CREDIT ACCEPTANCE CORP
Form 10-Q
October 29, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2009

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)	(IRS Employer Identification)
25505 WEST TWELVE MILE ROAD SOUTHFIELD, MICHIGAN	**48034-8339**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: 248-353-2700

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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

Indicate the number of shares outstanding of each of the issuer s class of common stock, as of the latest practicable date.

The number of shares of Common Stock, par value $0.01, outstanding on October 23, 2009 was 30,983,373.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands, Except Per Share Data)	2009	2008	2009	2008
Revenue:				
Finance charges	$ 84,489	$ 75,617	$ 242,339	$ 210,119
Premiums earned	11,596	12	25,257	65
Other income	4,183	4,478	12,933	15,706
Total revenue	100,268	80,107	280,529	225,890
Costs and expenses:				
Salaries and wages	16,862	16,766	50,498	51,205
General and administrative	7,872	6,975	22,767	20,726
Sales and marketing	3,533	4,103	11,020	13,330
Provision for credit losses	(3,591)	8,383	(7,217)	31,792
Interest	8,144	10,954	23,352	31,702
Provision for claims	5,148	(13)	14,786	1
Total costs and expenses	37,968	47,168	115,206	148,756
Operating income	62,300	32,939	165,323	77,134
Foreign currency gain (loss)	3	(2)	9	(15)
Income from continuing operations before provision for income taxes	62,303	32,937	165,332	77,119
Provision for income taxes	21,491	12,606	59,358	28,828
Income from continuing operations	40,812	20,331	105,974	48,291
Discontinued operations				
(Loss) gain from discontinued United Kingdom operations	(13)	504	21	548
Provision for income taxes	65	178	75	218
(Loss) gain from discontinued operations	(78)	326	(54)	330

Net income	$	40,734	$	20,657	$	105,920	$	48,621
Net income per common share:								
Basic	$	1.33	$	0.68	$	3.47	$	1.61
Diluted	$	1.29	$	0.67	$	3.38	$	1.57
Income from continuing operations per common share:								
Basic	$	1.33	$	0.67	$	3.47	$	1.60
Diluted	$	1.29	$	0.66	$	3.38	$	1.56
(Loss) gain from discontinued operations per common share:								
Basic	$		$	0.01	$		$	0.01
Diluted	$		$	0.01	$		$	0.01
Weighted average shares outstanding:								
Basic		30,658,969		30,310,053		30,540,274		30,223,586
Diluted		31,539,119		31,024,455		31,370,580		30,994,466

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)	As of September 30, 2009 (unaudited)	As of December 31, 2008
ASSETS:		
Cash and cash equivalents	$ 1,610	$ 3,154
Restricted cash and cash equivalents	76,019	80,333
Restricted securities available for sale	2,779	3,345
Loans receivable (including $13,351 and $15,383 from affiliates as of September 30, 2009 and December 31, 2008, respectively)	1,180,340	1,148,752
Allowance for credit losses	(123,240)	(130,835)
Loans receivable, net	1,057,100	1,017,917
Property and equipment, net	18,801	21,049
Income taxes receivable	4,460	
Other assets	17,132	13,556
Total Assets	$ 1,177,901	$ 1,139,354
LIABILITIES AND SHAREHOLDERS EQUITY:		
Liabilities:		
Accounts payable and accrued liabilities	$ 81,106	$ 83,948
Line of credit	102,500	61,300
Secured financing	436,491	574,175
Mortgage note and capital lease obligations	5,285	6,239
Deferred income taxes, net	100,911	75,060
Income taxes payable		881
Total Liabilities	726,293	801,603
Shareholders Equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none issued		
Common stock, $.01 par value, 80,000,000 shares authorized, 30,985,892 and 30,666,691 shares issued and outstanding as of September 30, 2009 and December 31, 2008, respectively	309	306
Paid-in capital	18,491	11,829
Retained earnings	434,098	328,178
Accumulated other comprehensive loss, net of tax of $736 and $1,478 at September 30, 2009 and December 31, 2008, respectively	(1,290)	(2,562)

Total Shareholders Equity	451,608	337,751
Total Liabilities and Shareholders Equity	$ 1,177,901	$ 1,139,354

