Programs on a monthly basis by comparing our current forecasted collection rates to our initial expectations. For additional information regarding credit quality, see Note 3 to the consolidated financial statements. The following table compares our forecast of Consumer Loan collection rates as of September 30, 2019 with the forecasts as of June 30, 2019, as of December 31, 2018 and at the time of assignment, segmented by year of assignment:

Consumer Loan Assignment Year	Forecasted Collection Percentage as of (1)				Current Forecast Variance from		
	September 30, 2019	June 30, 2019	December 31, 2018	Initial Forecast	June 30, 2019	December 31, 2018	Initial Forecast
2010	77.7%	77.7%	77.7%	73.6%	0.0 %	0.0 %	4.1 %
2011	74.8%	74.8%	74.7%	72.5%	0.0 %	0.1 %	2.3 %
2012	73.9%	73.9%	73.8%	71.4%	0.0 %	0.1 %	2.5 %
2013	73.5%	73.5%	73.5%	72.0%	0.0 %	0.0 %	1.5 %
2014	71.8%	71.8%	71.7%	71.8%	0.0 %	0.1 %	0.0 %
2015	65.5%	65.5%	65.4%	67.7%	0.0 %	0.1 %	-2.2 %
2016	64.1%	64.2%	64.2%	65.4%	-0.1 %	-0.1 %	-1.3 %
2017	65.0%	65.1%	65.5%	64.0%	-0.1 %	-0.5 %	1.0 %
2018	65.4%	65.5%	65.0%	63.6%	-0.1 %	0.4 %	1.8 %
2019 (2)	64.8%	64.7%	—	64.1%	0.1 %	—	0.7 %

- (1) Represents the total forecasted collections we expect to collect on the Consumer Loans as a percentage of the repayments that we were contractually owed on the Consumer Loans at the time of assignment. Contractual repayments include both principal and interest. Forecasted collection rates are negatively impacted by canceled Consumer Loans as the contractual amount owed is not removed from the denominator for purposes of computing forecasted collection rates in the table.
- (2) The forecasted collection rate for 2019 Consumer Loans as of September 30, 2019 includes both Consumer Loans that were in our portfolio as of June 30, 2019 and Consumer Loans assigned during the most recent quarter. The following table provides forecasted collection rates for each of these segments:

2019 Consumer Loan Assignment Period	Forecasted Collection Percentage as of			Current Forecast Variance from	
	September 30, 2019	June 30, 2019	Initial Forecast	June 30, 2019	Initial Forecast
January 1, 2019 through June 30, 2019	65.1%	64.7%	64.2%	0.4%	0.9%
July 1, 2019 through September 30, 2019	64.1%	—	64.0%	—	0.1%

Consumer Loans assigned in 2010 through 2013, 2017 and 2018 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2015 and 2016 have yielded forecasted collection results materially worse than our initial estimates. For Consumer Loans assigned in 2014 and 2019, actual results have been close to our initial estimates. For the three months ended September 30, 2019, forecasted collection rates improved for Consumer Loans assigned in 2019 and were generally consistent with expectations at the start of the period for all other assignment years presented. For the nine months ended September 30, 2019, forecasted collection rates improved for Consumer Loans assigned in 2018 and 2019, declined for Consumer Loans assigned in 2017 and were generally consistent with expectations at the start of the period for all other assignment years presented.

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

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:

(In millions)

	As of September 30, 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	\$ 1,585.3	\$ 1,931.1	\$ 3,516.4	\$ 2,974.0	\$ 582.4	\$ 3,556.4
Allowance for credit losses	—	—	—	(409.3)	(99.8)	(509.1)
Loans receivable, net	<u>\$ 1,585.3</u>	<u>\$ 1,931.1</u>	<u>\$ 3,516.4</u>	<u>\$ 2,564.7</u>	<u>\$ 482.6</u>	<u>\$ 3,047.3</u>

(In millions)

	As of December 31, 2018					
	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	\$ 1,355.1	\$ 1,392.1	\$ 2,747.2	\$ 2,785.9	\$ 692.1	\$ 3,478.0
Allowance for credit losses	—	—	—	(378.1)	(83.8)	(461.9)
Loans receivable, net	<u>\$ 1,355.1</u>	<u>\$ 1,392.1</u>	<u>\$ 2,747.2</u>	<u>\$ 2,407.8</u>	<u>\$ 608.3</u>	<u>\$ 3,016.1</u>

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

A summary of changes in the allowance for credit losses is as follows:

(In millions)

	For the Three Months Ended September 30, 2019		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 394.0	\$ 95.6	\$ 489.6
Provision for credit losses	17.9	1.4	19.3
Transfers (1)	(2.8)	2.8	—
Write-offs	(0.3)	(0.2)	(0.5)
Recoveries (2)	0.5	0.2	0.7
Balance, end of period	<u>\$ 409.3</u>	<u>\$ 99.8</u>	<u>\$ 509.1</u>

(In millions)

	For the Three Months Ended September 30, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 365.9	\$ 69.8	\$ 435.7
Provision for credit losses	12.4	1.6	14.0
Transfers (1)	(3.1)	3.1	—
Write-offs	(2.5)	(0.2)	(2.7)
Recoveries (2)	0.3	0.3	0.6
Balance, end of period	<u>\$ 373.0</u>	<u>\$ 74.6</u>	<u>\$ 447.6</u>

(In millions)

	For the Nine Months Ended September 30, 2019		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 378.1	\$ 83.8	\$ 461.9
Provision for credit losses	44.0	5.2	49.2
Transfers (1)	(10.3)	10.3	—
Write-offs	(3.7)	(0.4)	(4.1)
Recoveries (2)	1.2	0.9	2.1
Balance, end of period	<u>\$ 409.3</u>	<u>\$ 99.8</u>	<u>\$ 509.1</u>

(In millions)

	For the Nine Months Ended September 30, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	\$ 366.0	\$ 63.4	\$ 429.4
Provision for credit losses	34.3	4.9	39.2
Transfers (1)	(8.7)	8.7	—
Write-offs	(21.3)	(3.2)	(24.5)
Recoveries (2)	2.7	0.8	3.5
Balance, end of period	<u>\$ 373.0</u>	<u>\$ 74.6</u>	<u>\$ 447.6</u>

(1) 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.

(2) Represents collections received on previously written off Loans.

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

7. REINSURANCE

A summary of reinsurance activity is as follows:

(In millions)	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2019		2018		2019		2018	
	\$		\$		\$		\$	
Net assumed written premiums	11.4		12.9		39.1		43.3	
Net premiums earned	12.9		12.2		38.2		34.2	
Provision for claims	8.2		7.0		23.1		19.5	
Amortization of capitalized acquisition costs	0.2		0.3		0.9		0.8	

The trust assets and related reinsurance liabilities are as follows:

(In millions)	Balance Sheet location	As of	
		September 30, 2019	December 31, 2018
		\$	\$
Trust assets	Restricted cash and cash equivalents	0.4	0.3
Trust assets	Restricted securities available for sale	59.8	58.6
Unearned premium	Accounts payable and accrued liabilities	44.2	43.3
Claims reserve (1)	Accounts payable and accrued liabilities	2.0	1.6

(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 September 30,				For the Nine Months Ended September 30,			
	2019		2018		2019		2018	
	\$		\$		\$		\$	
Ancillary product profit sharing	8.8		8.7		27.3		20.9	
Remarketing fees	3.0		2.8		9.5		8.9	
Interest	2.0		1.4		6.7		3.6	
Dealer enrollment fees	1.4		1.0		3.5		3.3	
Dealer support products and services	0.6		1.0		2.0		3.4	
GPS-SID fees	—		1.4		1.9		5.3	
Other	0.1		0.5		0.7		0.4	
Total	15.9		16.8		51.6		45.8	

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:

(In millions)		For the Three Months Ended September 30, 2019							
Source of income	Ancillary product profit sharing	Remarketing fees	Interest	Dealer enrollment fees	Dealer support products and services	GPS-SID fees	Other	Total Other Income	
Third Party Providers	\$ 8.8	\$ —	\$ 2.0	\$ —	\$ —	\$ —	\$ 0.1	\$ 10.9	
Dealers	—	3.0	—	1.4	0.6	—	—	5.0	
Total	<u>\$ 8.8</u>	<u>\$ 3.0</u>	<u>\$ 2.0</u>	<u>\$ 1.4</u>	<u>\$ 0.6</u>	<u>\$ —</u>	<u>\$ 0.1</u>	<u>\$ 15.9</u>	
Timing of revenue recognition									
Over time	\$ 8.8	\$ —	\$ 2.0	\$ 1.4	\$ —	\$ —	\$ —	\$ 12.2	
At a point in time	—	3.0	—	—	0.6	—	0.1	3.7	
Total	<u>\$ 8.8</u>	<u>\$ 3.0</u>	<u>\$ 2.0</u>	<u>\$ 1.4</u>	<u>\$ 0.6</u>	<u>\$ —</u>	<u>\$ 0.1</u>	<u>\$ 15.9</u>	

(In millions)		For the Nine Months Ended September 30, 2019							
Source of income	Ancillary product profit sharing	Remarketing fees	Interest	Dealer enrollment fees	Dealer support products and services	GPS-SID fees	Other	Total Other Income	
Third Party Providers	\$ 27.3	\$ —	\$ 6.7	\$ —	\$ —	\$ 1.9	\$ 0.7	\$ 36.6	
Dealers	—	9.5	—	3.5	2.0	—	—	15.0	
Total	<u>\$ 27.3</u>	<u>\$ 9.5</u>	<u>\$ 6.7</u>	<u>\$ 3.5</u>	<u>\$ 2.0</u>	<u>\$ 1.9</u>	<u>\$ 0.7</u>	<u>\$ 51.6</u>	
Timing of revenue recognition									
Over time	\$ 27.3	\$ —	\$ 6.7	\$ 3.5	\$ —	\$ —	\$ —	\$ 37.5	
At a point in time	—	9.5	—	—	2.0	1.9	0.7	14.1	
Total	<u>\$ 27.3</u>	<u>\$ 9.5</u>	<u>\$ 6.7</u>	<u>\$ 3.5</u>	<u>\$ 2.0</u>	<u>\$ 1.9</u>	<u>\$ 0.7</u>	<u>\$ 51.6</u>	

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

9. DEBT

Debt consists of the following:

(In millions)

	As of September 30, 2019			
	Principal Outstanding	Unamortized Debt Issuance Costs	Unamortized Discount	Carrying Amount
Revolving secured line of credit (1)	\$ 52.2	\$ —	\$ —	\$ 52.2
Secured financing (2)	3,244.1	(15.8)	—	3,228.3
Senior notes	950.0	(8.9)	(0.9)	940.2
Mortgage note	11.5	—	—	11.5
Total debt	\$ 4,257.8	\$ (24.7)	\$ (0.9)	\$ 4,232.2

(In millions)

	As of December 31, 2018			
	Principal Outstanding	Unamortized Debt Issuance Costs	Unamortized Discount	Carrying Amount
Revolving secured line of credit (1)	\$ 171.9	\$ —	\$ —	\$ 171.9
Secured financing (2)	3,108.7	(16.0)	—	3,092.7
Senior notes	550.0	(4.5)	(1.1)	544.4
Mortgage note	11.9	—	—	11.9
Total debt	\$ 3,842.5	\$ (20.5)	\$ (1.1)	\$ 3,820.9

(1) Excludes deferred debt issuance costs of \$3.5 million and \$2.9 million as of September 30, 2019 and December 31, 2018, respectively, which are included in other assets.

(2) Warehouse facilities and Term ABS.

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

General information for each of our financing transactions in place as of September 30, 2019 is as follows:

(Dollars in millions)

Financings	Wholly-owned Subsidiary	Maturity Date	Financing Amount	Interest Rate as of September 30, 2019
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	12/17/2020 (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 2016-3 (1)	Credit Acceptance Funding LLC 2016-3	10/15/2018 (2)	350.0	Fixed rate
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
2021 Senior Notes	n/a	02/15/2021	300.0	Fixed rate
2023 Senior Notes	n/a	03/15/2023	250.0	Fixed rate
2026 Senior Notes	n/a	03/15/2026	400.0	Fixed rate
Mortgage Note	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 17, 2022 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:

(In millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revolving Secured Line of Credit				
Maximum outstanding principal balance	\$ 193.3	\$ 153.9	\$ 282.9	\$ 265.4
Average outstanding principal balance	71.1	22.2	80.1	44.8
Warehouse Facility II				
Maximum outstanding principal balance	201.0	201.0	201.0	201.0
Average outstanding principal balance	126.7	4.4	102.8	4.4
Warehouse Facility IV				
Maximum outstanding principal balance	—	—	100.0	99.0
Average outstanding principal balance	—	—	1.5	0.7
Warehouse Facility V				
Maximum outstanding principal balance	35.0	97.3	35.0	99.0
Average outstanding principal balance	3.4	2.1	1.2	1.4
Warehouse Facility VI				
Maximum outstanding principal balance	—	—	—	75.0
Average outstanding principal balance	—	—	—	0.5
Warehouse Facility VII				
Maximum outstanding principal balance	50.0	100.0	101.5	150.0
Average outstanding principal balance	23.9	2.2	9.4	10.4
Warehouse Facility VIII				
Maximum outstanding principal balance	75.0	—	75.0	—
Average outstanding principal balance	12.7	—	12.7	—

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

(Dollars in millions)

	As of	
	September 30, 2019	December 31, 2018
Revolving Secured Line of Credit		
Principal balance outstanding	\$ 52.2	\$ 171.9
Amount available for borrowing (1)	287.8	178.1
Interest rate	3.89%	4.38%
Warehouse Facility II		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	400.0	400.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	—%	—%
Warehouse Facility IV		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	300.0	250.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	—%	—%
Warehouse Facility V		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	100.0	100.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	—%	—%
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	—	0.1
Interest rate	—%	—%
Warehouse Facility VII		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	150.0	150.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	—%	—%
Warehouse Facility VIII		
Principal balance outstanding	\$ —	\$ —
Amount available for borrowing (1)	200.0	—
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	—	—
Interest rate	—%	—%
Term ABS 2016-1		
Principal balance outstanding	\$ —	\$ 125.3
Loans pledged as collateral	—	320.8
Restricted cash and cash equivalents pledged as collateral	—	29.6
Interest rate	—%	4.41%

