CREDIT ACCEPTANCE CORP
Form 10-K
February 08, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ________

Commission file number 000-20202
CREDIT ACCEPTANCE CORPORATION
(Exact name of registrant as specified in its charter)

Michigan	38-1999511
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

25505 W. Twelve Mile Road	
Southfield, Michigan	48034-8339
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (248) 353-2700
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	The Nasdaq Stock Market

Securities registered pursuant to section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

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

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

The aggregate market value of 10,448,025 shares of the Registrant's common stock held by non-affiliates on June 30, 2018 was approximately $3,692.3 million. For purposes of this computation all officers, directors and 10% beneficial owners of the Registrant are assumed to be affiliates. Such determination should not be deemed an admission that such officers, directors and beneficial owners are, in fact, affiliates of the Registrant.

At February 1, 2019, there were 18,780,287 shares of the Registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement pertaining to the 2019 Annual Meeting of Shareholders (the "Proxy Statement") filed pursuant to Regulation 14A are incorporated herein by reference into Part III of this Annual Report on Form 10-K (this “Form 10-K”).

CREDIT ACCEPTANCE CORPORATION
YEAR ENDED DECEMBER 31, 2018

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PART I
ITEM 1. BUSINESS

General

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

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

Credit Acceptance was founded to collect retail installment contracts (referred to as "Consumer Loans") originated by automobile dealerships owned by Donald Foss, our founder, significant shareholder and former Chairman of the Board. During the 1980s, we began to market this service to non-affiliated dealers and, at the same time, began to offer dealers a non-recourse cash payment (referred to as an "advance") against anticipated future collections on Consumer Loans serviced for that dealer.

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 Consumer Loans from the Dealers to us. We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the Dealer and assigned to us.

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

	For the Years Ended December 31,		
Consumer Loan Assignment Volume	2018	2017	2016
Percentage of total unit volume with either FICO® scores below 650 or no FICO® scores	95.6%	95.6%	95.8%

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. For information regarding our one reportable segment and related entity-wide disclosures, see Note 16 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

Principal Business

We offer our Dealers financing programs that enable them to sell vehicles to consumers, regardless of their credit history. 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 under each of the programs for each of the last three years:

	Unit Volume		Dollar Volume (1)	
For the Years Ended December 31,	Portfolio Program	Purchase Program	Portfolio Program	Purchase Program
2016	78.6 %	21.4 %	71.4 %	28.6 %
2017	72.5 %	27.5 %	68.5 %	31.5 %
2018	69.7 %	30.3 %	67.2 %	32.8 %

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

Portfolio Program

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

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

We record the amount advanced to the Dealer as a Dealer Loan, which is classified within Loans receivable in our consolidated balance sheets. Cash advanced to the Dealer is automatically assigned to the Dealer's open pool of advances. We generally require Dealers to group advances into pools of at least 100 Consumer Loans. Unless we receive a request from the Dealer to keep a pool open, we automatically close a pool containing 100 Consumer Loans and assign subsequent advances 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 with respect to the Dealer Loans by obtaining control or taking possession of the Consumer Loans, which list us as lien holder on the vehicle title.

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

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

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

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.

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.

Revenue Sources

Credit Acceptance derives its revenues from the following principal sources:

- Finance charges, which are comprised of: (1) servicing fees earned as a result of servicing Consumer Loans assigned to us by Dealers under the Portfolio Program; (2) finance charge income from Purchased Loans; (3) fees earned from our third party ancillary product offerings; (4) monthly program fees of $599, charged to Dealers under the Portfolio Program; and (5) fees associated with certain Loans;
- Premiums earned on the reinsurance of vehicle service contracts; and
- Other income, which primarily consists of: ancillary product profit sharing, remarketing fees, GPS-SID fees, interest, Dealer enrollment fees, and Dealer support products and services. For additional information, see Note 8 to the consolidated financial statements contained in Item 8 to this Form 10-K, which is incorporated herein by reference.

The following table sets forth the percent relationship to total revenue of each of these sources:

	For the Years Ended December 31,		
Percent of Total Revenue	2018	2017	2016
Finance charges	91.5 %	91.1 %	90.2 %
Premiums earned	3.6 %	3.7 %	4.4 %
Other income	4.9 %	5.2 %	5.4 %
Total revenue	100.0 %	100.0 %	100.0 %

Our business is seasonal with peak Consumer Loan acceptances and collections occurring during the first quarter of the year. However, this seasonality does not have a material impact on our interim results.

Operations

Sales and Marketing. Our target market is approximately 60,000 independent and franchised automobile dealers in the United States. We have market area managers located throughout the United States that market our programs to prospective Dealers, enroll new Dealers, and support active Dealers. The number of Dealer enrollments and active Dealers for each of the last three years are presented in the table below:

For the Years Ended December 31,	Dealer Enrollments	Active Dealers (1)
2016	4,100	10,536
2017	4,491	11,551
2018	4,671	12,528

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

Once Dealers have enrolled in our programs, the market area managers work closely with the newly enrolled Dealers to help them successfully launch our programs within their dealerships. Market area managers also provide active Dealers with ongoing support and consulting focused on improving the Dealers' success on our programs, including assistance with increasing the volume and performance of Consumer Loan assignments.

Dealer Servicing Agreement. As a part of the enrollment process, a new Dealer is required to enter into a Dealer servicing agreement with Credit Acceptance 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 Consumer Loans from the Dealers to us. Under the typical Dealer servicing agreement, a Dealer represents that it will only assign Consumer Loans to us that satisfy criteria established by us, meet certain conditions with respect to their binding nature and the status of the security interest in the purchased vehicle, and comply with applicable state and federal laws and regulations.

The typical Dealer servicing agreement may be terminated by us or by the Dealer upon written notice. We may terminate the Dealer servicing agreement immediately in the case of an event of default by the Dealer. Events of default include, among other things:

- the Dealer's refusal to allow us to audit its records relating to the Consumer Loans assigned to us;
- the Dealer, without our consent, is dissolved; merges or consolidates with an entity not affiliated with the Dealer; or sells a material part of its assets outside the course of its business to an entity not affiliated with the Dealer; or
- the appointment of a receiver for, or the bankruptcy or insolvency of, the Dealer.

While a Dealer can cease assigning Consumer Loans to us at any time without terminating the Dealer servicing agreement, if the Dealer elects to terminate the Dealer servicing agreement or in the event of a default, we have the right to require that the Dealer immediately pay us:

- any unreimbursed collection costs on Dealer Loans;
- any unpaid advances and all amounts owed by the Dealer to us; and
- a termination fee equal to 15% of the then outstanding amount of the Consumer Loans assigned to us.

Upon receipt of such amounts in full, we reassign the Consumer Loans and our security interest in the financed vehicles to the Dealer.

In the event of a termination of the Dealer servicing agreement by us, we may continue to service Consumer Loans assigned by Dealers accepted prior to termination in the normal course of business without charging a termination fee.

Consumer Loan Assignment. Once a Dealer has enrolled in our programs, the Dealer may begin assigning Consumer Loans to us. 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.

A Consumer Loan is originated by the Dealer when a consumer enters into a contract with a Dealer that sets forth the terms of the agreement between the consumer and the Dealer for the payment of the purchase price of the vehicle. The amount of the Consumer Loan consists of the total principal and interest that the consumer is required to pay over the term of the Consumer Loan. Consumer Loans are written on a contract form provided by us. Although the Dealer is named in the Consumer Loan contract, the Dealer generally does not have legal ownership of the Consumer Loan for more than a moment and we, not the Dealer, are listed as lien holder on the vehicle title. Consumers are obligated to make payments on the Consumer Loan directly to us, and any failure to make such payments will result in our pursuing payment through collection efforts.

All Consumer Loans submitted to us for assignment are processed through our Credit Approval Processing System ("CAPS"). CAPS allows Dealers to input a consumer's credit application and view the response from us via the Internet. CAPS allows Dealers to: (1) receive a quick approval from us; (2) interact with our proprietary credit scoring system to optimize the structure of each transaction prior to delivery; and (3) create, electronically execute and print Consumer Loan documents. All responses include the amount of funding (advance for a Dealer Loan or purchase price for a Purchased Loan), as well as any stipulations required for funding. The amount of funding is determined using a formula which considers a number of factors including the timing and amount of cash flows expected on the related Consumer Loan and our target return on capital at the time the Consumer Loan is submitted to us for assignment. The estimated future cash flows are determined based upon our proprietary credit scoring system, which considers numerous variables, including 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, to calculate a composite credit score that corresponds to an expected collection rate. Our proprietary credit scoring system forecasts the collection rate based upon the historical performance of Consumer Loans in our portfolio that share similar characteristics. The performance of our proprietary credit scoring system is evaluated monthly by comparing projected to actual Consumer Loan performance. Adjustments are made to our proprietary credit scoring system as necessary. For additional information on adjustments to forecasted collection rates, please see the Critical Accounting Estimates section in Item 7 of this Form 10-K, which is incorporated herein by reference.

While a Dealer can submit any legally compliant Consumer Loan to us for assignment, the decision whether to provide funding to the Dealer and the amount of any funding is made solely by us. Through our Dealer Service Center, we perform all significant functions relating to the processing of the Consumer Loan applications and bear certain costs of Consumer Loan assignment, including the cost of assessing the adequacy of Consumer Loan documentation, compliance with underwriting and legal guidelines and the cost of verifying employment, residence and other information provided by the Dealer.

We audit Consumer Loan files for legal and underwriting guidelines on a daily basis in order to assess whether our Dealers are operating in accordance with the terms and conditions of our Dealer servicing agreement. We occasionally identify breaches of the Dealer servicing agreement and depending upon the circumstances, and at our discretion, we may:

- change pricing or charge the Dealer fees for future Consumer Loan assignments;
- reassign the Consumer Loans back to the Dealer and require repayment of the related advances and/or purchase payments; or
- terminate our relationship with the Dealer.

Consumer Loans that have been assigned to us can be reassigned back to the Dealer, at the Dealer's discretion, as follows:

- An individual Consumer Loan may be reassigned within 180 days of assignment. We require repayment of the related advance or purchase payment and, if requested more than 90 days after assignment, payment of a fee; and
- All Consumer Loans assigned under the Portfolio Program may be reassigned through termination of the Dealer servicing agreement, as described under "Dealer Servicing Agreement," above.

Our business model allows us to share the risk and reward of collecting on the Consumer Loans with the Dealers, more so with the Portfolio Program than the Purchase Program. Such sharing is intended to motivate the Dealer to assign better quality Consumer Loans, follow our underwriting guidelines, comply with various legal regulations, meet our credit compliance requirements and provide appropriate service and support to the consumer after the sale. In addition, our Dealer Service Center works closely with Dealers to assist them in resolving any documentation deficiencies or funding stipulations. We believe this arrangement causes the interests of the Dealer, the consumer and us to all be aligned.

We measure various criteria for each Dealer against other Dealers in their geographic area as well as the top performing Dealers. Dealers are assigned a Dealer rating based upon the performance of their Consumer Loans in both the Portfolio and Purchase Programs as well as other criteria. The Dealer rating is one of the factors used to determine the amount paid to Dealers as an advance or to acquire a Purchased Loan. We provide each Dealer under the Portfolio Program with a monthly statement summarizing all activity that occurred on their Consumer Loan assignments.

Servicing. Our largest group of collectors services Consumer Loans that are in the early stages of delinquency. Collection efforts typically consist of placing a call to the consumer within one day of the missed payment due date, although efforts may begin later for some segments of accounts. Consumer Loans are segmented into dialing pools by various phone contact profiles in an effort to efficiently contact the consumer. We utilize text messaging as an additional means to contact the consumer. Our collectors work with consumers to attempt to reach a solution that will help them avoid becoming further past due and get them current where possible.

The decision to repossess a vehicle is based on policy-based criteria. When a Consumer Loan is approved for repossession, the account is transferred to our repossession team. Repossession personnel continue to service the Consumer Loan as it is being assigned to a third party repossession contractor, who works on a contingency fee basis. Once a vehicle has been repossessed, the consumer can negotiate to redeem the vehicle, whereupon the vehicle is returned to the consumer in exchange for paying off the Consumer Loan balance; or, where appropriate or if required by law, the vehicle is returned to the consumer and the Consumer Loan is reinstated in exchange for a payment that reduces or eliminates the past due balance. If this process is unsuccessful, the vehicle is sold at a wholesale automobile auction. Prior to sale, the vehicle is typically inspected by a representative at the auction who provides repair and reconditioning recommendations. Alternatively, our remarketing representatives may inspect the vehicle directly. Our remarketing representatives then authorize any repair and reconditioning work in order to maximize the net sale proceeds at auction.

If the vehicle sale proceeds are not sufficient to satisfy the balance owing on the Consumer Loan, the Consumer Loan is serviced by either: (1) our internal collection team, in the event the consumer is willing to make payments on the deficiency balance; or (2) where permitted by law, our external collection team, if it is believed that legal action is required to reduce the deficiency balance owing on the Consumer Loan. Our external collection team generally assigns Consumer Loans to third party collection attorneys who work on a contingency fee basis.

Collectors service Consumer Loans through our servicing platform, which consists of the following two systems:

- The collection system, which assigns Consumer Loans to collectors through a predictive dialer and records all collection activity, including:
  - details of past phone conversations with the consumer;
  - collection letters sent;
  - promises to pay;
  - broken promises;
  - repossession orders; and
  - collection attorney activity.

- The servicing system, which maintains a record of all transactions relating to Consumer Loan assignments and is a primary source of data utilized to:
- determine the outstanding balance of the Consumer Loans;
- forecast future collections;
- analyze the profitability of our program; and
- evaluate our proprietary credit scoring system.

Ancillary Products

We provide Dealers the ability to offer vehicle service contracts to consumers through our relationships with Third Party Providers (“TPPs”). A vehicle service contract provides the consumer protection by paying for the repair or replacement of certain components of the vehicle in the event of a mechanical failure. The retail price of the vehicle service contract is included in the principal balance of the Consumer Loan. The wholesale cost of the vehicle service contract is paid to the TPP, net of an administrative fee retained by us. We recognize our fee as part of finance charges on a level-yield basis based upon forecasted cash flows. The difference between the wholesale cost and the retail price to the consumer is paid to the Dealer as a commission. Under the Portfolio Program, the wholesale cost of the vehicle service contract and the commission paid to the Dealer are charged to the Dealer’s advance balance. TPPs process claims on vehicle service contracts that are underwritten by third party insurers. We bear the risk of loss for claims on certain vehicle service contracts that are reinsured by us. We market the vehicle service contracts directly to our Dealers. Our agreement with one of our TPPs allows us to receive profit sharing payments depending on the performance of the vehicle service contracts.

VSC Re Company (“VSC Re”), our wholly-owned subsidiary, is engaged in the business of reinsuring coverage under vehicle service contracts sold to consumers by Dealers on vehicles financed by us. VSC Re currently reinsures vehicle service contracts that are offered through one of our TPPs. 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 trust accounts 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.

We provide Dealers the ability to offer Guaranteed Asset Protection (“GAP”) to consumers through our relationships with TPPs. GAP provides the consumer protection by paying the difference between the loan balance and the amount covered by the consumer's insurance policy in the event of a total loss of the vehicle due to severe damage or theft. The retail price of GAP is included in the principal balance of the Consumer Loan. The wholesale cost of GAP is paid to the TPP, net of an administrative fee retained by us. We recognize our fee as part of finance charges on a level-yield basis based upon forecasted cash flows. The difference between the wholesale cost and the retail price to the consumer is paid to the Dealer as a commission. Under the Portfolio Program, the wholesale cost of GAP and the commission paid to the Dealer are charged to the Dealer’s advance balance. TPPs process claims on GAP contracts that are underwritten by third party insurers. Our agreement with one of our TPPs allow us to receive profit sharing payments depending on the performance of the GAP contracts.

Under our Purchase Program, we provide Dealers that meet certain criteria the ability to offer vehicle service contracts and GAP to consumers through the Dealers’ relationships with TPPs. The retail price of the vehicle service contract and/or GAP is included in the principal balance of the Consumer Loan and is paid to the Dealer. Under this arrangement, we do not receive an administrative fee and the Dealers’ TPPs process claims.

We provide Dealers in certain states the ability to purchase GPS Starter Interrupt Devices (“GPS-SID”) through our relationship with a TPP. Through this program, Dealers can install GPS-SID on vehicles financed by us that can be activated if the consumer fails to make payments on their account, and can result in the prompt repossession of the vehicle. Dealers purchase GPS-SID directly from the TPP. The TPP pays us a fee for each device sold, at which time the fee revenue is recognized in other income within our consolidated statements of income.

Competition

The market for consumers who do not qualify for conventional automobile financing is large and highly competitive. The market is currently served by “buy here, pay here” dealerships, banks, captive finance affiliates of automobile manufacturers, credit unions and independent finance companies both publicly and privately owned. Many of these companies are much larger and have greater resources than us. We compete by offering a profitable and efficient method for Dealers to finance consumers who would be more difficult or less profitable to finance through other methods. In addition, we compete on the basis of the level of service provided by our Dealer Service Center and sales personnel.

Customer and Geographic Concentrations

No single Dealer accounted for more than 10% of total revenues during any of the last three years. Additionally, no single Dealer's Loans receivable balance accounted for more than 10% of total Loans receivable balance as of December 31, 2018 or 2017. The following tables provide information regarding the five states that were responsible for the largest dollar volume of Consumer Loan assignments and the related number of active Dealers during 2018, 2017 and 2016:

	For the Year Ended December 31, 2018			
(Dollars in millions)	Consumer Loan Assignments		Active Dealers (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	$364.1	10.1 %	804	6.4 %
Ohio	260.1	7.2 %	858	6.8 %
New York	229.4	6.4 %	726	5.8 %
Texas	196.7	5.5 %	847	6.8 %
Indiana	167.4	4.7 %	428	3.4 %
All other states	2,378.1	66.1 %	8,865	70.8 %
Total	$3,595.8	100.0 %	12,528	100.0 %

	For the Year Ended December 31, 2017			
(Dollars in millions)	Consumer Loan Assignments		Active Dealers (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	$285.7	10.0 %	792	6.9 %
Ohio	209.8	7.3 %	777	6.7 %
Texas	189.7	6.6 %	847	7.3 %
New York	176.4	6.1 %	690	6.0 %
Maryland	132.0	4.6 %	291	2.5 %
All other states	1,879.5	65.4 %	8,154	70.6 %
Total	$2,873.1	100.0 %	11,551	100.0 %

	For the Year Ended December 31, 2016			
(Dollars in millions)	Consumer Loan Assignments		Active Dealers (2)	
	Dollar Volume (1)	% of Total	Number	% of Total
Michigan	$255.1	9.7 %	756	7.2 %
Ohio	179.0	6.8 %	674	6.4 %
Texas	173.3	6.6 %	755	7.2 %
New York	166.4	6.3 %	657	6.2 %
Maryland	130.3	4.9 %	242	2.3 %
All other states	1,731.4	65.7 %	7,452	70.7 %
Total	$2,635.5	100.0 %	10,536	100.0 %

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

(2) Active Dealers are Dealers who have received funding for at least one Loan during the year.

Geographic Financial Information

For the three years ended December 31, 2018, 2017 and 2016, all of our revenues were derived from the United States. As of December 31, 2018 and 2017, all of our long-lived assets were located in the United States.