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
(Dollars in thousands)	**2009**	**2008**
Cash Flows From Operating Activities:		
Net income	$ 105,920	$ 48,621
Adjustments to reconcile cash provided by operating activities:		
Provision for credit losses	(7,217)	31,792
Depreciation	3,939	3,969
Loss on retirement of property and equipment	98	
Provision for deferred income taxes	25,109	14,192
Stock-based compensation	4,926	2,827
Change in operating assets and liabilities:		
Decrease in accounts payable and accrued liabilities	(842)	(250)
(Increase) decrease in income taxes receivable / increase (decrease) in income taxes payable	(5,341)	10,700
Increase in other assets	(3,576)	(1,838)
Net cash provided by operating activities	123,016	110,013
Cash Flows From Investing Activities:		
Decrease (increase) in restricted cash and cash equivalents	4,314	(8,891)
Purchases of restricted securities available for sale	(383)	(1,514)
Proceeds from sale of restricted securities available for sale		271
Maturities of restricted securities available for sale	963	551
Principal collected on Loans receivable	502,453	466,353
Advances to dealers and accelerated payments of Dealer Holdback	(412,423)	(430,423)
Purchases of Consumer Loans	(87,840)	(246,971)
Payments of Dealer Holdback	(34,300)	(46,482)
Net decrease (increase) in other loans	151	(131)
Purchases of property and equipment	(1,789)	(5,395)
Net cash used in investing activities	(28,854)	(272,632)
Cash Flows From Financing Activities:		
Borrowings under line of credit	523,900	573,900
Repayments under line of credit	(482,700)	(527,300)
Proceeds from secured financing	217,500	453,700
Repayments of secured financing	(355,184)	(339,336)
Principal payments under mortgage note and capital lease obligations	(954)	(1,157)
Repurchase of common stock	(540)	(66)
Proceeds from stock options exercised	889	2,102
Tax benefits from stock based compensation plans	1,390	990
Net cash (used in) provided by financing activities	(95,699)	162,833

Effect of exchange rate changes on cash		(7)		8
Net (decrease) increase in cash and cash equivalents		(1,544)		222
Cash and cash equivalents, beginning of period		3,154		712
Cash and cash equivalents, end of period	$	1,610	$	934
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the period for interest	$	22,613	$	31,662
Cash paid during the period for income taxes	$	38,886	$	2,033

See accompanying notes to consolidated financial statements.

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

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of actual results achieved for full fiscal years. The consolidated balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2008 for Credit Acceptance Corporation (the Company , Credit Acceptance , we , our or us). Certain prior period amounts have been reclassified to conform to the current presentatio

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

As of the date these financial statements were issued, there are no material subsequent events requiring additional disclosure in or amendment to these financial statements.

2. DESCRIPTION OF BUSINESS

Since 1972, Credit Acceptance has provided auto loans to consumers, regardless of their credit history. Our product is offered through a nationwide network of automobile dealers who benefit from sales of vehicles to consumers who otherwise could not obtain financing; from repeat and referral sales generated by these same customers; and from sales to customers responding to advertisements for our product, but who actually end up qualifying for traditional financing.

We refer to dealers who participate in our program and who share our commitment to changing consumers lives as Dealer-Partners . Upon enrollment in our financing program, the Dealer-Partner enters into a dealer servicing agreement with Credit Acceptance that defines the legal relationship between Credit Acceptance and the Dealer-Partner. 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 Dealer-Partners to us.

A consumer who does not qualify for conventional automobile financing can purchase a used vehicle from a Credit Acceptance Dealer-Partner and finance the purchase through us. We are an indirect lender from a legal perspective, meaning the Consumer Loan is originated by the Dealer-Partner and immediately assigned to us.

We have two programs: the Portfolio Program and the Purchase Program. Under the Portfolio Program, we advance money to Dealer-Partners (referred to as a Dealer Loan) in exchange for the right to service the underlying Consumer Loan. Under the Purchase Program, we buy the Consumer Loan from the Dealer-Partner (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 seven quarters:

Quarter Ended	Portfolio Program	Purchase Program
March 31, 2008	70.2%	29.8%
June 30, 2008	65.4%	34.6%
September 30, 2008	69.2%	30.8%
December 31, 2008	78.2%	21.8%

March 31, 2009	82.3%	17.7%
June 30, 2009	86.0%	14.0%
September 30, 2009	89.0%	11.0%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

2. DESCRIPTION OF BUSINESS (Continued)

Portfolio Program

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

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

We record the amount advanced to the Dealer-Partner as a Dealer Loan, which is classified within Loans receivable in our consolidated balance sheets. Cash advanced to Dealer-Partners is automatically assigned to the originating Dealer-Partner s open pool of advances. At the Dealer-Partner s option, a pool containing at least 100 Consumer Loans can be closed and subsequent advances assigned to a new pool. All advances due from a Dealer-Partner are secured by the future collections on the Dealer-Partner s portfolio of Consumer Loans assigned to us. For Dealer-Partners with more than one pool, the pools are cross-collateralized so the performance of other pools is considered in determining eligibility for Dealer Holdback. We perfect our security interest in the Dealer Loans by taking possession of the Consumer Loans.