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

Term ABS 2016-2			
Principal balance outstanding	\$	—	\$ 184.5
Loans pledged as collateral		—	335.0
Restricted cash and cash equivalents pledged as collateral		—	28.3
Interest rate		—%	3.20%
Term ABS 2016-3			
Principal balance outstanding	\$	102.5	\$ 300.6
Loans pledged as collateral		254.3	392.7
Restricted cash and cash equivalents pledged as collateral		26.2	30.7
Interest rate		3.29%	2.59%
Term ABS 2017-1			
Principal balance outstanding	\$	181.3	\$ 350.0
Loans pledged as collateral		331.1	429.8
Restricted cash and cash equivalents pledged as collateral		29.5	30.9
Interest rate		2.98%	2.78%
Term ABS 2017-2			
Principal balance outstanding	\$	359.5	\$ 450.0
Loans pledged as collateral		482.6	548.4
Restricted cash and cash equivalents pledged as collateral		40.8	39.4
Interest rate		2.77%	2.72%
Term ABS 2017-3			
Principal balance outstanding	\$	350.0	\$ 350.0
Loans pledged as collateral		424.5	426.1
Restricted cash and cash equivalents pledged as collateral		33.0	28.6
Interest rate		2.88%	2.88%
Term ABS 2018-1			
Principal balance outstanding	\$	500.0	\$ 500.0
Loans pledged as collateral		609.1	614.5
Restricted cash and cash equivalents pledged as collateral		46.4	41.8
Interest rate		3.24%	3.24%
Term ABS 2018-2			
Principal balance outstanding	\$	450.0	\$ 450.0
Loans pledged as collateral		550.5	552.2
Restricted cash and cash equivalents pledged as collateral		40.2	36.3
Interest rate		3.68%	3.68%
Term ABS 2018-3			
Principal balance outstanding	\$	398.3	\$ 398.3
Loans pledged as collateral		498.6	578.8
Restricted cash and cash equivalents pledged as collateral		35.1	33.6
Interest rate		3.72%	3.72%
Term ABS 2019-1			
Principal balance outstanding	\$	402.5	\$ —
Loans pledged as collateral		491.0	—
Restricted cash and cash equivalents pledged as collateral		34.1	—
Interest rate		3.53%	—%

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

Term ABS 2019-2			
Principal balance outstanding	\$	500.0	\$ —
Loans pledged as collateral		642.0	—
Restricted cash and cash equivalents pledged as collateral		40.1	—
Interest rate		3.13%	—%
2021 Senior Notes			
Principal balance outstanding	\$	300.0	\$ 300.0
Interest rate		6.125%	6.125%
2023 Senior Notes			
Principal balance outstanding	\$	250.0	\$ 250.0
Interest rate		7.375%	7.375%
2026 Senior Notes			
Principal balance outstanding	\$	400.0	\$ —
Interest rate		6.625%	—%
Mortgage Note			
Principal balance outstanding	\$	11.5	\$ 11.9
Interest rate		3.73%	3.85%

(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 2016-3, 2017-1, 2017-2, 2017-3, 2018-1, 2018-2, 2018-3 and 2019-1 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 2016-3	October 27, 2016	\$ 437.8	Through October 15, 2018
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

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 Company’s subsidiaries Buyers Vehicle Protection Plan, Inc. and Vehicle Remarketing Services, Inc., as guarantors (collectively, the “Guarantors”), and U.S. Bank National Association, as trustee.

The 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 notes for general corporate purposes, including repayment of outstanding borrowings under our revolving secured line of credit facility.

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

On March 30, 2015, we issued \$250.0 million aggregate principal amount of 7.375% senior notes due 2023 (the “2023 senior notes”). The 2023 senior notes were issued pursuant to an indenture, dated as of March 30, 2015, among the Company, as issuer, the Company’s subsidiaries Buyers Vehicle Protection Plan, Inc. and Vehicle Remarketing Services, Inc., as guarantors (collectively, the “Guarantors”), and U.S. Bank National Association, as trustee.

The 2023 senior notes mature on March 15, 2023 and bear interest at a rate of 7.375% 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, 2015. The 2023 senior notes were issued at a price of 99.266% of their aggregate principal amount, resulting in gross proceeds of \$248.2 million, and a yield to maturity of 7.5% per annum. We used the net proceeds from the offering of the notes for general corporate purposes, including repayment of outstanding borrowings under our revolving secured line of credit facility.

On January 22, 2014, we issued \$300.0 million aggregate principal amount of 6.125% senior notes due 2021 (the “2021 senior notes”). The 2021 senior notes were issued pursuant to an indenture, dated as of January 22, 2014, among the Company, the Guarantors, and U.S. Bank National Association, as trustee.

The 2021 senior notes mature on February 15, 2021 and bear interest at a rate of 6.125% per annum, computed on the basis of a 360-day year composed of twelve 30-day months and payable semi-annually on February 15 and August 15 of each year, beginning on August 15, 2014. We used the net proceeds from the 2021 senior notes, together with borrowings under our revolving credit facilities, to redeem in full the \$350.0 million aggregate principal amount of our 9.125% first priority senior secured notes due 2017 on February 21, 2014.

All of the 2021, 2023 and 2026 senior notes (the “senior notes”) are guaranteed on a senior basis by the Guarantors, which are also guarantors of obligations under our revolving secured line of credit facility. Other existing and future subsidiaries of ours may become guarantors of the senior notes in the future. The indentures for the senior notes provide for a guarantor of the senior notes to be released from its obligations under its guarantee of the senior notes under specified circumstances.

Mortgage Note

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

Debt Covenants

As of September 30, 2019, we were in compliance with our covenants under the revolving secured line of credit facility, 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 and Term ABS financings also contain covenants that measure the performance of the contributed assets. As of September 30, 2019, we were in compliance with all such covenants. As of the end of the quarter, we were also in compliance with our covenants under the senior notes indentures.

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

10. DERIVATIVE AND HEDGING INSTRUMENTS

Interest Rate Caps. We utilize interest rate cap agreements to manage the interest rate risk on certain secured financings. The following tables provide the terms of our interest rate cap agreements that were in effect as of September 30, 2019 and December 31, 2018:

(Dollars in millions)

As of September 30, 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	150.0	5.50%
200.0	Warehouse Facility VIII	Cap Floating Rate	08/2019	08/2023	200.0	5.50%

(Dollars in millions)

As of December 31, 2018

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%
250.0	Warehouse Facility IV	Cap Floating Rate	04/2016	04/2019	25.0	5.50%
		Cap Floating Rate	05/2017	04/2021	75.0	6.50%
		Cap Floating Rate	05/2018	04/2021	150.0	6.50%
					250.0	
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	150.0	5.50%
125.3	Term ABS 2016-1	Cap Floating Rate	04/2016	02/2019	64.2	5.00%

(1) Rate excludes the spread over the LIBOR rate.

The interest rate caps have not been designated as hedging instruments. As of September 30, 2019 and December 31, 2018, the interest rate caps had a fair value of \$0.1 million and \$0.0 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 September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
U.S. federal statutory income tax rate	21.0%	21.0%	21.0 %	21.0%
State income taxes	3.3%	2.5%	2.9 %	2.5%
Excess tax benefits from stock-based compensation plans	—%	—%	-1.2 %	—%
Other	0.2%	0.4%	0.2 %	0.3%
Effective income tax rate	24.5%	23.9%	22.9 %	23.8%

State income taxes

The increases in the effective state income tax rates for the three and nine months ended September 30, 2019, compared to the same periods in 2018, were primarily due to higher effective income tax rates in certain state tax jurisdictions.

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 that this tax benefit exceeds the grant-date fair value that was recognized as stock-based compensation expense is referred to as an excess tax benefit. Excess tax benefits are recognized in provision for income taxes and reduce our effective income tax rate. The increase in excess tax benefits from 2018 to 2019 was primarily the result of an increase 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 PER SHARE

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted average shares outstanding:				
Common shares	18,659,113	19,158,654	18,662,610	19,157,004
Vested restricted stock units	285,559	306,909	285,530	299,385
Basic number of weighted average shares outstanding	18,944,672	19,465,563	18,948,140	19,456,389
Dilutive effect of restricted stock and restricted stock units	6,194	8,415	19,412	15,808
Dilutive number of weighted average shares outstanding	18,950,866	19,473,978	18,967,552	19,472,197

For the three and nine months ended September 30, 2019 and 2018, there were no shares of restricted stock or restricted stock units that would have been anti-dilutive.

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

13. STOCK REPURCHASES

There were no stock repurchases for the three months ended September 30, 2019 and 2018. The following table summarizes our stock repurchases for the nine months ended September 30, 2019 and 2018:

(Dollars in millions)

Stock Repurchases	For the Nine Months Ended September 30,			
	2019		2018	
	Number of Shares Repurchased	Cost	Number of Shares Repurchased	Cost
Open Market (1)	225,915	\$ 91.0	—	\$ —
Other (2)	42,696	18.2	6,185	2.0
Total	268,611	\$ 109.2	6,185	\$ 2.0

- (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 February 13, 2017, the board of directors authorized the repurchase of up to one million shares of our common stock in addition to the board's prior authorizations. As of September 30, 2019, we had authorization to repurchase 213,550 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 September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	Restricted stock	\$ 0.8	\$ 0.7	\$ 2.3
Restricted stock units	1.2	2.0	3.4	5.7
Total	\$ 2.0	\$ 2.7	\$ 5.7	\$ 7.8

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, 2018	150,647	\$ 117.41
Granted	5,301	441.54
Vested	(17,971)	148.14
Forfeited	(320)	372.15
Non-vested as of September 30, 2019	<u>137,657</u>	<u>\$ 125.29</u>

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

Restricted Stock Units	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value Per Share
Outstanding as of December 31, 2018	516,773	\$ 127.07
Granted	3,000	453.64
Converted	(87,842)	106.54
Forfeited	(3,100)	206.45
Outstanding as of September 30, 2019	<u>428,831</u>	<u>\$ 132.99</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONCLUDED)
(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, 2018.

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. We cannot predict the eventual scope, duration or outcome of this investigation 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 10, 2018, we were informed by the New York Department of Financial Services, Financial Frauds & Consumer Protection Division ("DFS") that it believed that the Company may have violated the law relating to fair lending; may have misrepresented to consumers information related to GPS Starter Interrupt Devices; and may have provided inaccurate information in the course of a DFS supervisory examination. We cooperated with the DFS to address its concerns, and on April 24, 2019, we learned that the DFS has closed its current examinations of the Company.

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 June 14, 2017, we were informed that the Bureau's Office of Fair Lending and Equal Opportunity is investigating whether the Company may have violated the Equal Credit Opportunity Act and Regulation B. 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 inquiry.

On November 7, 2016, we received a civil investigative demand from the Federal Trade Commission ("FTC") seeking information on the Company's policies, practices and procedures in allowing car dealers to use GPS Starter Interrupters on consumer vehicles. We cooperated with the FTC, and on May 9, 2019, we learned that the FTC had closed this matter.

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(UNAUDITED)

On March 18, 2016, we received a subpoena from the Attorney General of the State of Maryland, relating to the Company's repossession and sale policies and procedures in the state of Maryland. 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 February 19, 2016, we received a First Amended Complaint filed by Westlake Services d/b/a Westlake Financial Service and Nowcom Corporation, alleging that the Company has attempted to monopolize the indirect financing profit sharing program market in violation of Section 2 of the Sherman Act and seeking, among other things, injunctive relief and unspecified money damages, which, if awarded, would likely be trebled pursuant to the Sherman Act. The case was filed in the United States District Court, Central District of California, Western Division. On April 6, 2016, the Court dismissed the claims brought by Nowcom Corporation. On January 5, 2018, the Court entered judgment in favor of the Company, dismissing the case with prejudice on the merits and ordering that the Company be awarded its costs of suit from Westlake Services, LLC. On February 2, 2018, Westlake Services, LLC filed a Notice of Appeal with the Court. On July 13, 2018, Westlake Services, LLC filed its appellate brief with the United States Court of Appeals for the Ninth Circuit. On September 14, 2018, we filed our response to Westlake Services, LLC's appellate brief. On October 19, 2018, Westlake Services, LLC filed its reply brief. 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 September 18, 2015, we received a subpoena from the Attorney General of the State of New York, Civil Rights Bureau relating to the Company's origination and collection of Consumer Loans in the state of New York. We have cooperated with the inquiry and have been informed that it is inactive.

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

On December 4, 2014, we received a civil investigative demand from the Office of the Attorney General of the Commonwealth of Massachusetts relating to the origination and collection of non-prime auto loans in Massachusetts. On November 20, 2017 we received a second civil 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 2018 Annual Report on Form 10-K, as well as Part I - Item 1 - Financial Statements, of this Form 10-Q, which is incorporated herein by reference.

Overview

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

For the three months ended September 30, 2019 consolidated net income was \$165.4 million, or \$8.73 per diluted share, compared to \$151.0 million, or \$7.75 per diluted share, for the same period in 2018. For the nine months ended September 30, 2019, consolidated net income was \$494.2 million, or \$26.06 per diluted share, compared to \$422.1 million, or \$21.68 per diluted share, for the same period in 2018. The increases in consolidated net income for the three and nine months ended September 30, 2019 were primarily due to an increase in the average balance of our Loan portfolio.