Regulation

Our business is subject to laws and regulations, including the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act and various other state and federal laws and regulations. These laws and regulations, among other things, require licensing and qualification; limit interest rates, fees and other charges associated with the Consumer Loans assigned to us; require specified disclosures by Dealers to consumers; govern the sale and terms of ancillary products; and define the rights to repossess and sell collateral. Failure to comply with these laws or regulations could have a material adverse effect on us by, among other things, limiting the jurisdictions in which we may operate, restricting our ability to realize the value of the collateral securing the Consumer Loans, making it more costly or burdensome to do business or resulting in potential liability. The volume of new or modified laws and regulations has increased in recent years and has increased significantly in response to issues arising with respect to consumer lending. From time to time, legislation and regulations are enacted which increase the cost of doing business, limit or expand permissible activities or affect the competitive balance among financial services providers. Proposals to change the laws and regulations governing the operations and taxation of financial institutions and financial services providers are frequently made in the U.S. Congress, in the state legislatures and by various regulatory agencies. This legislation may change our operating environment in substantial and unpredictable ways and may have a material adverse effect on our business.

In July 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was enacted and a number of its provisions became effective in July 2011. The Dodd-Frank Act restructured and enhanced the regulation and supervision of the financial services industry and created the Bureau of Consumer Financial Protection (the “Bureau”). We are subject to supervision by the Bureau. The Bureau has rulemaking and enforcement authority over certain non-depository institutions, including us. The Bureau is specifically authorized, among other things, to take actions to prevent companies providing consumer financial products or services and their service providers from engaging in unfair, deceptive or abusive acts or practices in connection with consumer financial products and services, and to issue rules requiring enhanced disclosures for consumer financial products or services. Under the Dodd-Frank Act, the Bureau also may restrict the use of pre-dispute mandatory arbitration clauses in contracts between covered persons and consumers for a consumer financial product or service. The Bureau also has authority to interpret, enforce and issue regulations implementing enumerated consumer laws, including certain laws that apply to our business. Further, the Bureau has issued rules allowing it to supervise non-depository “larger participants” in certain markets for consumer financial services and products. On June 10, 2015, the Bureau released its larger participant rule defining which nonbank automotive finance companies will be subject to supervision. The rule provides that nonbank auto finance companies that make, acquire or refinance 10,000 or more loans or leases in a year will come under Bureau supervision. The rule was officially published in the Federal Register on June 30, 2015, and became effective on August 31, 2015.

The Dodd-Frank Act and regulations promulgated thereunder, including by the Bureau, are likely to affect our cost of doing business, may limit or expand our permissible activities, may affect the competitive balance within our industry and market areas and could have a material adverse effect on us. Our management continues to assess the Dodd-Frank Act’s probable impact on our business, financial condition and results of operations, and to monitor developments involving the entities charged with promulgating regulations thereunder. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and on us in particular, is uncertain at this time.

In addition to the Bureau, other state and federal agencies have the ability to regulate aspects of our business. For example, the Dodd-Frank Act provides a mechanism for state attorneys general to investigate us. Separately, state attorneys general and certain state regulators have authority under their respective rules and laws, to investigate and/or regulate aspects of the business. In addition, the Federal Trade Commission has jurisdiction to investigate aspects of our business. We expect that regulatory investigations by both state and federal agencies will continue and that the results of these investigations could have a material adverse impact on us.

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We are cooperating with the following inquiries and cannot predict the eventual scopes, durations or outcomes at this time. As a result, we are unable to estimate the reasonably possible loss or range of reasonably possible loss arising from these investigations.

- On April 10, 2018, we were informed by the New York Department of Financial Services, Financial Frauds & Consumer Protection Division ("DFS") that it believes that the Company may have violated the law relating to fair lending; may have misrepresented to consumers information related to GPS Starter Interrupt Devices; and may have provided inaccurate information in the course of a DFS supervisory examination.
- On August 14, 2017, we received a subpoena from the Attorney General of the State of Mississippi, relating to the origination and collection of non-prime auto loans in the state of Mississippi. In connection with this inquiry, we were informed by representatives of the Attorney General's office that it believes that the Company may have engaged in unfair and deceptive acts or practices relating to the origination and collection of auto loans in violation of the Mississippi Consumer Protection Act.
- On June 14, 2017, we were informed that the Bureau's Office of Fair Lending and Equal Opportunity is investigating whether the Company may have violated the Equal Credit Opportunity Act and Regulation B.
- On November 7, 2016, we received a civil investigative demand from the Federal Trade Commission seeking information on the Company's policies, practices and procedures in allowing car dealers to use GPS Starter Interrupters on consumer vehicles.
- On March 18, 2016, we received a subpoena from the Attorney General of the State of Maryland, relating to the Company's repossession and sale policies and procedures in the state of Maryland.
- On 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.
- 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.
- On December 4, 2014, we received a civil investigative demand from the Office of the Attorney General of the Commonwealth of Massachusetts relating to the origination and collection of non-prime auto loans in Massachusetts. On November 20, 2017, we received a second civil investigation demand from the Office of the Attorney General seeking updated information on its original civil investigation demand, additional information related to the Company's origination and collection of Consumer Loans, and information regarding securitization activities. In connection with this inquiry, we were informed by representatives of the Office of the Attorney General that it believes that the Company may have engaged in unfair and deceptive acts or practices related to the origination and collection of auto loans, which may have caused some of the Company's representations and warranties contained in securitization documents to be inaccurate. The investigation relating to the origination, collection and securitization of non-prime auto loans and securities transactions by the Office of the Attorney General remains ongoing.

In addition, governmental regulations which would deplete the supply of used vehicles, such as environmental protection regulations governing emissions or fuel consumption, could have a material adverse effect on us.

Our Dealers must also comply with credit and trade practice statutes and regulations. Failure of our Dealers to comply with these statutes and regulations could result in consumers having rights of rescission and other remedies that could have a material adverse effect on us.

The sale of vehicle service contracts and GAP by Dealers in connection with Consumer Loans assigned to us from Dealers is also subject to state laws and regulations. As we are the holder of the Consumer Loans that may, in part, finance these products, some of these state laws and regulations may apply to our servicing and collection of the Consumer Loans. Although these laws and regulations do not significantly affect our business, there can be no assurance that insurance or other regulatory authorities in the jurisdictions in which these products are offered by Dealers will not seek to regulate or restrict the operation of our business in these jurisdictions. Any regulation or restriction of our business in these jurisdictions could materially adversely affect the income received from these products.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable laws and regulations. Our agreements with Dealers provide that the Dealer shall indemnify us with respect to any loss or expense we incur as a result of the Dealer’s failure to comply with applicable laws and regulations.

Team Members

Our team members are organized into three operating functions: Originations, Servicing and Support.

Originations. The originations function includes team members that are responsible for marketing our programs to prospective Dealers, enrolling new Dealers and supporting active Dealers. Originations also includes team members responsible for processing new Consumer Loan assignments.

Servicing. The servicing function includes team members that are responsible for servicing the Consumer Loans. The majority of these team members are responsible for collection activities on delinquent Consumer Loans.

Support. The support function includes team members that are responsible for information technology, finance, compliance, analytics, human resources, quality assurance and corporate legal activities.

As of December 31, 2018, we had 2,040 full and part-time team members. Our team members have no union affiliations and we believe our relationship with our team members is in good standing. The table below presents team members by operating function:

	Number of Team Members As of December 31,		
Operating Function	2018	2017	2016
Originations	584	517	453
Servicing	884	810	728
Support	572	490	428
Total	2,040	1,817	1,609

Available Information

Our Internet address is creditacceptance.com. We make available free of charge on our Internet web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the “SEC”).

ITEM 1A. RISK FACTORS

Our inability to accurately forecast and estimate the amount and timing of future collections could have a material adverse effect on results of operations.

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 from operations 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 of assignment, we forecast future expected cash flows from the Consumer Loan. Based on these forecasts, which include estimates for wholesale vehicle prices in the event of vehicle repossession and sale, we make an advance or one-time purchase payment to the related Dealer at a level designed to maximize economic profit, a non-GAAP financial measure. We continue to forecast the expected collection rate of each Consumer Loan subsequent to assignment. These forecasts also serve as a critical assumption in our accounting for recognizing finance charge income and determining our allowance for credit losses. Please see the Critical Accounting Estimates – Finance Charge Revenue & Allowance for Credit Losses section in Item 7 of this Form 10-K, which is incorporated herein by reference. Actual cash flows from any individual Consumer Loan are often different than cash flows estimated at the time of assignment. There can be no assurance that our forecasts will be accurate or that Consumer Loan performance will be as expected. In periods with changing economic conditions, accurately forecasting the performance of Consumer Loans is more difficult. In the event that our forecasts are not accurate, our financial position, liquidity and results of operations could be materially adversely affected.

We may be unable to execute our business strategy due to current economic conditions.

Our financial position, liquidity and results of operations depend on management's ability to execute our business strategy. Key factors involved in the execution of our business strategy include achieving our desired Consumer Loan assignment volume, continued and successful use of CAPS and pricing strategy, the use of effective credit risk management techniques and servicing strategies, continued investment in technology to support operating efficiency and continued access to funding and liquidity sources. Although our pricing strategy is intended to maximize the amount of economic profit we generate, within the confines of capital and infrastructure constraints, there can be no assurance that this strategy will have its intended effect. Please see the Consumer Loan Volume section in Item 7 of this Form 10-K, which is incorporated herein by reference. Our failure or inability to execute any element of our business strategy could materially adversely affect our financial position, liquidity and results of operations.

We may be unable to continue to access or renew funding sources and obtain capital needed to maintain and grow our business.

We use debt financing to maintain and grow our business. We currently utilize the following primary forms of debt financing: (1) a revolving secured line of credit; (2) revolving secured warehouse ("Warehouse") facilities; (3) asset-backed secured financings ("Term ABS"); and (4) senior notes. We cannot guarantee that the revolving secured line of credit or the Warehouse facilities will continue to be available beyond their current maturity dates, on acceptable terms, or at all, or that we will be able to obtain additional financing on acceptable terms or at all. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, our financial position, our results of operations, and the capacity for additional borrowing under our existing financing arrangements. If our various financing alternatives were to become limited or unavailable, we may be unable to maintain or grow Consumer Loan volume at the level that we anticipate and our operations could be materially adversely affected.

The terms of our debt limit how we conduct our business.

The agreements that govern our debt contain covenants that restrict our ability to, among other things:
- incur and guarantee debt;
- pay dividends or make other distributions on or redeem or repurchase our stock;
- make investments or acquisitions;
- create liens on our assets;
- sell assets;
- merge with or into other companies; and
- enter into transactions with stockholders and other affiliates.

Some of our debt agreements also impose requirements that we maintain specified financial measures not in excess of, or not below, specified levels. In particular, our revolving credit facility requires, among other things, that we maintain (i) as of the end of each fiscal quarter, a ratio of consolidated funded debt less unrestricted cash and cash equivalents to consolidated tangible net worth at or below a specified maximum; (ii) as of the end of each fiscal quarter calculated for the two fiscal quarters then ending, consolidated net income of not less than a specified minimum; and (iii) as of the end of each fiscal quarter, a ratio of consolidated income available for fixed charges for the period of four consecutive fiscal quarters most recently ended to consolidated fixed charges for that period of not less than a specified minimum. These covenants limit the manner in which we can conduct our business and could prevent us from engaging in favorable business activities or financing future operations and capital needs and impair our ability to successfully execute our strategy and operate our business.

A breach of any of the covenants in our debt instruments would result in an event of default thereunder if not promptly cured or waived. Any continuing default would permit the creditors to accelerate the related debt, which could also result in the acceleration of other debt containing a cross-acceleration or cross-default provision. In addition, an event of default under our revolving credit facility would permit the lenders thereunder to terminate all commitments to extend further credit under our revolving credit facility. Furthermore, if we were unable to repay the amounts due and payable under our revolving credit facility or other secured debt, the lenders thereunder could cause the collateral agent to proceed against the collateral securing that debt. In the event our creditors accelerate the repayment of our debt, there can be no assurance that we would have sufficient assets to repay that debt, and our financial condition, liquidity and results of operations would suffer.

A violation of the terms of our Term ABS facilities or Warehouse facilities could have a material adverse impact on our operations.

Under our Term ABS facilities and our Warehouse facilities, (1) we have various obligations and covenants as servicer and custodian of the Consumer Loans contributed thereto and in our individual capacity and (2) the special purpose subsidiaries to which we contribute Consumer Loans have various obligations and covenants. A violation of any of these obligations or covenants by us or the special purpose subsidiaries, respectively, may result in our being unable to obtain additional funding under our Warehouse facilities, the termination of our servicing rights and the loss of servicing fees, and may result in amounts outstanding under our Term ABS financings and our Warehouse facilities becoming immediately due and payable. In addition, the violation of any financial covenant under our revolving secured line of credit facility is an event of default or termination event under certain of the Term ABS facilities and our Warehouse facilities. The lack of availability from any or all of these Term ABS facilities and Warehouse facilities may have a material adverse effect on our financial position, liquidity, and results of 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.

Periodically, there has been uncertainty in the global capital markets and the overall economy. Such uncertainty can result in disruptions in the financial sector and affect lenders with which we have relationships. Disruptions in the financial sector may increase our exposure to credit risk and adversely affect the ability of lenders to perform under the terms of their lending arrangements with us. Failure by our lenders to perform under the terms of our lending arrangements could cause us to incur additional costs that may adversely affect our liquidity, financial condition and results of operations. There can be no assurance that future disruptions in the financial sector will not occur that could have similar adverse effects on our business.

Our substantial debt could negatively impact our business, prevent us from satisfying our debt obligations and adversely affect our financial condition.

We have a substantial amount of debt, which could have negative consequences, including the following:

- our ability to obtain additional financing for Consumer Loan assignments, working capital, debt refinancing or other purposes could be impaired;
- a substantial portion of our cash flows from operations will be dedicated to paying principal and interest on our debt, reducing funds available for other purposes;
- we may be vulnerable to interest rate increases, as some of our borrowings, including those under our revolving credit facility, bear interest at variable rates;
- we could be more vulnerable to adverse developments in our industry or in general economic conditions;
- we may be restricted from taking advantage of business opportunities or making strategic acquisitions; and
- we may be limited in our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate.

Due to competition from traditional financing sources and non-traditional lenders, we may not be able to compete successfully.

The automobile finance market for consumers who do not qualify for conventional automobile financing is large and highly competitive. The market is served by a variety of companies including "buy here, pay here" dealerships. The market is also currently served by banks, captive finance affiliates of automobile manufacturers, credit unions and independent finance companies both publicly and privately owned. Many of these companies are much larger and have greater financial resources than are available to us, and many have long standing relationships with automobile dealerships. Providers of automobile financing have traditionally competed based on the interest rate charged, the quality of credit accepted, the flexibility of loan terms offered and the quality of service provided to dealers and consumers. We may be unable to compete successfully in the automobile finance market or, due to the intense competition in this market, our results of operations, cash flows and financial condition may be adversely affected as we adjust our business in response to competitive pressures. Increasing advance rates on Loans has the impact of reducing the return on capital we expect to earn on Loans. Additionally, if we are unsuccessful in maintaining and expanding our relationships with Dealers, we may be unable to accept Consumer Loans in the volume and on the terms that we anticipate.

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.

Our ability to make payments of principal and interest on indebtedness will depend in part on our cash flows from operations, which are subject to economic, financial, competitive and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operations sufficient to permit us to meet our debt service obligations. If we are unable to generate sufficient cash flows from operations to service our debt, we may be required to sell assets, refinance all or a portion of our existing debt or obtain additional financing. There can be no assurance that any refinancing will be possible or that any asset sales or additional financing can be completed on acceptable terms or at all.

Interest rate fluctuations may adversely affect our borrowing costs, profitability and liquidity.

Our profitability may be directly affected by the level of and fluctuations in interest rates, whether caused by changes in economic conditions or other factors, which affect our borrowing costs. Our profitability and liquidity could be materially adversely affected during any period of higher interest rates. We monitor the interest rate environment and employ strategies designed to mitigate the impact of increases in interest rates. We can provide no assurance, however, that our strategies will mitigate the impact of increases in interest rates.

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.

Credit rating agencies evaluate us, and their ratings of our debt and creditworthiness are based on a number of factors. These factors include our financial strength and other factors not entirely within our control, including conditions affecting the financial services industry generally. As the financial services industry and the financial markets periodically face difficulties, there can be no assurance that we will maintain our current ratings. Failure to maintain those ratings could, among other things, adversely limit our access to the capital markets and affect the cost and other terms upon which we are able to obtain financing.

We may incur substantially more debt and other liabilities. This could exacerbate further the risks associated with our current debt levels.

We may be able to incur substantial additional debt in the future. Although the terms of our debt instruments contain restrictions on our ability to incur additional debt, these restrictions are subject to exemptions that could permit us to incur a substantial amount of additional debt. In addition, our debt instruments do not prevent us from incurring liabilities that do not constitute indebtedness as defined for purposes of those debt instruments. If new debt or other liabilities are added to our current debt levels, the risks associated with our having substantial debt could intensify.

The regulation to which we are or may become subject could result in a material adverse effect on our business.

Reference should be made to Item 1. Business "Regulation" for a discussion of regulatory risk factors.

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.

We are subject to general economic conditions which are beyond our control. During periods of economic slowdown or recession, delinquencies, defaults, repossessions and losses may increase on our Consumer Loans and Consumer Loan prepayments may decline. These periods are also typically accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding Consumer Loans, which weakens collateral coverage and increases the amount of a loss in the event of default. Significant increases in the inventory of used automobiles during periods of economic recession may also depress the prices at which repossessed automobiles may be sold or delay the timing of these sales. Additionally, higher gasoline prices, declining stock market values, unstable real estate values, resets of adjustable rate mortgages to higher interest rates, increasing unemployment levels, general availability of consumer credit or other factors that impact consumer confidence or disposable income could increase loss frequency and decrease consumer demand for automobiles as well as weaken collateral values of automobiles. Because our business is focused on consumers who do not qualify for conventional automobile financing, the actual rates of delinquencies, defaults, repossessions and losses on these Consumer Loans could be higher than that of those experienced in the general automobile finance industry, and could be more dramatically affected by a general economic downturn.

We rely on Dealers to originate Consumer Loans for assignment under our programs. High levels of Dealer attrition, due to a general economic downturn or otherwise, could materially adversely affect our operations. In addition, we rely on vendors to provide us with services we need to operate our business. Any disruption in our operations due to the untimely or discontinued supply of these services could substantially adversely affect our operations. Finally, during an economic slowdown or recession, our servicing costs may increase without a corresponding increase in finance charge revenue. Any sustained period of increased delinquencies, defaults, repossessions or losses or increased servicing costs could also materially adversely affect our financial position, liquidity and results of operations and our ability to enter into future financing transactions.

Technological advancements or changes to trends in the automobile industry such as new autonomous driving technologies or car- and ride-sharing programs could decrease consumer demand for automobiles. Decreased consumer demand for automobiles could negatively impact demand for our financing programs as well as weaken collateral values of automobiles, which could materially adversely affect our financial position, liquidity and results of operations.

Litigation we are involved in from time to time may adversely affect our financial condition, results of operations and cash flows.

