

CREDIT ACCEPTANCE CORP
Form 11-K
June 19, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORTS OF EMPLOYEE STOCK
PURCHASE, SAVINGS AND SIMILAR PLANS
PURSUANT TO SECTION 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

☒ ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-20202

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

CREDIT ACCEPTANCE CORPORATION 401(k) PLAN AND TRUST

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

CREDIT ACCEPTANCE CORPORATION

25505 West Twelve Mile Road
Southfield, Michigan 48034-8339

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Plan Administrator and Plan Participants

Credit Acceptance Corporation 401(k) Plan and Trust

Opinion on the financial statements

We have audited the accompanying statements of net assets available for benefits of Credit Acceptance Corporation 401(k) Plan (the “Plan”) as of December 31, 2017 and 2016, the related statement of changes in net assets available for benefits for the year ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the year ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

These financial statements are the responsibility of the Plan’s management. Our responsibility is to express an opinion on the Plan’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Plan’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Supplemental information

The supplemental information in the accompanying schedule of Form 5500, Schedule H, Part IV, Line 4i-Schedule of Assets (Held at End of Year) as of December 31, 2017 has been subjected to audit procedures performed in conjunction with the audit of the Plan’s financial statements. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements but include supplemental information required by the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of the Plan’s management. Our audit procedures included determining whether the supplemental information reconciles to the basic financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information in the accompanying schedule, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information referred to above is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ Grant Thornton LLP

We have served as the Plan's auditor since 2005.

Southfield, Michigan

June 19, 2018

CREDIT ACCEPTANCE CORPORATION 401(k) PLAN AND TRUST
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

	As of December 31,	
	2017	2016
ASSETS:		
Participant-directed investments:		
Mutual funds	\$72,863,885	\$51,576,237
Credit Acceptance stock fund	10,462,021	8,370,941
Collective trust fund	2,698,449	2,069,433
Total investments at fair value	86,024,355	62,016,611
Notes receivable from participants	4,259,038	3,194,553
Contributions receivable from employer	192,044	146,753
NET ASSETS AVAILABLE FOR BENEFITS	\$90,475,437	\$65,357,917

See accompanying notes to financial statements.

CREDIT ACCEPTANCE CORPORATION 401(k) PLAN AND TRUST
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	For the Year Ended December 31, 2017
INVESTMENT ACTIVITY:	
Interest and dividends	\$1,888,114
Net appreciation in fair value of investments	12,767,614
Total investment activity	14,655,728
Interest income on notes receivable from participants	169,606
CONTRIBUTIONS:	
Participant	8,885,734
Employer	4,499,390
Rollovers	2,798,822
Total contributions	16,183,946
DEDUCTIONS:	
Benefits paid to participants	(5,829,386)
Administrative expenses	(62,374)
Total deductions	(5,891,760)
Net increase	25,117,520
NET ASSETS AVAILABLE FOR BENEFITS:	
Beginning of year	65,357,917
End of year	\$90,475,437

See accompanying notes to financial statements.

CREDIT ACCEPTANCE CORPORATION 401(k) PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE PLAN

The following brief description of the Credit Acceptance Corporation (the “Company”, “Credit Acceptance”, “we”, “our”, “us”) 401(k) Plan and Trust (the “Plan”), provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan’s provisions.

General – The Plan is a defined contribution plan available to all salaried and hourly employees on the first day of the month following the month of hire. In order to participate in the Plan, employees need to be 21 years of age or older. The Plan’s Investment Committee determines the appropriateness of the Plan’s investment offerings and monitors investment performance. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

Contributions – Participants can elect to contribute 1% to 75% of their pre-tax annual compensation, as defined by the Plan, subject to the statutory limitation of \$18,000 for the 2017 calendar year, except for participants eligible to make additional catch-up contributions of up to \$6,000. Participants are allowed to make after-tax contributions to the Plan subject to the same statutory limitations. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans (“Rollovers”). Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan includes an auto-enrollment provision whereby all newly eligible employees are automatically enrolled in the Plan unless they affirmatively elect not to participate in the Plan. The initial participant contribution percentage for all new employees automatically enrolled in the Plan is 6% of their eligible pay. The participant contribution percentage for employees automatically enrolled in the Plan is increased annually, on the first day of each calendar year, by 1% of participants' eligible pay up to a maximum contribution of 10%. We match contributions equal to 100% on the first 2% participants contribute and an additional 50% on the next 4% participants contribute. We contribute a maximum of 4% for each participant’s eligible pay on a per pay period basis. We may also make a discretionary profit sharing contribution as described in the Plan agreement. We did not make a discretionary profit sharing contribution during the year ended December 31, 2017.

Participant Accounts – The benefit to which a participant is entitled is the benefit that can be provided from the participant’s vested account. Each participant’s account is credited with the participant’s contribution and our matching contributions plus an allocation of discretionary contributions, if any, and Plan earnings and losses. Allocations are based on participant earnings or account balances, as defined by the Plan. Participant accounts may also be charged with an allocation of certain administrative expenses. Allocations are based on the number of participants in the Plan, the value of participant account balances, or specific participant transactions, as defined.

