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CREDIT ACCEPTANCE CORP

Form 10-Q

May 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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 WEST TWELVE MILE ROAD

SOUTHFIELD, MICHIGAN

(Address of principal executive offices)

48034-8339

(Zip Code)

248-353-2700

(Registrant's

telephone

number,

including area

code)

Not Applicable

(Former name,

former address

and former

fiscal year, if

changed since

last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

|                          |                                                                        |                           |
|--------------------------|------------------------------------------------------------------------|---------------------------|
| Large accelerated filer  | Non-accelerated filer                                                  | Smaller reporting company |
| <input type="checkbox"/> | <input type="checkbox"/> (Do not check if a smaller reporting company) | <input type="checkbox"/>  |

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, par value \$0.01, outstanding on April 25, 2016 was 20,328,489.

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## PART I. - FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CREDIT ACCEPTANCE CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

(Dollars in millions, except per share data)

|                                                                                                                                                                               | As of          |                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|
|                                                                                                                                                                               | March 31, 2016 | December 31, 2015 |
| <b>ASSETS:</b>                                                                                                                                                                |                |                   |
| Cash and cash equivalents                                                                                                                                                     | \$9.1          | \$ 6.3            |
| Restricted cash and cash equivalents                                                                                                                                          | 225.7          | 167.4             |
| Restricted securities available for sale                                                                                                                                      | 49.1           | 48.3              |
| Loans receivable (including \$15.0 and \$12.6 from affiliates as of March 31, 2016 and December 31, 2015, respectively)                                                       | 3,626.2        | 3,345.1           |
| Allowance for credit losses                                                                                                                                                   | (262.8 )       | (243.6 )          |
| Loans receivable, net                                                                                                                                                         | 3,363.4        | 3,101.5           |
| Property and equipment, net                                                                                                                                                   | 19.0           | 18.9              |
| Income taxes receivable                                                                                                                                                       | 19.8           | 10.0              |
| Other assets (1)                                                                                                                                                              | 17.9           | 20.2              |
| Total Assets                                                                                                                                                                  | \$3,704.0      | \$ 3,372.6        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>                                                                                                                                  |                |                   |
| <b>Liabilities:</b>                                                                                                                                                           |                |                   |
| Accounts payable and accrued liabilities                                                                                                                                      | \$131.9        | \$ 127.8          |
| Revolving secured line of credit                                                                                                                                              | 36.3           | 57.7              |
| Secured financing (1)                                                                                                                                                         | 1,751.7        | 1,470.1           |
| Senior notes (1)                                                                                                                                                              | 540.3          | 540.0             |
| Deferred income taxes, net                                                                                                                                                    | 252.4          | 248.9             |
| Total Liabilities                                                                                                                                                             | 2,712.6        | 2,444.5           |
| <b>Commitments and Contingencies - See Note 14</b>                                                                                                                            |                |                   |
| <b>Shareholders' Equity:</b>                                                                                                                                                  |                |                   |
| Preferred stock, \$.01 par value, 1,000,000 shares authorized, none issued                                                                                                    | —              | —                 |
| Common stock, \$.01 par value, 80,000,000 shares authorized, 20,328,546 and 20,132,972 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively | 0.2            | 0.2               |
| Paid-in capital                                                                                                                                                               | 126.2          | 100.8             |
| Retained earnings                                                                                                                                                             | 864.7          | 827.2             |
| Accumulated other comprehensive income (loss)                                                                                                                                 | 0.3            | (0.1 )            |
| Total Shareholders' Equity                                                                                                                                                    | 991.4          | 928.1             |
| Total Liabilities and Shareholders' Equity                                                                                                                                    | \$3,704.0      | \$ 3,372.6        |

(1) Prior year amounts have been reclassified to reflect the adoption of Accounting Standards Update ("ASU") No. 2015-03, as amended by ASU No. 2015-15, which resulted in a reclassification of certain deferred debt issuance costs from other assets to secured financing and senior notes. For additional information see Note 3 and Note 6 to the consolidated financial statements.

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

| (Dollars in millions, except per share data) | For the Three |            |
|----------------------------------------------|---------------|------------|
|                                              | Months Ended  |            |
|                                              | March 31,     |            |
|                                              | 2016          | 2015       |
| Revenue:                                     |               |            |
| Finance charges                              | \$202.8       | \$ 169.9   |
| Premiums earned                              | 10.8          | 12.1       |
| Other income                                 | 14.3          | 12.2       |
| Total revenue                                | 227.9         | 194.2      |
| Costs and expenses:                          |               |            |
| Salaries and wages                           | 32.7          | 30.4       |
| General and administrative                   | 12.1          | 9.1        |
| Sales and marketing                          | 13.7          | 11.7       |
| Provision for credit losses                  | 22.1          | 6.2        |
| Interest                                     | 22.1          | 14.9       |
| Provision for claims                         | 6.8           | 8.6        |
| Total costs and expenses                     | 109.5         | 80.9       |
| Income before provision for income taxes     | 118.4         | 113.3      |
| Provision for income taxes                   | 44.0          | 41.8       |
| Net income                                   | \$74.4        | \$ 71.5    |
| Net income per share:                        |               |            |
| Basic                                        | \$3.64        | \$ 3.42    |
| Diluted                                      | \$3.63        | \$ 3.41    |
| Weighted average shares outstanding:         |               |            |
| Basic                                        | 20,435,201    | 20,922,620 |
| Diluted                                      | 20,485,822    | 20,948,676 |

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(UNAUDITED)

| (In millions)                             | For the | Three | Months | Ended | March 31, | 2016 | 2015   |
|-------------------------------------------|---------|-------|--------|-------|-----------|------|--------|
| Net income                                | \$74.4  |       |        |       |           |      | \$71.5 |
| Other comprehensive income, net of tax:   |         |       |        |       |           |      |        |
| Unrealized gain on securities, net of tax | 0.4     |       |        |       |           |      | 0.3    |
| Other comprehensive income                | 0.4     |       |        |       |           |      | 0.3    |
| Comprehensive income                      | \$74.8  |       |        |       |           |      | \$71.8 |



See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

| (In millions)                                                   | For the Three<br>Months Ended<br>March 31, |           |
|-----------------------------------------------------------------|--------------------------------------------|-----------|
|                                                                 | 2016                                       | 2015      |
| Cash Flows From Operating Activities:                           |                                            |           |
| Net income                                                      | \$74.4                                     | \$ 71.5   |
| Adjustments to reconcile cash provided by operating activities: |                                            |           |
| Provision for credit losses                                     | 22.1                                       | 6.2       |
| Depreciation                                                    | 1.6                                        | 1.5       |
| Amortization                                                    | 2.2                                        | 2.2       |
| Loss on retirement of property and equipment                    | —                                          | 0.1       |
| Provision for deferred income taxes                             | 3.3                                        | 7.0       |
| Stock-based compensation                                        | 2.1                                        | 4.1       |
| Change in operating assets and liabilities:                     |                                            |           |
| Increase (decrease) in accounts payable and accrued liabilities | (6.3 )                                     | 7.9       |
| Decrease (increase) in income taxes receivable                  | (9.8 )                                     | 0.4       |
| Decrease in income taxes payable                                | —                                          | 13.0      |
| Decrease in other assets                                        | 2.1                                        | 3.5       |
| Net cash provided by operating activities                       | 91.7                                       | 117.4     |
| Cash Flows From Investing Activities:                           |                                            |           |
| Increase in restricted cash and cash equivalents                | (58.3 )                                    | (41.3 )   |
| Purchases of restricted securities available for sale           | (12.6 )                                    | (11.6 )   |
| Proceeds from sale of restricted securities available for sale  | 11.1                                       | 11.5      |
| Maturities of restricted securities available for sale          | 1.2                                        | 0.5       |
| Principal collected on Loans receivable                         | 514.8                                      | 454.5     |
| Advances to Dealers                                             | (562.7)                                    | (533.5 )  |
| Purchases of Consumer Loans                                     | (181.4)                                    | (92.6 )   |
| Accelerated payments of Dealer Holdback                         | (14.8 )                                    | (13.8 )   |
| Payments of Dealer Holdback                                     | (39.9 )                                    | (41.1 )   |
| Purchases of property and equipment                             | (1.7 )                                     | (1.3 )    |
| Net cash used in investing activities                           | (344.3)                                    | (268.7 )  |
| Cash Flows From Financing Activities:                           |                                            |           |
| Borrowings under revolving secured line of credit               | 798.7                                      | 988.4     |
| Repayments under revolving secured line of credit               | (820.1)                                    | (1,107.9) |
| Proceeds from secured financing                                 | 661.1                                      | 535.4     |
| Repayments of secured financing                                 | (380.4)                                    | (433.1 )  |
| Proceeds from issuance of senior notes                          | —                                          | 248.2     |
| Payments of debt issuance costs                                 | (0.7 )                                     | (6.2 )    |
| Repurchase of common stock                                      | (40.8 )                                    | (1.1 )    |
| Tax benefits from stock-based compensation plans                | 27.2                                       | 0.3       |
| Other financing activities                                      | 10.4                                       | 7.6       |
| Net cash provided by financing activities                       | 255.4                                      | 231.6     |
| Net increase in cash and cash equivalents                       | 2.8                                        | 80.3      |
| Cash and cash equivalents, beginning of period                  | 6.3                                        | 6.4       |

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|                                                   |        |         |
|---------------------------------------------------|--------|---------|
| Cash and cash equivalents, end of period          | \$9.1  | \$ 86.7 |
| Supplemental Disclosure of Cash Flow Information: |        |         |
| Cash paid during the period for interest          | \$29.2 | \$ 17.3 |
| Cash paid during the period for income taxes      | \$22.0 | \$ 20.2 |

See accompanying notes to consolidated financial statements.

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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, 2015 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, 2015 for Credit Acceptance Corporation (the “Company”, “Credit Acceptance”, “we”, “our” or “us”).

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

We have evaluated events and transactions occurring subsequent to the consolidated balance sheet date of March 31, 2016 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 financial statements.

Reclassification

Certain amounts for prior periods have been reclassified to conform to the current presentation. On January 1, 2016, we adopted Accounting Standards Update (“ASU”) No. 2015-03, as amended by ASU No. 2015-15, which resulted in a reclassification of certain deferred debt issuance costs as of December 31, 2015, from other assets (\$16.8 million) to secured financing (\$8.5 million) and senior notes (\$8.3 million), in our consolidated balance sheets. For additional information see Note 3 and Note 6 to the consolidated financial statements.

2. DESCRIPTION OF BUSINESS

Since 1972, Credit Acceptance has offered automobile dealers financing programs that enable them 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 product, but who actually end up qualifying for traditional 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.

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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<br>Months Ended<br>March 31, |       |
|---------------------------------------------------------------------------------------|--------------------------------------------|-------|
|                                                                                       | 2016                                       | 2015  |
| Percentage of total unit volume with either FICO® scores below 650 or no FICO® scores | 96.6%                                      | 96.7% |

Table of ContentsNOTES 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 based on unit volumes under each of the programs for each of the last five quarters:

| Quarter Ended      | Portfolio Program | Purchase Program |
|--------------------|-------------------|------------------|
| March 31, 2015     | 88.6 %            | 11.4 %           |
| June 30, 2015      | 87.7 %            | 12.3 %           |
| September 30, 2015 | 87.3 %            | 12.7 %           |
| December 31, 2015  | 85.7 %            | 14.3 %           |
| March 31, 2016     | 82.4 %            | 17.6 %           |

## 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 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. We generally require Dealers to group advances into pools of at least 100 Consumer Loans. At the Dealer’s option, a pool containing at least 100 Consumer Loans can be closed and subsequent advances assigned to a new pool. 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 in the Dealer Loans by 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.