The Financial Accounting Standards Board issued a new accounting standard (known as CECL) that will change how we account for our Loans effective January 1, 2020. The net Loan income (finance charge revenue less provision for credit losses) 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. 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. CECL diverges from economic reality by requiring us to recognize a significant provision for credit losses 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 the amount of net income that we will report in 2020 under CECL will be significantly lower than what would be reported under current GAAP. 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 at the time of adoption as well as any refinements to our models, methodologies and judgements. Using reasonable estimates for the preceding factors, we believe 2020 net income will be approximately 30% to 60% lower under CECL than what would be reported under current GAAP, with the greatest impact occurring in the quarter of adoption. To the extent those factors differ from our current estimates, the actual impact of CECL on 2020 net income could vary from this expectation, and such variance could be material. 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.

Critical Success Factors

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

Consumer Loan Metrics

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

We use a statistical model to estimate the expected collection rate for each Consumer Loan at the time of assignment. We continue to evaluate the expected collection rate of each Consumer Loan subsequent to assignment. Our evaluation becomes more accurate as the Consumer Loans age, as we use actual performance data in our forecast. By comparing our current expected collection rate for each Consumer Loan with the rate we projected at the time of assignment, we are able to assess the accuracy of our initial forecast. The following table compares our forecast of Consumer Loan collection rates as of September 30, 2019 with the forecasts as of June 30, 2019, as of December 31, 2018 and at the time of assignment, segmented by year of assignment:

Consumer Loan Assignment Year	Forecasted Collection Percentage as of (1)				Current Forecast Variance from		
	September 30, 2019	June 30, 2019	December 31, 2018	Initial Forecast	June 30, 2019	December 31, 2018	Initial Forecast
2010	77.7%	77.7%	77.7%	73.6%	0.0 %	0.0 %	4.1 %
2011	74.8%	74.8%	74.7%	72.5%	0.0 %	0.1 %	2.3 %
2012	73.9%	73.9%	73.8%	71.4%	0.0 %	0.1 %	2.5 %
2013	73.5%	73.5%	73.5%	72.0%	0.0 %	0.0 %	1.5 %
2014	71.8%	71.8%	71.7%	71.8%	0.0 %	0.1 %	0.0 %
2015	65.5%	65.5%	65.4%	67.7%	0.0 %	0.1 %	-2.2 %
2016	64.1%	64.2%	64.2%	65.4%	-0.1 %	-0.1 %	-1.3 %
2017	65.0%	65.1%	65.5%	64.0%	-0.1 %	-0.5 %	1.0 %
2018	65.4%	65.5%	65.0%	63.6%	-0.1 %	0.4 %	1.8 %
2019 (2)	64.8%	64.7%	—	64.1%	0.1 %	—	0.7 %

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

(2) The forecasted collection rate for 2019 Consumer Loans as of September 30, 2019 includes both Consumer Loans that were in our portfolio as of June 30, 2019 and Consumer Loans assigned during the most recent quarter. The following table provides forecasted collection rates for each of these segments:

2019 Consumer Loan Assignment Period	Forecasted Collection Percentage as of			Current Forecast Variance from	
	September 30, 2019	June 30, 2019	Initial Forecast	June 30, 2019	Initial Forecast
January 1, 2019 through June 30, 2019	65.1%	64.7%	64.2%	0.4%	0.9%
July 1, 2019 through September 30, 2019	64.1%	—	64.0%	—	0.1%

Consumer Loans assigned in 2010 through 2013, 2017 and 2018 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2015 and 2016 have yielded forecasted collection results materially worse than our initial estimates. For Consumer Loans assigned in 2014 and 2019, actual results have been close to our initial estimates. For the three months ended September 30, 2019, forecasted collection rates improved for Consumer Loans assigned in 2019 and were generally consistent with expectations at the start of the period for all other assignment years presented. For the nine months ended September 30, 2019, forecasted collection rates improved for Consumer Loans assigned in 2018 and 2019, declined for Consumer Loans assigned in 2017 and were generally consistent with expectations at the start of the period for all other assignment years presented.

The changes in forecasted collection rates for the three and nine months ended September 30, 2019 and 2018 impacted forecasted net cash flows (forecasted collections less forecasted Dealer Holdback payments) as follows:

(In millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Increase (Decrease) in Forecasted Net Cash Flows				
Dealer Loans	\$ (4.2)	\$ (0.1)	\$ (0.3)	\$ 3.5
Purchased Loans	6.8	17.2	32.6	31.0
Total Loans	\$ 2.6	\$ 17.1	\$ 32.3	\$ 34.5

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

Consumer Loan Assignment Year	Average		Initial Loan Term (in months)
	Consumer Loan (1)	Advance (2)	
2010	\$ 14,480	\$ 6,473	41
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 (3)	22,942	10,098	57

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

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

(3) The averages for 2019 Consumer Loans include both Consumer Loans that were in our portfolio as of June 30, 2019 and Consumer Loans assigned during the most recent quarter. The following table provides averages for each of these segments:

2019 Consumer Loan Assignment Period	Average		Initial Loan Term (in months)
	Consumer Loan	Advance	
January 1, 2019 through June 30, 2019	\$ 22,740	\$ 10,023	57
July 1, 2019 through September 30, 2019	23,423	10,275	58

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

The following table presents forecasted Consumer Loan collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that had been realized as of September 30, 2019. All amounts, unless otherwise noted, are presented as a percentage of the initial balance of the Consumer Loan (principal + interest). The table includes both Dealer Loans and Purchased Loans.

Consumer Loan Assignment Year	As of September 30, 2019			
	Forecasted Collection %	Advance % (1)	Spread %	% of Forecast Realized (2)
2010	77.7%	44.7%	33.0%	99.8%
2011	74.8%	45.5%	29.3%	99.5%
2012	73.9%	46.3%	27.6%	99.2%
2013	73.5%	47.6%	25.9%	98.7%
2014	71.8%	47.7%	24.1%	97.6%
2015	65.5%	44.5%	21.0%	93.2%
2016	64.1%	43.8%	20.3%	81.9%
2017	65.0%	43.2%	21.8%	64.1%
2018	65.4%	43.5%	21.9%	38.5%
2019 (3)	64.8%	44.0%	20.8%	11.2%

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

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

(3) The forecasted collection rate, advance rate and spread for 2019 Consumer Loans as of September 30, 2019 include both Consumer Loans that were in our portfolio as of June 30, 2019 and Consumer Loans assigned during the most recent quarter. The following table provides forecasted collection rates, advance rates and spreads for each of these segments:

2019 Consumer Loan Assignment Period	As of September 30, 2019		
	Forecasted Collection %	Advance %	Spread %
January 1, 2019 through June 30, 2019	65.1%	44.1%	21.0%
July 1, 2019 through September 30, 2019	64.1%	43.9%	20.2%

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 20.3% to 33.0%, on an annual basis, over the last 10 years. The spread was at the high end of this range in 2010, when the competitive environment was unusually favorable, and much lower during other years (2015 through 2019) when competition was more intense. The decrease in the spread from 2018 to 2019 was the result of the performance of 2018 Consumer Loans, which has exceeded our initial estimates by a greater margin than those assigned to us in 2019. The decrease in the spread from the first half of 2019 to the third quarter of 2019 was the result of the performance of Consumer Loans assigned to us during the first half of 2019, which has exceeded our initial estimates by a greater margin than those assigned to us during the third quarter of 2019.

The following table compares our forecast of Consumer Loan collection rates as of September 30, 2019 with the forecasts at the time of assignment, for Dealer Loans and Purchased Loans separately:

Consumer Loan Assignment Year	Dealer Loans			Purchased Loans		
	Forecasted Collection Percentage as of (1)			Forecasted Collection Percentage as of (1)		
	September 30, 2019	Initial Forecast	Variance	September 30, 2019	Initial Forecast	Variance
2010	77.6%	73.6%	4.0 %	78.7%	73.1%	5.6%
2011	74.6%	72.4%	2.2 %	76.3%	72.7%	3.6%
2012	73.7%	71.3%	2.4 %	75.9%	71.4%	4.5%
2013	73.4%	72.1%	1.3 %	74.4%	71.6%	2.8%
2014	71.6%	71.9%	-0.3 %	72.6%	70.9%	1.7%
2015	64.8%	67.5%	-2.7 %	69.3%	68.5%	0.8%
2016	63.3%	65.1%	-1.8 %	66.7%	66.5%	0.2%
2017	64.3%	63.8%	0.5 %	66.5%	64.6%	1.9%
2018	65.0%	63.6%	1.4 %	66.3%	63.5%	2.8%
2019	64.6%	64.0%	0.6 %	65.2%	64.2%	1.0%

(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 September 30, 2019 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 %
2010	77.6%	44.4%	33.2%	78.7%	47.3%	31.4%
2011	74.6%	45.1%	29.5%	76.3%	49.3%	27.0%
2012	73.7%	46.0%	27.7%	75.9%	50.0%	25.9%
2013	73.4%	47.2%	26.2%	74.4%	51.5%	22.9%
2014	71.6%	47.2%	24.4%	72.6%	51.8%	20.8%
2015	64.8%	43.4%	21.4%	69.3%	50.2%	19.1%
2016	63.3%	42.1%	21.2%	66.7%	48.6%	18.1%
2017	64.3%	42.1%	22.2%	66.5%	45.8%	20.7%
2018	65.0%	42.7%	22.3%	66.3%	45.2%	21.1%
2019	64.6%	43.1%	21.5%	65.2%	45.7%	19.5%

(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 22.3% in 2018 to 21.5% in 2019 as a result of the performance of 2018 Consumer Loans in our Dealer Loan portfolio, which has exceeded our initial estimates by a greater margin than those assigned to us in 2019. The spread on Purchased Loans decreased from 21.1% in 2018 to 19.5% in 2019 primarily as a result of the performance of 2018 Consumer Loans in our Purchased Loan portfolio, which has exceeded 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 1.8 to 1 as of September 30, 2019. 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 seven 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, 2018	18.5%	32.9%
June 30, 2018	19.8%	34.7%
September 30, 2018	9.4%	20.3%
December 31, 2018	5.9%	12.4%
March 31, 2019	0.4%	5.1%
June 30, 2019	0.0%	5.6%
September 30, 2019	0.4%	7.6%

(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. 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 grew 0.4% and 7.6%, respectively, during the third quarter of 2019 as the number of active Dealers grew 10.0% while average unit volume per active Dealer declined 9.1%. Dollar volume grew faster than unit volume during the third quarter of 2019 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. Unit volume for the one month ended October 31, 2019 declined 6.2% as compared to the same period in 2018.

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Consumer Loan unit volume	86,331	86,005	0.4 %	291,788	290,976	0.3 %
Active Dealers (1)	9,555	8,684	10.0 %	12,553	11,390	10.2 %
Average volume per active Dealer	9.0	9.9	-9.1 %	23.2	25.5	-9.0 %
Consumer Loan unit volume from Dealers active both periods	65,264	72,044	-9.4 %	242,418	262,703	-7.7 %
Dealers active both periods	5,900	5,900	—	8,294	8,294	—
Average volume per Dealer active both periods	11.1	12.2	-9.4 %	29.2	31.7	-7.7 %
Consumer Loan unit volume from Dealers <u>not</u> active both periods	21,067	13,961	50.9 %	49,370	28,273	74.6 %
Dealers <u>not</u> active both periods	3,655	2,784	31.3 %	4,259	3,096	37.6 %
Average volume per Dealer <u>not</u> active both periods	5.8	5.0	16.0 %	11.6	9.1	27.5 %

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

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Consumer Loan unit volume from new active Dealers	3,455	3,785	-8.7 %	30,632	30,477	0.5 %
New active Dealers (1)	951	936	1.6 %	3,183	3,005	5.9 %
Average volume per new active Dealer	3.6	4.0	-10.0 %	9.6	10.1	-5.0 %
Attrition (2)	-16.2 %	-16.7 %		-9.7 %	-11.9 %	

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

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

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

Three Months Ended	Unit Volume		Dollar Volume (1)	
	Dealer Loans	Purchased Loans	Dealer Loans	Purchased Loans
March 31, 2018	70.1%	29.9%	67.4%	32.6%
June 30, 2018	69.7%	30.3%	66.8%	33.2%
September 30, 2018	69.5%	30.5%	67.0%	33.0%
December 31, 2018	69.4%	30.6%	67.4%	32.6%
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%

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

As of September 30, 2019 and December 31, 2018, the net Dealer Loans receivable balance was 63.2% and 65.3%, respectively, of the total net Loans receivable balance.

Results of Operations

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

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

	For the Three Months Ended September 30,			
	2019	2018	\$ Change	% Change
Revenue:				
Finance charges	\$ 349.9	\$ 303.0	\$ 46.9	15.5 %
Premiums earned	12.9	12.2	0.7	5.7 %
Other income	15.9	16.8	(0.9)	-5.4 %
Total revenue	<u>378.7</u>	<u>332.0</u>	<u>46.7</u>	<u>14.1 %</u>
Costs and expenses:				
Salaries and wages (1)	47.9	41.1	6.8	16.5 %
General and administrative (1)	17.2	14.1	3.1	22.0 %
Sales and marketing (1)	16.6	16.3	0.3	1.8 %
Provision for credit losses	19.3	14.0	5.3	37.9 %
Interest	50.4	41.1	9.3	22.6 %
Provision for claims	8.2	7.0	1.2	17.1 %
Total costs and expenses	<u>159.6</u>	<u>133.6</u>	<u>26.0</u>	<u>19.5 %</u>
Income before provision for income taxes	219.1	198.4	20.7	10.4 %
Provision for income taxes	53.7	47.4	6.3	13.3 %
Net income	<u>\$ 165.4</u>	<u>\$ 151.0</u>	<u>\$ 14.4</u>	<u>9.5 %</u>
Net income per share:				
Basic	<u>\$ 8.73</u>	<u>\$ 7.76</u>	<u>\$ 0.97</u>	<u>12.5 %</u>
Diluted	<u>\$ 8.73</u>	<u>\$ 7.75</u>	<u>\$ 0.98</u>	<u>12.6 %</u>
Weighted average shares outstanding:				
Basic	18,944,672	19,465,563	(520,891)	-2.7 %
Diluted	18,950,866	19,473,978	(523,112)	-2.7 %
(1) Operating expenses	\$ 81.7	\$ 71.5	\$ 10.2	14.3 %

Finance Charges. The increase of \$46.9 million, or 15.5%, 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 September 30,		
	2019	2018	Change
Average net Loans receivable balance	\$ 6,480.4	\$ 5,458.3	\$ 1,022.1
Average yield on our Loan portfolio	21.6%	22.2%	-0.6 %

The following table summarizes the impact each component had on the overall increase in finance charges for the three months ended September 30, 2019:

(In millions)

	Year over Year Change For the Three Months Ended September 30, 2019
Impact on finance charges:	
Due to an increase in the average net Loans receivable balance	\$ 56.7
Due to a decrease in the average yield	(9.8)
Total increase in finance charges	\$ 46.9

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 September 30, 2019 decreased as compared to the same period in 2018 due to lower yields on more recent Consumer Loan assignments.