Vesting – Participants hired on or after January 1, 2017 are immediately vested in their voluntary contributions plus actual earnings thereon and become fully vested in our matching contributions and discretionary contributions after two years of service. Participants hired prior to January 1, 2017 are immediately vested in their voluntary contributions, our matching contributions and discretionary contributions plus actual earnings thereon.

Forfeitures – Forfeited matching contributions totaled \$40,485 for the year ended December 31, 2017. Effective January 1, 2018, forfeited matching contributions are being netted against future employer contributions.

Notes Receivable from Participants – Subject to predefined conditions and terms, a participant may borrow from their fund accounts up to 50% of the participant’s vested fund balance, not to exceed \$50,000. Notes receivable are secured

by the balances in the participants' accounts and bear interest rates from 3.25% to 8.50% for balances outstanding at December 31, 2017 and 2016. The interest rate is based on the prime rate (as published in the Wall Street Journal on the day the loan is initiated) plus 1%. The notes receivable from participants generally have a maximum repayment period of 5 years, except the maximum repayment period may be extended up to 10 years for the purchase of a principal residence. Principal and interest is paid ratably through bi-weekly or semi-monthly payroll deductions.

Payment of Benefits – Upon termination of service, death, disability, or retirement, a participant may elect to receive the value of the participant's vested fund balance in either a lump-sum amount or in installment payments if certain criteria are met. All benefits requested before December 31, 2017 were paid prior to year-end.

CREDIT ACCEPTANCE CORPORATION 401(k) PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements of the Plan are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“GAAP”).

Valuation of Investments and Income Recognition – Investments are recorded at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for additional information regarding fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan’s gains and losses on investments bought and sold as well as held during the year.

Notes Receivable from Participants – Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. No allowance for credit losses has been recorded as of December 31, 2017 or 2016. If a participant ceases to make loan repayments and the Plan Administrator deems this participant loan to be in default, the participant loan balance is reduced and a benefit payment is recorded.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and the reported amounts of additions and deductions from net assets available for benefits during the reported period. Actual results could differ from those estimates.

Payment of Benefits – Benefits are recorded when paid. The entire vested account balance can be received in a combination of cash and, to the extent the account is invested in Company Stock, an in-kind distribution of Company Stock.

Administrative Expenses – Certain expenses of maintaining the Plan are paid by the Company and are excluded from these financial statements. Transactional fees and fees related to the administration of notes receivable from participants are charged directly to the respective participant’s account and are included in administrative expenses. Investment related expenses are included in net appreciation of fair value of investments.

Subsequent Events – We have evaluated events and transactions occurring subsequent to the statement of net assets available for benefits date of December 31, 2017 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.

CREDIT ACCEPTANCE CORPORATION 401(k) PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FAIR VALUE MEASUREMENTS

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. A description of the investment assets measured at fair value using this methodology is as follows:

Mutual Funds:

Mutual funds are valued at the daily closing price as reported by the funds. Mutual funds held by the Plan are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Credit Acceptance Stock Fund:

This fund includes our publicly traded common stock and is valued at quoted prices available on the Nasdaq Stock Market.

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. None of our investment assets were measured at fair value using this methodology.

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. None of our investment assets were measured at fair value using this methodology.

In accordance with Topic 820, certain investments measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. A description of the investment assets measured using this methodology is as follows:

Collective Trust Fund:

The fair value of the collective trust fund is based on the NAV of the underlying investments, as reported to the Plan by the contract issuer. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value.

CREDIT ACCEPTANCE CORPORATION 401(k) PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. FAIR VALUE MEASUREMENTS (Concluded)

Investments measured at fair value on a recurring basis at December 31, 2017 and 2016 are as follows:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$72,863,885	—	—	\$72,863,885
Credit Acceptance stock fund	10,462,021	—	—	10,462,021
Total investments in the fair value hierarchy	\$83,325,906	\$ —	—	\$83,325,906
Investments measured at NAV (a)				2,698,449
Total investments at fair value				\$86,024,355

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$51,576,237	—	—	\$51,576,237
Credit Acceptance stock fund	8,370,941	—	—	8,370,941
Total investments in the fair value hierarchy	\$59,947,178	\$ —	—	\$59,947,178
Investments measured at NAV (a)				2,069,433
Total investments at fair value				\$62,016,611

In accordance with Topic 820, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets available for benefits.

The following table summarizes investments for which fair value is measured using NAV per share practical expedient as of December 31, 2017 and 2016, respectively. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

	December 31, 2017 Fair Value	December 31, 2016 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice period
Collective trust fund	\$2,698,449	\$2,069,433	N/A	Daily	12 months

CREDIT ACCEPTANCE CORPORATION 401(k) PLAN AND TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. RELATED PARTY AND PARTY-IN INTEREST TRANSACTIONS

The Credit Acceptance Stock Fund qualifies as party-in-interest investments.