Dealers have an opportunity to receive an accelerated Dealer Holdback payment each time 100 Consumer Loans have been assigned to us. The amount paid to the Dealer is calculated using a formula that considers the forecasted collections and the advance balance on the related Consumer Loans.

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. The Dealer can also opt to repurchase Consumer Loans that have been assigned to us under the Portfolio Program, at their discretion, for a fee.

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

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

Purchase Program

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

Program Enrollment

Dealers may enroll 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 first accelerated Dealer Holdback payment. Access to the Purchase Program is typically only granted to Dealers that meet one of the following:

- received first accelerated Dealer Holdback payment 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 Dealers financing programs and related products and services that enable them 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

Cash equivalents consist of readily marketable securities with original maturities at the date of acquisition of three months or less. As of March 31, 2016 and December 31, 2015, we had \$8.8 million and \$6.0 million, respectively, in cash and cash equivalents that were not insured by the Federal Deposit Insurance Corporation ("FDIC").

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of cash pledged as collateral for secured financings and cash held in a trust for future vehicle service contract claims. As of March 31, 2016 and December 31, 2015, we had \$223.6 million and \$165.1 million, respectively, in restricted cash and cash equivalents that was not insured by the FDIC.

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.

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

**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 with deteriorated credit quality that were originated by Dealers to finance consumer purchases of vehicles and related ancillary products.

**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 in a manner similar to loans acquired with deteriorated credit quality. 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); and
- write-offs.

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. The discounted value of future cash flows is 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.

Future collections on Dealer Loans are forecasted based on the historical performance of Consumer Loans with similar characteristics, adjusted for recent trends in payment patterns. Dealer Holdback is forecasted 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 in a manner similar to loans acquired with deteriorated credit quality. 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; and  
recoveries.

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. The discounted value of future cash flows is 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.

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

Future collections on Purchased Loans are forecasted 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.

**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.

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 months ended March 31, 2016 and 2015, we did not make any methodology changes for Loans that had a material impact on our financial results.

**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 underwritten by one of our third party insurers. 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.

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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. A summary of reinsurance activity is as follows:

| (In millions)                                 | For the            |        |
|-----------------------------------------------|--------------------|--------|
|                                               | Three Months Ended |        |
|                                               | March 31,          |        |
|                                               | 2016               | 2015   |
| Net assumed written premiums                  | \$11.9             | \$15.5 |
| Net premiums earned                           | 10.8               | 12.1   |
| Provision for claims                          | 6.8                | 8.6    |
| Amortization of capitalized acquisition costs | 0.2                | 0.3    |

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 premium 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.

The trust assets and related reinsurance liabilities are as follows:

| (In millions)      | Balance Sheet location                   | As of     |              |
|--------------------|------------------------------------------|-----------|--------------|
|                    |                                          | March 31, | December 31, |
|                    |                                          | 2016      | 2015         |
| Trust assets       | Restricted cash and cash equivalents     | \$0.5     | \$ 0.8       |
| Trust assets       | Restricted securities available for sale | 49.1      | 48.3         |
| Unearned premium   | Accounts payable and accrued liabilities | 36.3      | 35.2         |
| Claims reserve (1) | Accounts payable and accrued liabilities | 1.1       | 1.2          |

(1) The claims reserve is estimated based on historical claims experience.

## New Accounting Updates

Improvements to Employee Share-Based Payment Accounting. In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-09, which simplifies the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and the classification on the statement of cash flows. ASU No. 2016-09 is effective for fiscal years, and interim periods, beginning after January 1, 2017. Early application is permitted, but we have not yet adopted ASU No. 2016-09. We are currently assessing the

impact the adoption of ASU No. 2016-09 will have on our consolidated financial statements and related disclosures.

Leases. In February 2016, the FASB issued ASU No. 2016-02, which requires 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. ASU No. 2016-02 is effective for fiscal years, and interim periods, beginning after December 15, 2018. Early application is permitted, but we have not yet adopted ASU No. 2016-02. We are currently assessing the impact the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures.

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**Disclosures about Short-Duration Contracts.** In May 2015, the FASB issued ASU No. 2015-09, which amends Topic 944 (Financial Services - Insurance) and enhances disclosures for short-duration insurance contracts. ASU No. 2015-09 is intended to increase transparency regarding significant estimates made in measuring liabilities for unpaid claims and claim adjustment expenses. It does not otherwise change the accounting for short-duration insurance contracts. ASU No. 2015-09 is effective for fiscal years beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted, but we have not yet adopted ASU No. 2015-09. While the adoption of ASU No. 2015-09 is not expected to have a material impact on our consolidated financial statements, we expect that it will expand our disclosures related to the reinsurance of vehicle service contracts.

**Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.** In April 2015, the FASB issued ASU No. 2015-05 which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change the customer's accounting for service contracts. ASU No. 2015-05 is effective for fiscal years, and interim periods, beginning after December 15, 2015 with early adoption permitted. The adoption of ASU No. 2015-05 on January 1, 2016 did not have a material impact on our consolidated financial statements and related disclosures.

**Simplifying the Presentation of Debt Issuance Costs.** In April 2015, the FASB issued ASU No. 2015-03, which amends Topic 835 (Interest) and requires the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. In August 2015, the FASB issued ASU No. 2015-15, which amends Subtopic 835-30 (Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements) and states that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU Nos. 2015-03 and 2015-15 are effective for fiscal years, and interim periods, beginning after December 15, 2015, with early adoption permitted. The adoption of ASU No. 2015-03, as amended by ASU No. 2015-15, on January 1, 2016 resulted in a reclassification of deferred debt issuance costs as of December 31, 2015, from other assets (\$16.8 million) to secured financing (\$8.5 million) and senior notes (\$8.3 million), in our consolidated balance sheets.

**Amendments to the Consolidation Analysis.** In February 2015, the FASB issued ASU No. 2015-02, which amends Topic 810 (Consolidation) and requires an entity to evaluate whether it should consolidate certain legal entities. ASU No. 2015-02 is effective for fiscal years, and interim periods, beginning after December 15, 2015 with early adoption permitted. The adoption of ASU No. 2015-02 on January 1, 2016 did not have a material impact on our consolidated financial statements and related disclosures.

**Revenue from Contracts with Customers.** In May 2014, the FASB issued ASU No. 2014-09 which supersedes the revenue recognition requirements Topic 605 (Revenue Recognition) and most industry-specific guidance. ASU No. 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU No. 2015-14 to defer the effective date of ASU No. 2014-09 by one year to fiscal years beginning after December 15,



2017. ASU No. 2015-14 also permits early adoption of ASU No. 2014-09, but not before the original effective date, which was for fiscal years beginning after December 15, 2016. We have not yet determined the effect that ASU No. 2014-09, as amended by ASU No. 2015-14, will have on our consolidated financial statements and related disclosures.

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## 4. RESTRICTED SECURITIES AVAILABLE FOR SALE

Restricted securities available for sale consist of amounts held in a trust related to VSC Re. 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.

Restricted securities available for sale consist of the following:

| (In millions)                                  | As of March 31, 2016 |                              |                               |                            |
|------------------------------------------------|----------------------|------------------------------|-------------------------------|----------------------------|
|                                                | Cost                 | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| U.S. Government and agency securities          | \$22.4               | \$ 0.2                       | \$ —                          | \$ 22.6                    |
| Corporate bonds                                | 17.0                 | 0.2                          | —                             | 17.2                       |
| Asset-backed securities                        | 5.3                  | —                            | —                             | 5.3                        |
| Mortgage-backed securities                     | 4.0                  | —                            | —                             | 4.0                        |
| Total restricted securities available for sale | \$48.7               | \$ 0.4                       | \$ —                          | \$ 49.1                    |

| (In millions)                                  | As of December 31, 2015 |                              |                               |                            |
|------------------------------------------------|-------------------------|------------------------------|-------------------------------|----------------------------|
|                                                | Cost                    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
| U.S. Government and agency securities          | \$21.8                  | \$ —                         | \$ (0.1 )                     | \$ 21.7                    |
| Corporate bonds                                | 17.1                    | —                            | (0.1 )                        | 17.0                       |
| Asset-backed securities                        | 5.5                     | —                            | —                             | 5.5                        |
| Mortgage-backed securities                     | 4.1                     | —                            | —                             | 4.1                        |
| Total restricted securities available for sale | \$48.5                  | \$ —                         | \$ (0.2 )                     | \$ 48.3                    |

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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<br>as of March 31, 2016 |                               |                            |                               |                                     |                                        |
|------------------------------------------------|------------------------------------------------------------------------------------|-------------------------------|----------------------------|-------------------------------|-------------------------------------|----------------------------------------|
|                                                | Less than 12<br>Months                                                             |                               | 12 Months or<br>More       |                               | Total<br>Estimated<br>Fair<br>Value | Total<br>Gross<br>Unrealized<br>Losses |
|                                                | Estimated<br>Fair<br>Value                                                         | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Losses |                                     |                                        |
| U.S. Government and agency securities          | \$0.9                                                                              | \$ —                          | \$ —                       | \$ —                          | \$ 0.9                              | \$ —                                   |
| Corporate bonds                                | 1.6                                                                                | —                             | 0.5                        | —                             | 2.1                                 | —                                      |
| Asset-backed securities                        | 1.4                                                                                | —                             | —                          | —                             | 1.4                                 | —                                      |
| Mortgage-backed securities                     | 1.4                                                                                | —                             | —                          | —                             | 1.4                                 | —                                      |
| Total restricted securities available for sale | \$5.3                                                                              | \$ —                          | \$ 0.5                     | \$ —                          | \$ 5.8                              | \$ —                                   |

| (In millions)                                  | Securities Available for Sale with Gross Unrealized Losses<br>as of December 31, 2015 |                               |                            |                               |                                     |                                        |
|------------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------|----------------------------|-------------------------------|-------------------------------------|----------------------------------------|
|                                                | Less than 12<br>Months                                                                |                               | 12 Months or<br>More       |                               | Total<br>Estimated<br>Fair<br>Value | Total<br>Gross<br>Unrealized<br>Losses |
|                                                | Estimated<br>Fair<br>Value                                                            | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Losses |                                     |                                        |
| U.S. Government and agency securities          | \$16.0                                                                                | \$ (0.1 )                     | \$ 0.7                     | \$ —                          | \$ 16.7                             | \$ (0.1 )                              |
| Corporate bonds                                | 12.6                                                                                  | (0.1 )                        | 1.7                        | —                             | 14.3                                | (0.1 )                                 |
| Asset-backed securities                        | 5.4                                                                                   | —                             | —                          | —                             | 5.4                                 | —                                      |
| Mortgage-backed securities                     | 3.1                                                                                   | —                             | —                          | —                             | 3.1                                 | —                                      |
| Total restricted securities available for sale | \$37.1                                                                                | \$ (0.2 )                     | \$ 2.4                     | \$ —                          | \$ 39.5                             | \$ (0.2 )                              |