As a result of the consumer-oriented nature of the industry in which we operate and uncertainties with respect to the application of various laws and regulations in some circumstances, we are subject to various consumer claims, litigation and regulatory investigations seeking damages, fines and statutory penalties, based upon, among other things, usury, disclosure inaccuracies, wrongful repossession, violations of bankruptcy stay provisions, certificate of title disputes, fraud and breach of contract. As the assignee of Consumer Loans originated by Dealers, we may also be named as a co-defendant in lawsuits filed by consumers principally against Dealers. We may also have disputes and litigation with Dealers. The claims may allege, among other theories of liability, that we breached our Dealer servicing agreement. We may also have disputes and litigation with vendors and other third parties. The claims may allege, among other theories of liability, that we breached a license agreement or contract. The damages, fines and penalties that may be claimed by consumers, regulatory agencies, Dealers, vendors or other third parties in these types of matters can be substantial. The relief requested by plaintiffs varies but may include requests for compensatory, statutory and punitive damages and injunctive relief, and plaintiffs may seek treatment as purported class actions. A significant judgment against us in connection with any litigation or arbitration could have a material adverse effect on our financial position, liquidity and results of operations.

For a description of significant litigation to which we are a party, see Note 17 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

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.

We are subject to income tax in many of the various jurisdictions in which we operate. Increases in statutory income tax rates and other adverse changes in applicable law in these jurisdictions could have an adverse effect on our results of operations. In the ordinary course of business, there are transactions and calculations where the ultimate tax determination is uncertain. At any one time, multiple tax years are subject to audit by various taxing jurisdictions. We provide reserves for potential payments of tax to various tax authorities related to uncertain tax positions. Please see the Critical Accounting Estimates – Uncertain Tax Positions section in Item 7 of this Form 10-K, which is incorporated herein by reference. We adjust these liabilities as a result of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. Such payments 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.

All Consumer Loans submitted to us for assignment are processed through our internet-based CAPS application, which enables our Dealers to interact with our proprietary credit scoring system. Our Consumer Loan servicing platform is also technology based. We rely on these systems to record and process significant amounts of data quickly and accurately and believe that these systems provide us with a competitive advantage. All of these systems are dependent upon computer and telecommunications equipment, software systems and Internet access. The temporary or permanent loss of any components of these systems through hardware failures, software errors, operating malfunctions, the vulnerability of the Internet or otherwise could interrupt our business operations, harm our business and adversely affect our competitive advantage. In addition, our competitors could create or acquire systems similar to ours, which would adversely affect our competitive advantage.

Our systems, and the equipment, software and Internet access on which they depend, may be subject to cyber attacks, security breaches and other cybersecurity incidents. Although the cybersecurity incidents we have experienced to date have not had a material effect on our business, financial condition or results of operations, there can be no assurance that cybersecurity incidents will not have a material adverse effect on us in the future.

We rely on a variety of measures to protect our technology and proprietary information, including copyrights and a comprehensive information security program. However, these measures may not prevent misappropriation or infringement of our intellectual property or proprietary information, which would adversely affect us. In addition, our competitors or other third parties may allege that our systems, processes or technologies infringe their intellectual property rights.

Our ability to integrate computer and telecommunications technologies into our business is essential to our success. Computer and telecommunications technologies are evolving rapidly and are characterized by short product life cycles. We may not be successful in anticipating, managing or adopting technological changes on a timely basis. While we believe that our existing information systems are sufficient to meet our current demands and continued expansion, our future growth may require additional investment in these systems. We cannot assure that adequate capital resources will be available to us at the appropriate time.

Our use of electronic contracts could impact our ability to perfect our ownership or security interest in Consumer Loans.

We have modified our systems to permit origination and assignment of Consumer Loans in electronic form. We have engaged a TPP to facilitate the process of creating, establishing control of and storing electronic contracts in a manner that enables us to perfect our ownership or security interest in the electronic contracts by satisfying the requirements for “control” of electronic chattel paper under the Uniform Commercial Code.

Although the law governing the perfection of ownership and security interests in electronic contracts was enacted in 2001, the statutory requirements for the relevant control arrangements have not been meaningfully tested in court. In addition, market practices regarding control of electronic contracts are still developing. As a result, there is a risk that the systems employed by us or any TPP to maintain control of the electronic contracts may not be sufficient as a matter of law to give us a perfected ownership or security interest in the Consumer Loans evidenced by electronic contracts. In addition, technological failure, including failure in the security or access restrictions with respect to the systems, and operational failure, such as the failure to implement and maintain adequate internal controls and procedures, could also affect our ability to obtain or maintain a perfected ownership or security interest in the Consumer Loans evidenced by electronic contracts (or the priority of such interests). Our failure or inability to perfect our ownership or security interest in the Consumer Loans could materially adversely affect our financial position, liquidity and results of operations.

Reliance on third parties to administer our ancillary product offerings could adversely affect our business and financial results.

We have relationships with TPPs to administer vehicle service contracts and GAP underwritten by third party insurers and financed by us. We depend on these TPPs to evaluate and pay claims in an accurate and timely manner. We also have a relationship with a TPP to sell and administer GPS-SID. If our relationships with these TPPs were modified, disrupted, or terminated, we would need to obtain these services from an alternative administrator or provide them using our internal resources. We may be unable to replace these TPPs with a suitable alternative in a timely and efficient manner on terms we consider acceptable, or at all. In the event we were unable to effectively administer our ancillary products offerings, we may need to eliminate or suspend our ancillary product offerings from our future business, we may experience a decline in the performance of our Consumer Loans, our reputation in the marketplace could be undermined, and our financial position, liquidity and results of operations could be adversely affected.

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 senior management average over 15 years of experience with us. Our success is dependent upon the management and the leadership skills of this team. In addition, competition from other companies to hire our team members possessing the necessary skills and experience required could contribute to an increase in team member turnover. The loss of any of these individuals or an inability to attract and retain additional qualified team members could adversely affect us. There can be no assurance that we will be able to retain our existing senior management or attract additional qualified team members.

Our reputation is a key asset to our business, and our business may be affected by how we are perceived in the marketplace.

Our reputation is a key asset to our business. Our ability to attract consumers through our Dealers is highly dependent upon external perceptions of our level of service, trustworthiness, business practices and financial condition. Negative publicity regarding these matters could damage our reputation among existing and potential consumers and Dealers, which could make it difficult for us to attract new consumers and Dealers and maintain existing Dealers. Adverse developments with respect to our industry may also, by association, negatively impact our reputation or result in greater regulatory or legislative scrutiny or litigation against us.

The concentration of our Dealers in several states could adversely affect us.

Dealers are located throughout the United States. During the year ended December 31, 2018, our five largest states (measured by 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) contained 29.2% of our Dealers. While we believe we have a diverse geographic presence, for the near term, we expect that significant amounts of Consumer Loan assignments will continue to be generated by Dealers in these five states due to the number of Dealers in these states and currently prevailing economic, demographic, regulatory, competitive and other conditions in these states. Changes to conditions in these states could lead to an increase in Dealer attrition or a reduction in demand for our service that could materially adversely affect our financial position, liquidity and results of operations.

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

In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and personally identifiable information of our consumers and team members, on our computer networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy.

If third parties or our team members are able to breach our network security, the network security of a third party that we share information with or otherwise misappropriate our consumers’ and team members' personal information, or if we give third parties or our team members improper access to our consumers’ and team members' personal information, we could be subject to liability. This liability could include identity theft or other similar fraud-related claims. This liability could also include claims for other misuses or losses of personal information, including for unauthorized marketing purposes. Other liabilities could include claims alleging misrepresentation of our privacy and data security practices.

We rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to secure online transmission of confidential consumer and team member information. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of the algorithms that we use to protect sensitive consumer transaction data. A party who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. We may be required to expend capital and other resources to protect against, or alleviate problems caused by, security breaches or other cybersecurity incidents. Although we have experienced cybersecurity incidents from time to time that have not had a material effect on our business, financial condition or results of operations, there can be no assurance that a cyber attack, security breach or other cybersecurity incident will not have a material adverse effect on us in the future. Our security measures are designed to protect against security breaches, but our failure to prevent security breaches 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.

As of December 31, 2018, based on filings made with the SEC and other information made available to us, Prescott General Partners, LLC and its affiliates beneficially owned 15.8% of our common stock, Jill Foss Watson beneficially owned 13.2% of our common stock and Donald Foss, our founder and former Chairman of the Board, beneficially owned 10.7% of our common stock. As a result, these few shareholders are able to significantly influence matters presented to shareholders, including the election and removal of directors, the approval of significant corporate transactions, such as any reclassification, reorganization, merger, consolidation or sale of all or substantially all of our assets, and the control of our management and affairs, including executive compensation arrangements. Their interests may conflict with the interests of our other security holders.

On January 3, 2017, Mr. Foss retired as an officer, director and employee of the Company and entered into a shareholder agreement with the Company. Under the shareholder agreement, Mr. Foss agreed, until the final adjournment of the tenth annual meeting of shareholders held by the Company after the date of the shareholder agreement, to cause all shares beneficially owned by him or any of his affiliates or associates to be voted in accordance with the recommendation of the Company's Board of Directors with respect to election and removal of directors, certain routine matters and any other proposal to be submitted to the Company's shareholders with respect to any extraordinary transaction providing for the acquisition of all of the Company's outstanding common stock.

Reliance on our outsourced business functions could adversely affect our business.

We outsource certain business functions to third party service providers, which increases our operational complexity and decreases our control. We rely on these service providers to provide a high level of service and support, which subjects us to risks associated with inadequate or untimely service. In addition, if these outsourcing arrangements were not renewed or were terminated or the services provided to us were otherwise disrupted, we would have to obtain these services from an alternative provider or provide them using our internal resources. We may be unable to replace, or be delayed in replacing these sources and there is a risk that we would be unable to enter into a similar agreement with an alternate provider on terms that we consider favorable or in a timely manner. In the future, we may outsource additional business functions. If any of these or other risks related to outsourcing were realized, our financial position, liquidity and results of operations could be adversely affected.

Our ability to hire and retain foreign information technology personnel could be hindered by immigration restrictions.

A significant portion of our information technology team is composed of foreign nationals whose ability to work for us depends on obtaining the necessary H-1B visas. The H-1B visa category allows U.S. employers to hire qualified foreign nationals to perform services in specialty occupations that require the attainment of at least a bachelor's degree or its equivalent. Our ability to hire and retain these foreign nationals and their ability to remain and work in the United States are affected by various laws and regulations, including limitations on the number of available H-1B visas, which the U.S. government allocates by lottery. Changes in the laws or regulations affecting the availability, allocation and/or cost of H-1B visas, eligibility for the H-1B visa category, or otherwise affecting the admission or retention of skilled foreign nationals by U.S. employers, or any increase in demand for H-1B visas relative to the limited supply of those visas, may adversely affect our ability to hire or retain foreign information technology personnel and may, as a result, increase our operating costs and impair our business operations.

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.

Natural disasters, acts of war, terrorist attacks and the escalation of military activity in response to these attacks or otherwise may have negative and significant effects, such as imposition of increased security measures, changes in applicable laws, market disruptions and job losses. These events may have an adverse effect on the economy in general. Moreover, the potential for future terrorist attacks and the national and international responses to these threats could affect the business in ways that cannot be predicted. The effect of any of these events or threats could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters is located in Southfield, Michigan, in an office building we purchased in 1993, which includes approximately 136,000 square feet of space. Additionally, in August 2018, we purchased a second office building in Southfield, which includes approximately 297,000 square feet of space that will be used to consolidate operations from our current Southfield leased locations and accommodate future growth. We have a mortgage loan from a commercial bank that is secured by a first mortgage lien on the second office property.

We lease approximately 85,000 square feet of office space in Southfield and approximately 31,000 square feet of office space in Henderson, Nevada. The multiple leases for the Southfield space expire in April 2019 and July 2021. The lease for the Henderson space expires in December 2022. We have renewal options on most of our office space leases. Additionally, there currently is a significant amount of unoccupied office space available for lease in the markets where we operate.

ITEM 3. LEGAL PROCEEDINGS

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

For a description of significant litigation to which we are a party, see Note 17 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.
PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on The Nasdaq Global Select Market® under the symbol “CACC”.

Holders

As of February 1, 2019, we had 223 shareholders of record and approximately 11,600 beneficial holders of our common stock based upon securities position listings furnished to us.

Stock Performance Graph

The following graph compares the percentage change in the cumulative total shareholder return on our common stock during the period beginning January 1, 2014 and ending on December 31, 2018 with the cumulative total return on the NASDAQ Composite Index and a peer group index based upon approximately 100 companies included in the Dow Jones U.S. Financial Services Index. The comparison assumes that $100 was invested on January 1, 2014 in our common stock and in the foregoing indices and assumes the reinvestment of dividends.

Stock Repurchases

The following table summarizes our stock repurchases for the three months ended December 31, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1 through October 31, 2018	—	$—	—	776,208
November 1 through November 30, 2018	899	398.51	899	775,309
December 1 through December 31, 2018	335,844	377.50	335,844	439,465
	336,743	$377.55	336,743	

(1) On February 13, 2017, 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 February 17, 2017, does not have a specified expiration date.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below are derived from our audited consolidated financial statements and should be read in conjunction with our consolidated financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, and notes thereto, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Form 10-K, and are incorporated herein by reference.

(Dollars in millions, except per share data)	Years Ended December 31,				
	2018	2017	2016	2015	2014
Income Statement Data:					
Revenue:					
Finance charges	$1,176.8	$ 1,011.5	$ 874.3	$ 730.5	$ 630.4
Premiums earned	46.6	41.1	43.0	48.2	52.3
Other income	62.4	57.4	51.9	46.6	40.8
Total revenue	1,285.8	1,110.0	969.2	825.3	723.5
Costs and expenses:					
Salaries and wages	167.8	140.1	126.5	116.4	100.2
General and administrative	55.7	55.5	48.2	37.8	34.3
Sales and marketing	67.7	58.4	49.4	45.9	36.8
Provision for credit losses	56.9	129.3	90.2	41.5	12.8
Interest	156.6	120.2	97.7	76.0	56.7
Provision for claims	26.0	22.7	26.0	33.2	40.0
Loss on extinguishment of debt	—	—	—	—	21.8
Total costs and expenses	530.7	526.2	438.0	350.8	302.6
Income before provision for income taxes	755.1	583.8	531.2	474.5	420.9
Provision for income taxes	181.1	113.6	198.4	174.8	154.7
Net income	$574.0	$ 470.2	$ 332.8	$ 299.7	$ 266.2
Net income per share:					
Basic	$29.52	$ 24.12	$ 16.37	$ 14.35	$ 11.96
Diluted	$29.39	$ 24.04	$ 16.31	$ 14.28	$ 11.92
Weighted average shares outstanding:					
Basic	19,446,067	19,497,719	20,331,769	20,891,695	22,257,104
Diluted	19,532,312	19,558,936	20,410,116	20,980,753	22,331,401
Balance Sheet Data:					
Loans receivable, net	$5,763.3	$ 4,619.6	$ 3,886.6	$ 3,101.5	$ 2,512.9
All other assets	474.1	366.0	331.4	271.1	258.3
Total assets	$6,237.4	$ 4,985.6	$ 4,218.0	$ 3,372.6	$ 2,771.2
Total debt	$3,820.9	$ 3,070.8	$ 2,603.7	$ 2,067.8	$ 1,738.3
Other liabilities	425.6	379.0	440.6	376.7	330.7
Total liabilities	4,246.5	3,449.8	3,044.3	2,444.5	2,069.0
Shareholders' equity (1)	1,990.9	1,535.8	1,173.7	928.1	702.2
Total liabilities and shareholders' equity	$6,237.4	$ 4,985.6	$ 4,218.0	$ 3,372.6	$ 2,771.2

(1) No dividends were paid during the periods presented.

ITEM 7. 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 contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

Overview

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

For the year ended December 31, 2018, consolidated net income was $574.0 million, or $29.39 per diluted share, compared to $470.2 million, or $24.04 per diluted share, for the same period in 2017 and $332.8 million, or $16.31 per diluted share, for the same period in 2016. The growth in 2018 consolidated net income was primarily due to an increase in the average balance of our Loan portfolio and an improvement in Consumer Loan performance, partially offset by an increase in our effective tax rate. The growth in 2017 consolidated net income was primarily due to a decrease in our effective tax rate and an increase in the average balance of our Loan portfolio, partially offset by a revision to our Loan net cash flow timing forecast during the fourth quarter of 2017, which decreased consolidated net income by $30.8 million. The fluctuations in our effective tax rates were related to the enactment of the Tax Cuts and Jobs Act in December 2017 ("2017 Tax Act"), which lowered our federal statutory income tax rate from 35.0% in 2017 and 2016 to 21.0% in 2018. While the lower federal statutory income tax rate was not effective until 2018, the 2017 Tax Act increased 2017 consolidated net income by $99.8 million as we were required to revalue deferred taxes and uncertain tax positions at the lower federal statutory income tax rate.

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 December 31, 2018, with the forecasts as of December 31, 2017, as of December 31, 2016, and at the time of assignment, segmented by year of assignment:

	Forecasted Collection Percentage as of (1)				Current Forecast Variance from		
Consumer Loan Assignment Year	December 31, 2018	December 31, 2017	December 31, 2016	Initial Forecast	December 31, 2017	December 31, 2016	Initial Forecast
2009	79.6 %	79.5 %	79.4 %	71.9 %	0.1 %	0.2 %	7.7 %
2010	77.7 %	77.6 %	77.6 %	73.6 %	0.1 %	0.1 %	4.1 %
2011	74.7 %	74.7 %	74.7 %	72.5 %	0.0 %	0.0 %	2.2 %
2012	73.8 %	73.8 %	73.7 %	71.4 %	0.0 %	0.1 %	2.4 %
2013	73.5 %	73.5 %	73.4 %	72.0 %	0.0 %	0.1 %	1.5 %
2014	71.7 %	71.7 %	71.8 %	71.8 %	0.0 %	-0.1 %	-0.1 %
2015	65.4 %	65.5 %	66.1 %	67.7 %	-0.1 %	-0.7 %	-2.3 %
2016	64.2 %	64.8 %	65.1 %	65.4 %	-0.6 %	-0.9 %	-1.2 %
2017	65.5 %	65.6 %	—	64.0 %	-0.1 %	—	1.5 %
2018	65.0 %	—	—	63.6 %	—	—	1.4 %

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

Consumer Loans assigned in 2009 through 2013, 2017 and 2018 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2015 and 2016 have yielded forecasted collection results materially worse than our initial estimates. For Consumer Loans assigned in 2014, actual results have been close to our initial estimates.

For the year ended December 31, 2018, forecasted collection rates improved for Consumer Loans assigned in 2018, declined for Consumer Loans assigned in 2016 and were generally consistent with expectations at the start of the period for all other assignment years presented.

For the year ended December 31, 2017, forecasted collection rates improved for Consumer Loans assigned in 2017, declined for Consumer Loans assigned in 2015 and 2016 and were generally consistent with expectations at the start of the period for all other assignment years presented.