Operating Expenses. The increase of \$10.2 million, or 14.3%, was primarily due to:

- An increase in salaries and wages expense of \$6.8 million, or 16.5%, comprised of the following:
 - An increase of \$4.2 million in cash-based incentive compensation expense primarily due to an improvement in Company performance measures.
 - Excluding the change in cash-based incentive compensation expense, salaries and wages expense increased \$2.6 million, primarily related to our support function primarily as a result of an increase in the number of team members.
- An increase in general and administrative expense of \$3.1 million, or 22.0%, primarily due to increases in legal and building expenses.

Provision for Credit Losses. Under GAAP, when the present value of forecasted future cash flows declines relative to our expectations at the time of assignment, a provision for credit losses is recorded immediately as a current period expense and a corresponding allowance for credit losses is established. For purposes of calculating the required allowance, Dealer Loans are grouped by Dealer and Purchased Loans are grouped by month of purchase. As a result, regardless of the overall performance of the portfolio of Consumer Loans, a provision can be required if any individual Loan pool performs worse than expected. Conversely, a previously recorded provision can be reversed if any previously impaired individual Loan pool experiences an improvement in performance.

During the three months ended September 30, 2019, overall Consumer Loan performance was consistent with our expectations at the start of the period. However, the performance of certain Loan pools declined from our expectations during the period, resulting in a provision for credit losses of \$19.3 million for the three months ended September 30, 2019, of which \$17.9 million related to Dealer Loans and \$1.4 million related to Purchased Loans. During the three months ended September 30, 2018, overall Consumer Loan performance was consistent with our expectations at the start of the period. However, the performance of certain Loan pools declined from our expectations during the period, resulting in a provision for credit losses of \$14.0 million for the three months ended September 30, 2018, of which \$12.4 million related to Dealer Loans and \$1.6 million related to Purchased Loans.

Interest. The increase of \$9.3 million, or 22.6%, was due to increases in the average outstanding debt principal balance and our average cost of debt. The following table shows interest expense, the average outstanding debt balance, and the average cost of debt for the three months ended September 30, 2019 and 2018:

(Dollars in millions)

	For the Three Months Ended September 30,		
	2019	2018	Change
Interest expense	\$ 50.4	\$ 41.1	\$ 9.3
Average outstanding debt principal balance (1)	4,255.5	3,807.6	447.9
Average cost of debt	4.7%	4.3%	0.4%

(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. The increase in our average cost of debt was primarily the result of a change in the mix of our outstanding debt.

Provision for Income Taxes. For the three months ended September 30, 2019, the effective income tax rate increased to 24.5% from 23.9% for the three months ended September 30, 2018. The increase was primarily due to higher effective income tax rates in certain state tax jurisdictions.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

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

(Dollars in millions, except per share data)

	For the Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change
Revenue:				
Finance charges	\$ 1,013.3	\$ 863.0	\$ 150.3	17.4 %
Premiums earned	38.2	34.2	4.0	11.7 %
Other income	51.6	45.8	5.8	12.7 %
Total revenue	1,103.1	943.0	160.1	17.0 %
Costs and expenses:				
Salaries and wages (1)	143.9	123.3	20.6	16.7 %
General and administrative (1)	47.9	41.3	6.6	16.0 %
Sales and marketing (1)	53.1	51.3	1.8	3.5 %
Provision for credit losses	49.2	39.2	10.0	25.5 %
Interest	145.2	114.3	30.9	27.0 %
Provision for claims	23.1	19.5	3.6	18.5 %
Total costs and expenses	462.4	388.9	73.5	18.9 %
Income before provision for income taxes	640.7	554.1	86.6	15.6 %
Provision for income taxes	146.5	132.0	14.5	11.0 %
Net income	\$ 494.2	\$ 422.1	\$ 72.1	17.1 %
Net income per share:				
Basic	\$ 26.08	\$ 21.69	\$ 4.39	20.2 %
Diluted	\$ 26.06	\$ 21.68	\$ 4.38	20.2 %
Weighted average shares outstanding:				
Basic	18,948,140	19,456,389	(508,249)	-2.6 %
Diluted	18,967,552	19,472,197	(504,645)	-2.6 %
(1) Operating expenses	\$ 244.9	\$ 215.9	\$ 29.0	13.4 %

Finance Charges. The increase of \$150.3 million, or 17.4%, 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 Nine Months Ended September 30,		
	2019	2018	Change
Average net Loans receivable balance	\$ 6,216.2	\$ 5,147.4	\$ 1,068.8
Average yield on our Loan portfolio	21.7%	22.4%	-0.7 %

The following table summarizes the impact each component had on the overall increase in finance charges for the nine months ended September 30, 2019:

(In millions)

Impact on finance charges:	Year over Year Change
	For the Nine Months Ended September 30, 2019
Due to an increase in the average net Loans receivable balance	\$ 179.2
Due to a decrease in the average yield	(28.9)
Total increase in finance charges	\$ 150.3

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 nine months ended September 30, 2019 decreased as compared to the same period in 2018 due to lower yields on more recent Consumer Loan assignments.

Operating Expenses. The increase of \$29.0 million, or 13.4%, was primarily due to an increase in salaries and wages expense of \$20.6 million, or 16.7%, as a result of the following:

- An increase of \$13.3 million in cash-based incentive compensation expense primarily due to an improvement in Company performance measures.
- Excluding the change in cash-based incentive compensation expense, salaries and wages expense increased \$7.3 million, primarily related to our support function primarily as a result of an increase in the number of team members.

Provision for Credit Losses. During the nine months ended September 30, 2019, overall Consumer Loan performance was consistent with our expectations at the start of the period. However, the performance of certain Loan pools declined from our expectations during the period, resulting in a provision for credit losses of \$49.2 million for the nine months ended September 30, 2019, of which \$44.0 million related to Dealer Loans and \$5.2 million related to Purchased Loans. During the nine months ended September 30, 2018, overall Consumer Loan performance was consistent with our expectations at the start of the period. However, the performance of certain Loan pools declined from our expectations during the period, resulting in a provision for credit losses of \$39.2 million for the nine months ended September 30, 2018, of which \$34.3 million related to Dealer Loans and \$4.9 million related to Purchased Loans.

Interest. The increase of \$30.9 million, or 27.0%, was due to increases in the average outstanding debt principal balance and our average cost of debt. The following table shows interest expense, the average outstanding debt balance, and the average cost of debt for the nine months ended September 30, 2019 and 2018:

(Dollars in millions)

	For the Nine Months Ended September 30,		
	2019	2018	Change
Interest expense	\$ 145.2	\$ 114.3	\$ 30.9
Average outstanding debt principal balance (1)	4,181.7	3,581.0	600.7
Average cost of debt	4.6%	4.3%	0.3%

(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. The increase in our average cost of debt was primarily the result of a change in the mix of our outstanding debt.

Provision for Income Taxes. For the nine months ended September 30, 2019, the effective income tax rate decreased to 22.9% from 23.8% for the nine months ended September 30, 2018. The decrease was primarily due to an increase in tax benefits related to our stock-based compensation plan, which are recognized during the first quarter of each year, partially offset by higher effective income tax rates in certain state tax jurisdictions. For additional information, see Note 11 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.

Liquidity and Capital Resources

We need capital to maintain and grow our business. Our primary sources of capital are cash flows from operating activities, collections of Consumer Loans and borrowings under: (1) a revolving secured line of credit; (2) Warehouse facilities; (3) Term ABS financings; and (4) senior notes. There are various restrictive covenants to which we are subject under each financing arrangement and we were in compliance with those covenants as of September 30, 2019. 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 February 21, 2019, we completed a \$402.5 million Term ABS financing, which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 3.8% (including the initial purchasers' fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

On March 7, 2019, we issued \$400.0 million of 6.625% Senior Notes due 2026 in a private offering exempt from registration under the Securities Act of 1933. We used the net proceeds from the offering of the notes for general corporate purposes, including repayment of outstanding borrowings under our revolving secured line of credit facility.

On June 24, 2019, we extended the maturity of our revolving secured line of credit facility from June 22, 2021 to June 22, 2022. Following the extension, the amount of the facility is \$340.0 million. There were no other material changes to the terms of the facility.

On July 12, 2019, we extended the date on which our \$400.0 million Warehouse Facility II will cease to revolve from December 20, 2020 to July 12, 2022. There were no other material changes to the terms of the facility.

On July 25, 2019, we extended the date on which our \$75.0 million Warehouse Facility VI will cease to revolve from September 30, 2020 to September 30, 2022. There were no other material changes to the terms of the facility.

On July 26, 2019, we increased the financing amount on Warehouse Facility IV from \$250.0 million to \$300.0 million and extended the date on which the facility will cease to revolve from April 30, 2020 to July 26, 2022. The interest rate on borrowings under the facility has been decreased from LIBOR plus 225 basis points to LIBOR plus 200 basis points. There were no other material changes to the terms of the facility.

On July 26, 2019, we entered into Warehouse Facility VIII, a \$200.0 million revolving secured warehouse facility. The facility will cease to revolve on July 26, 2022. Borrowings under the facility will bear interest at a rate equal to LIBOR plus 190 basis points.

On August 28, 2019, 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 3.2% (including the initial purchasers' fees and other costs), and it will revolve for 36 months, after which it will amortize based upon the cash flows on the contributed Loans.

Cash and cash equivalents as of September 30, 2019 and December 31, 2018 was \$24.7 million and \$25.7 million, respectively. As of September 30, 2019 and December 31, 2018, we had \$1,512.8 million and \$1,153.1 million, respectively, in unused and available lines of credit. Our total balance sheet indebtedness increased \$411.3 million to \$4,232.2 million as of September 30, 2019 from \$3,820.9 million as of December 31, 2018 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 September 30, 2019 is as follows:

(In millions)

Year	Scheduled Principal Debt Maturities (1)
Remainder of 2019	\$ 245.8
2020	1,374.5
2021	1,291.1

2022	687.1
2023	259.3
Over five years	400.0
Total	\$ 4,257.8

(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 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, 2018 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, 2018.

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, which in this report include statements regarding the impact of our adoption of CECL, 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, 2018, 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.
- 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.

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, 2018 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2018 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 6. EXHIBITS

Exhibit No.	Description
4.102	Amendment No. 2 to the Sixth Amended and Restated Loan and Security Agreement dated as of July 12, 2019 among the Company, CAC Warehouse Funding Corporation II and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.102 to the Company's Current Report on Form 8-K filed July 15, 2019).
4.103	Fourth Amendment to Loan Security Agreement dated as of July 16, 2019 among the Company, CAC Warehouse Funding LLC V and Fifth Third Bank (incorporated by reference to Exhibit 4.103 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019).
4.104	Second Amendment to Loan and Security Agreement, dated as of July 18, 2019 among the Company, CAC Warehouse Funding LLC VII, the lenders party thereto, Credit Suisse International and Credit Suisse AG, New York Branch (incorporated by reference to Exhibit 4.104 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019).
4.105	Second Amendment to Loan and Security Agreement dated as of July 25, 2019 among the Company, CAC Warehouse Funding LLC VI and Flagstar Bank, FSB (incorporated by reference to Exhibit 4.105 to the Company's Current Report on Form 8-K filed July 26, 2019).
4.106	Loan and Security Agreement, dated as of July 26, 2019, among the Company, CAC Warehouse Funding LLC VIII, Citizens Bank N.A. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.106 to the Company's Current Report on Form 8-K filed July 29, 2019).
4.107	Sale and Contribution Agreement, dated as of July 26, 2019, between the Company and CAC Warehouse Funding LLC VIII (incorporated by reference to Exhibit 4.107 to the Company's Current Report on Form 8-K filed July 29, 2019).
4.108	Backup Servicer Agreement, dated as of July 26, 2019, among the Company, CAC Warehouse Funding LLC VIII, Citizens Bank, N.A. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.108 to the Company's Current Report on Form 8-K filed July 29, 2019).
4.109	Amended and Restated Intercreditor Agreement, dated July 26, 2019, 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 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 Funding LLC 2016-3, Credit Acceptance Funding LLC 2016-2, 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, Credit Acceptance Auto Loan Trust 2016-3, Credit Acceptance Auto Loan Trust 2016-2, 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 4.109 to the Company's Current Report on Form 8-K filed July 29, 2019).
4.110	First Amendment to Amended and Restated Loan and Security Agreement, dated as of July 26, 2019, among the Company, CAC Warehouse Funding LLC IV, Bank of Montreal, Citizens Bank, N.A., BMO Capital Markets Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.110 to the Company's Current Report on Form 8-K filed July 29, 2019).
4.111	Amended and Restated Backup Servicing Agreement, dated as of July 26, 2019, among the Company, CAC Warehouse Funding LLC IV, Bank of Montreal, BMO Capital Markets Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.111 to the Company's Current Report on Form 8-K filed July 29, 2019).
4.112	Loan and Security Agreement dated as of August 28, 2019 among the Company, Credit Acceptance Funding LLC 2019-2 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.112 to the Company's Current Report on Form 8-K filed September 4, 2019).
4.113	Backup Servicing Agreement dated as of August 28, 2019, among the Company, Credit Acceptance Funding LLC 2019-2 and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.113 to the Company's Current Report on Form 8-K filed September 4, 2019).