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

| (In millions)                                  | As of          |                            |                   |                            |
|------------------------------------------------|----------------|----------------------------|-------------------|----------------------------|
|                                                | March 31, 2016 |                            | December 31, 2015 |                            |
| Contractual Maturity                           | Cost           | Estimated<br>Fair<br>Value | Cost              | Estimated<br>Fair<br>Value |
| Within one year                                | \$2.4          | \$ 2.4                     | \$2.6             | \$ 2.6                     |
| Over one year to five years                    | 41.9           | 42.3                       | 42.5              | 42.4                       |
| Over five years to ten years                   | 1.5            | 1.5                        | 0.5               | 0.5                        |
| Over ten years                                 | 2.9            | 2.9                        | 2.9               | 2.8                        |
| Total restricted securities available for sale | \$48.7         | \$ 49.1                    | \$48.5            | \$ 48.3                    |



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## 5. LOANS RECEIVABLE

Loans receivable consists of the following:

| (In millions)               | As of March 31, 2016 |                    |           |
|-----------------------------|----------------------|--------------------|-----------|
|                             | Dealer<br>Loans      | Purchased<br>Loans | Total     |
| Loans receivable            | \$2,985.7            | \$ 640.5           | \$3,626.2 |
| Allowance for credit losses | (254.0 )             | (8.8 )             | (262.8 )  |
| Loans receivable, net       | \$2,731.7            | \$ 631.7           | \$3,363.4 |

| (In millions)               | As of December 31, 2015 |                    |           |
|-----------------------------|-------------------------|--------------------|-----------|
|                             | Dealer<br>Loans         | Purchased<br>Loans | Total     |
| Loans receivable            | \$2,823.4               | \$ 521.7           | \$3,345.1 |
| Allowance for credit losses | (235.1 )                | (8.5 )             | (243.6 )  |
| Loans receivable, net       | \$2,588.3               | \$ 513.2           | \$3,101.5 |

A summary of changes in Loans receivable is as follows:

| (In millions)                           | For the Three Months Ended<br>March 31, 2016 |                    |           |
|-----------------------------------------|----------------------------------------------|--------------------|-----------|
|                                         | Dealer<br>Loans                              | Purchased<br>Loans | Total     |
| Balance, beginning of period            | \$2,823.4                                    | \$ 521.7           | \$3,345.1 |
| New Consumer Loan assignments (1)       | 562.7                                        | 181.4              | 744.1     |
| Principal collected on Loans receivable | (450.8 )                                     | (64.0 )            | (514.8 )  |
| Accelerated Dealer Holdback payments    | 14.8                                         | —                  | 14.8      |
| Dealer Holdback payments                | 39.9                                         | —                  | 39.9      |
| Transfers (2)                           | (1.4 )                                       | 1.4                | —         |
| Write-offs                              | (3.2 )                                       | —                  | (3.2 )    |
| Recoveries (3)                          | 0.3                                          | —                  | 0.3       |
| Balance, end of period                  | \$2,985.7                                    | \$ 640.5           | \$3,626.2 |

| (In millions)                           | For the Three Months Ended<br>March 31, 2015 |                    |           |
|-----------------------------------------|----------------------------------------------|--------------------|-----------|
|                                         | Dealer<br>Loans                              | Purchased<br>Loans | Total     |
| Balance, beginning of period            | \$2,389.8                                    | \$ 330.0           | \$2,719.8 |
| New Consumer Loan assignments (1)       | 533.5                                        | 92.6               | 626.1     |
| Principal collected on Loans receivable | (407.6 )                                     | (46.9 )            | (454.5 )  |
| Accelerated Dealer Holdback payments    | 13.8                                         | —                  | 13.8      |
| Dealer Holdback payments                | 41.1                                         | —                  | 41.1      |
| Transfers (2)                           | (3.6 )                                       | 3.6                | —         |
| Write-offs                              | (3.1 )                                       | (0.1 )             | (3.2 )    |
| Recoveries (3)                          | 0.4                                          | 0.1                | 0.5       |
| Balance, end of period                  | \$2,564.3                                    | \$ 379.3           | \$2,943.6 |

- The Dealer Loans amount represents advances paid to Dealers on Consumer Loans assigned under our Portfolio (1)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 to Purchased Loans in the period this forfeiture occurs.
- (3)Represents collections received on previously written off Loans.

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Contractual net cash flows are comprised of the contractual repayments of the underlying Consumer Loans for Dealer 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.

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 |                    |            |
|-----------------------------------|----------------------------|--------------------|------------|
|                                   | March 31, 2016             |                    |            |
|                                   | Dealer<br>Loans            | Purchased<br>Loans | Total      |
| Balance, beginning of period      | \$874.2                    | \$ 198.6           | \$ 1,072.8 |
| New Consumer Loan assignments (1) | 234.1                      | 67.3               | 301.4      |
| Accretion (2)                     | (173.7 )                   | (31.4 )            | (205.1 )   |
| Provision for credit losses       | 21.8                       | 0.3                | 22.1       |
| Forecast changes                  | (9.6 )                     | 2.9                | (6.7 )     |
| Transfers (4)                     | (0.2 )                     | 0.9                | 0.7        |
| Balance, end of period            | \$946.6                    | \$ 238.6           | \$ 1,185.2 |

| (In millions)                     | For the Three Months Ended |                    |          |
|-----------------------------------|----------------------------|--------------------|----------|
|                                   | March 31, 2015             |                    |          |
|                                   | Dealer<br>Loans            | Purchased<br>Loans | Total    |
| Balance, beginning of period      | \$725.2                    | \$ 136.5           | \$861.7  |
| New Consumer Loan assignments (1) | 216.6                      | 34.8               | 251.4    |
| Accretion (2) (3)                 | (149.4 )                   | (22.9 )            | (172.3 ) |
| Provision for credit losses (3)   | 6.2                        | —                  | 6.2      |
| Forecast changes (3)              | 4.8                        | 4.6                | 9.4      |
| Transfers (4)                     | (1.0 )                     | 2.1                | 1.1      |
| Balance, end of period            | \$802.4                    | \$ 155.1           | \$957.5  |

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 (1) 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.

We have changed the presentation from prior periods to: (i) exclude the amortization of deferred direct origination costs for Dealer Loans from accretion (finance charge income under our previous presentation) and forecast (3) changes and (ii) present provision for credit losses and forecast changes as separate activities. Under our previous presentation, we presented: (i) finance charges as reported in our consolidated statements of income and (ii) provision for credit losses and forecast changes as a combined activity.

(4)

Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's outstanding Dealer Loan balance and related expected future net cash flows to Purchased Loans in the period this forfeiture occurs.



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

| (In millions)                                            | For the Three Months<br>Ended March 31, 2016 |                    |           |
|----------------------------------------------------------|----------------------------------------------|--------------------|-----------|
|                                                          | Dealer<br>Loans                              | Purchased<br>Loans | Total     |
| Contractual net cash flows at the time of assignment (1) | \$890.1                                      | \$ 366.6           | \$1,256.7 |
| Expected net cash flows at the time of assignment (2)    | 796.8                                        | 248.7              | 1,045.5   |
| Fair value at the time of assignment (3)                 | 562.7                                        | 181.4              | 744.1     |

| (In millions)                                            | For the Three Months<br>Ended March 31, 2015 |                    |           |
|----------------------------------------------------------|----------------------------------------------|--------------------|-----------|
|                                                          | Dealer<br>Loans                              | Purchased<br>Loans | Total     |
| Contractual net cash flows at the time of assignment (1) | \$825.3                                      | \$ 183.7           | \$1,009.0 |
| Expected net cash flows at the time of assignment (2)    | 750.1                                        | 127.4              | 877.5     |
| Fair value at the time of assignment (3)                 | 533.5                                        | 92.6               | 626.1     |

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 (1) 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.

The Dealer Loans amount represents the repayments that we expected to collect at the time of assignment on (2) 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.

The Dealer Loans amount represents advances paid to Dealers on Consumer Loans assigned under our Portfolio (3) Program. The Purchased Loans amount represents one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program.

## 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 March 31, 2016, with the forecasts as of December 31, 2015, and at the time of assignment, segmented by year of assignment:

| Consumer Loan<br>Assignment Year | Forecasted Collection<br>Percentage as of (1) |                      |                     |                         |                     | Current Forecast<br>Variance from |                     |  |  |
|----------------------------------|-----------------------------------------------|----------------------|---------------------|-------------------------|---------------------|-----------------------------------|---------------------|--|--|
|                                  | March<br>31,<br>2016                          | December<br>31, 2015 | Initial<br>Forecast | December<br>31,<br>2015 | Initial<br>Forecast | December<br>31,<br>2015           | Initial<br>Forecast |  |  |
| 2007                             | 68.1 %                                        | 68.1 %               | 70.7 %              | 0.0 %                   | -2.6 %              |                                   |                     |  |  |
| 2008                             | 70.3 %                                        | 70.3 %               | 69.7 %              | 0.0 %                   | 0.6 %               |                                   |                     |  |  |
| 2009                             | 79.5 %                                        | 79.4 %               | 71.9 %              | 0.1 %                   | 7.6 %               |                                   |                     |  |  |
| 2010                             | 77.5 %                                        | 77.4 %               | 73.6 %              | 0.1 %                   | 3.9 %               |                                   |                     |  |  |

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|      |       |      |   |      |   |      |   |      |   |
|------|-------|------|---|------|---|------|---|------|---|
| 2011 | 74.3% | 74.2 | % | 72.5 | % | 0.1  | % | 1.8  | % |
| 2012 | 73.3% | 73.2 | % | 71.4 | % | 0.1  | % | 1.9  | % |
| 2013 | 73.2% | 73.4 | % | 72.0 | % | -0.2 | % | 1.2  | % |
| 2014 | 72.2% | 72.6 | % | 71.8 | % | -0.4 | % | 0.4  | % |
| 2015 | 67.4% | 67.8 | % | 67.7 | % | -0.4 | % | -0.3 | % |

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 (1)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.

Forecasted Current  
Collection Forecast  
Percentage Variance  
as of from

Consumer Loans assigned in 2009 through 2013 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2007 have yielded forecasted collection results materially worse than our initial estimates. For Consumer Loans assigned in 2008, 2014 and 2015, actual results have been very close to our initial estimates. For the three months ended March 31, 2016, forecasted collection rates declined for Consumer Loans assigned in 2013, 2014 and 2015 and were generally consistent with expectations at the start of the period for all other assignment years presented.