The changes in forecasted collection rates impacted forecasted net cash flows (forecasted collections less forecasted Dealer Holdback payments) as follows:
(In millions)

	For the years ended December 31,		
Increase (decrease) in forecasted net cash flows	2018	2017	2016
Dealer Loans	$2.0	$(5.6)	$(35.4)
Purchased Loans	40.3	41.7	15.3
Total Loans	$42.3	$36.1	$(20.1)

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In addition to the statistical model used to forecast collection rates, we use a model to forecast the timing of future net cash flows. During the fourth quarter of 2017, we updated our net cash flow timing model to incorporate more recent data. The revised forecast resulted in an expected cash flow stream with a lower net present value as compared to the prior forecast, as less cash flows were expected in earlier periods and more cash flows were expected in later periods.

The reduction in net present value was primarily the result of a change in the expected timing of cash flows from longer-term Consumer Loans. Due to our limited historical experience with longer-term Consumer Loans, our prior model relied on extrapolations from the historical performance of shorter-term Consumer Loans to predict the timing of future net cash flows on longer-term Consumer Loans. We used our additional historical experience on these longer-term loans to refine our estimate.

The revision to our net cash flow timing forecast did not impact the amount of undiscounted net cash flows we expected to receive. As a result, the dollar amount of future net portfolio revenue (finance charges less provision for credit losses) was not impacted by the revision. However, the revision did impact the period in which those net revenues are recorded as a portion of the impact of the revised timing estimate was recorded as a current period expense and a portion was recorded as a yield adjustment. For the fourth quarter of 2017, the revision increased provision for credit losses by $41.6 million, reduced finance charge revenue by $7.3 million and reduced net income by $30.8 million. The revision reduced the yield on our Loan portfolio by 90 basis points, which impacts the timing of revenue recognition in future periods.

During the fourth quarter of 2016, we enhanced our methodology for forecasting the amount and timing of future collections on Consumer Loans through the utilization of more recent data and new forecast variables. Implementation of the enhanced forecasting methodology as of October 31, 2016 did not have a material impact on provision for credit losses or net income; however, it did reduce forecasted net cash flows by $1.8 million, all of which related to Dealer Loans. The implementation also decreased the forecasted collection rates for Consumer Loans assigned in 2015 and 2016 and increased the forecasted collection rates for Consumer Loans assigned in 2011 through 2013.

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

Consumer Loan Assignment Year	Average Consumer Loan (1)	Advance (2)	Average Initial Term (in months)
2009	12,689	5,565	38
2010	14,480	6,473	41
2011	15,686	7,137	46
2012	15,468	7,165	47
2013	15,445	7,344	47
2014	15,692	7,492	47
2015	16,354	7,272	50
2016	18,218	7,976	53
2017	20,230	8,746	55
2018	22,158	9,635	57

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

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

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

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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 December 31, 2018. 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.

	As of December 31, 2018			
Consumer Loan Assignment Year	Forecasted Collection %	Advance % (1)	Spread %	% of Forecast Realized (2)
2009	79.6%	43.9 %	35.7%	99.9 %
2010	77.7%	44.7 %	33.0%	99.7 %
2011	74.7%	45.5 %	29.2%	99.3 %
2012	73.8%	46.3 %	27.5%	98.8 %
2013	73.5%	47.6 %	25.9%	98.1 %
2014	71.7%	47.7 %	24.0%	95.6 %
2015	65.4%	44.5 %	20.9%	87.0 %
2016	64.2%	43.8 %	20.4%	70.2 %
2017	65.5%	43.2 %	22.3%	45.9 %
2018	65.0%	43.5 %	21.5%	15.4 %

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

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

The risk of a material change in our forecasted collection rate declines as the Consumer Loans age. For 2014 and prior Consumer Loan assignments, the risk of a material forecast variance is modest, as we have currently realized in excess of 90% of the expected collections. Conversely, the forecasted collection rates for more recent Consumer Loan assignments are less certain as a significant portion of our forecast has not been realized.

The spread between the forecasted collection rate and the advance rate has ranged from 20.4% to 35.7% 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 (2015 through 2018) when competition was more intense. The decrease in the spread from 2017 to 2018 was the result of a change in the mix of Consumer Loan assignments received during 2018, including an increase in Purchased Loans as a percentage of total unit volume.

The following table compares our forecast of Consumer Loan collection rates as of December 31, 2018 with the forecasts at the time of assignment, for Dealer Loans and Purchased Loans separately.

	Dealer Loans Forecasted Collection Percentage as of (1)			Purchased Loans Forecasted Collection Percentage as of (1)		
Consumer Loan Assignment Year	December 31, 2018	Initial Forecast	Variance	December 31, 2018	Initial Forecast	Variance
2009	79.3%	72.1 %	7.2 %	80.8%	70.5 %	10.3 %
2010	77.6%	73.6 %	4.0 %	78.7%	73.1 %	5.6 %
2011	74.6%	72.4 %	2.2 %	76.3%	72.7 %	3.6 %
2012	73.7%	71.3 %	2.4 %	75.9%	71.4 %	4.5 %
2013	73.4%	72.1 %	1.3 %	74.3%	71.6 %	2.7 %
2014	71.6%	71.9 %	-0.3 %	72.6%	70.9 %	1.7 %
2015	64.6%	67.5 %	-2.9 %	69.5%	68.5 %	1.0 %
2016	63.3%	65.1 %	-1.8 %	66.8%	66.5 %	0.3 %
2017	64.8%	63.8 %	1.0 %	67.0%	64.6 %	2.4 %
2018	64.7%	63.6 %	1.1 %	65.6%	63.5 %	2.1 %

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

The following table presents forecasted Consumer Loan collection rates, advance rates, and the spread (the forecasted collection rate less the advance rate) as of December 31, 2018 for Dealer Loans and Purchased Loans separately. All amounts are presented as a percentage of the initial balance of the Consumer Loan (principal + interest).

	Dealer Loans			Purchased Loans		
Consumer Loan Assignment Year	Forecasted Collection % (1)	Advance % (1)(2)	Spread %	Forecasted Collection % (1)	Advance % (1)(2)	Spread %
2009	79.3%	43.4 %	35.9%	80.8%	46.0 %	34.8%
2010	77.6%	44.4 %	33.2%	78.7%	47.3 %	31.4%
2011	74.6%	45.1 %	29.5%	76.3%	49.3 %	27.0%
2012	73.7%	46.0 %	27.7%	75.9%	50.0 %	25.9%
2013	73.4%	47.2 %	26.2%	74.3%	51.5 %	22.8%
2014	71.6%	47.2 %	24.4%	72.6%	51.8 %	20.8%
2015	64.6%	43.4 %	21.2%	69.5%	50.2 %	19.3%
2016	63.3%	42.1 %	21.2%	66.8%	48.6 %	18.2%
2017	64.8%	42.1 %	22.7%	67.0%	45.8 %	21.2%
2018	64.7%	42.7 %	22.0%	65.6%	45.2 %	20.4%

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

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

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

The spread on Dealer Loans decreased from 22.7% in 2017 to 22.0% in 2018 primarily as a result of a change in the mix of Consumer Loan assignments.

The spread on Purchased Loans decreased from 21.2% in 2017 to 20.4% in 2018 primarily as a result of a change in the mix of Consumer Loan assignments, and the performance of the 2017 Consumer Loans, which has exceeded our initial estimates by a greater margin than those assigned to us in 2018.

Access to Capital

Our strategy for accessing capital on acceptable terms needed to maintain and grow the business is to: (1) maintain consistent financial performance; (2) maintain modest financial leverage; and (3) maintain multiple funding sources. Our funded debt to equity ratio was 1.9 to 1 as of December 31, 2018. We currently utilize the following primary forms of debt financing: (1) a revolving secured line of credit; (2) Warehouse facilities; (3) Term ABS financings; and (4) senior notes.

Consumer Loan Volume

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

	Year over Year Percent Change	
For the Year Ended December 31,	Unit Volume	Dollar Volume (1)
2016	10.9 %	21.6 %
2017	-0.7 %	9.0 %
2018	13.6 %	25.2 %

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

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

During 2018, unit and dollar volumes grew 13.6% and 25.2%, respectively, as the number of active Dealers grew 8.5% while average volume per active Dealer increased 4.9%. Dollar volume grew faster than unit volume during 2018 due to an increase in the average advance paid per unit. This increase was the result of an increase in the average size of the Consumer Loans assigned primarily due to increases in the average initial loan term and average vehicle selling price and an increase in Purchased Loans as a percentage of total unit volume.

During 2017, unit volume declined 0.7% while dollar volume grew 9.0%, as the number of active Dealers grew 9.6% while average volume per active Dealer declined 9.6%. Dollar volume grew while unit volume declined during 2017 due to an increase in the average advance paid per unit. This increase was the result of an increase in the average size of the Consumer Loans assigned primarily due to increases in the average initial loan term and average vehicle selling price and an increase in Purchased Loans as a percentage of total unit volume, partially offset by a decrease in the average advance rate due to a decrease in the average initial forecast of the Consumer Loans assigned.

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Consumer Loan unit volume	373,329	328,507	13.6 %	328,507	330,710	-0.7 %
Active Dealers (1)	12,528	11,551	8.5 %	11,551	10,536	9.6 %
Average volume per active Dealer	29.8	28.4	4.9 %	28.4	31.4	-9.6 %
Consumer Loan unit volume from Dealers active both periods	323,514	296,869	9.0 %	278,497	295,444	-5.7 %
Dealers active both periods	8,278	8,278	—	7,524	7,524	—
Average volume per Dealer active both periods	39.1	35.9	9.0 %	37.0	39.3	-5.7 %
Consumer Loan unit volume from Dealers not active both periods	49,815	31,638	57.5 %	50,010	35,266	41.8 %
Dealers not active both periods	4,250	3,273	29.9 %	4,027	3,012	33.7 %
Average volume per Dealer not active both periods	11.7	9.7	20.6 %	12.4	11.7	6.0 %

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

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

	For the Years Ended December 31,			For the Years Ended December 31,		
	2018	2017	% Change	2017	2016	% Change
Consumer Loan unit volume from new active Dealers	47,898	46,985	1.9 %	46,985	46,232	1.6 %
New active Dealers (1)	4,037	3,740	7.9 %	3,740	3,406	9.8 %
Average volume per new active Dealer	11.9	12.6	-5.6 %	12.6	13.6	-7.4 %
Attrition (2)	-9.6 %	-10.7 %		-10.7 %	-8.2 %	

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

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

Consumer Loans are assigned to us as either Dealer Loans through our Portfolio Program or Purchased Loans through our Purchase Program. The following table shows the percentage of Consumer Loans assigned to us under each of the programs for each of the last three years:

	Unit Volume		Dollar Volume (1)	
For the Years Ended December 31,	Portfolio Program	Purchase Program	Portfolio Program	Purchase Program
2016	78.6 %	21.4 %	71.4 %	28.6 %
2017	72.5 %	27.5 %	68.5 %	31.5 %
2018	69.7 %	30.3 %	67.2 %	32.8 %

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

As of December 31, 2018 and 2017, the net Dealer Loans receivable balance was 65.3% and 68.2%, respectively, of the total net Loans receivable balance.

Results of Operations

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

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

(Dollars in millions, except per share data)	For the Years Ended December 31,			
	2018	2017	$ Change	% Change
Revenue:				
Finance charges	$1,176.8	$ 1,011.5	$165.3	16.3 %
Premiums earned	46.6	41.1	5.5	13.4 %
Other income	62.4	57.4	5.0	8.7 %
Total revenue	1,285.8	1,110.0	175.8	15.8 %
Costs and expenses:				
Salaries and wages (1)	167.8	140.1	27.7	19.8 %
General and administrative (1)	55.7	55.5	0.2	0.4 %
Sales and marketing (1)	67.7	58.4	9.3	15.9 %
Provision for credit losses	56.9	129.3	(72.4)	-56.0 %
Interest	156.6	120.2	36.4	30.3 %
Provision for claims	26.0	22.7	3.3	14.5 %
Total costs and expenses	530.7	526.2	4.5	0.9 %
Income before provision for income taxes	755.1	583.8	171.3	29.3 %
Provision for income taxes	181.1	113.6	67.5	59.4 %
Net income	$574.0	$ 470.2	$103.8	22.1 %
Net income per share:				
Basic	$29.52	$ 24.12	$5.40	22.4 %
Diluted	$29.39	$ 24.04	$5.35	22.3 %
Weighted average shares outstanding:				
Basic	19,446,067	19,497,719	(51,652)	-0.3 %
Diluted	19,532,312	19,558,936	(26,624)	-0.1 %
(1) Operating expenses	$291.2	$ 254.0	$37.2	14.6 %

Finance Charges. The increase of $165.3 million, or 16.3%, 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 Years Ended December 31,		
	2018	2017	Change
Average net Loans receivable balance	$5,279.7	$4,276.4	$1,003.3
Average yield on our Loan portfolio	22.3 %	23.7 %	-1.4 %

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The following table summarizes the impact each component had on the overall increase in finance charges for the year ended December 31, 2018:

(In millions)	For the Year Ended December 31, 2018
Impact on finance charges:	
Due to an increase in the average net Loans receivable balance	$ 237.3
Due to a decrease in the average yield	(72.0)
Total increase in finance charges	$ 165.3

The increase in the average net Loans receivable balance was primarily due to the dollar volume of new Consumer Loan assignments exceeding the principal collected on Loans receivable. The average yield on our Loan portfolio for the year ended December 31, 2018 decreased as compared to the same period in 2017 due to lower yields on new Consumer Loan assignments.

Operating Expenses. The increase of $37.2 million, or 14.6%, was primarily due to the following:

- An increase in salaries and wages expense of $27.7 million, or 19.8%, comprised of the following:
  - An increase of $16.9 million in cash-based incentive compensation expense primarily due to an improvement in Company performance measures.
  - A decrease of $4.9 million in stock-based compensation expense primarily due to 2017 stock awards.
  - Excluding the changes in cash-based and stock-based incentive compensation expenses, salaries and wages expense increased $15.7 million, primarily related to our support function as a result of an increase in the number of team members.
- An increase in sales and marketing expense of $9.3 million, or 15.9%, primarily due to an increase in the size of our sales force and an increase in sales commissions related to growth in Consumer Loan assignment volume.

Provision for Credit Losses. Under accounting principles generally accepted in the United States of America (“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 year ended December 31, 2018, overall Consumer Loan performance was generally consistent with our expectations at the start of the year. However, the performance of certain Loan pools declined from our expectations during the year, resulting in a provision for credit losses of $56.9 million for the year ended December 31, 2018, of which $48.0 million related to Dealer Loans and $8.9 million related to Purchased Loans. For additional information, see Note 5 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

During the year ended December 31, 2017, overall Consumer Loan performance was generally consistent with our expectations at the start of the year. However, the performance of certain Loan pools declined from our expectations during the year, resulting in a provision for credit losses of $129.3 million for the year ended December 31, 2017, of which $103.4 million related to Dealer Loans and $25.9 million related to Purchased Loans. Provision for credit losses included an additional expense of $41.6 million related to the revision of our net cash flow timing forecast during the fourth quarter of 2017, of which $31.9 million related to Dealer Loans and $9.7 million related to Purchased Loans.

Interest. The increase of $36.4 million, or 30.3%, was due to an increase in the average outstanding debt balance, as follows:

(Dollars in millions)	For the Years Ended December 31,		
	2018	2017	Change
Interest expense	$156.6	$120.2	$36.4
Average outstanding debt principal balance (1)	3,639.8	2,944.8	695.0
Average cost of debt	4.3 %	4.1 %	0.2 %

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

The average outstanding debt balance increased primarily due to debt proceeds used to fund growth in new Consumer Loan assignments and stock repurchases.

Provision for Income Taxes. For the year ended December 31, 2018, the effective income tax rate increased to 24.0% from 19.5% for the year ended December 31, 2017. The increase was primarily due to the enactment of the 2017 Tax Act in December 2017, which resulted in a one-time reversal of $99.8 million of provision for income taxes in 2017. While the 2017 Tax Act lowered our federal statutory income tax rate from 35% in 2017 to 21% in 2018, we were required to revalue deferred taxes and uncertain tax positions as of December 31, 2017 at the lower federal statutory income tax rate. Based on currently enacted federal and state statutory income tax rates, we believe our long-term effective income tax rate will average approximately 23% in future years. For additional information, see Note 12 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

(Dollars in millions, except per share data)	For the Years Ended December 31,			
	2017	2016	$ Change	% Change
Revenue:				
Finance charges	$1,011.5	$ 874.3	$137.2	15.7 %
Premiums earned	41.1	43.0	(1.9)	-4.4 %
Other income	57.4	51.9	5.5	10.6 %
Total revenue	1,110.0	969.2	140.8	14.5 %
Costs and expenses:				
Salaries and wages (1)	140.1	126.5	13.6	10.8 %
General and administrative (1)	55.5	48.2	7.3	15.1 %
Sales and marketing (1)	58.4	49.4	9.0	18.2 %
Provision for credit losses	129.3	90.2	39.1	43.3 %
Interest	120.2	97.7	22.5	23.0 %
Provision for claims	22.7	26.0	(3.3)	-12.7 %
Total costs and expenses	526.2	438.0	88.2	20.1 %
Income before provision for income taxes	583.8	531.2	52.6	9.9 %
Provision for income taxes	113.6	198.4	(84.8)	-42.7 %
Net income	$470.2	$ 332.8	$137.4	41.3 %
Net income per share:				
Basic	$24.12	$ 16.37	$7.75	47.3 %
Diluted	$24.04	$ 16.31	$7.73	47.4 %
Weighted average shares outstanding:				
Basic	19,497,719	20,331,769	(834,050)	-4.1 %
Diluted	19,558,936	20,410,116	(851,180)	-4.2 %
(1) Operating expenses	$254.0	$ 224.1	$29.9	13.3 %

Finance Charges. The increase of $137.2 million, or 15.7%, 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 Years Ended December 31,		
	2017	2016	Change
Average net Loans receivable balance	$4,276.4	$3,534.0	$742.4
Average yield on our Loan portfolio	23.7 %	24.7 %	-1.0 %

The following table summarizes the impact each component had on the overall increase in finance charges for the year ended December 31, 2017:

(In millions) Impact on finance charges:	For the Year Ended December 31, 2017
Due to an increase in the average net Loans receivable balance	$ 183.7
Due to a decrease in the average yield	(46.5)
Total increase in finance charges	$ 137.2

The increase in the average net Loans receivable balance was primarily due to the dollar volume of new Consumer Loan assignments exceeding the principal collected on Loans receivable. The average yield on our Loan portfolio for the year ended December 31, 2017 decreased as compared to the same period in 2016 due to lower yields on new Consumer Loan assignments.

Other Income. The increase of $5.5 million, or 10.6%, was primarily due to an increase in ancillary product profit sharing income due to growth in our Loan portfolio, partially offset by a decrease in GPS Starter Interrupt Device fee income due to a decrease in the number of units purchased by Dealers from our third party provider in the current year.

Operating Expenses. The increase of $29.9 million, or 13.3%, was primarily due to the following:

- An increase in salaries and wages expense of $13.6 million, or 10.8%, comprised of the following:
- An increase of $7.9 million in stock-based compensation expense primarily due to 2017 stock awards.
- A decrease of $4.8 million in cash-based incentive compensation expense primarily due to a decline in Company performance measures.
- Excluding the changes in stock-based and cash-based incentive compensation expenses, salaries and wages expense increased $10.5 million primarily related to an increase of $6.2 million for our servicing function and $3.9 million for our support function as a result of an increase in the number of team members.
- An increase in sales and marketing expense of $9.0 million, or 18.2%, primarily due to an increase in the size of our sales force.
- An increase in general and administrative expense of $7.3 million, or 15.1%, primarily as a result of an increase in legal fees.