4.114	Sale and Contribution Agreement, dated as of August 28, 2019, between the Company and Credit Acceptance Funding LLC 2019-2 (incorporated by reference to Exhibit 4.114 to the Company's Current Report on Form 8-K filed September 4, 2019).
4.115	Amended and Restated Intercreditor Agreement, dated August 28, 2019, 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 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 Funding LLC 2016-3, 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, Credit Acceptance Auto Loan Trust 2016-3, 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 4.115 to the Company's Current Report on Form 8-K filed September 4, 2019).
4.116	Amendment No. 3 to the Sixth Amended and Restated Loan and Security Agreement dated as of August 16, 2019 among the Company, CAC Warehouse Funding Corporation II and Wells Fargo Bank, National Association.
4.117	Second Amended and Restated Backup Servicing Agreement, dated as of August 16, 2019, among the Company, CAC Warehouse Funding LLC II and Wells Fargo Bank, National Association.
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).

AMENDMENT NO. 3 TO LOAN AND SECURITY AGREEMENT

This AMENDMENT NO. 3 TO THE SIXTH AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (this "Amendment") is made as of August 16, 2019, by and among CAC WAREHOUSE FUNDING CORPORATION II, as the borrower (the "Borrower"), CREDIT ACCEPTANCE CORPORATION, as the servicer (in such capacity, the "Servicer") and as the custodian (in such capacity, the "Custodian"), WELLS FARGO BANK, NATIONAL ASSOCIATION, as a lender (the "WF Lender"), the LENDERS FROM TIME TO TIME PARTY THERETO, as lenders (together with WF Lender, the "Lenders"), WELLS FARGO BANK, NATIONAL ASSOCIATION, as the deal agent (in such capacity, together with its successors and assigns, the "Deal Agent"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, as the backup servicer (in such capacity, together with its successors and assigns, the "Backup Servicer") and as the collateral agent (in such capacity, together with its successors and assigns, the "Collateral Agent"). Capitalized terms used and not otherwise defined herein shall have the meanings given to such terms in the Agreement (as defined below).

R E C I T A L S

WHEREAS, the Borrower, the Servicer, the Lenders, the Deal Agent, the Backup Servicer and the Collateral Agent entered into that certain Sixth Amended and Restated Loan and Security Agreement, dated as of June 23, 2016, as amended by Amendment No.1 to the Sixth Amended and Restated Loan and Security Agreement, dated as of December 20, 2017, and as further amended by Amendment No. 2 to the Sixth Amended and Restated Loan and Security Agreement, dated as of July 12, 2019 (as so amended and as further amended from time to time, the "Agreement"); and

WHEREAS, the parties hereto desire to amend the Agreement pursuant to Section 14.1 thereof in certain respects as provided herein;

NOW, THEREFORE, based upon the above Recitals, the mutual premises and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. Amendments.

(a) The following amendments shall be effective as of the date hereof:

(i) Section 2.7(a) of the Agreement is hereby amended by deleting clause (ii) thereof in its entirety and replacing it with the following:

“(ii) SECOND, to the Backup Servicer so long as it has not become the Servicer hereunder, an amount equal to any accrued and unpaid Backup Servicing Fee due in respect of such Payment Date, any unpaid Backup Servicing Fee from any prior Payment Date, any reasonable out-of-pocket expenses incurred by the Backup Servicer, and any accrued and unpaid Indemnified Amounts owed by the Borrower to the Backup Servicer in an aggregate amount up to \$17,000 per month (the “Cap”); *provided, however*, that in the event of an acceleration resulting from a Termination Event specified under Section 10.1(d)(i) or Section 10.1(f) hereunder, such Cap will not apply;”.

(ii) Section 6.11 of the Agreement is hereby amended by deleting clause (m) thereof in its entirety and replacing it with the following:

“(m) [reserved];”.

SECTION 2. Agreement in Full Force and Effect as Amended.

Except as specifically amended hereby, all provisions of the Agreement shall remain in full force and effect. After this Amendment becomes effective, all references to the Agreement, the “Loan and Security Agreement,” “hereof,” “herein,” or words of similar effect referring to the Agreement shall be deemed to mean the Agreement as amended hereby. This Amendment shall not constitute a novation of the Agreement, but shall constitute an amendment thereof. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement other than as expressly set forth herein.

SECTION 3. Representations.

Each of the Borrower and the Servicer represent and warrant as of the date of this Amendment as follows:

- (a) it is duly incorporated or organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization;
- (b) the execution, delivery and performance by it of this Amendment are within its powers, have been duly authorized, and do not contravene (A) its charter, by-laws, or other organizational documents, or (B) any Applicable Law;
- (c) no consent, license, permit, approval or authorization of, or registration, filing or declaration with any governmental authority, is required in connection with the execution, delivery, performance, validity or enforceability of this Amendment by or against it;
- (d) this Amendment has been duly executed and delivered by it;

(e) this Amendment constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally or by general principles of equity;

(f) each of the representations and warranties set forth in Sections 4.1, 4.2 and 4.3 of the Agreement, made by it is true and correct; and

(g) no Amortization Event or Termination Event has occurred and is continuing and no event or condition exists that, with the giving of notice and/or passage of time, would constitute an Amortization Event or a Termination Event.

SECTION 4. Conditions to Effectiveness.

This Amendment shall become effective on the date on which each party hereto shall have delivered an executed signature page hereto to the Deal Agent.

SECTION 5. Miscellaneous.

(a) This Amendment may be executed in any number of counterparts (including by facsimile), and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument but all of which together shall constitute one and the same agreement.

(b) The descriptive headings of the various sections of this Amendment are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

(c) This Amendment may not be amended or otherwise modified except as provided in the Agreement.

(d) The failure or unenforceability of any provision hereof shall not affect the other provisions of this Amendment.

(e) Whenever the context and construction so require, all words used in the singular number herein shall be deemed to have been used in the plural, and vice versa, and the masculine gender shall include the feminine and neuter and the neuter shall include the masculine and feminine.

(f) This Amendment represents the final agreement between the parties only with respect to the subject matter expressly covered hereby and may not be contradicted by evidence

of prior, contemporaneous or subsequent oral agreements between the parties. There are no unwritten oral agreements between the parties.

(g) THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

THE BORROWER:

CAC WAREHOUSE FUNDING CORPORATION II

By: /s/ Douglas W. Busk

Name: Douglas W. Busk

Title: Senior Vice President & Treasurer

THE SERVICER AND CUSTODIAN:

CREDIT ACCEPTANCE CORPORATION

By: /s/ Douglas W. Busk

Name: Douglas W. Busk

Title: Senior Vice President & Treasurer

THE COLLATERAL AGENT AND BACKUP SERVICER:

WELLS FARGO BANK, NATIONAL ASSOCIATION, as
Collateral Agent and Backup Servicer

By: /s/ Kristen L. Puttin

Name: Kristen L. Puttin

Title: Vice President

THE DEAL AGENT AND SOLE LENDER:

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Deal
Agent and Lender

By: /s/ James B. Brinkley II

Name: James B. Brinkley II

Title: Managing Director

SECOND AMENDED AND RESTATED BACKUP SERVICING AGREEMENT

SECOND AMENDED AND RESTATED BACKUP SERVICING AGREEMENT (the "Agreement"), dated as of August 16, 2019, among WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association ("Wells Fargo" or the "Backup Servicer" and, in its capacity as collateral agent, the "Collateral Agent"), CREDIT ACCEPTANCE CORPORATION, a Michigan corporation ("Credit Acceptance" or the "Servicer"), WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association (in its capacity as deal agent, the "Deal Agent") and CAC WAREHOUSE FUNDING CORPORATION II, a Nevada corporation (the "Borrower").

W I T N E S S E T H :

WHEREAS, Credit Acceptance, the Borrower, the Backup Servicer, Wells Fargo Bank, National Association, as an investor for the VFCC Purchaser Group (an "Investor") and the other Investors from time to time party thereto, Variable Funding Capital Company LLC, (a "Lender") and the other CP Conduits from time to time party thereto, the Deal Agent, Wells Fargo Bank, National Association, as the liquidity agent for the VFCC Purchaser Group (the "Liquidity Agent") and the other Liquidity Agents from time to time party thereto, and the Collateral Agent have entered into a Fifth Amended and Restated Loan and Security Agreement dated as of the date hereof (as amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement");

WHEREAS, the parties to the Loan Agreement desire to obtain the services of the Backup Servicer to perform certain servicing functions and assume certain obligations with respect to the Loan Agreement, all as set forth herein, and the Backup Servicer has agreed to perform such functions and assume such obligations; and

WHEREAS, for its services hereunder and with respect to the Loan Agreement, the Backup Servicer will receive a fee payable as described herein;

WHEREAS, the parties hereto executed that certain Amended and Restated Backup Servicing Agreement, dated as of December 27, 2012 (the "Existing Agreement"), by and among Wells Fargo Bank, N.A., Credit Acceptance Corporation, Wells Fargo Securities, LLC, and CAC Warehouse Funding Corporation II, and now desire to amend and restate the Existing Agreement as set forth herein.

NOW THEREFORE, in consideration for the mutual agreements contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1 DEFINITIONS

SECTION 1.1. Definitions. All capitalized terms not otherwise defined herein shall have the meanings specified in, or incorporated by reference to, the Loan Agreement. The following terms shall have the meanings specified below:

“Aggregate Basis” means verification of only such aggregated amounts as are stated in the Monthly Report, and not as to any amount related to any Loan or Contract.

“Assumption Date” has the meaning specified in Section 2.3(a).

“Backup Servicer Event of Default” has the meaning specified in Section 4.1.

“Backup Servicer’s Certificate” has the meaning specified in Section 2.10.

“Backup Servicing Fee” means, as to each Payment Date, \$4,000; provided, however, that if the Backup Servicer becomes the Successor Servicer, such fee shall no longer be paid.

“Continued Errors” has the meaning specified in Section 2.2(c)(iii).

“Errors” has the meaning specified in Section 2.2(c)(iii).

“Force Majeure Event” means any event or condition beyond the Backup Servicer’s control, including without limitation, a natural disaster, civil unrest, state of war, or act of terrorism.

“Liability” has the meaning specified in Section 2.2(c)(i).

“Servicer’s Data File” has the meaning specified in Section 2.1(a).

“Service-Related Activities” means the services and service-related activities and the servicer-related responsibilities of the Servicer provided for under the Loan Agreement as modified or eliminated herein with respect to the Backup Servicer.

“Servicing Fee” has the meaning given such term in the Loan Agreement.

“Successor Backup Servicer” has the meaning specified in Section 2.4(b).

“Third Party” has the meaning specified in Section 2.9(d).

SECTION 1.2. Usage of Terms. With respect to all terms in this Agreement, the singular includes the plural and the plural the singular; words importing any gender include the other gender; references to “writing” include printing, typing, lithography, and other means of reproducing words in a visible form; references to agreements and other contractual instruments include all subsequent amendments thereto or changes therein entered into in accordance with their respective terms and not prohibited by this Agreement; references to Persons include their permitted successors and assigns; and the term “including” means “including without limitation.”

SECTION 1.3. Section References. All section references shall be to Sections in this Agreement (unless otherwise provided).

ARTICLE 2
ADMINISTRATION AND COLLECTION

SECTION 2.1. Reconciliation of Monthly Report.

(a) No later than 9:00 A.M. New York time on the fifth (5th) Business Day following the end of each Collection Period, the Servicer shall send to the Backup Servicer an electronic file, detailing the Collections received during the prior Collection Period, the Lender's invoice and all other information relating to the Loans and the Contracts as may be necessary for the complete and correct completion of the Monthly Report (the "Servicer's Data File"). Such electronic file shall be in the form and have the specifications as may be agreed to between the Servicer, the Deal Agent and the Backup Servicer from time to time. The Backup Servicer shall, within two (2) Business Days of the receipt thereof, load the Servicer's Data File and confirm that it is in readable form. If the Backup Servicer determines that the Servicer's Data File is not in readable form, the Backup Servicer shall promptly upon actual knowledge thereof (but in any event within one (1) Business Day) notify the Servicer and the Deal Agent by telephone, and upon such notification, the Servicer shall prepare and send a replacement Servicer's Data File to the Backup Servicer satisfying the Backup Servicer's specifications, for receipt by the Backup Servicer on the next Business Day.

(b) No later than the Determination Date preceding each Payment Date, the Servicer shall furnish to the Backup Servicer the Monthly Report related to the prior Collection Period together with all other information necessary for preparation of such Monthly Report and necessary to determine the application of Collections as provided in the Loan Agreement. The Backup Servicer shall review the information contained in the Monthly Report against the information on the Servicer's Data File, on an Aggregate Basis. No later than three (3) Business Days after the Backup Servicer's receipt of each Monthly Report, the Backup Servicer shall notify the Servicer and the Deal Agent of any inconsistencies between the Monthly Report and the information contained in the Servicer's Data File, for the avoidance of doubt this requirement shall be limited to the review and verifications in Section 2.2 hereof; provided, however, in the absence of a reconciliation, the Monthly Report shall control for the purpose of calculations and distributions with respect to the related Payment Date. If the Backup Servicer and the Servicer are unable to reconcile discrepancies with respect to a Monthly Report prior to the related Payment Date, the Servicer shall cause a firm of independent accountants, at the Servicer's expense, to audit the Monthly Report and, prior to the third Business Day, but in no event later than the fifth calendar day, of the following month, reconcile the discrepancies. The effect, if any, of such reconciliation shall be reflected in the Monthly Report for such next Payment Date. The Backup Servicer shall only review the information provided by the Servicer in the Monthly Report and in the Servicer's Data File and its obligation to report any inconsistencies shall be limited to those determinable from such information.