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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 March 31, 2016                                           |                    |            |                                                      |                    |            |
|                             | Loan Pool Performance<br>Meets or Exceeds Initial<br>Estimates |                    |            | Loan Pool Performance<br>Less than Initial Estimates |                    |            |
|                             | Dealer<br>Loans                                                | Purchased<br>Loans | Total      | Dealer<br>Loans                                      | Purchased<br>Loans | Total      |
| Loans receivable            | \$ 1,002.9                                                     | \$ 548.2           | \$ 1,551.1 | \$ 1,982.8                                           | \$ 92.3            | \$ 2,075.1 |
| Allowance for credit losses | —                                                              | —                  | —          | (254.0 )                                             | (8.8 )             | (262.8 )   |
| Loans receivable, net       | \$ 1,002.9                                                     | \$ 548.2           | \$ 1,551.1 | \$ 1,728.8                                           | \$ 83.5            | \$ 1,812.3 |

|                             |                                                                |                    |            |                                                      |                    |            |
|-----------------------------|----------------------------------------------------------------|--------------------|------------|------------------------------------------------------|--------------------|------------|
| (In millions)               | As of December 31, 2015                                        |                    |            |                                                      |                    |            |
|                             | Loan Pool Performance<br>Meets or Exceeds Initial<br>Estimates |                    |            | Loan Pool Performance<br>Less than Initial Estimates |                    |            |
|                             | Dealer<br>Loans                                                | Purchased<br>Loans | Total      | Dealer<br>Loans                                      | Purchased<br>Loans | Total      |
| Loans receivable            | \$ 1,066.8                                                     | \$ 478.1           | \$ 1,544.9 | \$ 1,756.6                                           | \$ 43.6            | \$ 1,800.2 |
| Allowance for credit losses | —                                                              | —                  | —          | (235.1 )                                             | (8.5 )             | (243.6 )   |
| Loans receivable, net       | \$ 1,066.8                                                     | \$ 478.1           | \$ 1,544.9 | \$ 1,521.5                                           | \$ 35.1            | \$ 1,556.6 |

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

|                              |                                              |                    |          |
|------------------------------|----------------------------------------------|--------------------|----------|
| (In millions)                | For the Three Months<br>Ended March 31, 2016 |                    |          |
|                              | Dealer<br>Loans                              | Purchased<br>Loans | Total    |
| Balance, beginning of period | \$ 235.1                                     | \$ 8.5             | \$ 243.6 |
| Provision for credit losses  | 21.8                                         | 0.3                | 22.1     |
| Write-offs                   | (3.2 )                                       | —                  | (3.2 )   |
| Recoveries (1)               | 0.3                                          | —                  | 0.3      |
| Balance, end of period       | \$ 254.0                                     | \$ 8.8             | \$ 262.8 |

|                              |                                              |                    |          |
|------------------------------|----------------------------------------------|--------------------|----------|
| (In millions)                | For the Three Months<br>Ended March 31, 2015 |                    |          |
|                              | Dealer<br>Loans                              | Purchased<br>Loans | Total    |
| Balance, beginning of period | \$ 198.1                                     | \$ 8.8             | \$ 206.9 |
| Provision for credit losses  | 6.2                                          | —                  | 6.2      |
| Write-offs                   | (3.1 )                                       | (0.1 )             | (3.2 )   |

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|                        |         |        |         |
|------------------------|---------|--------|---------|
| Recoveries (1)         | 0.4     | 0.1    | 0.5     |
| Balance, end of period | \$201.6 | \$ 8.8 | \$210.4 |

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

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## 6. DEBT

Debt consists of the following:

| (In millions)                        | As of March 31, 2016  |                              |                      |                 |
|--------------------------------------|-----------------------|------------------------------|----------------------|-----------------|
|                                      | Principal Outstanding | Deferred Debt Issuance Costs | Unamortized Discount | Carrying Amount |
| Revolving secured line of credit (1) | \$36.3                | \$—                          | \$ —                 | \$36.3          |
| Secured financing (2)                | 1,759.3               | (7.6 )                       | —                    | 1,751.7         |
| Senior notes                         | 550.0                 | (8.0 )                       | (1.7 )               | 540.3           |
| Total debt                           | \$2,345.6             | \$ (15.6 )                   | \$ (1.7 )            | \$2,328.3       |

| (In millions)                        | As of December 31, 2015 |                              |                      |                 |
|--------------------------------------|-------------------------|------------------------------|----------------------|-----------------|
|                                      | Principal Outstanding   | Deferred Debt Issuance Costs | Unamortized Discount | Carrying Amount |
| Revolving secured line of credit (1) | \$57.7                  | \$—                          | \$ —                 | \$57.7          |
| Secured financing (2) (3)            | 1,478.6                 | (8.5 )                       | —                    | 1,470.1         |
| Senior notes (3)                     | 550.0                   | (8.3 )                       | (1.7 )               | 540.0           |
| Total debt                           | \$2,086.3               | \$ (16.8 )                   | \$ (1.7 )            | \$2,067.8       |

(1) Excludes deferred debt issuance costs of \$2.0 million and \$2.2 million as of March 31, 2016 and December 31, 2015, respectively, which are included in other assets.

(2) Warehouse facilities and asset-backed secured financings ("Term ABS").

Prior year amounts have been reclassified to reflect the adoption of ASU 2015-03, as amended by ASU No.

(3) 2015-15, which resulted in a reclassification of certain deferred debt issuance costs from other assets to secured financing and senior notes.

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General information for each of our financing transactions in place as of March 31, 2016 is as follows:

(Dollars in millions)

| Financings                          | Wholly-owned<br>Subsidiary              | Maturity Date  | Financing<br>Amount | Interest Rate as of<br>March 31, 2016                                                        |
|-------------------------------------|-----------------------------------------|----------------|---------------------|----------------------------------------------------------------------------------------------|
| Revolving Secured<br>Line of Credit | n/a                                     | 06/22/2018     | \$ 310.0            | At our option, either LIBOR plus 187.5 basis points or the prime rate plus 87.5 basis points |
| Warehouse Facility<br>II (1)        | CAC Warehouse<br>Funding Corp. II       | 07/18/2017 (3) | \$ 400.0            | Commercial paper rate or LIBOR plus 200 basis points (2)                                     |
| Warehouse Facility<br>IV (1)        | CAC Warehouse<br>Funding LLC IV         | 04/30/2018 (3) | \$ 75.0             | LIBOR plus 200 basis points (2)                                                              |
| Warehouse Facility<br>V (1)         | CAC Warehouse<br>Funding LLC V          | 09/10/2017 (4) | \$ 100.0            | LIBOR plus 160 basis points (2)                                                              |
| Warehouse Facility<br>VI (1)        | CAC Warehouse<br>Funding LLC VI         | 09/30/2018 (3) | \$ 75.0             | LIBOR plus 200 basis points                                                                  |
| Term ABS 2013-2<br>(1)              | Credit Acceptance<br>Funding LLC 2013-2 | 10/15/2015 (3) | \$ 197.8            | Fixed rate                                                                                   |
| Term ABS 2014-1<br>(1)              | Credit Acceptance<br>Funding LLC 2014-1 | 04/15/2016 (3) | \$ 299.0            | Fixed rate                                                                                   |
| Term ABS 2014-2<br>(1)              | Credit Acceptance<br>Funding LLC 2014-2 | 09/15/2016 (3) | \$ 349.0            | Fixed rate                                                                                   |
| Term ABS 2015-1<br>(1)              | Credit Acceptance<br>Funding LLC 2015-1 | 01/16/2017 (3) | \$ 300.6            | Fixed rate                                                                                   |
| Term ABS 2015-2<br>(1)              | Credit Acceptance<br>Funding LLC 2015-2 | 08/15/2017 (3) | \$ 300.2            | Fixed rate                                                                                   |
| Term ABS 2016-1<br>(1)              | Credit Acceptance<br>Funding LLC 2016-1 | 02/15/2018 (3) | \$ 385.0            | LIBOR plus 195 basis points                                                                  |
| 2021 Senior Notes                   | n/a                                     | 02/15/2021     | \$ 300.0            | Fixed rate                                                                                   |
| 2023 Senior Notes                   | n/a                                     | 03/15/2023     | \$ 250.0            | Fixed rate                                                                                   |

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

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

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

(4) Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date and any amounts remaining on September 10, 2019 will be due.

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

| (In millions)                         | For the Three |          |
|---------------------------------------|---------------|----------|
|                                       | Months Ended  |          |
|                                       | March 31,     |          |
|                                       | 2016          | 2015     |
| Revolving Secured Line of Credit      |               |          |
| Maximum outstanding principal balance | \$ 186.4      | \$ 206.3 |
| Average outstanding principal balance | 56.6          | 107.9    |
| Warehouse Facility II                 |               |          |
| Maximum outstanding principal balance | \$ 200.1      | \$ 190.0 |
| Average outstanding principal balance | 4.4           | 27.7     |
| Warehouse Facility IV                 |               |          |
| Maximum outstanding principal balance | \$ 12.0       | \$ 35.0  |
| Average outstanding principal balance | 12.0          | 6.4      |
| Warehouse Facility V                  |               |          |
| Maximum outstanding principal balance | \$ 40.0       | \$ 75.0  |
| Average outstanding principal balance | 0.9           | 15.2     |
| Warehouse Facility VI                 |               |          |
| Maximum outstanding principal balance | \$ 14.7       | \$ —     |
| Average outstanding principal balance | 8.9           | —        |

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| (Dollars in millions)                                      | As of<br>March 31, December 31,<br>2016 2015 |   |          |   |
|------------------------------------------------------------|----------------------------------------------|---|----------|---|
| Revolving Secured Line of Credit                           |                                              |   |          |   |
| Principal balance outstanding                              | \$36.3                                       |   | \$ 57.7  |   |
| Amount available for borrowing (1)                         | 273.7                                        |   | 252.3    |   |
| Interest rate                                              | 2.30                                         | % | 2.30     | % |
| 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 | 1.6                                          |   | 1.2      |   |
| Interest rate                                              | 2.44                                         | % | 2.24     | % |
| Warehouse Facility IV                                      |                                              |   |          |   |
| Principal balance outstanding                              | \$12.0                                       |   | \$ 12.0  |   |
| Amount available for borrowing (1)                         | 63.0                                         |   | 63.0     |   |
| Loans pledged as collateral                                | 25.4                                         |   | 24.5     |   |
| Restricted cash and cash equivalents pledged as collateral | 0.9                                          |   | 0.9      |   |
| Interest rate                                              | 2.43                                         | % | 2.42     | % |
| 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 | 1.2                                          |   | 1.0      |   |
| Interest rate                                              | 2.03                                         | % | 1.84     | % |
| Warehouse Facility VI                                      |                                              |   |          |   |
| Principal balance outstanding                              | \$—                                          |   | \$ 14.7  |   |
| Amount available for borrowing (1)                         | 75.0                                         |   | 60.3     |   |
| Loans pledged as collateral                                | —                                            |   | 20.7     |   |
| Restricted cash and cash equivalents pledged as collateral | 0.1                                          |   | 0.9      |   |
| Interest rate                                              | 2.44                                         | % | 2.24     | % |
| Term ABS 2013-1                                            |                                              |   |          |   |
| Principal balance outstanding                              | \$—                                          |   | \$ 39.6  |   |
| Loans pledged as collateral                                | —                                            |   | 144.5    |   |
| Restricted cash and cash equivalents pledged as collateral | —                                            |   | 14.6     |   |
| Interest rate                                              | —                                            | % | 1.56     | % |
| Term ABS 2013-2                                            |                                              |   |          |   |
| Principal balance outstanding                              | \$113.5                                      |   | \$ 163.5 |   |
| Loans pledged as collateral                                | 216.3                                        |   | 234.7    |   |
| Restricted cash and cash equivalents pledged as collateral | 25.0                                         |   | 21.4     |   |
| Interest rate                                              | 1.80                                         | % | 1.71     | % |
| Term ABS 2014-1                                            |                                              |   |          |   |
| Principal balance outstanding                              | \$299.0                                      |   | \$ 299.0 |   |
| Loans pledged as collateral                                | 381.4                                        |   | 366.4    |   |
| Restricted cash and cash equivalents pledged as collateral | 39.0                                         |   | 31.9     |   |
| Interest rate                                              | 1.72                                         | % | 1.72     | % |