The dealer servicing agreement provides that collections received by us during a calendar month on Consumer Loans assigned by a Dealer-Partner 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;
- Third, to reduce the aggregate advance balance and to pay any other amounts due from the Dealer-Partner to us; and
- Fourth, to the Dealer-Partner as payment of Dealer Holdback.

Dealer-Partners have an opportunity to receive an accelerated Dealer Holdback payment (Portfolio Profit Express) at the time a pool of 100 or more Consumer Loans is closed. The amount paid to the Dealer-Partner is calculated using a formula that considers the forecasted collections and the advance balance on the closed pool. If the collections on Consumer Loans from a Dealer-Partner s pool are not sufficient to repay the advance balance and any other amounts due to us, the Dealer-Partner will not receive Dealer Holdback.

Since typically the combination of the advance and the consumer s down payment provides the Dealer-Partner with a cash profit at the time of sale, the Dealer-Partner s risk in the Consumer Loan is limited. We cannot demand repayment of the advance from the Dealer-Partner except in the event the Dealer-Partner is in default of the dealer servicing agreement. Advances are made only after the Consumer Loan is approved, accepted and assigned to us and all other stipulations required for funding have been satisfied. The Dealer-Partner can also opt to repurchase Consumer Loans assigned under the Portfolio Program, at their discretion, for a fee.

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-Partner. The classification as a Dealer Loan for accounting purposes is primarily a result of (1) the Dealer-Partner s financial interest in the Consumer Loan and (2) certain elements of our legal relationship with the Dealer-Partner. For each individual Dealer-Partner, the amount of the Dealer Loan recorded in Loans receivable is comprised of the following:

- the aggregate amount of all cash advances to the Dealer-Partner;
- finance charges;

- Dealer Holdback payments;
- Portfolio Profit Express payments; and
- recoveries.

Less:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

2. DESCRIPTION OF BUSINESS (Concluded)

Purchase Program

We began offering a Purchase Program on a limited basis in March of 2005. The Purchase Program differs from our Portfolio Program in that the Dealer-Partner receives a single payment from us at the time of origination instead of a cash advance and Dealer Holdback.

For accounting purposes, the transactions described under the Purchase Program are considered to be originated by the Dealer-Partner and then purchased by us. The amount of Purchased Loans recorded in Loans receivable is comprised of the following:

- the aggregate amount of all amounts paid to purchase Consumer Loans from Dealer-Partners;
- finance charges; and
- recoveries.

Less:

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

Program Enrollment

Dealer-Partners have two enrollment options available to them for access to our programs. The first enrollment option allows Dealer-Partners to assign Consumer Loans under the Portfolio Program and requires payment of an upfront, one-time enrollment fee of $9,850. The second enrollment option, which became effective September 1, 2009, allows Dealer-Partners to assign Consumer Loans under the Portfolio Program and requires payment of an upfront, one-time enrollment fee of $1,950 and an agreement to allow us to keep 50% of their first Portfolio Profit Express payment. Prior to September 1, 2009, Dealer-Partners who chose the second enrollment option did not pay an upfront fee but agreed to allow us to keep 50% of their first Portfolio Profit Express payment. For all Dealer-Partners enrolling in our program after August 31, 2008, access to the Purchase Program is only granted after the first Portfolio Profit Express payment has been made under the Portfolio Program.