Provision for Credit Losses. During the year ended December 31, 2017, overall Consumer Loan performance was generally consistent with our expectations at the start of the year. However, the performance of certain Loan pools declined from our expectations during the year, resulting in a provision for credit losses of $129.3 million for the year ended December 31, 2017, of which $103.4 million related to Dealer Loans and $25.9 million related to Purchased Loans. Provision for credit losses included an additional expense of $41.6 million related to the revision of our net cash flow timing forecast during the fourth quarter of 2017, of which $31.9 million related to Dealer Loans and $9.7 million related to Purchased Loans.

During the year ended December 31, 2016, overall Consumer Loan performance declined from our expectations at the start of the year, resulting in a provision for credit losses of $90.2 million for the year ended December 31, 2016, of which $87.3 million related to Dealer Loans and $2.9 million related to Purchased Loans.

Interest. The increase of $22.5 million, or 23.0%, was due to increases in the average outstanding debt balance and our average cost of debt, as follows:

(Dollars in millions)	For the Years Ended December 31,		
	2017	2016	Change
Interest expense	$120.2	$97.7	$22.5
Average outstanding debt principal balance (1)	2,944.8	2,459.5	485.3
Average cost of debt	4.1 %	4.0 %	0.1 %

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

The average outstanding debt balance increased primarily due to debt proceeds used to fund growth in new Consumer Loan assignments and stock repurchases. The increase in our average cost of debt was primarily a result of a change in the mix of our outstanding debt.

Provision for Income Taxes. For the year ended December 31, 2017, the effective income tax rate decreased to 19.5% from 37.3% for the year ended December 31, 2016. The decrease was primarily due to the enactment of the 2017 Tax Act in December 2017, which resulted in a one-time reversal of $99.8 million of provision for income taxes in 2017. While the 2017 Tax Act lowered our federal statutory income tax rate from 35% in 2017 and 2016 to 21% in 2018, we were required to revalue deferred taxes and uncertain tax positions as of December 31, 2017 at the lower federal statutory income tax rate. Based on currently enacted federal and state statutory income tax rates, we believe our long-term effective income tax rate will average approximately 23% in future years. For additional information, see Note 12 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

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.

Our significant accounting policies are discussed in Note 2 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and involve a high degree of subjective or complex judgment, and the use of different estimates or assumptions could produce materially different financial results.

Finance Charge Revenue & Allowance for Credit Losses

Nature of Estimates Required. We estimate the amount and timing of future collections and Dealer Holdback payments. These estimates impact Loans receivable and allowance for credit losses on our balance sheet and finance charges and provision for credit losses on our income statement.

Assumptions and Approaches Used. For accounting purposes, we are not considered to be an originator of Consumer Loans, but instead 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 of this classification, our accounting policies for recognizing finance charge revenue and determining our allowance for credit losses may be different from other lenders in our market, who, based on their different business models, may be considered to be a direct lender to consumers for accounting purposes. For additional information regarding our classification as a lender to our Dealers for accounting purposes, see Note 1 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

We recognize finance charges under the interest method such that revenue is recognized on a level-yield basis based upon forecasted cash flows. For Dealer Loans, finance charge revenue and the allowance for credit losses are calculated after first aggregating Dealer Loans outstanding for each Dealer. For the same purpose, Purchased Loans are aggregated according to the month the Loan was purchased. An allowance for credit losses is maintained at an amount that reduces the net asset value (Loan balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the time of assignment. Future cash flows are comprised of estimated future collections on the Loans, less any estimated Dealer Holdback payments related to Dealer Loans. We write off Loans once there are no forecasted future collections on any of the associated Consumer Loans.

Actual cash flows from any individual Dealer Loan or 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 Dealer Loan or 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. 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 Loan portfolio. An allowance for credit losses does not necessarily indicate that a Dealer Loan or pool of Purchased Loans is unprofitable, and in recent years, seldom are cash flows from a Dealer Loan or pool of Purchased Loans insufficient to repay the initial amounts advanced or paid to the Dealer.

Future collections are forecasted for each individual Dealer Loan or pool of Purchased Loans based on the historical performance of Consumer Loans with similar characteristics, adjusted for recent trends in payment patterns. Dealer Holdback is forecasted for each individual Dealer Loan based on the expected future collections and current advance balance of each Dealer Loan.

During the fourth quarter of 2017, we updated our net cash flow timing model to incorporate more recent data. The revised forecast resulted in an expected cash flow stream with a lower net present value as compared to the prior forecast, as less cash flows were expected in earlier periods and more cash flows were expected in later periods.

The reduction in net present value was primarily the result of a change in the expected timing of cash flows from longer-term Consumer Loans. Due to our limited historical experience with longer-term Consumer Loans, our prior model relied on extrapolations from the historical performance of shorter-term Consumer Loans to predict the timing of future net cash flows on longer-term Consumer Loans. We used our additional historical experience on these longer-term loans to refine our estimate.

The revision to our net cash flow timing forecast did not impact the amount of undiscounted net cash flows we expected to receive. As a result, the dollar amount of future net portfolio revenue (finance charges less provision for credit losses) was not impacted by the revision. However, the revision did impact the period in which those net revenues are recorded as a portion of the impact of the revised timing estimate was recorded as a current period expense and a portion was recorded as a yield adjustment. For the fourth quarter of 2017, the revision increased provision for credit losses by $41.6 million, reduced finance charge revenue by $7.3 million and reduced net income by $30.8 million. The revision reduced the yield on our Loan portfolio by 90 basis points, which impacts the timing of revenue recognition in future periods.

During the fourth quarter of 2016, we enhanced our methodology for forecasting the amount and timing of future collections on Consumer Loans through the utilization of more recent data and new forecast variables. Implementation of the enhanced forecasting methodology as of October 31, 2016 did not have a material impact on provision for credit losses or net income; however, it did reduce forecasted net cash flows by $1.8 million, all of which related to Dealer Loans. The implementation also decreased the forecasted collection rates for Consumer Loans assigned in 2015 and 2016 and increased the forecasted collection rates for Consumer Loans assigned in 2011 through 2013.

Key Factors. Variances in the amount and timing of future net cash flows from current estimates could materially impact earnings in future periods. A 1% decline in the forecasted future net cash flows on Loans as of December 31, 2018 would have reduced 2018 net income by approximately $25.0 million.

Premiums Earned

Nature of Estimates Required. We estimate the pattern of future claims on vehicle service contracts. These estimates impact accounts payable and accrued liabilities on our balance sheet and premiums earned on our income statement.

Assumptions and Approaches Used. Premiums from the reinsurance of vehicle service contracts are recognized over the life of the policy in proportion to the expected costs of servicing those contracts. Expected costs are determined based on our historical claims experience. In developing our cost expectations, we stratify our historical claims experience into groupings based on contractual term, as this characteristic has led to different patterns of cost incurrence in the past. We will continue to update our analysis of historical costs under the vehicle service contract program as appropriate, including the consideration of other characteristics that may have led to different patterns of cost incurrence, and revise our revenue recognition timing for any changes in the pattern of our expected costs as they are identified.

Key Factors. Variances in the pattern of future claims from our current estimates would impact the timing of premiums recognized in future periods. A 10% change in premiums earned for the year ended December 31, 2018 would have affected 2018 net income by approximately $3.6 million.

Stock-Based Compensation Expense

Nature of Estimates Required. Stock-based compensation expense is based on the fair value on the date the equity instrument is granted or awarded by us, and is recognized over the expected vesting period of the equity instrument. We also estimate expected forfeiture rates of restricted stock awards. These estimates impact paid in capital on our balance sheet and salaries and wages on our income statement.

Assumptions and Approaches Used. In recognizing restricted stock-based compensation expense, we make assumptions regarding the expected forfeiture rates of the restricted stock awards. We also make assumptions regarding the expected vesting dates of performance-based restricted stock awards.

The fair value of restricted stock awards are estimated as if they were vested and issued on the grant date and are recognized over the expected vesting period of the restricted stock award. For additional information, see Notes 2 and 15 to the consolidated financial statements contained in Item 8 of this Form 10-K, which are incorporated herein by reference.

Key Factors. Changes in the expected vesting dates of performance-based restricted stock awards and expected forfeiture rates would impact the amount and timing of stock-based compensation expense recognized in future periods. A 10% change in stock-based compensation expense for the year ended December 31, 2018 would have affected 2018 net income by approximately $0.8 million.

Contingencies

Nature of Estimates Required. We estimate the likelihood of adverse judgments against us and any resulting damages, fines or statutory penalties owed. These estimates impact accounts payable and accrued liabilities on our balance sheet and are general and administrative expenses on our income statement.

Assumptions and Approaches Used. With assistance from our legal counsel, we determine if the likelihood of an adverse judgment for various claims, litigation and regulatory investigations is remote, reasonably possible, or probable. To the extent we believe an adverse judgment is probable and the amount of the judgment is estimable, we recognize a liability. For information regarding current actions to which we are a party, see Note 17 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

Key Factors. Negative variances in the ultimate disposition of claims and litigation outstanding from current estimates could result in additional expense in future periods.

Uncertain Tax Positions

Nature of Estimates Required. We estimate the impact of an uncertain income tax position on the income tax return. These estimates impact income taxes receivable and accounts payable and accrued liabilities on our balance sheet and provision for income taxes on our income statement.

Assumptions and Approaches Used. We follow a two-step approach for recognizing uncertain tax positions. First, we evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more-likely-than-not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, for positions that we determine are more-likely-than-not to be sustained, we recognize the tax benefit as the largest benefit that has a greater than 50% likelihood of being sustained. We establish a reserve for uncertain tax positions liability that is comprised of unrecognized tax benefits and related interest. We adjust this liability in the period in which an uncertain tax position is effectively settled, the statute of limitations expires for the relevant taxing authority to examine the tax position, or more information becomes available.

Key Factors. To the extent we prevail in matters for which a liability has been established or are required to pay amounts in excess of our established liability, our effective income tax rate in future periods could be materially affected.

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 December 31, 2018. For information regarding these financings and the covenants included in the related documents, see Note 9 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

On February 22, 2018, we completed a $500.0 million Term ABS financing, which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 3.6% (including the initial purchasers' fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

On May 10, 2018, we added a new lender to Warehouse Facility IV and increased the financing amount on the facility from $100.0 million to $250.0 million. There were no other material changes to the terms of the facility.

On May 24, 2018, we completed a $450.0 million Term ABS financing, which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 4.0% (including the initial purchasers' fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

On June 27, 2018, we extended the maturity of our revolving secured line of credit facility from June 22, 2020 to June 22, 2021. There were no other material changes to the terms of the facility. As previously disclosed, the amount of the facility will decrease to $315.0 million on June 22, 2019.

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

On August 15, 2018, we extended the date on which our $100.0 million Warehouse Facility V will cease to revolve from August 18, 2019 to August 17, 2021. The maturity of the facility was also extended from August 18, 2021 to August 17, 2023. The interest rate on borrowings under the facility has decreased from LIBOR plus 225 basis points to LIBOR plus 190 basis points. There were no other material changes to the terms of the facility.

On August 23, 2018, we completed a $398.3 million Term ABS financing, which was used to repay outstanding indebtedness. The financing has an expected annualized cost of approximately 4.0% (including the initial purchasers' fees and other costs), and it will revolve for 24 months, after which it will amortize based upon the cash flows on the contributed Loans.

On December 17, 2018, we extended the date on which our $150.0 million Warehouse Facility VII will cease to revolve from December 1, 2019 to December 17, 2020. The maturity of the facility was also extended from December 1, 2021 to December 17, 2022. Prior to the extension, borrowings under the facility had an interest rate equal to the Commercial Paper rate plus 190 basis points to class A lenders and the Commercial Paper rate plus 220 basis points to class B lenders. Following the extension, there is only one class of notes, which will bear interest at a rate equal to the Commercial Paper rate plus 200 basis points. There were no other material changes to the terms of the facility.

Cash and cash equivalents increased to $25.7 million as of December 31, 2018 from $8.2 million as of December 31, 2017. As of December 31, 2018 and December 31, 2017 we had $1,153.1 million and $1,161.1 million in unused and available lines of credit, respectively. Our total balance sheet indebtedness increased to $3,820.9 million as of December 31, 2018 from $3,070.8 million as of December 31, 2017 primarily due to the growth in new Consumer Loan assignments and stock repurchases.

Contractual Obligations

A summary of the total future contractual obligations requiring repayments as of December 31, 2018 is as follows:

(In millions)	Payments Due by Period					
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Other
Long-term debt, including current maturities (1)	$3,842.5	$1,048.6	$2,533.8	$260.1	$—	$—
Dealer Holdback (2)	872.3	143.2	260.2	261.6	207.3	—
Operating lease obligations	4.9	1.8	2.6	0.5	—	—
Purchase obligations (3)	15.3	12.6	2.2	0.5	—	—
Other future obligations (4)	38.7	—	—	—	—	38.7
Total contractual obligations	$4,773.7	$1,206.2	$2,798.8	$522.7	$207.3	$38.7

(1) Long-term debt obligations included in the above table consist solely of principal repayments. The amounts are presented on a principal basis to exclude deferred debt issuance costs of $20.5 million and the unamortized debt discount of $1.1 million. We are also obligated to make interest payments at the applicable interest rates, as

discussed in Note 9 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference. Based on the actual amounts outstanding under our revolving secured line of credit, our Warehouse facilities, and our senior notes as of December 31, 2018, the forecasted amounts outstanding on all other debt and the actual interest rates in effect as of December 31, 2018, interest is expected to be approximately $130.4 million during 2019; $96.1 million during 2020; and $70.9 million during 2021 and thereafter.

(2) We have contractual obligations to pay Dealer Holdback to our Dealers. Payments of Dealer Holdback are contingent upon the receipt of consumer payments and the repayment of advances. The amounts presented represent our forecast as of December 31, 2018.

(3) Purchase obligations consist primarily of contractual obligations related to our information system and facility needs.

(4) Other future obligations included in the above table consist solely of reserves for uncertain tax positions. Payments are contingent upon examination and would occur in the periods in which the uncertain tax positions are settled.

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.

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.

Market Risk

We are exposed primarily to market risks associated with movements in interest rates. Our policies and procedures prohibit the use of financial instruments for speculative purposes. A discussion of our accounting policies for derivative instruments is included in Note 2 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference.

Interest Rate Risk. We rely on various sources of financing, some of which contain floating rates of interest and expose us to risks associated with increases in interest rates. We manage such risk primarily by entering into interest rate cap agreements.

As of December 31, 2018, we had $171.9 million of floating rate debt outstanding on our revolving secured line of credit, without interest rate protection. For every 1.0% increase in interest rates on our revolving secured line of credit, annual after-tax earnings would decrease by approximately $1.3 million, assuming we maintain a level amount of floating rate debt.

As of December 31, 2018, we had interest rate cap agreements outstanding to manage the interest rate risk on Warehouse Facility II, Warehouse Facility IV, Warehouse Facility V and Warehouse Facility VII. However, as of December 31, 2018, there was no floating rate debt outstanding under these facilities.

As of December 31, 2018, we did not have a balance outstanding under Warehouse Facility VI, which does not have interest rate protection.

As of December 31, 2018, we had $125.3 million in floating rate debt outstanding under Term ABS 2016-1, of which $64.2 million was covered by an interest rate cap with a cap rate of 5.00% on the underlying benchmark rate. For every 1.0% increase in interest rates on Term ABS 2016-1 up to the cap rate of 5.00%, annual after-tax earnings would decrease by approximately $1.0 million, assuming we maintain a level amount of floating rate debt. For every 1.0% increase in interest rates above the cap rate, annual after-tax earnings would decrease by approximately $0.5 million, assuming we maintain a level amount of floating rate debt.

New Accounting Updates

See Note 2 to the consolidated financial statements contained in Item 8 of this Form 10-K, which is incorporated herein by reference, for information concerning the following new accounting updates and the impact of the implementation of these updates on our financial statements:

- Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118
- Recognition and Measurement of Financial Assets and Financial Liabilities
- Restricted Cash
- Revenue from Contracts with Customers
- Accounting for Costs of Implementing Cloud Computing
- Leases
- Measurement of Credit Losses on Financial Instruments

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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 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 under Item 1A of this Form 10-K, which is incorporated herein by reference, elsewhere in this report and the risks and uncertainties discussed in our other reports filed or furnished from time to time with the SEC.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by Item 7A is incorporated herein by reference from the information in Item 7 under the caption "Market Risk" in this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Credit Acceptance Corporation

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Credit Acceptance Corporation (a Michigan corporation) and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 8, 2019 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company 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. 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.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2005.