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|                                                            |         |         |         |
|------------------------------------------------------------|---------|---------|---------|
| Term ABS 2014-2                                            |         |         |         |
| Principal balance outstanding                              | \$349.0 | \$349.0 |         |
| Loans pledged as collateral                                | 443.6   | 430.5   |         |
| Restricted cash and cash equivalents pledged as collateral | 45.5    | 37.7    |         |
| Interest rate                                              | 2.05    | %       | 2.05 %  |
| Term ABS 2015-1                                            |         |         |         |
| Principal balance outstanding                              | \$300.6 | \$300.6 |         |
| Loans pledged as collateral                                | 387.2   | 372.4   |         |
| Restricted cash and cash equivalents pledged as collateral | 36.6    | 29.3    |         |
| Interest rate                                              | 2.26    | %       | 2.26 %  |
| Term ABS 2015-2                                            |         |         |         |
| Principal balance outstanding                              | \$300.2 | \$300.2 |         |
| Loans pledged as collateral                                | 385.1   | 390.4   |         |
| Restricted cash and cash equivalents pledged as collateral | 34.1    | 27.7    |         |
| Interest rate                                              | 2.63    | %       | 2.63 %  |
| Term ABS 2016-1                                            |         |         |         |
| Principal balance outstanding                              | \$385.0 | \$—     |         |
| Loans pledged as collateral                                | 503.8   | —       |         |
| Restricted cash and cash equivalents pledged as collateral | 41.2    | —       |         |
| Interest rate                                              | 2.39    | %       | — %     |
| 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 % |

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

## Revolving Secured Line of Credit Facility

We have a \$310.0 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 net book value of Loans, 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 four Warehouse facilities with total borrowing capacity of \$650.0 million. Each of the facilities are with different institutional investors. 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 institutional investors 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 limited to the lesser of 80% of the net book value of the contributed Loans 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.

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The subsidiaries pay us a monthly servicing fee 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 holdback payments due to Dealers, if a facility is amortizing, we do not have any rights in any portion of such collections until all outstanding principal, accrued and unpaid interest, fees and other related costs have been paid in full. If a facility is not amortizing, the applicable subsidiary may be entitled to retain a portion of such collections provided that the borrowing base requirements of the facility are satisfied.

## Term ABS Financings

We have wholly-owned subsidiaries (the “Funding LLCs”) that have completed secured financing transactions with qualified institutional investors or lenders. In connection with these transactions, we contributed Loans on an arms-length basis to each Funding LLC for cash and the sole membership interest in that Funding LLC. In turn, each Funding LLC, other than that of Term ABS 2016-1, contributed the Loans to a respective trust that issued notes to qualified institutional investors. The Funding LLC for the Term ABS 2016-1 transaction pledged the Loans to institutional lenders. The Term ABS 2013-2, 2014-1, 2014-2, 2015-1 and 2015-2 transactions each consist of three classes of notes. The Class C Notes for each Term ABS financing, other than Term ABS 2015-1 and 2015-2, do not bear interest and have been retained by us.

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

The financings create indebtedness for which the trusts or Funding LLC 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<br>Value of<br>Loans Contributed<br>at Closing | 24 month Revolving Period |
|---------------------|------------|---------------------------------------------------------|---------------------------|
|---------------------|------------|---------------------------------------------------------|---------------------------|

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|                 |                    |          |                            |
|-----------------|--------------------|----------|----------------------------|
| Term ABS 2013-2 | October 31, 2013   | \$ 250.1 | Through October 15, 2015   |
| Term ABS 2014-1 | April 16, 2014     | \$ 374.7 | Through April 15, 2016     |
| Term ABS 2014-2 | September 25, 2014 | \$ 437.6 | Through September 15, 2016 |
| Term ABS 2015-1 | January 29, 2015   | \$ 375.9 | Through January 16, 2017   |
| Term ABS 2015-2 | August 20, 2015    | \$ 375.5 | Through August 15, 2017    |
| Term ABS 2016-1 | February 26, 2016  | \$ 481.4 | Through February 15, 2018  |

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Senior Notes

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.

Both the 2021 and the 2023 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.

Debt Covenants

As of March 31, 2016, 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 March 31, 2016, 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.



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## 7. DERIVATIVE AND HEDGING INSTRUMENTS

Interest Rate Caps. We utilize interest rate cap agreements to manage the interest rate risk on certain secured financings. The following tables provide the terms of our interest rate cap agreements that were in effect as of March 31, 2016 and December 31, 2015:

As of March 31, 2016

| Facility<br>(in millions) | Facility Name         | Purpose           | Start   | End     | Notional<br>(in millions) | Cap<br>Interest Rate (1) |
|---------------------------|-----------------------|-------------------|---------|---------|---------------------------|--------------------------|
| \$400.0                   | Warehouse Facility II | Cap Floating Rate | 12/2014 | 06/2016 | \$ 325.0                  | 5.50 %                   |
| 75.0                      | Warehouse Facility IV | Cap Floating Rate | 03/2014 | 03/2017 | 75.0                      | 5.50 %                   |
| 100.0                     | Warehouse Facility V  | Cap Floating Rate | 06/2015 | 07/2018 | 75.0                      | 5.50 %                   |

As of December 31, 2015

| Facility<br>(in millions) | Facility Name         | Purpose           | Start   | End     | Notional<br>(in millions) | Cap<br>Interest Rate (1) |
|---------------------------|-----------------------|-------------------|---------|---------|---------------------------|--------------------------|
| \$400.0                   | Warehouse Facility II | Cap Floating Rate | 12/2014 | 06/2016 | \$ 325.0                  | 5.50 %                   |
| 75.0                      | Warehouse Facility IV | Cap Floating Rate | 03/2014 | 03/2017 | 75.0                      | 5.50 %                   |
| 100.0                     | Warehouse Facility V  | Cap Floating Rate | 06/2015 | 07/2018 | 75.0                      | 5.50 %                   |

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

The interest rate caps have not been designated as hedging instruments. As of March 31, 2016 and December 31, 2015, the interest rate caps had a fair value of less than \$0.1 million as the capped rates were significantly above market rates.

## 8. 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 amount of cash and cash equivalents and restricted cash and cash equivalents 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 and mortgage-backed securities, we use model-based valuation techniques for which all significant assumptions are observable in the market.

Net Investment in Loans Receivable. Loans receivable, net represents our net investment in Loans. The fair value is determined by calculating the present value of future Loan payment inflows and Dealer Holdback outflows estimated by us utilizing a discount rate comparable with the rate used to calculate our allowance for credit losses.

Liabilities. The fair value of our senior notes is determined using quoted market prices in an active market. The fair value of our Term ABS financings is also determined using quoted market prices; however, these instruments trade in a market with a lower trading volume. For our revolving secured line of credit and our Warehouse facilities, the fair



values are calculated using the estimated value of each debt instrument based on current rates for debt with similar risk profiles and maturities.

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A comparison of the carrying value and estimated fair value of these financial instruments is as follows:  
(In millions)

|                                          | As of March 31,<br>2016 |                            | As of December<br>31, 2015 |                            |
|------------------------------------------|-------------------------|----------------------------|----------------------------|----------------------------|
|                                          | Carrying<br>Amount      | Estimated<br>Fair<br>Value | Carrying<br>Amount         | Estimated<br>Fair<br>Value |
| Assets                                   |                         |                            |                            |                            |
| Cash and cash equivalents                | \$9.1                   | \$ 9.1                     | \$6.3                      | \$ 6.3                     |
| Restricted cash and cash equivalents     | 225.7                   | 225.7                      | 167.4                      | 167.4                      |
| Restricted securities available for sale | 49.1                    | 49.1                       | 48.3                       | 48.3                       |
| Net investment in Loans receivable       | 3,363.4                 | 3,401.3                    | 3,101.5                    | 3,126.3                    |
| Liabilities                              |                         |                            |                            |                            |
| Revolving secured line of credit         | \$36.3                  | \$ 36.3                    | \$57.7                     | \$ 57.7                    |
| Secured financing (1)                    | 1,751.7                 | 1,756.0                    | 1,470.1                    | 1,471.9                    |
| Senior notes (1)                         | 540.3                   | 522.9                      | 540.0                      | 549.6                      |

Prior year carrying amounts have been reclassified to reflect the adoption of ASU 2015-03, as amended by ASU (1)No. 2015-15, which resulted in a reclassification of certain deferred debt issuance costs from other assets to secured financing and senior notes.

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.

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The following table provides the level of measurement used to determine the fair value for each of our financial instruments on a recurring basis, as of March 31, 2016 and December 31, 2015:

(In millions)

|                                          | As of March 31, 2016 |         |         | Total      |
|------------------------------------------|----------------------|---------|---------|------------|
|                                          | Level 1              | Level 2 | Level 3 | Fair Value |
| Assets                                   |                      |         |         |            |
| Cash and cash equivalents                | \$9.1                | \$ —    | \$ —    | \$ 9.1     |
| Restricted cash and cash equivalents     | 225.7                | —       | —       | 225.7      |
| Restricted securities available for sale | 39.8                 | 9.3     | —       | 49.1       |
| Net investment in Loans receivable       | —                    | —       | 3,401.3 | 3,401.3    |
| Liabilities                              |                      |         |         |            |
| Revolving secured line of credit         | \$—                  | \$ 36.3 | \$ —    | \$ 36.3    |
| Secured financing                        | —                    | 1,756.0 | —       | 1,756.0    |
| Senior notes                             | 522.9                | —       | —       | 522.9      |

(In millions)

|                                          | As of December 31, 2015 |         |         |                  |
|------------------------------------------|-------------------------|---------|---------|------------------|
|                                          | Level 1                 | Level 2 | Level 3 | Total Fair Value |
| Assets                                   |                         |         |         |                  |
| Cash and cash equivalents                | \$6.3                   | \$ —    | \$ —    | \$ 6.3           |
| Restricted cash and cash equivalents     | 167.4                   | —       | —       | 167.4            |
| Restricted securities available for sale | 38.7                    | 9.6     | —       | 48.3             |
| Net investment in Loans receivable       | —                       | —       | 3,126.3 | 3,126.3          |
| Liabilities                              |                         |         |         |                  |
| Revolving secured line of credit         | \$—                     | \$ 57.7 | \$ —    | \$ 57.7          |
| Secured financing                        | —                       | 1,471.9 | —       | 1,471.9          |
| Senior notes                             | 549.6                   | —       | —       | 549.6            |

## 9. RELATED PARTY TRANSACTIONS

In the normal course of our business, affiliated Dealers assign Consumer Loans to us under the Portfolio and Purchase Programs. Dealer Loans and Purchased Loans with affiliated Dealers are on the same terms as those with non-affiliated Dealers. Affiliated Dealers are comprised of Dealers owned or controlled by: (1) our Chairman and significant shareholder; and (2) a member of the Chairman's immediate family.