3. SIGNIFICANT ACCOUNTING POLICIES

Reinsurance

During the fourth quarter of 2008, we formed VSC Re Company (VSC Re), a wholly-owned subsidiary that is engaged in the business of reinsuring coverage under vehicle service contracts sold to consumers by Dealer-Partners on vehicles financed by us. VSC Re currently reinsures vehicle service contracts that are underwritten by two of our three third party insurers. Vehicle service contract premiums, which represent the selling price of the vehicle service contract to the consumer, less commissions 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, the exposure to fund claims is limited to the amount of premium dollars contributed, less amounts earned and withdrawn, plus $0.5 million of equity contributed. With the reinsurance structure, we are able to access projected excess trust assets monthly and will record revenue and expense on an accrual basis. We formed VSC Re in order to enhance our control and the security of the trust assets that will be used to pay future vehicle service contract claims. The income we expect to earn from vehicle service contracts over time will likely not be impacted as, both before and after the formation, the income we recognize is based on the amount by which vehicle service contract premiums exceed claims. The only change in our risk associated with adverse claims experience relates to the $0.5 million equity contribution that was required as part of this new structure, which is now at risk in the event claims exceed premiums. Under the prior structure, our risk was limited to the amount of premiums contributed to the trusts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. For the three and nine months ended September 30, 2009, net assumed written premiums were $7.3 million and $23.5 million, respectively, net premiums earned were $11.6 million and $25.3 million, respectively, and provision for claims was $5.2 million and $14.8 million, respectively. For the three and nine months ended September 30, 2009, we amortized $0.5 million and $0.7 million, respectively, of capitalized acquisition costs related to premium tax. Capitalized acquisition costs are amortized over the life of the contracts in proportion to premiums earned. Under the Consolidation Topic of the FASB Accounting Standards Codification (FASB ASC), we are considered the primary beneficiary of the trusts and as a result, trust assets of $36.5 million and $29.3 million at September 30, 2009 and December 31, 2008, respectively, have been consolidated on our balance sheet as restricted cash and cash equivalents. As of September 30, 2009 and December 31, 2008, accounts payable and accrued liabilities includes $23.0 million and $23.3 million of unearned premium, respectively, and $1.1 million and $0.9 million of claims reserve related to our reinsurance of vehicle service contracts, respectively. The claims reserve is estimated based on historical claims experience.

Prior to the formation of VSC Re, our agreements with two of our vehicle service contract third party administrators (TPAs) allowed us to receive profit sharing payments depending upon the performance of the vehicle service contract programs. The agreements also required that vehicle service contract premiums be placed in trust accounts. Funds in the trust accounts were utilized by the TPA to pay claims on the vehicle service contracts. Upon the formation of VSC Re during the fourth quarter of 2008, the unearned premiums on the majority of the vehicle service contracts that had been written through these two TPAs were ceded to VSC Re along with any related trust assets. Vehicle service contracts written prior to 2008 through one of the TPAs remain under this profit sharing arrangement. Profit sharing payments, if any, on the vehicle service contracts are distributed to us periodically after the term of the vehicle service contracts have substantially expired provided certain loss rates are met. Under the Consolidation Topic of the FASB ASC, we are considered the primary beneficiary of the trusts. As a result, the assets and liabilities of the remaining trust have been consolidated on our balance sheet. As of September 30, 2009 and December 31, 2008, the remaining trust had $4.4 million and $5.4 million, respectively, in assets available to pay claims and a related claims reserve of $3.6 million and $4.7 million, respectively. The trust assets are included in restricted cash and cash equivalents and restricted securities available for sale. The claims reserve is included in accounts payable and accrued liabilities in the consolidated balance sheets. A third party insures claims in excess of funds in the trust accounts.

Our determination to consolidate the VSC Re trusts and the profit sharing trusts under the Consolidation Topic of the FASB ASC was based on the following:

First, we determined that the trusts qualified as variable interest entities as defined under the Consolidation Topic of the FASB ASC. The trusts have insufficient equity at risk as no parties to the trusts were required to contribute assets that provide them with any ownership interest.

Next, we determined that we have variable interests in the trusts. We have a residual interest in the assets of the trusts, which is variable in nature, given that it increases or decreases based upon the actual loss experience of the related service contracts. In addition, for VSC Re, we are required to absorb any losses in excess of the trusts assets, up to the $0.5 million of equity contributed.

Finally, we determined that we are the primary beneficiary of the trusts. The trusts are not expected to generate losses that need to be absorbed by the parties to the trusts. The trusts are expected to generate residual returns and we are entitled to all of those returns.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents decreased to $76.0 million at September 30, 2009 from $80.3 million at December 31, 2008. The following table summarizes restricted cash and cash equivalents:

	As of	
(in thousands)	September 30, 2009	December 31, 2008
Cash collections related to secured financings	$ 37,926	$ 48,956
Cash held in trusts for future vehicle service contract claims (1)	38,093	31,377
Total restricted cash and cash equivalents	$ 76,019	$ 80,333

(1) The unearned premium and claims reserve associated with the trusts are included in accounts payable and accrued liabilities in the consolidated balance sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Securities Available for Sale

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

Restricted securities available for sale consisted of the following:

		As of September 30, 2009		
(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
US Government and agency securities	$ 1,072	$ 29	$ (1)	$ 1,100
Corporate bonds	1,665	15	(1)	1,679
Total restricted securities available for sale	$ 2,737	$ 44	$ (2)	$ 2,779

		As of December 31, 2008		
(in thousands)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
US Government and agency securities	$ 842	$ 53	$	$ 895
Corporate bonds	2,475	9	(34)	2,450
Total restricted securities available for sale	$ 3,317	$ 62	$ (34)	$ 3,345

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 thousands)	As of September 30, 2009		As of December 31, 2008	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Contractual Maturity				
Within one year	$ 1,885	$ 1,903	$ 1,665	$ 1,670
Over one year to five years	852	876	1,652	1,675
Total restricted securities available for sale	$ 2,737	$ 2,779	$ 3,317	$ 3,345

Deferred Debt Issuance Costs

As of September 30, 2009 and December 31, 2008, deferred debt issuance costs were $6.0 million (net of accumulated amortization of $6.1 million) and $3.4 million (net of accumulated amortization of $5.6 million), respectively, and are included in other assets in the consolidated balance sheets. Expenses associated with the issuance of debt instruments are capitalized and amortized as interest expense over the term of the debt instrument on a level-yield basis for term secured financings and on a straight-line basis for lines of credit and revolving secured warehouse facilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

3. SIGNIFICANT ACCOUNTING POLICIES (Concluded)

Accounting Standards Updates

Disclosures About Derivative Instruments and Hedging Activities. In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 was incorporated into the FASB ASC through Accounting Standards Update (ASU) No. 2009-01 on June 30, 2009 and is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures. The adoption on January 1, 2009 had no financial impact on our consolidated financial statements, but expanded our disclosures.

Interim Disclosures about Fair Value of Financial Instruments. In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 was incorporated into the FASB ASC through ASU No. 2009-01 on June 30, 2009 and is intended to enhance consistency in financial reporting by increasing the frequency of fair value disclosures. The adoption during the second quarter of 2009 had no financial impact on our consolidated financial statements, but expanded our interim disclosures.

Recognition and Presentation of Other-Than-Temporary Impairments. In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 was incorporated into the FASB ASC through ASU No. 2009-01 on June 30, 2009 and amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The adoption during the second quarter of 2009 did not have an impact on our consolidated financial statements.

Subsequent Events. In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165). SFAS 165 was incorporated into the FASB ASC through ASU No. 2009-01 on June 30, 2009 and is intended to establish principles and requirements for subsequent events. The adoption during the second quarter of 2009 had no financial impact on our financial statements, but expanded our disclosures.

Accounting for Transfers of Financial Assets. In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (SFAS 166). SFAS 166 is intended to improve the information provided in financial statements about the transfer of financial assets and the effects of the transfer on financial position and performance, and cash flows. This SFAS will be incorporated into the FASB ASC and will be effective for interim and annual reporting periods beginning after November 15, 2009, with early adoption prohibited. This statement must be applied to transfers occurring on or after the effective date. We do not expect SFAS 166 to have a material impact on our consolidated financial statements.

Amendments to FASB Interpretation No. 46(R). In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 is intended to improve financial reporting related to variable interest entities. This SFAS will be incorporated into the FASB ASC and will be effective for interim and annual reporting periods beginning after November 15, 2009, with early adoption prohibited. We are currently assessing the impact of SFAS 167 on our consolidated financial statements.

The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 was incorporated into the FASB ASC through ASU No. 2009-02 on June 30, 2009 and identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). The adoption did not have a material impact on our consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

4. LOANS RECEIVABLE

A summary of changes in Loans receivable is as follows (in thousands):

	Three Months Ended September 30, 2009		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 858,559	$ 325,535	$ 1,184,094
New loans	129,677	19,974	149,651
Transfers	(3,666)	3,666	
Dealer Holdback payments	10,335		10,335
Net cash collections on Loans	(126,859)	(36,411)	(163,270)
Write-offs	(1,034)	(25)	(1,059)
Recoveries	664	6	670
Net change in other loans	(152)		(152)
Currency translation	71		71
Balance, end of period	$ 867,595	$ 312,745	$ 1,180,340