Southfield, Michigan
February 8, 2019

CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share data)	As of December 31, 2018	2017
ASSETS:		
Cash and cash equivalents	$25.7	$8.2
Restricted cash and cash equivalents	303.6	255.6
Restricted securities available for sale	58.6	46.1
Loans receivable	6,225.2	5,049.0
Allowance for credit losses	(461.9)	(429.4)
Loans receivable, net	5,763.3	4,619.6
Property and equipment, net	40.2	20.5
Income taxes receivable	7.9	2.2
Other assets	38.1	33.4
Total Assets	$6,237.4	$4,985.6
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Accounts payable and accrued liabilities	$186.4	$151.7
Revolving secured line of credit	171.9	13.9
Secured financing	3,092.7	2,514.1
Senior notes	544.4	542.8
Mortgage note	11.9	—
Deferred income taxes, net	236.7	187.4
Income taxes payable	2.5	39.9
Total Liabilities	4,246.5	3,449.8
Commitments and Contingencies - See Note 17		
Shareholders' Equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value, 80,000,000 shares authorized, 18,972,558 and 19,310,049 shares issued and outstanding as of December 31, 2018 and December 31, 2017, respectively	0.2	0.2
Paid-in capital	154.9	145.5
Retained earnings	1,836.1	1,390.3
Accumulated other comprehensive loss	(0.3)	(0.2)
Total Shareholders' Equity	1,990.9	1,535.8
Total Liabilities and Shareholders' Equity	$6,237.4	$4,985.6

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except per share data)	For the Years Ended December 31,		
	2018	2017	2016
Revenue:			
Finance charges	$1,176.8	$ 1,011.5	$ 874.3
Premiums earned	46.6	41.1	43.0
Other income	62.4	57.4	51.9
Total revenue	1,285.8	1,110.0	969.2
Costs and expenses:			
Salaries and wages	167.8	140.1	126.5
General and administrative	55.7	55.5	48.2
Sales and marketing	67.7	58.4	49.4
Provision for credit losses	56.9	129.3	90.2
Interest	156.6	120.2	97.7
Provision for claims	26.0	22.7	26.0
Total costs and expenses	530.7	526.2	438.0
Income before provision for income taxes	755.1	583.8	531.2
Provision for income taxes	181.1	113.6	198.4
Net income	$574.0	$ 470.2	$ 332.8
Net income per share:			
Basic	$29.52	$ 24.12	$ 16.37
Diluted	$29.39	$ 24.04	$ 16.31
Weighted average shares outstanding:			
Basic	19,446,067	19,497,719	20,331,769
Diluted	19,532,312	19,558,936	20,410,116

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)	For the Years Ended December 31,		
	2018	2017	2016
Net income	$574.0	$470.2	$332.8
Other comprehensive loss, net of tax:			
Unrealized loss on securities, net of tax	(0.1)	—	(0.1)
Other comprehensive loss	(0.1)	—	(0.1)
Comprehensive income	$573.9	$470.2	$332.7

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in millions)	Common Stock					
	Number	Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2016	20,132,972	$ 0.2	$ 100.8	$ 827.2	$ (0.1)	$ 928.1
Net income	—	—	—	332.8	—	332.8
Other comprehensive loss	—	—	—	—	(0.1)	(0.1)
Stock-based compensation	—	—	7.4	—	—	7.4
Restricted stock awards, net of forfeitures	6,643	—	—	—	—	—
Repurchase of common stock	(666,330)	—	(3.7)	(118.0)	—	(121.7)
Restricted stock units converted to common stock	404,096	—	—	—	—	—
Tax benefits from stock-based compensation plans	—	—	27.2	—	—	27.2
Balance, December 31, 2016	19,877,381	0.2	131.7	1,042.0	(0.2)	1,173.7
Net income	—	—	—	470.2	—	470.2
Stock-based compensation	—	—	15.4	—	—	15.4
Restricted stock awards, net of forfeitures	8,092	—	—	—	—	—
Repurchase of common stock	(610,260)	—	(1.6)	(121.9)	—	(123.5)
Restricted stock units converted to common stock	34,836	—	—	—	—	—
Balance, December 31, 2017	19,310,049	0.2	145.5	1,390.3	(0.2)	1,535.8
Net income	—	—	—	574.0	—	574.0
Other comprehensive loss	—	—	—	—	(0.1)	(0.1)
Stock-based compensation	—	—	10.3	—	—	10.3
Restricted stock awards, net of forfeitures	3,998	—	—	—	—	—
Repurchase of common stock	(342,928)	—	(0.9)	(128.2)	—	(129.1)
Restricted stock units converted to common stock	1,439	—	—	—	—	—
Balance, December 31, 2018	18,972,558	$ 0.2	$ 154.9	$ 1,836.1	$ (0.3)	$ 1,990.9

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	For the Years Ended December 31,		
	2018	2017	2016
Cash Flows From Operating Activities:			
Net income	$574.0	$470.2	$332.8
Adjustments to reconcile cash provided by operating activities:			
Provision for credit losses	56.9	129.3	90.2
Depreciation	5.4	6.0	6.1
Amortization	14.1	10.4	9.2
Provision (credit) for deferred income taxes	49.3	(85.6)	24.2
Stock-based compensation	10.3	15.4	7.4
Other	(0.2)	0.1	0.1
Change in operating assets and liabilities:			
Increase in accounts payable and accrued liabilities	41.6	10.3	11.8
Decrease (increase) in income taxes receivable	(5.7)	0.1	7.7
Increase (decrease) in income taxes payable	(37.4)	16.3	23.6
Increase in other assets	(4.4)	(6.5)	(5.9)
Net cash provided by operating activities	703.9	566.0	507.2
Cash Flows From Investing Activities:			
Purchases of restricted securities available for sale	(43.8)	(34.5)	(39.1)
Proceeds from sale of restricted securities available for sale	19.7	27.8	35.9
Maturities of restricted securities available for sale	11.5	5.6	5.8
Principal collected on Loans receivable	2,576.7	2,189.5	1,955.8
Advances to Dealers	(2,414.8)	(1,968.3)	(1,881.3)
Purchases of Consumer Loans	(1,181.0)	(904.8)	(754.2)
Accelerated payments of Dealer Holdback	(52.6)	(47.1)	(53.6)
Payments of Dealer Holdback	(128.9)	(131.6)	(142.0)
Purchases of property and equipment	(25.1)	(8.4)	(5.5)
Net cash used in investing activities	(1,238.3)	(871.8)	(878.2)
Cash Flows From Financing Activities:			
Borrowings under revolving secured line of credit	2,249.9	3,527.1	1,615.4
Repayments under revolving secured line of credit	(2,091.9)	(3,513.2)	(1,673.1)
Proceeds from secured financing	2,696.6	2,364.5	2,169.3
Repayments of secured financing	(2,116.9)	(1,907.5)	(1,575.8)
Proceeds from mortgage note	12.0	—	—
Payments of debt issuance costs	(13.7)	(14.6)	(9.0)
Repurchase of common stock	(129.1)	(123.5)	(121.7)
Excess tax benefits from stock-based compensation plans	—	—	27.2
Other	(7.0)	(2.5)	4.3
Net cash provided by financing activities	599.9	330.3	436.6
Net increase in cash and cash equivalents and restricted cash and cash equivalents	65.5	24.5	65.6
Cash and cash equivalents and restricted cash and cash equivalents, beginning of period	263.8	239.3	173.7
Cash and cash equivalents and restricted cash and cash equivalents, end of period	$329.3	$263.8	$239.3
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the period for interest	$141.0	$108.8	$88.0
Cash paid during the period for income taxes	$168.8	$175.0	$111.2

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

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

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

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

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

	For the Years Ended December 31,		
Consumer Loan Assignment Volume	2018	2017	2016
Percentage of total unit volume with either FICO® scores below 650 or no FICO® scores	95.6%	95.6%	95.8%

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

	Unit Volume		Dollar Volume (1)	
For the Years Ended December 31,	Dealer Loans	Purchased Loans	Dealer Loans	Purchased Loans
2016	78.6%	21.4 %	71.4%	28.6 %
2017	72.5%	27.5 %	68.5%	31.5 %
2018	69.7%	30.3 %	67.2%	32.8 %

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

Portfolio Program

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

- a down payment from the consumer;
- a non-recourse cash payment (“advance”) from us; and
- after the advance 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”).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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. Unless we receive a request from the Dealer to keep a pool open, we automatically close a pool containing 100 Consumer Loans and assign subsequent advances 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 with respect to the Dealer Loans by obtaining control or taking possession of the Consumer Loans, which list us as lien holder on the vehicle title.

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

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

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

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include our accounts and our wholly-owned subsidiaries. All significant intercompany transactions have been eliminated. Our primary subsidiaries as of December 31, 2018 are: Buyer's Vehicle Protection Plan, Inc. ("BVPP"), Vehicle Remarketing Services, Inc. ("VRS"), VSC Re Company ("VSC Re"), CAC Warehouse Funding Corp. II, CAC Warehouse Funding LLC IV, CAC Warehouse Funding LLC V, CAC Warehouse Funding LLC VI, CAC Warehouse Funding LLC VII, Credit Acceptance Funding LLC 2016-1, Credit Acceptance Funding LLC 2016-2, Credit Acceptance Funding LLC 2016-3, Credit Acceptance Funding LLC 2017-1, Credit Acceptance Funding LLC 2017-2, Credit Acceptance Funding LLC 2017-3, Credit Acceptance Funding LLC 2018-1, Credit Acceptance Funding LLC 2018-2 and Credit Acceptance Funding LLC 2018-3.

Business Segment Information

We currently operate in one reportable segment which represents our core business of offering financing programs that enable Dealers to sell vehicles to consumers regardless of their credit history. For information regarding our one reportable segment and related entity wide disclosures, see Note 16 to the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires us to make estimates and assumptions 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. The accounts which are subject to significant estimation include the allowance for credit losses, finance charge revenue, premiums earned, stock-based compensation expense, contingencies, and uncertain tax positions. Actual results could materially differ from those estimates.

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Cash equivalents consist of readily marketable securities with original maturities at the date of acquisition of three months or less. As of December 31, 2018 and 2017, we had $25.1 million and $7.8 million, respectively, in cash and cash equivalents that were not insured by the Federal Deposit Insurance Corporation ("FDIC").

Restricted cash and cash equivalents consist of cash pledged as collateral for secured financings and cash held in a trust for future vehicle service contract claims. As of December 31, 2018 and 2017, we had $303.0 million and $255.1 million, respectively, in restricted cash and cash equivalents that were not insured by the FDIC.

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

(In millions)	As of December 31, 2018	December 31, 2017	December 31, 2016
Cash and cash equivalents	$25.7	$ 8.2	$ 14.6
Restricted cash and cash equivalents	303.6	255.6	224.7

Total cash and cash equivalents and restricted cash and cash equivalents	$329.3	$ 263.8	$ 239.3

Restricted Securities Available for Sale

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Loans Receivable and Allowance for Credit Losses

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

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

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

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

Portfolio Segments and Classes. We are considered to be a lender to our Dealers for Consumer Loans assigned under our Portfolio Program and a purchaser of Consumer Loans assigned under our Purchase Program. As a result, our Loan portfolio consists of two portfolio segments: Dealer Loans and Purchased Loans. Each portfolio segment is comprised of one class of Consumer Loan assignments, which is Consumer Loans originated by Dealers to finance purchases of vehicles and related ancillary products by consumers with impaired or limited credit histories.

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

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

Less:

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

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

Less:

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

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

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

Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's outstanding Dealer Loan balance to Purchased Loans in the period this forfeiture occurs. During the fourth quarter of 2017, we enhanced our accounting methodology for transferring loans. Beginning in the fourth quarter of 2017, we:

- transfer the related Dealer Loan allowance for credit losses balance to Purchased Loans in the period this forfeiture occurs; and
- aggregate these Purchased Loans by Dealer for purposes of recognizing revenue and evaluating impairment.

Prior to the fourth quarter of 2017, we:

- reversed the Dealer Loan allowance for credit losses balance through Dealer Loan provision for credit losses and established a new allowance for credit losses in Purchased Loans through Purchased Loan provision for credit losses; and
- aggregated these Purchased Loans by month of purchase for purposes of recognizing revenue and evaluating impairment.

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

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. During 2017, we enhanced our methodology for transferring Loans and updated our net cash flow timing model. During 2016, we enhanced our methodology for forecasting the amount and timing of future collections on Consumer Loans. For additional information regarding these methodology changes, see Note 5 to the consolidated financial statements. For the three year period ended December 31, 2018, we did not make any other methodology changes for Loans that had a material impact on our financial statements.

Property and Equipment

Purchases of property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful life of the asset. Estimated useful lives are generally as follows: buildings – 40 years, building improvements – 10 years, data processing equipment – 3 years, software – 5 years, office furniture and equipment – 7 years, and leasehold improvements – the lesser of the lease term or 7 years. The cost of assets sold or retired and the related accumulated depreciation are removed from the balance sheet at the time of disposition and any resulting gain or loss is included in operations. Maintenance, repairs and minor replacements are charged to operations as incurred; major replacements and improvements are capitalized. We evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Costs incurred during the application development stage of software developed for internal use are capitalized and generally depreciated on a straight-line basis over five years. Costs incurred to maintain existing software are expensed as incurred. For additional information regarding our property and equipment, see Note 6 to the consolidated financial statements.

Deferred Debt Issuance Costs

Deferred debt issuance costs associated with secured financings and senior notes are included as a deduction from the carrying amount of the related debt liability, and deferred debt issuance costs associated with our revolving secured line of credit are included in other assets. Expenses associated with the issuance of debt instruments are capitalized and amortized as interest expense over the term of the debt instrument using the effective interest method for asset-backed secured financings ("Term ABS") and senior notes and the straight-line method for lines of credit and revolving secured warehouse ("Warehouse") facilities. For additional information regarding deferred debt issuance costs, see Note 9 to the consolidated financial statements.

Derivative Instruments

We rely on various sources of financing, some of which contain floating rates of interest and expose us to risks associated with increases in interest rates. We manage such risk primarily by entering into interest rate cap agreements ("derivative instruments"). These derivative instruments are not designated as hedges, and changes in their fair value increase or decrease interest expense.

We recognize derivative instruments as either other assets or accounts payable and accrued liabilities on our consolidated balance sheets. For additional information regarding our derivative instruments, see Note 10 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Finance Charges

Finance charges is comprised of: (1) servicing fees earned as a result of servicing Consumer Loans assigned to us by Dealers under the Portfolio Program; (2) finance charge income from Purchased Loans; (3) fees earned from our third party ancillary product offerings; (4) monthly program fees charged to Dealers under the Portfolio Program; and (5) fees associated with certain Loans. We recognize finance charges under the interest method such that revenue is recognized on a level-yield basis based upon forecasted cash flows. For Dealer Loans only, certain direct origination costs such as salaries and credit reports are deferred and the net costs are recognized as an adjustment to finance charges over the life of the related Dealer Loan on a level-yield basis.

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

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

Program fees represent monthly fees charged to Dealers for access to our Credit Approval Processing System ("CAPS"); administration, servicing and collection services offered by us; documentation related to or affecting our program; and all tangible and intangible property owned by Credit Acceptance. We charge a monthly fee of $599 to Dealers participating in our Portfolio Program and we collect it from future Dealer Holdback payments. As a result, we record program fees under the Portfolio Program as a yield adjustment, recognizing these fees as finance charge revenue over the forecasted net cash flows of the Dealer Loan.

Reinsurance

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

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

Stock-Based Compensation Plans

We have stock-based compensation plans for team members and non-employee directors, which are described more fully in Note 15 to the consolidated financial statements. We apply a fair-value-based measurement method in accounting for stock-based compensation plans and recognize stock-based compensation expense over the requisite service period of the grant as salaries and wages expense.

Employee Benefit Plan

We sponsor a 401(k) plan that covers substantially all of our team members. We offer matching contributions to the 401(k) plan based on each enrolled team members' eligible annual gross pay (subject to statutory limitations). Our matching contribution rate is equal to 100% of the first 2% participants contribute and an additional 50% of the next 4% participants contribute, for a maximum matching contribution of 4% of each participant's eligible annual gross pay. For the years ended December 31, 2018, 2017 and 2016, we recognized compensation expense of $5.3 million, $4.6 million, and $3.6 million, respectively, for our matching contributions to the plan.

Income Taxes

Provisions for federal, state and foreign income taxes are calculated on reported pre-tax earnings based on current tax law and also include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered.

We follow a two-step approach for recognizing uncertain tax positions. First, we evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more-likely-than-not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, for positions that we determine are more-likely-than-not to be sustained, we recognize the tax benefit as the largest benefit that has a greater than 50% likelihood of being sustained. We establish a reserve for uncertain tax positions liability that is comprised of unrecognized tax benefits and related interest. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. We recognize interest and penalties related to uncertain tax positions in provision for income taxes. For additional information regarding our income taxes, see Note 12 to the consolidated financial statements.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $0.2 million for the year ended December 31, 2018, $0.4 million for the year ended December 31, 2017 and $0.3 million for the year ended December 31, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

New Accounting Updates Adopted During the Current Year

Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. In March 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-05, which amended Accounting Standards Codification (“ASC”) Topic 740 (Income Taxes) for income tax accounting implications of the December 2017 Tax Cuts and Jobs Act ("2017 Tax Act"). ASU 2018-05 is effective for fiscal years, and interim periods, beginning in the reporting period that includes the enactment of the 2017 Tax Act. ASU 2018-05 provides guidance for entities under three scenarios: (1) Measurement of certain income tax effects is complete—an entity must reflect the tax effects of the 2017 Tax Act for which the accounting is complete; (2) Measurement of certain income tax effects can be reasonably estimated—an entity must report provisional amounts for those specific income tax effects of the 2017 Tax Act for which the accounting is incomplete but a reasonable estimate can be determined. Provisional amounts or adjustments to provisional amounts identified in the measurement period, as defined, should be included as an adjustment to tax expense or benefit from continuing operations in the period the amounts are determined; and (3) Measurement of certain income tax effects cannot be reasonably estimated—an entity is not required to report provisional amounts for any specific income tax effects of the 2017 Tax Act for which a reasonable estimate cannot be determined, and would continue to apply ASC Topic 740 based on the provisions of the tax laws that were in effect immediately prior to the enactment of the 2017 Tax Act. Entities would report the provisional amounts of the tax effects of the 2017 Tax Act in the first reporting period in which a reasonable estimate can be determined. ASU 2018-05 further provides that the measurement period is complete when a company's accounting is complete and in no circumstances should the measurement period extend beyond one year from the enactment date of the 2017 Tax Act. An entity may be able to complete the accounting under some provisions of the 2017 Tax Act earlier than others. As a result it may need to apply all three scenarios in determining the accounting for the 2017 Tax Act based on the information that is available. For information regarding the impact of the enactment of the 2017 Tax Act, see Note 12 to the consolidated financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities. In January 2016, the FASB issued ASU 2016-01, which revised ASC Topic 825 (Financial Instruments) for the recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 makes targeted improvements on how entities account for equity investments, present and disclose financial instruments and measure the valuation allowance on deferred tax assets related to available-for-sale debt securities. ASU 2016-01 is effective for fiscal years, and interim periods, beginning after December 15, 2017, with early adoption not permitted. The adoption of ASU 2016-01 on January 1, 2018 did not have a material impact on our consolidated financial statements.

Restricted Cash. In November 2016, the FASB issued ASU 2016-18, which amended ASC Topic 230 (Statement of Cash Flows) and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is intended to reduce diversity in practice in how restricted cash or restricted cash equivalents are presented and classified in the statement of cash flows. ASU 2016-18 is effective for fiscal years, and interim periods, beginning after December 15, 2017, with early adoption permitted. The standard required application using a retrospective transition method. The adoption of ASU 2016-18 changed the presentation and classification of restricted cash and cash equivalents in our consolidated statements of cash flows. In addition, since cash and cash equivalents and restricted cash and cash equivalents are presented on separate lines on our consolidated balance sheets, we enhanced the cash and restricted cash disclosures in our significant accounting policies to reconcile the totals in our consolidated statement of cash flows to the related line items in our consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

The following tables reconcile the consolidated statement of cash flows line items impacted by the adoption of this standard on January 1, 2018:

(In millions)	For the Year Ended December 31, 2017		
	Adjusted	ASU 2016-18 Adjustment	Previously Reported
Decrease (increase) in restricted cash and cash equivalents	$—	$ 30.9	$ (30.9)
Net cash used in investing activities	(871.8)	30.9	(902.7)
Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	24.5	30.9	(6.4)
Cash and cash equivalents and restricted cash and cash equivalents, beginning of period	239.3	224.7	14.6
Cash and cash equivalents and restricted cash and cash equivalents, end of period	$263.8	$ 255.6	$ 8.2

(In millions)	For the Year Ended December 31, 2016		
	Adjusted	ASU 2016-18 Adjustment	Previously Reported
Decrease (increase) in restricted cash and cash equivalents	$—	$ 57.3	$ (57.3)
Net cash used in investing activities	(878.2)	57.3	(935.5)
Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	65.6	57.3	8.3
Cash and cash equivalents and restricted cash and cash equivalents, beginning of period	173.7	167.4	6.3
Cash and cash equivalents and restricted cash and cash equivalents, end of period	$239.3	$ 224.7	$ 14.6

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU 2014-09, which superseded the revenue recognition requirements of ASC Topic 605 (Revenue Recognition), and most industry-specific guidance. ASU 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 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. ASU 2014-09 is only applicable to our other income source of revenue. Finance charges and premiums earned sources of revenue are outside the scope of this guidance. ASU 2014-09 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). In August 2015, the FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 by one year to fiscal years beginning after December 15, 2017. ASU 2015-14 also permits early adoption of ASU 2014-09, but not before the original effective date, which was for fiscal years beginning after December 15, 2016. We adopted ASU 2014-09, as amended by ASU 2015-14, on January 1, 2018 using the modified retrospective method. We assessed the impact of the new guidance by evaluating our contracts, identifying our performance obligations, determining when the performance obligations were satisfied to allow us to recognize revenue and determining the amount of revenue to recognize. As a result of this analysis, we determined that our recognition and measurement of other income will not change. The adoption of ASU 2014-09, as amended by ASU 2015-14, did not impact the timing of our revenue recognition; however, it expanded our disclosures related to our other income source of revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

New Accounting Updates Not Yet Adopted

Accounting for Costs of Implementing Cloud Computing. In August 2018, the FASB issued ASU 2018-15, which reduces complexity in the accounting for costs of implementing a cloud computing service arrangement. This standard aligns the accounting for implementation costs of hosting arrangements, regardless of whether they convey a license to the hosted software. Under the current guidance, the classification of an arrangement as either a software license or a service contract determines whether or not we capitalize implementation costs. If an arrangement meets the definition of a software license, implementation costs are capitalized. If an arrangement meets the definition of a service contract, implementation costs are expensed as incurred. Under the new guidance, implementation costs will be capitalized regardless of their classification. ASU 2018-15 is effective for fiscal years, and interim periods, beginning after December 15, 2019. Early application is permitted, but we have not yet adopted ASU 2018-15. The adoption of ASU 2018-15 will change how we account for our cloud computing arrangements. However, we do not believe that its adoption will have a material impact on our consolidated financial statements and related disclosures.