Affiliated Dealer Loan balances were \$15.0 million and \$12.6 million as of March 31, 2016 and December 31, 2015, respectively. As of March 31, 2016 and December 31, 2015, affiliated Dealer Loan balances were 0.5% and 0.4% of total consolidated Dealer Loan balances, respectively. A summary of related party Loan activity is as follows:

(Dollars in millions)

| For the Three Months Ended March |                    |
|----------------------------------|--------------------|
| 31,                              |                    |
| 2016                             | 2015               |
| Affiliated                       | Affiliated         |
| Dealerconsolidated               | Dealerconsolidated |

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|                                      | activity |     |   | activity |     |   |
|--------------------------------------|----------|-----|---|----------|-----|---|
| Dealer Loan revenue                  | \$0.7    | 0.4 | % | \$0.4    | 0.3 | % |
| New Consumer Loan assignments (1)    | 4.6      | 0.6 | % | 1.5      | 0.2 | % |
| Accelerated Dealer Holdback payments | 0.1      | 0.9 | % | 0.1      | 0.7 | % |
| Dealer Holdback payments             | 0.3      | 0.8 | % | 0.3      | 0.7 | % |

(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.

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## 10. INCOME TAXES

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

|                             | For the Three<br>Months<br>Ended<br>March 31,<br>2016 2015 |       |
|-----------------------------|------------------------------------------------------------|-------|
| U.S. federal statutory rate | 35.0%                                                      | 35.0% |
| State income taxes          | 1.9 %                                                      | 1.7 % |
| Other                       | 0.3 %                                                      | 0.2 % |
| Effective tax rate          | 37.2%                                                      | 36.9% |

The differences between the U.S. federal statutory rate and our effective tax rate are primarily due to state income taxes. The increase in the effective tax rate for the three months ended March 31, 2016 compared to the same period in 2015 was primarily due to higher effective tax rates in certain state tax jurisdictions.

## 11. 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<br>Ended<br>March 31,<br>2016 2015 |            |
|----------------------------------------------------------------|---------------------------------------------------------|------------|
| Weighted average shares outstanding:                           |                                                         |            |
| Common shares                                                  | 20,029,886                                              | 20,410,331 |
| Vested restricted stock units                                  | 405,315                                                 | 512,289    |
| Basic number of weighted average shares outstanding            | 20,435,201                                              | 20,922,620 |
| Dilutive effect of restricted stock and restricted stock units | 50,631                                                  | 26,056     |
| Dilutive number of weighted average shares outstanding         | 20,485,832                                              | 20,948,676 |

For the three months ended March 31, 2016, 7,544 restricted shares were not included in the computation of diluted net income per share because their inclusion would have been anti-dilutive. For the three months ended March 31, 2015, there were no restricted stock or restricted stock units that would have been anti-dilutive.

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## 12. STOCK REPURCHASES

Our board of directors approved a stock repurchase program which authorizes us to repurchase common shares in the open market or in privately negotiated transactions at price levels we deem attractive. On November 23, 2015, 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 March 31, 2016, we had authorization to repurchase 815,150 shares of our common stock.

The following table summarizes our stock repurchases for the three months ended March 31, 2016 and 2015:

| (Dollars in millions) | For the Three Months Ended |        |             |        |
|-----------------------|----------------------------|--------|-------------|--------|
|                       | March 31,                  |        | 2015        |        |
|                       | 2016                       |        | 2015        |        |
|                       | Number                     |        | Number      |        |
| Stock Repurchases     | of                         | Cost   | of          | Cost   |
|                       | Shares                     |        | Shares      |        |
|                       | Repurchased                |        | Repurchased |        |
| Open Market           | 45,300                     | \$7.6  | —           | \$ —   |
| Other (1)             | 170,668                    | 33.2   | 6,065       | 1.1    |
| Total                 | 215,968                    | \$40.8 | 6,065       | \$ 1.1 |

Represents shares of common stock released to us by team members as payment of tax withholdings due to us (1) upon the vesting of restricted stock and restricted stock units and the conversion of restricted stock units to common stock.

## 13. STOCK-BASED COMPENSATION PLANS

Stock-based compensation expense consists of the following:

| (In millions)          | For the   |       |
|------------------------|-----------|-------|
|                        | Three     |       |
|                        | Months    |       |
|                        | Ended     |       |
|                        | March 31, |       |
|                        | 2016      | 2015  |
| Restricted stock       | \$0.7     | \$1.0 |
| Restricted stock units | 1.4       | 3.1   |
| Total                  | \$2.1     | \$4.1 |

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

|                                    | Number    | Weighted   |
|------------------------------------|-----------|------------|
|                                    | of Shares | Average    |
|                                    |           | Grant-Date |
|                                    |           | Fair Value |
|                                    |           | Per Share  |
| Non-vested as of December 31, 2015 | 182,311   | \$ 109.17  |
| Granted                            | 7,657     | 196.96     |
| Vested                             | (20,408 ) | 115.74     |

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|                                 |         |           |
|---------------------------------|---------|-----------|
| Forfeited                       | (211 )  | 188.48    |
| Non-vested as of March 31, 2016 | 169,349 | \$ 112.25 |

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

| Restricted Stock Units              | Number of<br>Restricted<br>Stock<br>Units | Weighted<br>Average<br>Grant-Date<br>Fair Value<br>Per Share |
|-------------------------------------|-------------------------------------------|--------------------------------------------------------------|
| Outstanding as of December 31, 2015 | 859,419                                   | \$ 61.73                                                     |
| Granted                             | 250                                       | 178.96                                                       |
| Converted                           | (404,096 )                                | 16.73                                                        |
| Outstanding as of March 31, 2016    | 455,573                                   | \$ 101.70                                                    |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONCLUDED)  
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14. LITIGATION AND CONTINGENT LIABILITIES

In the normal course of business and as a result of the consumer-oriented nature of the industry in which we operate, 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 physical and mental damages relating to our repossession and sale of the consumer's vehicle 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. Many of these cases are filed as purported class actions and seek damages in large dollar amounts. 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. 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, 2015.

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. 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 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 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 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 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. 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 1, 2013, six Dealers, who had previously commenced a putative consolidated arbitration proceeding against the Company before the American Arbitration Association ("AAA") that was deemed not properly filed by the AAA on October 9, 2012, filed individual arbitrations against the Company before the AAA in Southfield, Michigan. These arbitration demands seek unspecified money damages for claims relating to the Dealer servicing agreements of these Dealers. One of these matters was voluntarily dismissed with prejudice on January 20, 2015. The Company intends to vigorously defend itself in the remaining five arbitrations. Based on information currently available, we believe that the eventual outcome will not have a material adverse effect on our consolidated financial statements.

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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 2015 Annual Report on Form 10-K, as well as Item 1 - Consolidated Financial Statements, of this Form 10-Q, which is incorporated herein by reference.

Overview

We offer automobile dealers financing programs that enable them 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 product, but who actually end up qualifying for traditional financing.

For the three months ended March 31, 2016, consolidated net income was \$74.4 million, or \$3.63 per diluted share, compared to \$71.5 million, or \$3.41 per diluted share, for the same period in 2015. The increase in consolidated net income for the three months ended March 31, 2016 was primarily due to an increase in the average balance of our Loan portfolio, partially offset by a decline in Consumer Loan performance.

Critical Success Factors

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

Consumer Loan Metrics

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

We use a statistical model to estimate the expected collection rate for each Consumer Loan at the time of assignment. We continue to evaluate the expected collection rate of each Consumer Loan subsequent to assignment. Our evaluation becomes more accurate as the Consumer Loans age, as we use actual performance data in our forecast. By comparing our current expected collection rate for each Consumer Loan with the rate we projected at the time of assignment, we are able to assess the accuracy of our initial forecast. The following table compares our forecast of Consumer Loan collection rates as of March 31, 2016, with the forecasts as of December 31, 2015, and at the time of assignment, segmented by year of assignment:

| Consumer Loan Assignment Year | Forecasted Collection<br>Percentage as of (1) | Current Forecast<br>Variance from |
|-------------------------------|-----------------------------------------------|-----------------------------------|
|-------------------------------|-----------------------------------------------|-----------------------------------|

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|      | March<br>31,<br>2016 | December<br>31, 2015 | Initial<br>Forecast | December<br>31, 2015 | Initial<br>Forecast |
|------|----------------------|----------------------|---------------------|----------------------|---------------------|
| 2007 | 68.1%                | 68.1 %               | 70.7 %              | 0.0 %                | -2.6 %              |
| 2008 | 70.3%                | 70.3 %               | 69.7 %              | 0.0 %                | 0.6 %               |
| 2009 | 79.5%                | 79.4 %               | 71.9 %              | 0.1 %                | 7.6 %               |
| 2010 | 77.5%                | 77.4 %               | 73.6 %              | 0.1 %                | 3.9 %               |
| 2011 | 74.3%                | 74.2 %               | 72.5 %              | 0.1 %                | 1.8 %               |
| 2012 | 73.3%                | 73.2 %               | 71.4 %              | 0.1 %                | 1.9 %               |
| 2013 | 73.2%                | 73.4 %               | 72.0 %              | -0.2 %               | 1.2 %               |
| 2014 | 72.2%                | 72.6 %               | 71.8 %              | -0.4 %               | 0.4 %               |
| 2015 | 67.4%                | 67.8 %               | 67.7 %              | -0.4 %               | -0.3 %              |

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 (1)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.

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Consumer Loans assigned in 2009 through 2013 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2007 have yielded forecasted collection results materially worse than our initial estimates. For Consumer Loans assigned in 2008, 2014 and 2015, actual results have been very close to our initial estimates. For the three months ended March 31, 2016, forecasted collection rates declined for Consumer Loans assigned in 2013, 2014 and 2015 and were generally consistent with expectations at the start of the period for all other assignment years presented.

The dollar amount of changes in forecasted collections, net of changes in forecasted Dealer Holdback payments is as follows:

| (In millions)                                                  | For the  |           |
|----------------------------------------------------------------|----------|-----------|
|                                                                | Three    | Months    |
|                                                                | Ended    | March 31, |
|                                                                | 2016     | 2015      |
| Impact of forecasted changes in net future expected cash flows | \$ (6.7) | \$ 9.4    |

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

The following table presents forecasted Consumer Loan collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that had been realized as of March 31, 2016. All amounts, unless otherwise noted, are presented as a percentage of the initial balance of the Consumer Loan (principal + interest). The table includes both Dealer Loans and Purchased Loans.

| Consumer Loan Assignment Year | As of March 31, 2016          |                  |             |                             | % of |  |
|-------------------------------|-------------------------------|------------------|-------------|-----------------------------|------|--|
|                               | Forecasted<br>Collection<br>% | Advance<br>% (1) | Spread<br>% | Forecast<br>Realized<br>(2) |      |  |
| 2007                          | 68.1 %                        | 46.5 %           | 21.6 %      | 99.7 %                      |      |  |
| 2008                          | 70.3 %                        | 44.6 %           | 25.7 %      | 99.4 %                      |      |  |
| 2009                          | 79.5 %                        | 43.9 %           | 35.6 %      | 99.3 %                      |      |  |
| 2010                          | 77.5 %                        | 44.7 %           | 32.8 %      | 98.9 %                      |      |  |
| 2011                          | 74.3 %                        | 45.5 %           | 28.8 %      | 98.0 %                      |      |  |
| 2012                          | 73.3 %                        | 46.3 %           | 27.0 %      | 93.2 %                      |      |  |
| 2013                          | 73.2 %                        | 47.6 %           | 25.6 %      | 79.9 %                      |      |  |
| 2014                          | 72.2 %                        | 47.7 %           | 24.5 %      | 58.2 %                      |      |  |
| 2015                          | 67.4 %                        | 44.5 %           | 22.9 %      | 26.1 %                      |      |  |
| 2016                          | 66.1 %                        | 43.7 %           | 22.4 %      | 2.8 %                       |      |  |

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

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

The risk of a material change in our forecasted collection rate declines as the Consumer Loans age. For 2012 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 21.6% to 35.6% over the last 10 years. The spread was at the high end of this range in 2009 and 2010, when the competitive environment was unusually favorable and much lower during other years (2007 and 2014 through 2016) when competition was more intense. The spread declined from 22.9% in 2015 to 22.4% in 2016 primarily as a result of a change in the mix of Consumer Loan assignments.