	Three Months Ended September 30, 2008		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 859,691	$ 284,718	1,144,409
New loans	109,027	61,697	170,724
Transfers	(3,473)	3,473	
Dealer Holdback payments	13,736		13,736
Net cash collections on Loans	(122,400)	(29,399)	(151,799)
Write-offs	(21,411)	(15)	(21,426)
Recoveries		3	3
Net change in other loans	(20)		(20)
Currency translation	(36)		(36)
Balance, end of period	$ 835,114	$ 320,477	$ 1,155,591

	Nine Months Ended September 30, 2009		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 823,567	$ 325,185	$ 1,148,752
New loans	412,423	87,840	500,263
Transfers	(11,594)	11,594	
Dealer Holdback payments	34,300		34,300
Net cash collections on Loans	(390,603)	(111,850)	(502,453)
Write-offs	(2,851)	(60)	(2,911)
Recoveries	2,374	36	2,410
Net change in other loans	(151)		(151)
Currency translation	130		130

Balance, end of period	$ 867,595	$ 312,745	$ 1,180,340

	Nine Months Ended September 30, 2008		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 804,245	$ 140,453	944,698
New loans	430,423	246,971	677,394
Transfers	(5,571)	5,571	
Dealer Holdback payments	46,482		46,482
Net cash collections on Loans	(393,851)	(72,502)	(466,353)
Write-offs	(46,660)	(34)	(46,694)
Recoveries		18	18
Net change in other loans	131		131
Currency translation	(85)		(85)
Balance, end of period	$ 835,114	$ 320,477	$ 1,155,591

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

4. LOANS RECEIVABLE (Concluded)

A summary of changes in the Allowance for credit losses is as follows (in thousands):

	Three Months Ended September 30, 2009		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 111,721	$ 15,432	$ 127,153
Provision for credit losses	(1,269)	(2,322)	(3,591)
Write-offs	(1,034)	(25)	(1,059)
Recoveries	664	6	670
Currency translation	67		67
Balance, end of period	$ 110,149	$ 13,091	$ 123,240

	Three Months Ended September 30, 2008		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 125,814	$ 6,445	$ 132,259
Provision for credit losses	5,115	3,268	8,383
Write-offs	(21,411)	(15)	(21,426)
Recoveries		3	3
Currency translation	(35)		(35)
Balance, end of period	$ 109,483	$ 9,701	$ 119,184

	Nine Months Ended September 30, 2009		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 113,831	$ 17,004	$ 130,835
Provision for credit losses	(3,328)	(3,889)	(7,217)
Write-offs	(2,851)	(60)	(2,911)
Recoveries	2,374	36	2,410
Currency translation	123		123
Balance, end of period	$ 110,149	$ 13,091	$ 123,240

	Nine Months Ended September 30, 2008		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$ 133,201	$ 944	$ 134,145
Provision for credit losses	23,019	8,773	31,792
Write-offs	(46,660)	(34)	(46,694)
Recoveries		18	18
Currency translation	(77)		(77)

Balance, end of period	$ 109,483	$ 9,701	$ 119,184

For the three and nine months ended September 30, 2009, the provision for credit losses decreased as a result of an improvement in the performance of our Loan portfolio. During the second quarter of 2008, as a result of lower than expected realized collection rates, we reduced the estimated future net cash flows expected from our Loan portfolio, which resulted in a provision for credit losses of $20.8 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. DEBT

We currently use three primary sources of debt financing: (1) a revolving secured line of credit with a commercial bank syndicate; (2) revolving secured warehouse facilities with institutional investors; and (3) SEC Rule 144A asset-backed secured financings (Term ABS 144A) with qualified institutional investors. General information for each of the Company s financing transactions in place as of September 30, 2009 is as follows (dollars in thousands):

Financings	Wholly-owned Subsidiary	Issue Number	Close Date	Maturity Date	Financing Amount	Interest Rate at September 30, 200
evolving Line of Credit	n/a	n/a	June 15, 2009	June 23, 2011	$140,000	At the Company's option, either the Eurodollar rate plus 275 basis points or the prime rate plus 100 basis points
/arehouse Facility evolving Secured (1)	CAC Warehouse Funding Corp. II	2003-2	August 24, 2009	August 23, 2011 (7)	$325,000	Commercial paper rate plus 500 basis points or LIBOR plus 600 basis points (4) (5)
evolving Secured /arehouse Facility (1)	CAC Warehouse Funding III, LLC	2008-2	August 31, 2009	August 31, 2012 (6)	$ 75,000	Commercial paper rates plus 375 basis points or LIBOR plus 375 basis points (3) (4) (5)
erm ABS 144A 2007-2 (1)	Credit Acceptance Funding LLC 2007-2	2007-2	October 29, 2007	October 15, 2008 (2)	$100,000	Fixed rate (3)
erm ABS 144A 2008-1 (1)	Credit Acceptance Funding LLC 2008-1	2008-1	April 18, 2008	April 15, 2009 (2)	$150,000	Fixed rate (3)

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

(2) *Loans will amortize after the maturity date based on the cash flows of the contributed assets.*

(3) A portion of the outstanding balance is a floating rate obligation that has been converted to a fixed rate obligation via an interest rate swap.