Leases. In February 2016, the FASB issued ASU 2016-02, which required lessees to recognize a right-of-use asset and related lease liability for leases classified as operating leases at the commencement date that have lease terms of more than 12 months. This ASU retains the classification distinction between finance leases and operating leases. ASU 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 2016-02. This ASU requires application using a retrospective transition method. We estimate that upon adoption on January 1, 2019, our consolidated balance sheet will have an approximately $4.2 million right-of-use asset and an approximately $4.3 million lease liability. We do not expect material changes to the recognition of operating lease expense in our consolidated statements of income. For additional information regarding lease commitments, see Note 17 to the consolidated financial statements.

Measurement of Credit Losses on Financial Instruments. In June 2016, the FASB issued ASU 2016-13, which included an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes an allowance for credit losses based on the difference between contractual future net cash flows and its estimate of expected future net cash flows. The new guidance also changes the scope of the special accounting for loans acquired with significant credit deterioration. ASU 2016-13 is effective for fiscal years, and interim periods, beginning after December 15, 2019. Early application is permitted for fiscal years, and interim periods, beginning after December 15, 2018. We believe the adoption of ASU 2016-13 will have a material impact on our consolidated financial statements and related disclosures as it will change our accounting policies for Loans.

Application of CECL to Existing Loans

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

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

For each reporting period subsequent to adoption, we would:

- recognize finance charge revenue using the effective interest rate that was calculated on the adoption date based on expected future net cash flows; and

- adjust the allowance for credit losses so that the net carrying amount of each Loan equals the present value of expected future net cash flows discounted at the effective interest rate. The adjustment to the allowance for credit losses would be recognized as either provision for credit losses expense or a reversal of provision for credit losses expense.

Application of CECL to Future Loans

We believe that Consumer Loans assigned subsequent to the adoption of ASU 2016-13 would not qualify for the PCD Method and would be accounted for as originated financial assets ("Originated Method"). While the cash flows we expect to collect at the time of assignment are significantly lower than the contractual cash flows owed to us due to credit quality, our Loans do not qualify for the PCD Method due to the following:

- the assignment of the Consumer Loan occurs a moment after the Consumer Loan is originated by the Dealer, so "a more-than-insignificant deterioration in credit quality since origination" has not occurred; and
- Consumer Loans assigned under the Portfolio Program are considered to be advances under Dealer Loans originated by us rather than Consumer Loans purchased by us.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

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

For each reporting period subsequent to assignment, we would:

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

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

- the effective interest rate would be significantly inflated for contractual amounts that were not expected to be collected at the time of assignment; and
- all expected credit losses, including significant credit losses that were expected at both the time of origination and the time of assignment, would be recognized as provision for credit losses expense, despite the fact that credit losses expected at the time of assignment do not represent an economic loss to us.

The net Loan income (finance charge revenue less provision for credit losses) that we will recognize over the life of a Loan equals the cash we collect from the underlying Consumer Loan less the cash we pay to the Dealer. While the total amount of net Loan income we would recognize over the life of the Loan is not impacted by the new guidance, the timing of when we would recognize this income changes significantly. We believe that recognizing net Loan income on a level-yield basis over the life of the Loan based on expected future net cash flows matches the economics of our business. The Originated Method diverges from economic reality by requiring us to recognize a significant provision for credit losses at the time of assignment for amounts we never expected to realize and finance charge revenue in subsequent periods that is significantly in excess of our expected yields.

Election of the Fair Value Option for Future Loans

Under ASC 825, Financial Instruments, we have the ability to choose to measure Loans at fair value on an instrument-by-instrument basis at specified election dates, with changes in fair value reported in net income (the fair value option). Dealer Loans are only eligible for fair value election at the time a new active Dealer assigns the first Consumer Loan under the Portfolio Program. All Purchased Loans are eligible for fair value election at the time of assignment. The fair value election may not be revoked once an election is made.

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

Subsequent Events

We have evaluated events and transactions occurring subsequent to the consolidated balance sheet date of December 31, 2018 for items that could potentially be recognized or disclosed in these financial statements. We did not identify any items which would require disclosure in or adjustment to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Loans Receivable, net. The fair value is determined by calculating the present value of future net cash flows estimated by us utilizing a discount rate comparable with the rate used to calculate our allowance for credit losses.

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

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

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

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

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

(In millions)	As of December 31,			
	2018		2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$25.7	$ 25.7	$8.2	$ 8.2
Restricted cash and cash equivalents	303.6	303.6	255.6	255.6
Restricted securities available for sale	58.6	58.6	46.1	46.1
Loans receivable, net	5,763.3	5,855.1	4,619.6	4,741.5
Liabilities				
Revolving secured line of credit	$171.9	$ 171.9	$13.9	$ 13.9
Secured financing	3,092.7	3,100.9	2,514.1	2,527.6
Senior notes	544.4	556.3	542.8	569.4
Mortgage note	11.9	11.9	—	—

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates or assumptions that market participants would use in pricing the asset or liability.

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

(In millions)	As of December 31, 2018			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents (1)	$25.7	$—	$ —	$25.7
Restricted cash and cash equivalents (1)	303.6	—	—	303.6
Restricted securities available for sale (2)	47.9	10.7	—	58.6
Loans receivable, net (1)	—	—	5,855.1	5,855.1
Liabilities				
Revolving secured line of credit (1)	$—	$171.9	$ —	$171.9
Secured financing (1)	—	3,100.9	—	3,100.9
Senior notes (1)	556.3	—	—	556.3
Mortgage note (1)	—	11.9	—	11.9

(In millions)	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents (1)	$8.2	$—	$ —	$8.2
Restricted cash and cash equivalents (1)	255.6	—	—	255.6
Restricted securities available for sale (2)	37.1	9.0	—	46.1
Loans receivable, net (1)	—	—	4,741.5	4,741.5
Liabilities				
Revolving secured line of credit (1)	$—	$13.9	$ —	$13.9
Secured financing (1)	—	2,527.6	—	2,527.6
Senior notes (1)	569.4	—	—	569.4

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

4. RESTRICTED SECURITIES AVAILABLE FOR SALE

Restricted securities available for sale consist of the following:

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

(In millions)	As of December 31, 2017			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$19.2	$ —	$ (0.2)	$ 19.0
Corporate bonds	18.2	—	(0.1)	18.1
Asset-backed securities	6.6	—	—	6.6
Mortgage-backed securities	2.4	—	—	2.4
Total restricted securities available for sale	$46.4	$ —	$ (0.3)	$ 46.1

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

(In millions)	Securities Available for Sale with Gross Unrealized Losses as of December 31, 2018					
	Less than 12 Months		12 Months or More			
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
U.S. Government and agency securities	$2.2	$ —	$10.5	$ (0.2)	$ 12.7	$ (0.2)
Corporate bonds	12.0	(0.1)	6.5	(0.1)	18.5	(0.2)
Asset-backed securities	4.7	—	3.3	(0.1)	8.0	(0.1)
Mortgage-backed securities	—	—	1.4	—	1.4	—
Total restricted securities available for sale	$18.9	$ (0.1)	$21.7	$ (0.4)	$ 40.6	$ (0.5)

(In millions)	Securities Available for Sale with Gross Unrealized Losses as of December 31, 2017					
	Less than 12 Months		12 Months or More			
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
U.S. Government and agency securities	$11.0	$ (0.1)	$7.9	$ (0.1)	$ 18.9	$ (0.2)
Corporate bonds	11.1	(0.1)	1.9	—	13.0	(0.1)

Asset-backed securities	4.9	—	1.0	—	5.9	—
Mortgage-backed securities	1.2	—	1.2	—	2.4	—
Total restricted securities available for sale	$28.2	$ (0.2)	$12.0	$ (0.1)	$ 40.2	$ (0.3)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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 December 31,			
	2018		2017	
Contractual Maturity	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Within one year	$1.7	$ 1.7	$2.5	$ 2.5
Over one year to five years	55.1	54.7	40.5	40.2
Over five years to ten years	0.8	0.8	1.0	1.0
Over ten years	1.4	1.4	2.4	2.4
Total restricted securities available for sale	$59.0	$ 58.6	$46.4	$ 46.1

5. LOANS RECEIVABLE

Loans receivable consists of the following:

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

(In millions)	As of December 31, 2017		
	Dealer Loans	Purchased Loans	Total
Loans receivable	$3,518.1	$1,530.9	$5,049.0
Allowance for credit losses	(366.0)	(63.4)	(429.4)
Loans receivable, net	$3,152.1	$1,467.5	$4,619.6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

A summary of changes in Loans receivable is as follows:

(In millions)	For the Year Ended December 31, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$3,518.1	$1,530.9	$5,049.0
New Consumer Loan assignments (1)	2,414.8	1,181.0	3,595.8
Principal collected on Loans receivable	(1,873.0)	(703.7)	(2,576.7)
Accelerated Dealer Holdback payments	52.6	—	52.6
Dealer Holdback payments	128.9	—	128.9
Transfers (2)	(78.2)	78.2	—
Write-offs	(25.2)	(3.4)	(28.6)
Recoveries (3)	3.0	1.2	4.2
Balance, end of period	$4,141.0	$2,084.2	$6,225.2

(In millions)	For the Year Ended December 31, 2017		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$3,209.0	$998.0	$4,207.0
New Consumer Loan assignments (1)	1,968.3	904.8	2,873.1
Principal collected on Loans receivable	(1,729.9)	(459.6)	(2,189.5)
Accelerated Dealer Holdback payments	47.1	—	47.1
Dealer Holdback payments	131.6	—	131.6
Transfers (2)	(93.1)	93.1	—
Write-offs	(16.4)	(5.7)	(22.1)
Recoveries (3)	1.5	0.3	1.8
Balance, end of period	$3,518.1	$1,530.9	$5,049.0

(In millions)	For the Year Ended December 31, 2016		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$2,823.4	$521.7	$3,345.1
New Consumer Loan assignments (1)	1,881.3	754.2	2,635.5
Principal collected on Loans receivable	(1,668.1)	(287.7)	(1,955.8)
Accelerated Dealer Holdback payments	53.6	—	53.6
Dealer Holdback payments	142.0	—	142.0
Transfers (2)	(10.1)	10.1	—
Write-offs	(14.4)	(0.4)	(14.8)
Recoveries (3)	1.3	0.1	1.4
Balance, end of period	$3,209.0	$998.0	$4,207.0

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

(2)

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

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

During the fourth quarter of 2017, we transferred $89.0 million of Dealer Loans along with the related allowance for credit losses balance of $31.8 million to Purchased Loans. Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. Substantially all of these transfers relate to Dealers where events had occurred in prior periods that met our criteria for forfeiture. However, while we intended to exercise our rights to Dealer Holdback in the period the forfeiture event occurred, we did not exercise our rights for these Dealers until the fourth quarter of 2017. We also enhanced our accounting methodology for transferring Loans. In the fourth quarter of 2017, we began transferring the related allowance for credit losses balance to Purchased Loans. Prior to the fourth quarter of 2017, rather than transferring the related allowance for credit losses balance to Purchased Loans, we reversed the balance through Dealer Loan provision for credit losses and established a new allowance for credit losses in Purchased Loans through Purchased Loan provision for credit losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

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 Year Ended December 31, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$1,088.6	$ 576.9	$1,665.5
New Consumer Loan assignments (1)	990.2	488.4	1,478.6
Accretion (2)	(816.3)	(369.3)	(1,185.6)
Provision for credit losses	48.0	8.9	56.9
Forecast changes	2.0	40.3	42.3
Transfers (3)	(29.5)	37.3	7.8
Balance, end of period	$1,283.0	$ 782.5	$2,065.5

(In millions)	For the Year Ended December 31, 2017		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$982.6	$ 348.1	$1,330.7
New Consumer Loan assignments (1)	803.0	377.9	1,180.9
Accretion (2)	(766.6)	(253.6)	(1,020.2)
Provision for credit losses	103.4	25.9	129.3
Forecast changes	(5.6)	41.7	36.1
Transfers (3)	(28.2)	36.9	8.7
Balance, end of period	$1,088.6	$ 576.9	$1,665.5

(In millions)	For the Year Ended December 31, 2016		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$874.2	$ 198.6	$1,072.8
New Consumer Loan assignments (1)	782.6	284.7	1,067.3
Accretion (2)	(723.8)	(159.5)	(883.3)
Provision for credit losses	87.3	2.9	90.2
Forecast changes	(35.4)	15.3	(20.1)
Transfers (3)	(2.3)	6.1	3.8
Balance, end of period	$982.6	$ 348.1	$1,330.7

(1) The Dealer Loans amount represents the net cash flows expected at the time of assignment on Consumer Loans assigned under our Portfolio Program, less the related advances paid to Dealers. The Purchased Loans amount represents the net cash flows expected at the time of assignment on Consumer Loans assigned under our Purchase Program, less the related one-time payments made to Dealers.

(2) Represents finance charges excluding the amortization of deferred direct origination costs for Dealer Loans.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

(In millions)	For the Year Ended December 31, 2018		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	$3,827.4	$2,610.7	$6,438.1
Expected net cash flows at the time of assignment (2)	3,405.0	1,669.4	5,074.4
Fair value at the time of assignment (3)	2,414.8	1,181.0	3,595.8

(In millions)	For the Year Ended December 31, 2017		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	$3,131.6	$1,973.7	$5,105.3
Expected net cash flows at the time of assignment (2)	2,771.3	1,282.7	4,054.0
Fair value at the time of assignment (3)	1,968.3	904.8	2,873.1

(In millions)	For the Year Ended December 31, 2016		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	$2,997.0	$1,553.2	$4,550.2
Expected net cash flows at the time of assignment (2)	2,663.9	1,038.9	3,702.8
Fair value at the time of assignment (3)	1,881.3	754.2	2,635.5

(1) The Dealer Loans amount represents the repayments that we were contractually owed at the time of assignment on Consumer Loans assigned under our Portfolio Program, less the related Dealer Holdback payments that we would be required to make if we collected all of the contractual repayments. The Purchased Loans amount represents the repayments that we were contractually owed at the time of assignment on Consumer Loans assigned under our Purchase Program.

(2) The Dealer Loans amount represents the repayments that we expected to collect at the time of assignment on Consumer Loans assigned under our Portfolio Program, less the related Dealer Holdback payments that we expected to make. The Purchased Loans amount represents the repayments that we expected to collect at the time of assignment on Consumer Loans assigned under our Purchase Program.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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 2 to the consolidated financial statements. The following table compares our forecast of Consumer Loan collection rates as of December 31, 2018, with the forecasts as of December 31, 2017, as of December 31, 2016, and at the time of assignment, segmented by year of assignment:

Consumer Loan Assignment Year	Forecasted Collection Percentage as of (1)				Current Forecast Variance from		
	December 31, 2018	December 31, 2017	December 31, 2016	Initial Forecast	December 31, 2017	December 31, 2016	Initial Forecast
2009	79.6%	79.5%	79.4%	71.9%	0.1%	0.2%	7.7%
2010	77.7%	77.6%	77.6%	73.6%	0.1%	0.1%	4.1%
2011	74.7%	74.7%	74.7%	72.5%	0.0%	0.0%	2.2%
2012	73.8%	73.8%	73.7%	71.4%	0.0%	0.1%	2.4%
2013	73.5%	73.5%	73.4%	72.0%	0.0%	0.1%	1.5%
2014	71.7%	71.7%	71.8%	71.8%	0.0%	-0.1%	-0.1%
2015	65.4%	65.5%	66.1%	67.7%	-0.1%	-0.7%	-2.3%
2016	64.2%	64.8%	65.1%	65.4%	-0.6%	-0.9%	-1.2%
2017	65.5%	65.6%	—	64.0%	-0.1%	—	1.5%
2018	65.0%	—	—	63.6%	—	—	1.4%

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

Consumer Loans assigned in 2009 through 2013, 2017 and 2018 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2015 and 2016 have yielded forecasted collection results materially worse than our initial estimates. For Consumer Loans assigned in 2014, actual results have been close to our initial estimates.

For the year ended December 31, 2018, forecasted collection rates improved for Consumer Loans assigned in 2018, declined for Consumer Loans assigned in 2016 and were generally consistent with expectations at the start of the period for all other assignment years presented.

For the year ended December 31, 2017, forecasted collection rates improved for Consumer Loans assigned in 2017, declined for Consumer Loans assigned in 2015 and 2016 and were generally consistent with expectations at the start of the period for all other assignment years presented.

In addition to the statistical model used to forecast collection rates, we use a model to forecast the timing of future net cash flows. During the fourth quarter of 2017, we updated our net cash flow timing model to incorporate more recent data. The revised forecast resulted in an expected cash flow stream with a lower net present value as compared to the prior forecast, as less cash flows were expected in earlier periods and more cash flows were expected in later periods.

The reduction in net present value was primarily the result of a change in the expected timing of cash flows from longer-term Consumer Loans. Due to our limited historical experience with longer-term Consumer Loans, our prior model relied on extrapolations from the historical performance of shorter-term Consumer Loans to predict the timing of future net cash flows on longer-term Consumer Loans. We used our additional historical experience on these longer-term loans to refine our estimate.