The decline in the advance rate from 2015 to 2016 reflects the lower initial forecast on Consumer Loan assignments received in 2016. The lower initial forecast reflects a change in the mix of Consumer Loan assignments received in 2016, including a longer average initial loan term. The average initial term for Consumer Loans assigned in 2016 was 51.3 months as compared to 49.8 months for Consumer Loans assigned in 2015.

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The following table presents forecasted Consumer Loan collection rates, advance rates, and the spread (the forecasted collection rate less the advance rate) as of March 31, 2016 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 | Forecasted<br>Collection<br>% (1) | Advance<br>% (1)(2) | Spread<br>% |
|-----------------|-------------------------------|-----------------------------------|---------------------|-------------|
| Dealer Loans    | 2007                          | 68.0 %                            | 45.8 %              | 22.2 %      |
|                 | 2008                          | 70.8 %                            | 43.3 %              | 27.5 %      |
|                 | 2009                          | 79.4 %                            | 43.4 %              | 36.0 %      |
|                 | 2010                          | 77.5 %                            | 44.4 %              | 33.1 %      |
|                 | 2011                          | 74.2 %                            | 45.2 %              | 29.0 %      |
|                 | 2012                          | 73.2 %                            | 46.1 %              | 27.1 %      |
|                 | 2013                          | 73.3 %                            | 47.1 %              | 26.2 %      |
|                 | 2014                          | 72.1 %                            | 47.2 %              | 24.9 %      |
|                 | 2015                          | 66.6 %                            | 43.4 %              | 23.2 %      |
|                 | 2016                          | 65.8 %                            | 42.1 %              | 23.7 %      |
| Purchased Loans | 2007                          | 68.4 %                            | 49.1 %              | 19.3 %      |
|                 | 2008                          | 69.6 %                            | 46.7 %              | 22.9 %      |
|                 | 2009                          | 79.6 %                            | 45.3 %              | 34.3 %      |
|                 | 2010                          | 77.3 %                            | 46.2 %              | 31.1 %      |
|                 | 2011                          | 74.6 %                            | 47.5 %              | 27.1 %      |
|                 | 2012                          | 73.5 %                            | 47.8 %              | 25.7 %      |
|                 | 2013                          | 72.8 %                            | 50.0 %              | 22.8 %      |
|                 | 2014                          | 73.0 %                            | 51.5 %              | 21.5 %      |
|                 | 2015                          | 71.7 %                            | 50.2 %              | 21.5 %      |
|                 | 2016                          | 67.5 %                            | 49.5 %              | 18.0 %      |

(1) The forecasted collection rates and advance rates presented for each Consumer Loan assignment year change over time due to the impact of transfers between Dealer and Purchased Loans. Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's Consumer Loans from the Dealer Loan portfolio to the Purchased Loan portfolio in the period this forfeiture occurs.

(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.

Forecasted collection rates for 2015 Consumer Loans in our Dealer Loan portfolio have declined from our initial estimates while forecasted collection rates for 2015 Consumer Loans in our Purchased Loan portfolio have materially exceeded our initial estimates. The spread on Dealer Loans increased from 23.2% in 2015 to 23.7% in 2016 as a result of the performance of 2015 Consumer Loans, partially offset by a change in the mix of Consumer Loan assignments. The spread on Purchased Loans decreased from 21.5% in 2015 to 18.0% in 2016 as a result of the performance of 2015 Consumer Loans and a change in the mix of Consumer Loan assignments.

### Access to Capital

Our strategy for accessing capital on acceptable terms needed to maintain and grow the business is to: (1) maintain consistent financial performance; (2) maintain modest financial leverage; and (3) maintain multiple funding sources. Our funded debt to equity ratio was 2.3:1 as of March 31, 2016. 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.

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## Consumer Loan Volume

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

| Three Months Ended | Year over Year<br>Percent Change |        |
|--------------------|----------------------------------|--------|
|                    | Unit                             | Dollar |
|                    | Volume<br>(1)                    | Volume |
| March 31, 2015     | 28.4 %                           | 32.5 % |
| June 30, 2015      | 30.6 %                           | 28.6 % |
| September 30, 2015 | 41.3 %                           | 32.9 % |
| December 31, 2015  | 33.4 %                           | 23.2 % |
| March 31, 2016     | 21.1 %                           | 18.8 % |

Represents advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time (1) 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 product, (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 21.1% and 18.8%, respectively, during the first quarter of 2016 as the number of active Dealers grew 24.9% while average volume per active Dealer declined 2.9%.

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

|                                  | For the Three Months<br>Ended March 31, |        |             |
|----------------------------------|-----------------------------------------|--------|-------------|
|                                  | 2016                                    | 2015   | %<br>Change |
| Consumer Loan unit volume        | 101,551                                 | 83,854 | 21.1 %      |
| Active Dealers (1)               | 7,488                                   | 5,996  | 24.9 %      |
| Average volume per active Dealer | 13.6                                    | 14.0   | -2.9 %      |

(1) Active Dealers are Dealers who have received funding for at least one 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<br>March 31, |      |             |
|-----------------------------------------|------|-------------|
| 2016                                    | 2015 | %<br>Change |



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|                                                            |        |        |       |   |
|------------------------------------------------------------|--------|--------|-------|---|
| Consumer Loan unit volume from Dealers active both periods | 73,239 | 73,037 | 0.3   | % |
| Dealers active both periods                                | 4,341  | 4,341  | -     |   |
| Average volume per Dealers active both periods             | 16.9   | 16.8   | 0.3   | % |
| Consumer Loan unit volume from new Dealers                 | 5,742  | 4,727  | 21.5  | % |
| New active Dealers (1)                                     | 1,043  | 857    | 21.7  | % |
| Average volume per new active Dealers                      | 5.5    | 5.5    | 0.0   | % |
| Attrition (2)                                              | -12.9  | %      | -13.0 | % |

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

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.

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Consumer Loans are assigned to us as either Dealer Loans through our Portfolio Program or Purchased Loans through our Purchase Program. The following table summarizes the portion of our Consumer Loan volume that was assigned to us as Dealer Loans:

|                                                                      | For the Three<br>Months<br>Ended<br>March 31,<br>2016 2015 |        |
|----------------------------------------------------------------------|------------------------------------------------------------|--------|
| Dealer Loan unit volume as a percentage of total unit volume         | 82.4 %                                                     | 88.6 % |
| Dealer Loan dollar volume as a percentage of total dollar volume (1) | 75.6 %                                                     | 85.2 % |

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

As of March 31, 2016 and December 31, 2015, the net Dealer Loans receivable balance was 81.2% and 83.5%, respectively, of the total net Loans receivable balance.

## Results of Operations

## Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

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

| (Dollars in millions, except per share data) | For the Three Months<br>Ended<br>March 31, |          |       | %<br>Change |
|----------------------------------------------|--------------------------------------------|----------|-------|-------------|
|                                              | 2016                                       | 2015     |       |             |
| Revenue:                                     |                                            |          |       |             |
| Finance charges                              | \$202.8                                    | \$ 169.9 | 19.4  | %           |
| Premiums earned                              | 10.8                                       | 12.1     | -10.7 | %           |
| Other income                                 | 14.3                                       | 12.2     | 17.2  | %           |
| Total revenue                                | 227.9                                      | 194.2    | 17.4  | %           |
| Costs and expenses:                          |                                            |          |       |             |
| Salaries and wages                           | 32.7                                       | 30.4     | 7.6   | %           |
| General and administrative                   | 12.1                                       | 9.1      | 33.0  | %           |
| Sales and marketing                          | 13.7                                       | 11.7     | 17.1  | %           |
| Provision for credit losses                  | 22.1                                       | 6.2      | 256.5 | %           |
| Interest                                     | 22.1                                       | 14.9     | 48.3  | %           |
| Provision for claims                         | 6.8                                        | 8.6      | -20.9 | %           |
| Total costs and expenses                     | 109.5                                      | 80.9     | 35.4  | %           |
| Income before provision for income taxes     | 118.4                                      | 113.3    | 4.5   | %           |
| Provision for income taxes                   | 44.0                                       | 41.8     | 5.3   | %           |
| Net income                                   | \$74.4                                     | \$ 71.5  | 4.1   | %           |
| Net income per share:                        |                                            |          |       |             |
| Basic                                        | \$3.64                                     | \$ 3.42  | 6.4   | %           |

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|                                      |            |            |      |   |
|--------------------------------------|------------|------------|------|---|
| Diluted                              | \$3.63     | \$ 3.41    | 6.5  | % |
| Weighted average shares outstanding: |            |            |      |   |
| Basic                                | 20,435,200 | 20,922,620 | -2.3 | % |
| Diluted                              | 20,485,822 | 20,948,676 | -2.2 | % |

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The following table highlights changes in net income for the three months ended March 31, 2016, as compared to 2015:

| (In millions)                                        | Change  |
|------------------------------------------------------|---------|
| Net income for the three months ended March 31, 2015 | \$ 71.5 |
| Increase in finance charges                          | 32.9    |
| Decrease in premiums earned                          | (1.3 )  |
| Increase in other income                             | 2.1     |
| Increase in operating expenses (1)                   | (7.3 )  |
| Increase in provision for credit losses              | (15.9 ) |
| Increase in interest                                 | (7.2 )  |
| Decrease in provision for claims                     | 1.8     |
| Increase in provision for income taxes               | (2.2 )  |
| Net income for the three months ended March 31, 2016 | \$ 74.4 |

(1) Operating expenses consist of salaries and wages, general and administrative, and sales and marketing expenses.

**Finance Charges.** For the three months ended March 31, 2016, finance charges increased \$32.9 million, or 19.4%, as compared to the same period in 2015. The increase 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<br>March 31, |           |         |  |
|--------------------------------------|-----------------------------------------|-----------|---------|--|
|                                      | 2016                                    | 2015      | Change  |  |
| Average net Loans receivable balance | \$3,210.0                               | \$2,605.8 | \$604.2 |  |
| Average yield on our Loan portfolio  | 25.3 %                                  | 26.1 %    | -0.8 %  |  |

The following table summarizes the impact each component had on the overall increase in finance charges for the three months ended March 31, 2016:

| (In millions)                                                  | Year<br>over<br>Year<br>Change<br>For the<br>Three<br>Months<br>Ended<br>March<br>31,<br>2016 |
|----------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| Impact on finance charges:                                     |                                                                                               |
| Due to an increase in the average net Loans receivable balance | \$ 39.4                                                                                       |
| Due to a decrease in the average yield                         | (6.5 )                                                                                        |
| Total increase in finance charges                              | \$ 32.9                                                                                       |

The increase in the average net Loans receivable balance was primarily due to the year-over-year growth in Consumer Loan assignment volume in recent years. The average yield on our Loan portfolio for the three months ended March 31, 2016 decreased as compared to the same period in 2015 due to lower yields on more recent Consumer Loan assignments.