(4) The LIBOR rate is used if funding is not available from the commercial paper market.

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

(6) Facility revolves until August 31, 2011 and matures on August 31, 2012.

(7) Facility revolves until August 23, 2010 and matures on August 23, 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

5. DEBT (Continued)

Additional information related to the amounts outstanding on each facility is as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Revolving Line of Credit				
Maximum outstanding balance	$124,600	$ 82,900	$128,900	$128,400
Average outstanding balance	89,293	56,282	85,785	59,038
Revolving Secured Warehouse Facility (2003-2) (1)				
Maximum outstanding balance	$325,000	$264,061	$325,000	$297,211
Average outstanding balance	290,327	258,743	273,663	262,398
Revolving Secured Warehouse Facility (2008-2)				
Maximum outstanding balance	$ 50,000	$ 50,000	$ 50,000	$ 50,000
Average outstanding balance	50,000	50,000	50,000	50,000

(1) 2008 data includes amounts owing after February 12, 2008 to an institutional investor that did not renew their participation in the facility. The amount due did not reduce the amount available on the Warehouse Facility. See Revolving Secured Warehouse Facilities for additional information.

	As of	
	September 30, 2009	**December 31, 2008**

Revolving Line of Credit		
Balance outstanding	$102,500	$ 61,300
Letter(s) of credit	514	555
Amount available for borrowing	36,986	91,645
Interest rate	4.25%	1.70%
Revolving Secured Warehouse Facility (2003-2)		
Balance outstanding	$274,500	$ 256,000
Amount available for borrowing	50,500	69,000
Contributed eligible Loans	393,056	344,111
Interest rate	5.64%	3.33%
Revolving Secured Warehouse Facility (2008-2)		
Balance outstanding	$ 50,000	$ 50,000
Amount available for borrowing	25,000	
Contributed eligible Loans	93,781	62,562
Interest rate	4.00%	2.21%
Term ABS 144A 2007-1		
Balance outstanding	$	$ 33,915
Contributed eligible Dealer Loans		87,155
Interest rate		5.32%
Term ABS 144A 2007-2		
Balance outstanding	$ 15,107	$ 84,260
Contributed eligible Dealer Loans	78,295	114,054
Interest rate	6.22%	6.22%
Term ABS 144A 2008-1		
Balance outstanding	$ 96,884	$ 150,000
Contributed eligible Loans	159,050	184,595
Interest rate	6.37%	6.37%
Residual Credit Facility		
Balance outstanding	$	$
Certificate Pledged		52,944
Interest rate		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. DEBT (Continued)

Line of Credit Facility

During the second quarter of 2009, we extended the maturity of the line of credit facility with a commercial bank syndicate from June 22, 2010 to June 23, 2011, and we reduced the amount of the facility from $153.5 million to $140.0 million. The interest rate on borrowings under the facility was increased from the prime rate minus 0.60% or the Eurodollar rate plus 1.25%, at the Company s option, to the prime rate plus 1.0% or the Eurodollar rate plus 2.75%, at the Company s option. The Eurodollar rate is subject to a floor of 1.50%. In addition, certain financial covenants were modified as follows:

The maximum funded debt to tangible net worth ratio was reduced from 4.0 to 1.0 to a ratio of 3.25 to 1.0

The minimum fixed charge coverage ratio was increased from 1.75 to 1.0 to a ratio of 2.0 to 1.0

The minimum asset coverage ratio was increased from 1.0 to 1.0 to a ratio of 1.1 to 1.0

Borrowings under the line of credit 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), the amount of letters of credit issued under the line of credit, and the amount of other debt secured by the collateral which secures the line of credit. Borrowings under the line of credit agreement are secured by a lien on most of our assets. We must pay annual and quarterly fees on the amount of the facility.

Revolving Secured Warehouse Facilities

We have two revolving secured warehouse facilities that are provided to wholly-owned subsidiaries of the Company. One is a $325.0 million facility with an institutional investor and the other is a $75.0 million facility with another institutional investor.