5. PLAN TERMINATION

Although we have not expressed any intent to do so, we have the right under the Plan to discontinue our contributions at any time and to terminate the Plan subject to the provisions of ERISA.

6. TAX STATUS

We use a volume submitter plan document created by the Plan trustee, Fidelity Management and Research Co. The Plan trustee received an opinion letter from the IRS, dated March 31, 2014, which states that the volume submitter plan document satisfies the applicable provisions of the Code. Since the Plan uses this volume submitter plan document, this advisory letter applies to the Plan. The Plan's management believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, no provision for income tax has been included in the Plan's financial statements.

GAAP requires plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan Administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of the liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions and the Plan could be subject to income tax if certain issues were found by the IRS that could result in the disqualification of the Plan's tax-exempt status; however, there are currently no audits for any tax periods in progress.

7. RISKS AND UNCERTAINTIES

The Plan invests in various investment securities, which in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balance and the amounts reported in the statements of net assets available for benefits.

SUPPLEMENTAL SCHEDULE

CREDIT ACCEPTANCE CORPORATION
401(k) PLAN AND TRUSTFORM 5500, SCHEDULE H, PART IV, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
AS OF DECEMBER 31, 2017

(a) (b)	(c)	(e)
Identity of Issuer	Description of Investment	Current Value
Vanguard Group, Inc	Vanguard Target Retirement 2040 Fund	\$10,548,985
* Credit Acceptance Corporation	Credit Acceptance Stock Fund	10,462,021
Vanguard Group, Inc	Vanguard Target Retirement 2045 Fund	9,329,609
Vanguard Group, Inc	Vanguard Target Retirement 2030 Fund	7,848,582
Vanguard Group, Inc	Vanguard Target Retirement 2035 Fund	7,621,813
Vanguard Group, Inc	Vanguard Target Retirement 2050 Fund	6,235,639
Vanguard Group, Inc	Vanguard 500 Index Fund (Admiral Shares)	4,988,567
Vanguard Group, Inc	Vanguard Target Retirement 2025 Fund	4,873,759
Putnam Fiduciary Trust Company	Putnam Stable Value Collective Fund	2,698,449
Vanguard Group, Inc	Vanguard Target Retirement 2055 Fund	2,464,413
Capital Research and Management Co	American Funds - The Growth Fund of America (Class R6)	2,226,841
T. Rowe Price Associates, Inc	T. Rowe Price New Horizons Fund	1,991,660
Vanguard Group, Inc	Vanguard Target Retirement 2020 Fund	1,852,318
Janus Capital Management LLC	Janus Enterprise Fund (Class N)	1,794,921
Vanguard Group, Inc	Vanguard Mid-Cap Index Fund (Admiral Shares)	1,581,576
Capital Research and Management Co	American Funds - EuroPacific Growth Fund (Class R6)	1,164,643
Vanguard Group, Inc	Vanguard Total International Stock Index Fund (Admiral Shares)	963,396
Vanguard Group, Inc	Vanguard Small-Cap Index Fund (Admiral Shares)	957,190
Vanguard Group, Inc	Vanguard Total Bond Market Index Fund (Admiral Shares)	956,233
J.P. Morgan Investment Management Inc	JPMorgan Intrepid Value Fund Class R6 Shares	870,399
Capital Research and Management Co	American Funds - The Bond Fund of America R6	815,256
Vanguard Group, Inc	Vanguard REIT Index Fund Admiral Shares	773,645
Capital Research and Management Co	American Funds - New World Fund (Class R6)	615,890
Pacific Investment Management Co LLC	PIMCO High Yield Fund (Institutional Class)	560,916
Vanguard Group, Inc	Vanguard Target Retirement 2015 Fund	503,391
Vanguard Group, Inc	Vanguard Target Retirement 2060 Fund	380,687
T. Rowe Price Associates, Inc	T. Rowe Price Mid-Cap Value Fund	355,220
Franklin Advisers, Inc	Templeton Global Bond Fund (Class R6)	246,924
Vanguard Group, Inc	Vanguard Target Retirement Income Fund	228,165
American Beacon Advisors, Inc	American Beacon Small Cap Value Fund Class Y	113,247
* Participant	Loans to participants (3.25% to 8.50% maturing through 2027)	4,259,038
		\$90,283,393
* Party-in-interest		

Column (d), Cost, has been omitted as all investments are participant-directed

EXHIBIT INDEX

Exhibit Number	Description
<u>23.1</u>	Consent of Grant Thornton LLP

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SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees of the Credit Acceptance Corporation 401(k) Plan and Trust (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

CREDIT ACCEPTANCE CORPORATION
401(k) PLAN AND TRUST

Date: June 19, 2018 By: /s/ Kenneth S. Booth
Kenneth S. Booth
Chief Financial Officer of Credit Acceptance Corporation