**Premiums Earned.** For the three months ended March 31, 2016, premiums earned decreased \$1.3 million, or 10.7%, as compared to the same period in 2015. The decrease was primarily due to a decrease in the size of our reinsurance portfolio, which was the result of a decline in premiums written on vehicle service contracts. While we have experienced year-over-year growth in Consumer Loan assignment volume in recent years, the percentage of Consumer Loan assignments with reinsured vehicle service contracts has declined.

**Other Income.** For the three months ended March 31, 2016, other income increased \$2.1 million, or 17.2%, as compared to the same period in 2015. The increase in other income was primarily due to the following:

- An increase of \$0.8 million in remarketing fee income as a result of year-over-year growth in Consumer Loan assignment volume in recent years.

- An increase of \$0.6 million in Global Positioning Systems with Starter Interrupt Devices (GPS-SID) fee income due to an increase in the number of units purchased by Dealers from third party providers, which was primarily the result of current year growth in Consumer Loan assignment volume.

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**Operating Expenses.** For the three months ended March 31, 2016, operating expenses increased \$7.3 million, or 14.3%, as compared to the same period in 2015. The increase in operating expenses was primarily due to the following:

• An increase in general and administrative expense of \$3.0 million, or 33.0%, primarily as a result of increases in data processing support and maintenance expenses, building expenses and legal fees related to growth in our business.

• An increase in salaries and wages expense of \$2.3 million, or 7.6%, was primarily the result of the following:

An increase of \$4.3 million in salaries and wages expense, excluding stock-based compensation expense, primarily related to an increase in the number of team members, including increases of \$2.6 million for our support function, \$1.0 million for our servicing function and \$0.7 million for our originations function.

A decrease of \$2.0 million in stock-based compensation expense primarily due to amounts recorded in the prior year related to a change in the expected vesting period of performance-based stock awards and declining expense recognition related to stock awards granted in 2012 and 2014.

• An increase in sales and marketing expense of \$2.0 million, or 17.1%, primarily as a result of an increase in sales commissions related to growth in Consumer Loan assignment volume and an increase in the size of our sales force.

**Provision for Credit Losses.** For the three months ended March 31, 2016, the provision for credit losses increased \$15.9 million, or 256.5%, as compared to the same period in 2015. 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 March 31, 2016, overall Consumer Loan performance declined from our expectations at the start of the period, resulting in a provision for credit losses of \$22.1 million for the three months ended March 31, 2016, of which \$21.8 million related to Dealer Loans and \$0.3 million related to Purchased Loans. During the three months ended March 31, 2015, overall Consumer Loan performance exceeded 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 \$6.2 million for the three months ended March 31, 2015, all of which related to Dealer Loans.

**Interest.** For the three months ended March 31, 2016, interest expense increased \$7.2 million, or 48.3%, as compared to the same period in 2015. The following table shows interest expense, the average outstanding debt balance, and the average cost of debt for the three months ended March 31, 2016 and 2015:

| (Dollars in millions)                          | For the Three<br>Months Ended<br>March 31, |         |
|------------------------------------------------|--------------------------------------------|---------|
|                                                | 2016                                       | 2015    |
| Interest expense                               | \$22.1                                     | \$14.9  |
| Average outstanding debt principal balance (1) | 2,210.8                                    | 1,845.9 |
| Average cost of debt                           | 4.0 %                                      | 3.2 %   |

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

The increase in interest expense was primarily due to an increase in our average cost of debt and an increase in the average outstanding debt principal balance. The increase in our average cost of debt was primarily the result of a change in the mix of our outstanding debt. The increase in the average outstanding debt principal balance was due to debt proceeds used to fund the growth in Consumer Loan assignment volume and stock repurchases.

Provision for Claims. For the three months ended March 31, 2016, provision for claims decreased \$1.8 million, or 20.9%, as compared to the same period in 2015. The decrease was due to a decrease in the size of our reinsurance portfolio and a decrease in claims paid per reinsured vehicle service contract.

Provision for Income Taxes. For the three months ended March 31, 2016, the effective tax rate increased to 37.2% from 36.9% in the same period in 2015. The increase was primarily due to higher effective tax rates in certain state tax jurisdictions.

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## Liquidity and Capital Resources

We need capital to maintain and grow our business. Our primary sources of capital are cash flows from operating activities, collections of Consumer Loans and borrowings under: (1) a revolving secured line of credit; (2) Warehouse facilities; (3) Term ABS financings; and (4) senior notes. There are various restrictive covenants to which we are subject under each financing arrangement and we were in compliance with those covenants as of March 31, 2016. For information regarding these financings and the covenants included in the related documents, see Note 6 to the consolidated financial statements contained in Item 1 of this Form 10-Q, which is incorporated herein by reference.

On February 26, 2016, we completed a \$385.0 million Term ABS financing which was used to repay outstanding indebtedness. The financing will revolve for 24 months after which it will amortize based upon the cash flows on the contributed Loans.

Cash and cash equivalents as of March 31, 2016 and December 31, 2015 was \$9.1 million and \$6.3 million, respectively. As of March 31, 2016 and December 31, 2015, we had \$911.7 million and \$875.6 million in unused and available lines of credit, respectively. Our total balance sheet indebtedness increased \$243.7 million to \$2,328.3 million as of March 31, 2016 from \$2,084.6 million as of December 31, 2015 due to the growth in new Consumer Loan assignments.

## Contractual Obligations

A summary of our scheduled principal debt maturities as of March 31, 2016 is as follows:  
(In millions)

| Year              | Scheduled<br>Principal<br>Debt<br>Maturities<br>(1) |
|-------------------|-----------------------------------------------------|
| Remainder of 2016 | \$ 400.0                                            |
| 2017              | 737.1                                               |
| 2018              | 590.3                                               |
| 2019              | 68.2                                                |
| 2020              | —                                                   |
| Over five years   | 550.0                                               |
| Total             | \$ 2,345.6                                          |

(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 its 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, 2015 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, 2015.

#### 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.

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### Forward-Looking Statements

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

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all of our forward-looking statements. These forward-looking statements represent our outlook only as of the date of this report. While we believe that our forward-looking statements are reasonable, actual results could differ materially since the statements are based on our current expectations, which are subject to risks and uncertainties. Factors that might cause such a difference include, but are not limited to, the factors set forth in Item 1A of our Form 10-K for the year ended December 31, 2015, 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 materially 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.

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¶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.

• 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 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, 2015 for a complete discussion of our market risk. There have been no material changes to the market risk information included in our 2015 Annual Report on Form 10-K.

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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.

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## 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, 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 physical and mental damages relating to our repossession and sale of the consumer's vehicle 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. Many of these cases are filed as purported class actions and seek damages in large dollar amounts. 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 14 to the consolidated financial statements contained in Part I - Item 1 of this Form 10-Q, which is incorporated herein by reference.

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

## Stock Repurchases

The following table summarizes stock repurchases for the three months ended March 31, 2016:

| Period                          | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs<br>(1) | Maximum Number of Shares that May Yet Be Purchased<br>Under the Plans or Programs (1) |
|---------------------------------|-------------------------------------------|---------------------------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| January 1 to January 31, 2016   | 181                                       | (2) \$178.96                          | —                                                                                                               | 860,450                                                                               |
| February 1 to February 29, 2016 | 207,387                                   | (3) 188.64                            | 45,300                                                                                                          | 815,150                                                                               |
| March 1 to March 31, 2016       | 8,400                                     | (2) 196.38                            | —                                                                                                               | 815,150                                                                               |
|                                 | 215,968                                   | \$188.93                              | 45,300                                                                                                          |                                                                                       |

(1) On November 23, 2015, our board of directors authorized the repurchase by us from time to time in the open market or in privately negotiated transactions of up to one million shares of our common stock. The authorization,

which was announced on November 24, 2015, does not have a specified expiration date.

- Represents shares of common stock released to us by team members as payment of tax withholdings due to us
- (2) upon the vesting of restricted stock and restricted stock units and the conversion of restricted stock units to common stock.
  - (3) Amount includes 162,087 shares of common stock released to us by team members as payment of tax withholdings due to us upon the vesting of restricted stock and the conversion of restricted stock units to common stock.

ITEM 6. EXHIBITS

See Index of Exhibits following the signature page, which is incorporated herein by reference.



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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CREDIT ACCEPTANCE CORPORATION  
(Registrant)

By: /s/ Kenneth S. Booth  
Kenneth S. Booth  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)  
Date: May 2, 2016

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INDEX OF EXHIBITS

The following documents are filed as part of this report. Those exhibits previously filed and incorporated herein by reference are identified below. Exhibits not required for this report have been omitted. Unless otherwise noted, the Company's commission file number for all exhibits incorporated by reference herein is 000-20202.

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.66        | Loan and Security Agreement dated as of February 26, 2016 among the Company, Credit Acceptance Funding LLC 2016-1, Wells Fargo Bank, National Association and Bank of Montreal (incorporated by reference to an exhibit to the Company's Current Report on Form 8-K, dated February 26, 2016).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 4.67        | Backup Servicing Agreement dated as of February 26, 2016, among the Company, Credit Acceptance Funding LLC 2016-1, and Wells Fargo Bank, National Association (incorporated by reference to an exhibit to the Company's Current Report on Form 8-K, dated February 26, 2016).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 4.68        | Sale and Contribution Agreement dated as of February 26, 2016 between the Company and Credit Acceptance Funding LLC 2016-1 (incorporated by reference to an exhibit to the Company's Current Report on Form 8-K, dated February 26, 2016).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 4.69        | Amended and Restated Intercreditor Agreement dated February 26, 2016 among the Company, CAC Warehouse Funding Corporation II, CAC Warehouse Funding LLC IV, CAC Warehouse Funding LLC V, CAC Warehouse Funding LLC VI, Credit Acceptance Funding LLC 2016-1, Credit Acceptance Funding LLC 2015-2, Credit Acceptance Funding LLC 2015-1, Credit Acceptance Funding LLC 2014-2, Credit Acceptance Funding LLC 2014-1, Credit Acceptance Funding LLC 2013-2, Credit Acceptance Funding LLC 2013-1, Credit Acceptance Auto Loan Trust 2015-2, Credit Acceptance Auto Loan Trust 2015-1, Credit Acceptance Auto Loan Trust 2014-2, Credit Acceptance Auto Loan Trust 2014-1, Credit Acceptance Auto Loan Trust 2013-2, Credit Acceptance Auto Loan Trust 2013-1, Wells Fargo Bank, National Association, Fifth Third Bank, Bank of Montreal, Flagstar Bank, FSB, and Comerica Bank (incorporated by reference to an exhibit to the Company's Current Report on Form 8-K, dated February 26, 2016). |
| 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(INS)    | XBRL Instance Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 101(SCH)    | XBRL Taxonomy Extension Schema Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 101(CAL)    | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 101(DEF)    | XBRL Taxonomy Extension Definition Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 101(LAB)    | XBRL Taxonomy Extension Label Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 101(PRE)    | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