(c) The Backup Servicer and the Servicer shall attempt to reconcile any such inconsistencies and/or to furnish any omitted information and the Servicer shall amend the Monthly Report to reflect the results of the reconciliation or to include any omitted information.

(d) The Servicer shall provide monthly, or as otherwise requested, to the Backup Servicer, or its agent, information on the Loans and related Contracts sufficient to enable the Backup Servicer to assume the responsibilities as Successor Servicer under the Loan Agreement and service, administer, manage and collect the Loans and related Contracts.

(e) The Servicer shall provide the Backup Servicer with any and all updates to the master file data layout and copy book information necessary due to system changes or modifications, which may require changes to the Backup Servicer's applications necessary to read the Servicer's Data File.

SECTION 2.2. Review and Verification.

(a) Notwithstanding anything in Section 2.1 to the contrary, on or before the end of the fifth Business Day prior to each Payment Date, the Servicer and the Deal Agent shall provide sufficient data to the Backup Servicer to allow the Backup Servicer to review and confirm that such Monthly Report is readable and contains all information necessary for the Backup Servicer to complete its duties pursuant to this Section 2.2. The Backup Servicer shall, on or before the Business Day preceding each Payment Date with respect to any Collection Period, review the Monthly Report to verify the following based solely on a recalculation of information contained in the Monthly Report:

(i) the Monthly Principal Payment Amount;

(ii) the Additional Principal Payment Amount;

(iii) the Reserve Advance;

(iv) outstanding Capital; and

(v) the total amount of the Servicing Fee for the related Collection Period and unpaid Servicing Fees from prior Collections periods paid to the Servicer with respect to the related Collection Period.

(b) The Backup Servicer shall, on or before the Business Day preceding each Payment Date with respect to any Collection Period, review the Servicer's Data File and verify the following as reported in the Monthly Report:

(i) the Aggregate Outstanding Eligible Loan Net Balance (when applicable under the Loan Agreement), the Aggregate Outstanding Eligible Loan Balance and the aggregate Outstanding Balance of all Eligible Contracts as of the close of business on the last day of the preceding Collection Period;

(ii) the Yield, Program Fee and Unused Fee;

(iii) the total amount of Collections for the related Collection Period; and

(iv) the aggregate Release Price for the Ineligible Loans and for the Ineligible Contracts, if any, that was paid in such period.

(c) No later than the Business Day preceding each Payment Date, the Backup Servicer shall provide written notice to the Deal Agent with respect to whether there are any inconsistencies or deficiencies with respect to its review and verification set forth in paragraphs (a) and (b) above and, if any, shall provide a description thereof as set forth in Section 2.10 hereof. In the event of any discrepancy between the information set forth in subparagraphs (a) and (b) above, as calculated by the Servicer, from that determined or calculated by the Backup Servicer, the Backup Servicer shall promptly notify the Servicer and, if within five (5) days of such notice being provided to the Servicer, the Backup Servicer and the Servicer are unable to resolve such discrepancy, the Backup Servicer shall promptly notify the Deal Agent of such discrepancy.

(i) Other than as specifically set forth elsewhere in this Agreement, the Backup Servicer shall have no obligation to supervise, verify, monitor or administer the performance of the Servicer and shall have no duty, responsibility, obligation, or liability (collectively "Liability") for any action taken or omitted by the Servicer.

(ii) The Backup Servicer shall consult with the Servicer as may be necessary from time to time to perform or carry out the Backup Servicer's obligations hereunder, including the obligation, if requested in writing by the Deal Agent, to succeed within thirty (30) days to the duties and obligations of the Servicer pursuant to Section 2.3.

(iii) Except as otherwise provided in this Agreement, the Backup Servicer may accept and reasonably rely on all accounting, records and work of the Servicer without audit, and the Backup Servicer shall have no Liability for the acts or omissions of the Servicer or for the inaccuracy of any data provided, produced or supplied by the Servicer. If any error, inaccuracy or omission (collectively, "Errors") exists in any information received from the Servicer, and such Errors should cause or materially contribute to the Backup Servicer making or continuing any Errors (collectively, "Continued Errors"), the Backup Servicer shall have no Liability for such Continued Errors; provided, however, that this provision shall not protect the Backup Servicer against any Liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence in discovering or correcting any Error or in the performance of its duties hereunder or under the Loan Agreement. In the event the Backup Servicer becomes aware of Errors or Continued Errors which, in the opinion of the Backup Servicer impairs its ability to perform its services hereunder, the Backup Servicer shall promptly notify the Servicer and the Deal Agent of such Errors and/or Continued Errors and may, with the prior consent of the Deal Agent, undertake to reconstruct and reconcile such data as it deems appropriate to correct such Errors and Continued Errors and prevent future Continued Errors. The Backup Servicer shall be entitled to recover its costs thereby expended from the Servicer and to the extent not reimbursed by the Servicer, such

amounts shall be reimbursed by the Borrower pursuant to Section 2.7(a) of the Loan Agreement.

(iv) The Backup Servicer and its officers, directors, employees and agents shall be indemnified by the Servicer from and against all claims, damages, losses or expenses reasonably incurred by the Backup Servicer (including reasonable and documented attorney's fees and expenses, including, without limitation, any reasonable and documented out-of-pocket legal fees, costs (including court costs) and expenses incurred in connection with any enforcement (including any action, claim or suit brought) by the Backup Servicer of any indemnification or other obligation of the Servicer) arising out of claims asserted against the Backup Servicer on any matter arising out of this Agreement to the extent the act or omission giving rise to the claim accrues before the Assumption Date, except for any claims, damages, losses or expenses arising from the Backup Servicer's own willful misconduct, bad faith or gross negligence, as determined by a court of competent jurisdiction. The indemnification provided for in this Section shall be paid to the Backup Servicer until such time as such court enters a judgment as to the extent and effect of the alleged willful misconduct, bad faith, or gross negligence, at which time the Backup Servicer shall, to the extent required pursuant to such court's determination, promptly return to the Servicer any such indemnification amounts so received but not owed as determined by such court. The obligations of the Servicer under this Section shall survive the termination or assignment of this Agreement and the earlier resignation or removal of the Backup Servicer.

(v) To the extent the Backup Servicer requires any information, supplementary reports or data that is to be provided to it pursuant to the Transaction Documents in order to complete its verification duties, the Backup Servicer's verification duties are conditioned upon timely receipt by the Backup Servicer of such information.

SECTION 2.3. Assumption of Servicer's Obligations.

(a) The Backup Servicer agrees that on the date specified in accordance with the Loan Agreement, the Backup Servicer shall, subject to the exclusions stated herein, assume the Service-Related Activities of Credit Acceptance under the Loan Agreement (the "Assumption Date") and further agrees that it shall assume all such Service-Related Activities in accordance with the requirements, terms and conditions set forth in the Loan Agreement and this Agreement. In the event of a conflict between any provision of the Loan Agreement and this Agreement, this Agreement shall be controlling.

(b) In the event of an assumption by the Backup Servicer of the Service-Related Activities of Credit Acceptance under the Loan Agreement, the Backup Servicer shall not be obligated to perform the obligations imposed in the following Sections of the Loan Agreement: Sections 2.11, 2.13, 4.2(b) (provided that the Backup Servicer shall be obligated to inform the other parties to this Agreement of breaches detailed in Section 4.2 of which a Responsible Officer has actual knowledge), 4.3, 4.5 (provided that the Backup Servicer shall be obligated to inform the other

parties to this Agreement of breaches detailed in Section 4.5 of which a Responsible Officer has actual knowledge), 5.4(c), 5.4(e), 5.4(f), 5.4(g) (provided that the Backup Servicer shall be obligated to inform the other parties to this Agreement of breaches detailed in Section 5.4(g) of which a Responsible Officer has actual knowledge), 5.4(i), 5.4(j), 5.4(k) (only with respect to the Credit Guidelines), 5.4(m), 5.5(a), 5.5(b), 5.5(f) (only with respect to the Servicer's obligation to defend the right, title and interest of the Collateral Agent in the Collateral on behalf of the Secured Parties against the claims of third parties), 5.5(i) (only with respect to the Credit Guidelines), 5.5(i), 6.1(c), 6.2(e) (provided that the Deal Agent and any Liquidity Agent may review the Backup Servicer's collection and administration of the Loans, Dealer Agreements and Contracts two times per calendar year, at the expense of the party requesting such review, with prior written notice and without undue disruption of the Backup Servicer's business before the occurrence of a Servicer Termination Event at a time after the Assumption Date, and the Deal Agent and any Liquidity Agent may conduct such review, with prior written notice but otherwise without limitation, at the Servicer's expense if the Servicer Termination Event is due to the actions of the current Servicer and otherwise at the expense of the party requesting such review, after the occurrence of a Servicer Termination Event at a time after the Assumption Date), 6.5(a) (provided that the Backup Servicer shall be responsible for all of the obligations of Section 6.5(a) so long as it receives sufficient assistance from the Borrower), 6.5(b), 6.5(c), 6.6, 6.8, 6.9, 6.11(j), and 6.11(l); provided, however, that the Backup Servicer shall continue to be obligated to perform the obligations imposed by Section 2.5 of this Agreement.

SECTION 2.4. Servicing and Retention of Servicer.

(a) Subject to early termination of the Backup Servicer due to the occurrence of a Backup Servicer Event of Default, or pursuant to Article 4, or as otherwise provided in this Section 2.4, on and after the Assumption Date, the Backup Servicer shall be responsible for the servicing, administering, managing and collection of the Loans and Contracts in accordance with the Loan Agreement and this Agreement.

(b) In the event of a Backup Servicer Event of Default, the Deal Agent shall have the right to terminate the Backup Servicer as Successor Servicer and Backup Servicer hereunder. Upon the termination or resignation of the Backup Servicer hereunder, the Deal Agent shall have the right to appoint a successor Backup Servicer (the "Successor Backup Servicer") and enter into a backup servicing agreement with such Successor Backup Servicer at such time and exercise all of its rights under Section 6.12(a) of the Loan Agreement; provided, however, that if such termination or resignation of the Backup Servicer occurs prior to the Assumption Date at a time when no Termination Event has occurred and is continuing, the appointment of the Successor Backup Servicer shall be mutually acceptable to Credit Acceptance and the Deal Agent. Such backup servicing agreement shall specify the duties and obligations of the Successor Backup Servicer, and all references herein and in the Loan Agreement to the Backup Servicer shall be deemed to refer to such Successor Backup Servicer. If a successor Backup Servicer does not take office within 30 days after the termination or resignation of the Backup Servicer, the Backup Servicer may petition any court of competent jurisdiction for the appointment of a successor Backup Servicer. Any reasonable and documented fees, costs or expenses incurred by the retiring Backup Servicer in connection with such petition shall be reimbursed to it in as an expense of the Backup Servicer in accordance with Section 2.6(a) of the Loan Agreement.

(c) Except as provided in Section 4.3 hereof, the Backup Servicer shall not resign from the obligations and duties imposed on it by this Agreement or the Loan Agreement, as successor servicer or as Backup Servicer, as applicable, except upon a determination that by reason of a change in legal requirements, the performance of its duties hereunder or under the Loan Agreement would cause it to be in violation of such legal requirements in a manner which would have a material adverse effect on the Backup Servicer, and the Deal Agent does not elect to waive the obligations of the Backup Servicer to perform the duties which render it legally unable to act or to delegate those duties to another Person. Any such determination permitting the resignation of the Backup Servicer pursuant to this Section 2.4(c) shall be evidenced by an opinion of counsel to such effect delivered and acceptable to the Deal Agent. No resignation of the Backup Servicer shall become effective until an entity reasonably acceptable to the Deal Agent and the Required Investors shall have assumed the responsibilities and obligations of the Backup Servicer.

(d) Any Person: (i) into which the Backup Servicer may be merged or consolidated; (ii) resulting from any merger or consolidation to which the Backup Servicer shall be a party; (iii) which acquires by conveyance, transfer or lease substantially all of the assets of the Backup Servicer; or (iv) succeeding to the business of the Backup Servicer, in any of the foregoing cases shall execute an agreement of assumption to perform every obligation of the Backup Servicer under this Agreement and the Loan Agreement, whether or not such assumption agreement is executed, shall be the successor to the Backup Servicer under this Agreement and the Loan Agreement without the execution or filing of any paper or any further act on the part of any of the parties to this Agreement or the Loan Agreement, anything herein or therein to the contrary notwithstanding; provided, however, that nothing contained herein or therein shall be deemed to release the Backup Servicer from any obligation hereunder or under the Loan Agreement.

(e) [Reserved].

(f) Following the Assumption Date, a report certified by a Responsible Officer of the Backup Servicer, certifying that no Servicer Termination Event and no event which, with the giving of notice or the passage of time, would become a Servicer Termination Event has occurred and is continuing or, if any such Servicer Termination Event or other event has occurred and is continuing, the action which the Backup Servicer has taken or proposes to take with respect thereto, shall be delivered to the Deal Agent.

SECTION 2.5. Servicing Duties of the Backup Servicer. On and after the Assumption Date:

(a) The Backup Servicer shall take or cause to be taken all such action as may be necessary or advisable to collect all amounts due under the Loans and Contracts from time to time, all in accordance with applicable laws, rules and regulations, with reasonable care and diligence, and in accordance with its collection guidelines. There shall be no recourse to the Backup Servicer with regard to the Loans and Contracts. The Backup Servicer shall hold in trust for the Collateral Agent all records which evidence or relate to all or any part of the Collateral. In the event that a Successor Backup Servicer is appointed, the outgoing Backup Servicer shall deliver to the Successor Backup Servicer and the Successor Backup Servicer shall hold in trust for the Collateral Agent all records which evidence or relate to all or any part of the Collateral.

(b) The Backup Servicer shall as soon as practicable upon demand, deliver to the Deal Agent all records in its possession which evidence or relate to indebtedness of an Obligor which is not a Loan or Contract.

(c) The Backup Servicer shall remit to the Collection Account within two (2) Business Days of receipt all Collections.