The revision to our net cash flow timing forecast did not impact the amount of undiscounted net cash flows we expected to receive. As a result, the dollar amount of future net portfolio revenue (finance charges less provision for credit losses) was not impacted by the revision. However, the revision did impact the period in which those net revenues are recorded as a portion of the impact of the revised timing estimate was recorded as a current period expense and a portion was recorded as a yield adjustment. For the fourth quarter of 2017, the revision increased provision for credit losses by $41.6 million, reduced finance charge revenue by $7.3 million and reduced net income by $30.8 million. The revision reduced the yield on our Loan portfolio by 90 basis points, which impacts the timing of revenue recognition in future periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

During the fourth quarter of 2016, we enhanced our methodology for forecasting the amount and timing of future collections on Consumer Loans through the utilization of more recent data and new forecast variables. Implementation of the enhanced forecasting methodology as of October 31, 2016 did not have a material impact on provision for credit losses or net income, however it did reduce forecasted net cash flows by $1.8 million, all of which related to Dealer Loans. The implementation also decreased the forecasted collection rates for Consumer Loans assigned in 2015 and 2016 and increased the forecasted collection rates for Consumer Loans assigned in 2011 through 2013.

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 December 31, 2018					
	Loan Pool Performance Meets or Exceeds Initial Estimates			Loan Pool Performance Less than Initial Estimates		
	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total
Loans receivable	$1,355.1	$1,392.1	$2,747.2	$2,785.9	$692.1	$3,478.0
Allowance for credit losses	—	—	—	(378.1)	(83.8)	(461.9)
Loans receivable, net	$1,355.1	$1,392.1	$2,747.2	$2,407.8	$608.3	$3,016.1

(In millions)	As of December 31, 2017					
	Loan Pool Performance Meets or Exceeds Initial Estimates			Loan Pool Performance Less than Initial Estimates		
	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total
Loans receivable	$755.2	$472.7	$1,227.9	$2,762.9	$1,058.2	$3,821.1
Allowance for credit losses	—	—	—	(366.0)	(63.4)	(429.4)
Loans receivable, net	$755.2	$472.7	$1,227.9	$2,396.9	$994.8	$3,391.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

(In millions)	For the Year Ended December 31, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$366.0	$ 63.4	$429.4
Provision for credit losses	48.0	8.9	56.9
Transfers (1)	(13.7)	13.7	—
Write-offs	(25.2)	(3.4)	(28.6)
Recoveries (2)	3.0	1.2	4.2
Balance, end of period	$378.1	$ 83.8	$461.9

(In millions)	For the Year Ended December 31, 2017		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$309.3	$ 11.1	$320.4
Provision for credit losses	103.4	25.9	129.3
Transfers (1)	(31.8)	31.8	—
Write-offs	(16.4)	(5.7)	(22.1)
Recoveries (2)	1.5	0.3	1.8
Balance, end of period	$366.0	$ 63.4	$429.4

(In millions)	For the Year Ended December 31, 2016		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$235.1	$ 8.5	$243.6
Provision for credit losses	87.3	2.9	90.2
Write-offs	(14.4)	(0.4)	(14.8)
Recoveries (2)	1.3	0.1	1.4
Balance, end of period	$309.3	$ 11.1	$320.4

(1) Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer's outstanding Dealer Loan balance to Purchased Loans in the period this forfeiture occurs. Beginning in the fourth quarter of 2017, we also transfer the related allowance for credit losses balance to Purchased Loans in the period this forfeiture occurs.

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

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

(In millions)	As of December 31,	
	2018	2017
Land and land improvements	$2.7	$2.5
Building and improvements	33.2	15.6

Data processing equipment and software	37.3	31.3
Office furniture and equipment	3.8	3.8
Leasehold improvements	2.2	2.2
Total property and equipment	79.2	55.4
Less: Accumulated depreciation on property and equipment	(39.0)	(34.9)
Total property and equipment, net	$40.2	$20.5

Depreciation expense on property and equipment was $5.4 million, $6.0 million and $6.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

7. REINSURANCE

A summary of reinsurance activity is as follows:

(In millions)	For the Years Ended December 31,		
	2018	2017	2016
Net assumed written premiums	$55.8	$42.4	$40.6
Net premiums earned	46.6	41.1	43.0
Provision for claims	26.0	22.7	26.0
Amortization of capitalized acquisition costs	1.2	1.0	1.1

The trust assets and related reinsurance liabilities are as follows:

(In millions)		As of December 31,	
	Balance Sheet location	2018	2017
Trust assets	Restricted cash and cash equivalents	$0.3	$0.8
Trust assets	Restricted securities available for sale	58.6	46.1
Unearned premium	Accounts payable and accrued liabilities	43.3	34.1
Claims reserve (1)	Accounts payable and accrued liabilities	1.6	1.0

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

The following tables present information about incurred and paid claims development for the five-year period ended December 31, 2018:

(Dollars in millions)

	Cumulative Incurred Claims					As of December 31, 2018	
	As of December 31,						
Incident Year	2014	2015	2016	2017	2018	Claims Reserve	Cumulative Number of Reported Claims
2014	$39.8	$39.9	$39.9	$39.9	$39.9	$—	40,908
2015		33.1	33.4	33.4	33.4	—	32,909
2016			25.7	26.0	26.0	—	25,215
2017				22.3	22.5	—	20,457
2018					25.8	1.6	21,503
Total					$147.6	$1.6	140,992

(In millions)	Cumulative Paid Claims				
	As of December 31,				
Incident Year	2014	2015	2016	2017	2018
2014	$38.3	$39.9	$39.9	$39.9	$39.9
2015		31.9	33.4	33.4	33.4
2016			24.7	26.0	26.0
2017				21.3	22.5

2018	24.2
Total	$146.0

Average Annual Percentage Payout of
Incurred Claims by Age

Claim Age (Years)	1	2	3	4	5
Payout Percentage	95.1%	4.9%	—%	—%	—%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

8. OTHER INCOME

Other income consists of the following:

	For the Years Ended December 31,		
(In millions)	2018	2017	2016
Ancillary product profit sharing	$30.6	$23.9	$15.5
Remarketing fees	11.2	10.9	9.2
GPS-SID fees	6.4	11.1	13.5
Interest	5.0	2.2	1.7
Dealer enrollment fees	4.3	3.9	5.0
Dealer support products and services	4.1	4.8	4.7
Other	0.8	0.6	2.3
Total	$62.4	$57.4	$51.9

Ancillary product profit sharing consists of payments received from Third Party Providers ("TPPs") based upon the performance of vehicle service contracts and Guaranteed Asset Protection ("GAP") contracts and is recognized as income over the life of the vehicle service contracts and GAP contracts.

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

GPS-SID fees consist of fees we receive from a TPP for providing Dealers in certain states the ability to purchase GPS Starter Interrupt Devices ("GPS-SID"). Through this program, Dealers can install GPS-SID on vehicles financed by us that can be activated if the consumer fails to make payments on their account, and can result in the prompt repossession of the vehicle. Dealers purchase GPS-SID directly from the TPP and the TPP pays us a vendor fee for each device sold. GPS-SID fee income is recognized when the unit is sold.

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

Dealer enrollment fees include fees from Dealers that enroll in our Portfolio Program. Depending on the enrollment option selected by the Dealer, Dealers may have enrolled by paying us an upfront, one-time fee, or by agreeing to allow us to retain 50% of their first accelerated Dealer Holdback payment. For additional information regarding program enrollment, see Note 2 to the consolidated financial statements. A portion of the $9,850 upfront, one-time fee is considered to be Dealer support products and services revenue. The remaining portion of the $9,850 fee is considered to be a Dealer enrollment fee, which is amortized on a straight-line basis over the estimated life of the Dealer relationship. The 50% portion of the first accelerated Dealer Holdback payment is also considered to be a Dealer enrollment fee. We do not recognize any of this Dealer enrollment fee until the Dealer has met the eligibility requirements to receive an accelerated Dealer Holdback payment and the amount of the first payment, if any, has been calculated. Once the accelerated Dealer Holdback payment has been calculated, we defer the 50% portion that we keep and recognize it on a straight-line basis over the remaining estimated life of the Dealer relationship.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

(In millions)	For the Year Ended December 31, 2018							
	Ancillary product profit sharing	Remarketing fees	GPS-SID fees	Interest	Dealer enrollment fees	Dealer support products and services	Other	Total Other Income
Source of income								
Third Party Providers	$30.6	$ —	$ 6.4	$ 5.0	$ —	$ —	$ 0.8	$ 42.8
Dealers	—	11.2	—	—	4.3	4.1	—	19.6
Total	$30.6	$ 11.2	$ 6.4	$ 5.0	$ 4.3	4.1	$ 0.8	$ 62.4
Timing of revenue recognition								
Over time	$30.6	$ —	$ —	$ 5.0	$ 4.3	$ —	$ —	$ 39.9
At a point in time	—	11.2	6.4	—	—	4.1	0.8	22.5
Total	$30.6	$ 11.2	$ 6.4	$ 5.0	$ 4.3	$ 4.1	$ 0.8	$ 62.4

9. DEBT

Debt consists of the following:

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

(In millions)	As of December 31, 2017			
	Principal Outstanding	Unamortized Debt Issuance Costs	Unamortized Discount	Carrying Amount
Revolving secured line of credit (1)	$13.9	$ —	$ —	$13.9
Secured financing (2)	2,529.1	(15.0)	—	2,514.1
Senior notes	550.0	(5.9)	(1.3)	542.8
Total debt	$3,093.0	$ (20.9)	$ (1.3)	$3,070.8

(1) Excludes deferred debt issuance costs of $2.9 million and $2.8 million as of December 31, 2018 and December 31, 2017, respectively, which are included in other assets.
(2) Warehouse facilities and Term ABS financings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

General information for each of our financing transactions in place as of December 31, 2018 is as follows:

(Dollars in millions)

Financings	Wholly-owned Subsidiary	Maturity Date		Financing Amount		Interest Rate as of December 31, 2018
Revolving Secured Line of Credit	n/a	06/22/21		$ 350.0	(1)	At our option, either LIBOR plus 187.5 basis points or the prime rate plus 87.5 basis points
Warehouse Facility II (2)	CAC Warehouse Funding Corp. II	12/20/20	(3)	$ 400.0		LIBOR plus 175 basis points (4)
Warehouse Facility IV (2)	CAC Warehouse Funding LLC IV	04/30/20	(3)	$ 250.0		LIBOR plus 225 basis points (4)
Warehouse Facility V (2)	CAC Warehouse Funding LLC V	08/17/21	(5)	$ 100.0		LIBOR plus 190 basis points (4)
Warehouse Facility VI (2)	CAC Warehouse Funding LLC VI	09/30/20	(3)	$ 75.0		LIBOR plus 200 basis points
Warehouse Facility VII (2)	CAC Warehouse Funding LLC VII	12/17/20	(6)	$ 150.0		Commercial paper rate plus 200 (4)
Term ABS 2016-1 (2)	Credit Acceptance Funding LLC 2016-1	02/15/18	(3)	$ 385.0		LIBOR plus 195 basis points (4)
Term ABS 2016-2 (2)	Credit Acceptance Funding LLC 2016-2	05/15/18	(3)	$ 350.2		Fixed rate
Term ABS 2016-3 (2)	Credit Acceptance Funding LLC 2016-3	10/15/18	(3)	$ 350.0		Fixed rate
Term ABS 2017-1 (2)	Credit Acceptance Funding LLC 2017-1	02/15/19	(3)	$ 350.0		Fixed rate
Term ABS 2017-2 (2)	Credit Acceptance Funding LLC 2017-2	06/17/19	(3)	$ 450.0		Fixed rate
Term ABS 2017-3 (2)	Credit Acceptance Funding LLC 2017-3	10/15/19	(3)	$ 350.0		Fixed rate
Term ABS 2018-1 (2)	Credit Acceptance Funding LLC 2018-1	02/17/20	(3)	$ 500.0		Fixed rate
Term ABS 2018-2 (2)	Credit Acceptance Funding LLC 2018-2	05/15/20	(3)	$ 450.0		Fixed rate
Term ABS 2018-3 (2)	Credit Acceptance Funding LLC 2018-3	08/17/20	(3)	$ 398.3		Fixed rate
2021 Senior Notes	n/a	02/15/21		$ 300.0		Fixed rate
2023 Senior Notes	n/a	03/15/23		$ 250.0		Fixed rate
Mortgage Note	Chapter 4 Properties, LLC	08/06/23		$ 12.0		LIBOR plus 150 basis points

(1) The amount of the facility will decrease to $315.0 million on June 22, 2019.
(2) Financing made available only to a specified subsidiary of the Company.
(3) Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date based on the cash flows of the pledged assets.

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

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

(6) Represents the revolving maturity date. The outstanding balance will amortize after the revolving maturity date and any amounts remaining on December 17, 2022 will be due on that date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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

(In millions)	For the Years Ended December 31, 2018	2017
Revolving Secured Line of Credit		
Maximum outstanding principal balance	$265.4	$276.7
Average outstanding principal balance	40.6	80.3
Warehouse Facility II		
Maximum outstanding principal balance	$201.0	$275.0
Average outstanding principal balance	3.3	4.0
Warehouse Facility IV		
Maximum outstanding principal balance	$99.0	$12.0
Average outstanding principal balance	0.5	5.9
Warehouse Facility V		
Maximum outstanding principal balance	$99.0	$100.0
Average outstanding principal balance	1.1	7.8
Warehouse Facility VI		
Maximum outstanding principal balance	$75.0	$75.0
Average outstanding principal balance	0.4	7.8
Warehouse Facility VII		
Maximum outstanding principal balance	$150.0	$—
Average outstanding principal balance	7.8	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

(Dollars in millions)	As of December 31,	
	2018	2017
Revolving Secured Line of Credit		
Principal balance outstanding	$171.9	$13.9
Amount available for borrowing (1)	178.1	336.1
Interest rate	4.38 %	3.44 %
Warehouse Facility II		
Principal balance outstanding	$—	$—
Amount available for borrowing (1)	400.0	400.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	— %	— %
Warehouse Facility IV		
Principal balance outstanding	$—	$—
Amount available for borrowing (1)	250.0	100.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	— %	— %
Warehouse Facility V		
Principal balance outstanding	$—	$—
Amount available for borrowing (1)	100.0	100.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	— %	— %
Warehouse Facility VI		
Principal balance outstanding	$—	$—
Amount available for borrowing (1)	75.0	75.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	0.1	—
Interest rate	— %	— %
Warehouse Facility VII		
Principal balance outstanding	$—	$—
Amount available for borrowing (1)	150.0	150.0
Loans pledged as collateral	—	—
Restricted cash and cash equivalents pledged as collateral	1.0	1.0
Interest rate	— %	— %
Term ABS 2015-1		
Principal balance outstanding	$—	$78.0
Loans pledged as collateral	—	238.4
Restricted cash and cash equivalents pledged as collateral	—	23.3
Interest rate	— %	2.88 %
Term ABS 2015-2		
Principal balance outstanding	$—	$215.9
Loans pledged as collateral	—	313.3
Restricted cash and cash equivalents pledged as collateral	—	26.4
Interest rate	— %	2.72 %

Term ABS 2016-1		
Principal balance outstanding	$125.3	$385.0
Loans pledged as collateral	320.8	467.2
Restricted cash and cash equivalents pledged as collateral	29.6	36.6
Interest rate	4.41 %	3.18 %

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Term ABS 2016-2		
Principal balance outstanding	$184.5	$350.2
Loans pledged as collateral	335.0	428.0
Restricted cash and cash equivalents pledged as collateral	28.3	33.2
Interest rate	3.20 %	2.83 %
Term ABS 2016-3		
Principal balance outstanding	$300.6	$350.0
Loans pledged as collateral	392.7	425.7
Restricted cash and cash equivalents pledged as collateral	30.7	31.1
Interest rate	2.59 %	2.53 %
Term ABS 2017-1		
Principal balance outstanding	$350.0	$350.0
Loans pledged as collateral	429.8	425.9
Restricted cash and cash equivalents pledged as collateral	30.9	30.8
Interest rate	2.78 %	2.78 %
Term ABS 2017-2		
Principal balance outstanding	$450.0	$450.0
Loans pledged as collateral	548.4	545.8
Restricted cash and cash equivalents pledged as collateral	39.4	39.8
Interest rate	2.72 %	2.72 %
Term ABS 2017-3		
Principal balance outstanding	$350.0	$350.0
Loans pledged as collateral	426.1	482.6
Restricted cash and cash equivalents pledged as collateral	28.6	29.6
Interest rate	2.88 %	2.88 %
Term ABS 2018-1		
Principal balance outstanding	$500.0	$—
Loans pledged as collateral	614.5	—
Restricted cash and cash equivalents pledged as collateral	41.8	—
Interest rate	3.24 %	— %
Term ABS 2018-2		
Principal balance outstanding	$450.0	$—
Loans pledged as collateral	552.2	—
Restricted cash and cash equivalents pledged as collateral	36.3	—
Interest rate	3.68 %	— %
Term ABS 2018-3		
Principal balance outstanding	$398.3	$—
Loans pledged as collateral	578.8	—
Restricted cash and cash equivalents pledged as collateral	33.6	—
Interest rate	3.72 %	— %
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 %
Mortgage Note		

Principal balance outstanding	$11.9	$—
Interest rate	3.85 %	— %

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Revolving Secured Line of Credit Facility

We have a $350.0 million revolving secured line of credit facility with a commercial bank syndicate. The amount of the facility will decrease to $315.0 million on June 22, 2019. 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 five Warehouse facilities with total borrowing capacity of $975.0 million. Each of the facilities is with a different lender or group of lenders. Under each Warehouse facility, we can contribute Loans to our wholly-owned subsidiaries in return for cash and equity in each subsidiary. In turn, each subsidiary pledges the Loans as collateral to lenders to secure financing that will fund the cash portion of the purchase price of the Loans. The financing provided to each subsidiary under the applicable facility is generally limited to the lesser of 80% of the 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.

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

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 lenders. The Term ABS 2016-2, 2016-3, 2017-1, 2017-2, 2017-3, 2018-1, 2018-2 and 2018-3 transactions each consist of three classes of notes.

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. Each Funding LLC (other than that of Term ABS 2016-1) will then contribute the Loans to its respective trust. At the end of the applicable revolving period, the debt outstanding under each financing will begin to amortize.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

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 Value of Loans Contributed at Closing	24 Month Revolving Period
Term ABS 2016-1	February 26, 2016	481.4	Through February 15, 2018
Term ABS 2016-2	May 12, 2016	437.8	Through May 15, 2018
Term ABS 2016-3	October 27, 2016	437.8	Through October 15, 2018
Term ABS 2017-1	February 23, 2017	437.8	Through February 15, 2019
Term ABS 2017-2	June 29, 2017	563.2	Through June 17, 2019
Term ABS 2017-3	October 26, 2017	437.6	Through October 15, 2019
Term ABS 2018-1	February 22, 2018	625.1	Through February 17, 2020
Term ABS 2018-2	May 24, 2018	562.6	Through May 15, 2020
Term ABS 2018-3	August 23, 2018	500.1	Through August 17, 2020

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 (the "2017 senior notes") on February 21, 2014. During the first quarter of 2014, we recognized a pre-tax loss on extinguishment of debt of $21.8 million related to the redemption of the 2017 senior notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (CONTINUED)

Both the 2021 senior notes 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.

Mortgage Note

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

Principal Debt Maturities

The scheduled principal maturities of our debt as of December 31, 2018 are as follows:
(In millions)

Year	Revolving Secured Line of Credit Facility	Warehouse Facilities	Term ABS Financings (1)	Senior Notes	Mortgage Note	Total
2019	$ —	$ —	$ 1,048.0			