(d) In addition to the obligations of the Backup Servicer under this Agreement, the Backup Servicer shall perform all of the obligations of the Servicer as servicer under the Loan Agreement, except as set forth in Section 2.3(b) hereof or as otherwise modified by this Agreement or the Loan Agreement. Without limiting the foregoing and anything provided for herein, the Backup Servicer shall perform Service-Related Activities in accordance with its collection guidelines.

SECTION 2.6. Other Obligations of the Backup Servicer and Servicer.

(a) [Reserved]

(b) [Reserved]

(c) Following a Servicer Termination Event and prior to the Assumption Date, Credit Acceptance shall provide a transmission to the Backup Servicer, sufficient to carry out the Service-Related Activities. In the event of any changes in format with respect to either Credit Acceptance or the Backup Servicer, Credit Acceptance and the Backup Servicer shall coordinate with each other for the replacement of the data files with files in the correct format, modified accordingly.

(d) In connection with the Backup Servicer assuming the obligations of Servicer hereunder and under the Loan Agreement, Credit Acceptance agrees that it shall: (i) promptly make available to the Backup Servicer access to all records and information in the possession of Credit Acceptance related to the Loans and the Contracts as may be necessary or reasonably requested by the Backup Servicer in connection with the performance of the Backup Servicer's obligations hereunder and thereunder; and (ii) cooperate in good faith with the Backup Servicer and the Deal Agent in connection with any transition of the servicing of the Loans and Contracts to the Backup Servicer.

SECTION 2.7. Servicing Compensation. As compensation for the performance of its obligations under this Agreement and with respect to the Loan Agreement, the Backup Servicer is entitled to: (i) prior to the Assumption Date, (A) the Backup Servicing Fee in accordance with Sections 2.7(a) and 7.3 of the Loan Agreement, (B) indemnification payments in accordance with Section 2.9 hereof and (C) reimbursement of reasonable and documented out-of-pocket expenses (including, without limitation, legal fees of external counsel) of the Backup Servicer incurred in connection with the performance of its duties hereunder, including the execution of any amendments and (ii) after the Assumption Date, the sum of: (A) the Servicing Fee, (B) any Repossession Expenses, (C) any Servicer Expenses and (D) any Transition Expenses.

SECTION 2.8. Collateral Agent's and Backup Servicer's Rights. At any time following the Assumption Date:

(a) The Collateral Agent or the Backup Servicer may direct that payment of all amounts payable under any Loans or Contracts be made directly to the Backup Servicer, the Collateral Agent or its designee.

(b) The Servicer shall, (unless otherwise directed by the Collateral Agent) (i) assemble all of the records relating to the Collateral and shall make the same available to the Backup Servicer (or the Collateral Agent if so directed by the Collateral Agent) at a place selected by the Backup Servicer or the Collateral Agent, as applicable; provided, however, that the Servicer will be entitled to retain copies of all records provided pursuant to this Section 2.8(b), and (ii) segregate all cash, checks and other instruments received by it from time to time constituting Collections in a manner acceptable to the Collateral Agent and shall, promptly upon receipt but no later than one (1) Business Day after receipt, remit all such cash, checks and instruments, duly endorsed or with duly executed instruments of transfer, as directed by the Collateral Agent or the Backup Servicer.

(c) Credit Acceptance hereby authorizes the Collateral Agent and the Backup Servicer to take any and all steps in Credit Acceptance's name and on behalf of Credit Acceptance necessary or desirable, in the determination of the Backup Servicer or the Collateral Agent acting in "good faith" (as such term is defined in Article 9 of the UCC), to collect all amounts due under any and all of the Loans, including, without limitation, endorsing Credit Acceptance's name on checks and other instruments representing Collections and enforcing the Loans and Contracts; provided, however, that the Collateral Agent shall not have an affirmative obligation to carry out such duties.

SECTION 2.9. Liability of the Backup Servicer; Standard of Care.

(a) The Backup Servicer shall not be liable for its actions or omissions hereunder except for its gross negligence, willful misconduct or bad faith or for any recitals, statements, representations or warranties made expressly by the Backup Servicer. No permissive right of the Backup Servicer set forth in this Agreement shall be construed as an obligation or duty. Other than as specifically set forth in this Agreement, the Backup Servicer shall have no obligation to supervise, verify, monitor or administer the performance of the Servicer, the Collateral Agent, the Deal Agent or the Borrower and shall have no liability for any action taken or omitted to be taken by the Servicer, the Collateral Agent, the Deal Agent or the Borrower.

(b) The Backup Servicer shall indemnify, defend and hold harmless the Servicer and its respective officers, directors, agents and employees from and against any and all costs, expenses, losses, claims, damages and liabilities to the extent that such cost, expense, loss, claim, damage or liability arose out of, or was imposed upon the Servicer through the Backup Servicer's willful misconduct, bad faith or gross negligence of the Backup Servicer in the performance of its duties under this Agreement or by reason of reckless disregard of its obligations and duties under this Agreement.

(c) The Servicer shall indemnify, defend and hold harmless the Backup Servicer and its respective officers, directors, agents and employees from and against any and all costs, expenses, losses, claims, damages and liabilities to the extent that such cost, expense, loss, claim, damage or liability arose out of, or was imposed upon the Backup Servicer through the Servicer's willful misconduct, bad faith or negligence of the Servicer in the performance of its duties under this Agreement or by reason of reckless disregard of its obligations and duties under this Agreement (in each case, as determined by a court of competent jurisdiction or as otherwise agreed to by the parties). Notwithstanding anything to the contrary herein, in no event shall the Backup Servicer be liable for punitive, special, indirect, or consequential damages of any kind whatsoever, including but not limited to lost profits, even if the Backup Servicer has been advised of the likelihood of such loss or damage and regardless of the form of action.

(d) The Backup Servicer may accept and reasonably rely on all accounting and servicing records and other documentation provided to the Backup Servicer by or at the direction of the Servicer, including documents prepared or maintained by any originator, or previous servicer, or any party providing services related to the Loans or Contracts (collectively, the "Third Party"). The Servicer agrees to indemnify (subject to the limitation provided in subsection (e) below) and hold harmless the Backup Servicer, its respective officers, employees and agents against any and all claims, losses, penalties, fines, forfeitures, legal fees and related costs, judgments, and any other costs, fees and expenses that the Backup Servicer may sustain in any way related to the negligence or misconduct of any Third Party with respect to the Loans or Contracts. The Backup Servicer shall have no Liability for the acts or omissions of any such Third Party or for the inaccuracy of any data provided, produced or supplied by such Third Party. If any Error exists in any information provided to the Backup Servicer and such Error causes or materially contributes to the Backup Servicer making a Continuing Error, the Backup Servicer shall have no liability for such Continued Error..

(e) Indemnification under this Section shall include, without limitation, reasonable and documented fees and expenses of counsel (including in-house counsel) and expenses of litigation (including, without limitation, any reasonable and documented legal fees, costs and expenses incurred in connection with any enforcement (including any action, claim or suit brought) by the indemnified party of any indemnification or other obligation of the indemnifying party). If the indemnifying party has made any indemnity payments pursuant to this Section and the recipient thereafter collects any of such amounts from others, the recipient shall promptly repay such amounts collected to the indemnifying party, together with any interest earned thereon.

(f) In performing the Service-Related Activities contemplated by this Agreement, the Backup Servicer agrees to comply in all respects with the applicable state and federal laws and will carry out such activities with the same degree of care as that provided for the Servicer under the Loan Agreement as modified hereunder. The Backup Servicer shall maintain all state and federal licenses and franchises necessary for it to perform Service-Related Activities. The Backup Servicer shall not have any Liability for any Error or Continued Error by the Servicer, or for any error, inaccuracy or omission of the Servicer before the Backup Servicer assumes the Service-Related Activities.

(g) Neither the Backup Servicer nor any of the directors or officers or employees or agents of the Backup Servicer shall be under any liability to the Servicer or any party to this Agreement or the Loan Agreement except as provided in this Agreement, for any action taken or for refraining from the taking of any action in good faith pursuant to this Agreement; *provided, however*, that this provision shall not protect the Backup Servicer or any such person against any liability that would otherwise be imposed by reason of willful misconduct, bad faith or gross negligence in the performance of duties or by reason of reckless disregard of obligations and duties under this Agreement, as the case may be (in each case, as determined by a court of competent jurisdiction or as otherwise agreed to by the parties). The Backup Servicer and any director, officer, employee or agent of the Backup Servicer may request, and may conclusively rely and shall be fully protected in acting or refraining from acting upon any document, certificate, instrument, opinion, notice, statement, consent, resolution, entitlement order, approval or conversation believed by it to be genuine and made by the proper person and upon the advice or opinion of counsel or other experts selected by it. The Backup Servicer shall not be liable for an error of judgment or for any action taken, or omitted to be taken in good faith by a Responsible Officer of the Backup Servicer, unless it shall be proven that the Backup Servicer was grossly negligent in ascertaining the pertinent facts.

(h) The Backup Servicer shall maintain its existence and rights as a national banking association under the laws of the jurisdiction of its organization, and will obtain and preserve its qualification to do business in each jurisdiction in which the failure to so qualify would have an adverse effect on the validity or enforceability of any Contract, Dealer Agreement, this Agreement or on the ability of the Backup Servicer to perform its duties under this Agreement.

(i) The Backup Servicer shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, entitlement order, approval or other paper or document.

(j) The Backup Servicer may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees appointed with due care.

(k) To the extent that the Backup Servicer is not indemnified by the Servicer pursuant to Section 2.2 hereunder and under the Loan Agreement, such amounts shall be reimbursable by the Borrower pursuant to Section 2.7(a) of the Loan Agreement.

(l) The Backup Servicer may subservice any and all of its duties and responsibilities hereunder, including but not limited to its duties as successor Servicer hereunder, should the Backup Servicer become the successor Servicer pursuant to Section 2.3 hereof. Notwithstanding any such delegation of duty, the Backup Servicer shall remain obligated and liable for the performance of such duty and responsibility as if the Backup Servicer were performing such duty or responsibility.

(m) The Backup Servicer and any director, officer, employee or agent of the Backup Servicer may rely in good faith on the advice of counsel (including but not limited to counsel who may be employees of the Backup Servicer) or on any document of any kind prima

facie properly executed and submitted by any Person respecting any matters arising under this Agreement.

(n) The Backup Servicer shall not be deemed to have knowledge of any Servicer Event of Default unless a Responsible Officer of the Backup Servicer shall have received written notice thereof and, until receipt thereof, may assume that a Servicer Event of Default has not occurred. The Backup Servicer shall not have any obligation or duty to determine whether any Servicer Event of Default has occurred. Knowledge or information acquired by (i) Wells Fargo Bank, N.A. in any of its respective capacities hereunder or under any other document related to this transaction shall not be imputed to Wells Fargo Bank, N.A. in any of its other capacities hereunder or under such other documents except to the extent their respective duties are performed by Responsible Officers in the same division of Wells Fargo Bank, N.A., and vice versa, and (ii) any Affiliate of Wells Fargo Bank, N.A. shall not be imputed to Wells Fargo Bank, N.A. in any of its capacities. Information contained in reports (other than those reports that the Backup Servicer is contractually obligated to prepare and/or review) and other publicly available information shall not constitute actual knowledge. Other than with respect to any information that the Backup Servicer has an express duty hereunder to review, the Backup Servicer shall not be deemed to have knowledge of any fact or matter for purposes of this Agreement unless a Responsible Officer of the Backup Servicer (i) has actual knowledge thereof or (ii) receives written notice with respect thereto.

(o) The Back-up Servicer shall be entitled to conclusively rely on the accuracy of all information provided to it by any party to any of the Transaction Documents, and, except as expressly provided herein, the Backup Servicer shall have no duty to investigate, recompile, recalculate or otherwise verify the accuracy of any such information and shall have no liability for any error or inaccuracy in such reports resulting from the use of such information.

(p) Except to the extent failure or delay could have been prevented by the taking of commercially reasonable precautions such as the implementation and execution of disaster recovery plans, the Back-up Servicer shall not be liable for any failure or delay in the performance of its obligations hereunder due to any Force Majeure Event.

(q) The Backup Servicer shall not be under any obligation to take any action in the performance of its respective duties hereunder that would be in violation of applicable law.

(r) The Backup Servicer shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder.

(s) The provisions of this Section shall survive the termination or assignment of this Agreement and the resignation or removal of the Backup Servicer.

SECTION 2.10. Backup Servicer's Certificate. Prior to the Assumption Date, on the Business Day preceding each Payment Date, the Backup Servicer shall deliver or cause to be delivered to the Deal Agent a certificate (the "Backup Servicer's Certificate"), in form and substance satisfactory to the Deal Agent, signed by an officer of the Backup Servicer, stating that (i) the Backup Servicer has loaded the Servicer's Data File as described in Section 2.1(a) on its hardware, (ii) a

review of the Monthly Report for the related Payment Date has been made under such officer's supervision, and (iii) to such officer's knowledge, (x) the electronic media is in readable form; (y) with respect to the review and verification set forth in Section 2.2(a) and 2.2(b), the data on the Servicer's Data File tie to the related Monthly Report resulting in no discrepancies between them, and (z) the Monthly Report does not contain any errors in accordance with the review criteria set forth in Section 2.2(a) hereunder. If the preceding statements cannot be made in the affirmative, the applicable officer shall state the nature of any and all anomalies, discrepancies and errors, and indicate all actions it is currently taking with the Servicer to reconcile and/or correct the same. Each Backup Servicer's Certificate shall be dated as of the related date of delivery. Upon the request of the Deal Agent, a Backup Servicer's Certificate shall be accompanied by copies of any third party reports relied on or obtained in connection with the Backup Servicer's duties hereunder. The Backup Servicer, with respect to the Backup Servicer's Certificate, shall not be responsible for delays attributable to the Servicer's or Borrower's failure to deliver information, defects in the information supplied by the Servicer or other circumstances beyond the control of the Backup Servicer. After the Assumption Date, the Backup Servicer shall deliver the Monthly Report in accordance with Section 6.5(a) of the Loan Agreement.

SECTION 2.11. Backup Servicer's Expenses. The Backup Servicer shall be required to pay all ordinary expenses incurred by it in connection with its activities hereunder, including expenses related to sub-servicers and fees and disbursements of independent accountants, taxes imposed on the Backup Servicer and expenses incurred in connection with distributions and reports to the Servicer, the Collateral Agent and the Deal Agent. When the Backup Servicer incurs expenses after the occurrence of a Servicer Termination Event specified in Section 6.11 of the Loan Agreement, the parties hereto intend that such expenses constitute expenses of administration under the Bankruptcy Code or any other applicable Federal or State bankruptcy, insolvency or similar law.

SECTION 2.12. Backup Servicer as Successor Servicer. Notwithstanding anything to the contrary contained herein, and for the avoidance of doubt, any reference herein to the Backup Servicer and/or its rights, obligations and duties after the Assumption Date shall be deemed to relate to the Backup Servicer acting solely in its capacity as Successor Servicer.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES

SECTION 3.1. Representations, Warranties and Covenants of the Backup Servicer. The Backup Servicer (i) represents and warrants as of the date of execution and delivery of this Agreement and (ii) covenants with respect to clauses (h) and (i) below from the date hereof until the termination of this Agreement in accordance with its terms, as follows:

(a) Organization and Good Standing. The Backup Servicer has been duly organized, and is validly existing as a national banking association and in good standing under the laws of the United States of America, with all requisite power and authority to own or lease its properties and to conduct its business as such business is presently conducted and to enter into and perform its obligations pursuant to this Agreement and each other Transaction Document to which it is a party.

(b) Due Qualification. The Backup Servicer is duly qualified to do business as a national banking association in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions where the failure to do so would materially and adversely affect the performance of its obligations under this Agreement or the Loan Agreement.

(c) Power and Authority. The Backup Servicer has the power and authority to execute and deliver this Agreement and to carry out the terms hereof; and the execution, delivery and performance of this Agreement have been duly authorized by the Backup Servicer by all necessary corporate action.

(d) Binding Obligation. This Agreement shall constitute the legal, valid and binding obligation of the Backup Servicer enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by equitable limitations on the availability of specific remedies, regardless of whether such enforceability is considered in a proceeding in equity or at law.

(e) No Violation. The execution and delivery of this Agreement, the consummation of the transactions contemplated by this Agreement, and the fulfillment of the terms hereof, shall not conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time, or both) a default under, the certificate of incorporation or bylaws of the Backup Servicer, or any indenture, agreement, mortgage, deed of trust or other instrument to which the Backup Servicer is a party or by which it is bound, or result in the creation or imposition of any lien upon any of its properties pursuant to the terms of any such indenture, agreement, mortgage, deed of trust or other instrument, other than this Agreement, or violate any law, order, rule or regulation applicable to the Backup Servicer of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Backup Servicer or any of its properties.

(f) No Proceedings. There are no proceedings or investigations pending or, to the Backup Servicer's knowledge, threatened against the Backup Servicer, before any court, regulatory body, administrative agency or other tribunal or governmental instrumentality having jurisdiction over the Backup Servicer or its properties: (i) asserting the invalidity of this Agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by this Agreement, or (iii) seeking any determination or ruling that might materially and adversely affect the performance by the Backup Servicer of its obligations under, or the validity or enforceability of, this Agreement.

(g) No Consents. The Backup Servicer is not required to obtain the consent of any other party or any consent, license, approval or authorization, or registration or declaration with, any governmental authority, bureau or agency in connection with the execution, delivery, performance, validity or enforceability of this Agreement.

(h) Standard of Care. The Backup Servicer will perform its duties hereunder with the same degree of care as it applies to the performance of such services for any assets which the Backup Servicer services for other Persons.

(i) Notice of Backup Servicer Event of Default. Upon a Backup Servicer Event of Default, the Backup Servicer shall promptly notify the Deal Agent, the Servicer and the Borrower that a Backup Servicer Event of Default has occurred.

ARTICLE 4
TERMINATION

SECTION 4.1. Backup Servicer Event of Default.

For purposes of this Agreement, any of the following shall constitute a “Backup Servicer Event of Default”:

(a) Failure on the part of the Backup Servicer duly to observe or perform in any material respect any covenant or agreement of the Backup Servicer set forth in this Agreement, which failure continues unremedied for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Backup Servicer by the Deal Agent.

(b) [Reserved]

(c) The entry of a decree or order by a court or agency or supervisory authority having jurisdiction in the premises for the appointment of a conservator, receiver, or liquidator for the Backup Servicer in any insolvency, readjustment of debt, marshalling of assets and liabilities, or similar proceedings, or for the winding up or liquidation of its respective affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days or the entry of any decree or order for relief in respect of the Backup Servicer under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, or similar law, whether now or hereafter in effect, which decree or order for relief continues unstayed and in effect for a period of 60 consecutive days.

(d) The consent by the Backup Servicer to the appointment of a conservator or receiver or liquidator in any insolvency, readjustment of debt, marshalling of assets and liabilities, or similar proceedings of or relating to the Backup Servicer or relating to substantially all of its property; or the admission by the Backup Servicer in writing of its inability to pay its debts generally as they become due, the filing by the Backup Servicer of a petition to take advantage of any applicable insolvency or reorganization statute, the making by the Backup Servicer of an assignment for the benefit of its creditors, or the voluntarily suspension by the Backup Servicer of payment of its obligations.

(e) Any representation, warranty or statement of the Backup Servicer made in this Agreement or any certificate, report or other writing delivered by the Backup Servicer pursuant hereto shall prove to be incorrect in any material respect as of the time when the same shall have been made and, within 30 days after the date on which a Responsible Officer of the Backup Servicer has actual knowledge or received written notice thereof, the circumstances or condition in respect of which such representation, warranty or statement was incorrect shall not have been eliminated or otherwise cured.

SECTION 4.2. Consequences of a Backup Servicer Event of Default.

If a Backup Servicer Event of Default has occurred and is continuing, the Deal Agent may, by notice given in writing to the Backup Servicer, terminate all of the rights and obligations of the Backup Servicer under this Agreement. On or after the receipt by the Backup Servicer of such written notice, all authority, power, obligations and responsibilities of the Backup Servicer under this Agreement shall be terminated. The terminated Backup Servicer agrees to cooperate with the Deal Agent in effecting the termination of the responsibilities and rights of the terminated Backup Servicer under this Agreement.

SECTION 4.3. Backup Servicing Termination.

Prior to the time the Backup Servicer receives a notice from the Deal Agent that the Backup Servicer will become the Servicer, the Backup Servicer may terminate this Agreement for any reason in its sole judgment and discretion upon delivery of 90 days advance written notice to the Deal Agent of such termination.

SECTION 4.4. Return of Confidential Information.

Upon termination of this Agreement, the Backup Servicer shall, at the direction of the Deal Agent, promptly return all written confidential information and any related electronic and written files and correspondence in its possession as are related to this Agreement and the Service-Related Activities contemplated hereunder.

SECTION 4.5. Access to Facilities and Information.

The Backup Servicer shall provide reasonable access to its facilities and assistance to any Successor Servicer or other party assuming the servicing responsibilities, provided, however, that such access shall not unreasonably interfere with the Backup Servicer conducting its day to day operations. The Backup Servicer will furnish to the Deal Agent, any Liquidity Agent or the Collateral Agent, as applicable, promptly, from time to time, such other information, documents, records or reports respecting the Collateral or the condition or operations, financial or otherwise, of the Backup Servicer as the Deal Agent, any Liquidity Agent or the Collateral Agent may from time to time reasonably request in order to protect the interests of the Collateral Agent or the Secured Parties under or as contemplated by this Agreement or the Loan Agreement.

ARTICLE 5
MISCELLANEOUS

SECTION 5.1. Notices, Etc.

(a) On and after the Assumption Date, the Borrower, the Collateral Agent, Credit Acceptance and the Deal Agent hereby agree to provide to the Backup Servicer all notices required to be provided to the Servicer pursuant to the Loan Agreement and the other Transaction Documents, as well as a hard copy sent by a nationally recognized courier service with item tracking capability.

(b) Except where telephonic instructions or notices are authorized herein to be given, all notices, demands, instructions and other communications required or permitted to be given to or made upon any party hereto shall be in writing and shall be sent electronically or by facsimile transmission with a confirmation of the receipt thereof and shall be deemed to be given for purposes of this Agreement on the day that the receipt of such facsimile transmission is confirmed in accordance with the provisions of this Section 5.1. Unless otherwise specified in a notice sent or delivered in accordance with the foregoing provisions of this Section, notices, demands, instructions (including payment instructions) and other communications in writing shall be given to or made upon the respective parties hereto at their respective addresses and accounts indicated below, and, in the case of telephonic instructions or notices, by calling the telephone number or numbers indicated for such party below:

If to the Servicer:

Credit Acceptance Corporation
Silver Triangle Building
25505 West Twelve Mile Road
Southfield, Michigan 48034-8339
Attention: Jeff Soutar
Telephone: (248) 353-2700 (ext. 5646)
Facsimile No.: (866) 743-2704

If to the Deal Agent:

Wells Fargo Bank, National Association
550 South Tryon Street
Charlotte, North Carolina 28288-0610
Attention: Conduit Administration
Facsimile No.: (704) 383-9579
Telephone No.: (704) 383-9343

If to the Collateral Agent:

Wells Fargo Bank, National Association
MAC N9311-161
Sixth Street and Marquette Ave.
Minneapolis, Minnesota 55479
Attention: Trust Services – Asset-Backed Administration
Facsimile No.: (612) 667-3464
Telephone No.: (612) 667-8050

If to the Backup Servicer:

Wells Fargo Bank, National Association
MAC N9311-061
600 S. 4th Street
Minneapolis, Minnesota 55479
Attention: Corporate Trust Services – Asset-Backed Administration
Telephone No.: (612) 667-8058
Facsimile No.: (612) 667-3464

SECTION 5.2. Successors and Assigns. This Agreement shall be binding upon the Backup Servicer, and shall inure to the benefit of the Collateral Agent, the Lenders, the Deal Agent, the Investors, the Liquidity Agent and their respective successors and permitted assigns; provided that the Backup Servicer shall not assign any of its rights or obligations hereunder without the prior written consent of the Deal Agent, and any such assignment in contradiction of the foregoing shall be null and void.

SECTION 5.3. No Bankruptcy Petition Against the Borrower.

(a) Each of the parties hereto hereby agrees that it will not institute against, or join any other Person in instituting against any CP Conduit any Insolvency Proceeding so long as any commercial paper issued by such CP Conduit shall be outstanding and there shall not have elapsed one year and one day since the last day on which any such commercial paper shall have been outstanding.

(b) Each of the parties hereto (other than the Deal Agent) hereby agrees that it will not institute against, or join any other Person in instituting against the Borrower any Insolvency Proceeding so long as there shall not have elapsed one year and one day since the Collection Date.

SECTION 5.4. Severability Clause. Any provisions of this Agreement which are prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 5.5. Amendments. This Agreement and the rights and obligations of the parties hereunder may not be changed orally but only by an instrument in writing signed by the parties hereto. The cost of any amendment entered into hereunder shall be an expense of the Borrower

SECTION 5.6. GOVERNING LAW; CONSENT TO JURISDICTION; WAIVER OF OBJECTION TO VENUE. **THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. EACH OF THE PARTIES HERETO HEREBY AGREES TO THE NON-EXCLUSIVE JURISDICTION OF ANY FEDERAL COURT LOCATED WITHIN THE STATE OF NEW**

YORK. EACH OF THE PARTIES HERETO HEREBY WAIVES ANY OBJECTION BASED ON FORUM NON CONVENIENS, AND ANY OBJECTION TO VENUE OF ANY ACTION INSTITUTED HEREUNDER IN ANY OF THE AFOREMENTIONED COURTS AND CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT.

SECTION 5.7. WAIVER OF JURY TRIAL. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES HERETO HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE BETWEEN THE PARTIES HERETO ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP BETWEEN ANY OF THEM IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. INSTEAD, ANY SUCH DISPUTE RESOLVED IN COURT WILL BE RESOLVED IN A BENCH TRIAL WITHOUT A JURY.

SECTION 5.8. COUNTERPARTS. This Agreement may be executed in any number of copies, and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument.

SECTION 5.9. HEADINGS. Section headings used in this Agreement are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

SECTION 5.10. PATRIOT ACT COMPLIANCE. Each of the Deal Agent, the Collateral Agent and the Backup Servicer hereby notifies the Borrower that pursuant to the requirements of the Patriot Act, it and any Lender may be required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower, organizational documentation, director and member information, and other information that will allow each of the Deal Agent, the Collateral Agent and the Backup Servicer and the Lenders to identify the Borrower in accordance with the Patriot Act. This notice is given in accordance with the requirements of the Patriot Act and is effective for each of the Deal Agent, the Collateral Agent and the Backup Servicer and the Lenders.

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IN WITNESS WHEREOF, the Servicer, the Deal Agent, the Collateral Agent, the Backup Servicer and the Borrower have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the day and year first above written.

CREDIT ACCEPTANCE CORPORATION,
as Servicer

By: /s/ Douglas W. Busk
Name: Douglas W. Busk
Title: Senior Vice President & Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Deal Agent

By: /s/ Charles McDonough IV
Name: Charles McDonough IV
Title: Vice President

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Backup Servicer and Collateral Agent

By: /s/ Kristen L. Puttin
Name: Kristen L. Puttin
Title: Vice President

CAC WAREHOUSE FUNDING CORPORATION II,
as Borrower

By: /s/ Douglas W. Busk
Name: Douglas W. Busk
Title: Senior Vice President & Treasurer

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: November 1, 2019

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: November 1, 2019

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 September 30, 2019 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:

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

Date: November 1, 2019

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 September 30, 2019 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: November 1, 2019

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