During the third quarter of 2009, the maturity of the $325.0 million revolving secured warehouse facility was extended. The agreement was modified to provide that in the event that the facility is not renewed after the revolving period ends on August 23, 2010, and the borrower is in compliance with the terms and conditions of the agreement, the facility will amortize for a twelve month period ending August 23, 2011. During this time, the outstanding debt will be paid down through the collections on the contributed assets. At the end of the twelve month period, the balance of the facility will be due and payable. Additionally, the interest rate on borrowings under the facility was increased from the commercial paper rate plus 100 basis points to the commercial paper rate plus 500 basis points. Finally, under the terms of the extension, the minimum levels for the three month average net yield percentage to avoid early amortization or termination of the facility were reduced from 6% and 5%, respectively, to 2% and 1%, respectively. The net yield percentage for any month is equal to the product of (i) 12, and (ii) 20% of collections less the amount of interest and fees due on the facility, divided by the average borrowing base during the month. There were no other material changes to the terms of the facility.

During the third quarter of 2009, the amount of the $50.0 million revolving secured warehouse facility was increased to $75.0 million. In addition, the expiration of the revolving period on the facility was extended from May 23, 2010 to August 31, 2011 and the maturity of the facility was extended from May 23, 2011 to August 31, 2012. Finally, the interest rate on the facility was increased from a floating rate equal to LIBOR plus 177.5 basis points to LIBOR plus 375.0 basis points. There were no other material changes to the terms of the facility.

Under both warehouse facilities we can contribute Loans to our wholly-owned subsidiaries in return for cash and equity in each subsidiary. In turn, each subsidiary pledges the Loans as collateral to institutional investors to secure financing that will fund the cash portion of the purchase price of the Loans. The financing provided to each subsidiary under the applicable facility is limited to the lesser of 80% of the net book value of the contributed Loans or the facility limit.

The subsidiaries are liable for any amounts due under the applicable facility. Even though the subsidiaries and the Company are consolidated for financial reporting purposes, the financing is non-recourse to us. As the subsidiaries are organized as separate legal entities from the Company, assets of the subsidiaries (including the conveyed Loans) will not be available to satisfy the general obligations of the Company. All of each subsidiary s assets have been encumbered to secure its obligations to its respective creditors.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. DEBT (Continued)

Interest on borrowings under the facilities has been limited to a maximum rate of 6.75% plus the spread over the LIBOR rate or the commercial paper rate, as applicable, through interest rate cap agreements. The subsidiaries pay us a monthly servicing fee equal to 6% of the collections received with respect to the conveyed Loans. The fee is paid out of the collections. Except for the servicing fee and holdback payments due to Dealer-Partners, 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 are paid in full.

Term ABS 144A Financings

In 2007 and 2008, three of our wholly-owned subsidiaries (the Funding LLCs), each completed a secured financing transaction. 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 contributed the Loans to a respective trust that issued notes to qualified institutional investors. Financial insurance policies were issued in connection with the 2007 transactions. The policies guarantee the timely payment of interest and ultimate repayment of principal on the final scheduled distribution date. In the 2007 transactions, the notes were initially rated Aaa by Moody s Investor Service (Moody s) and AAA by Standard & Poor s Rating Services (S&P) based upon the financi insurance policy. As of September 30, 2009, due to downgrades in the debt ratings of the insurer, the Term ABS 114A 2007-2 transaction was rated Baa2 by Moody s and A- by S&P. The Term ABS 144A 2008-1 transaction was rated A by S&P.

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

The financings create loans for which the trusts are liable and which are secured by all the assets of each trust. Such loans are non-recourse to us, even though the trusts, the Funding LLCs and the Company are consolidated for financial reporting purposes. Because the Funding LLCs are organized as separate legal entities from the Company, their assets (including the contributed Loans) are not available to satisfy our general obligations. 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. Aside from the servicing fee and holdback payments due to Dealer-Partners, we do not receive, or have any rights in the collections. 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 under certain specified circumstances. Alternatively, when a 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. The collections will then 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 144A Financings (dollars in thousands):

Term ABS 144A Financing	Issue Number	Close Date	Net Book Value of Dealer Loans Contributed at Closing	Revolving Period	Expected Annualized Rates (1)
Term ABS 144A 2007-2	2007-2	October 29, 2007	$ 125,000	12 months (Through October 15, 2008)	8.0%
Term ABS 144A 2008-1	2008-1	April 18, 2008	$ 86,615	12 months (Through April 15, 2009)	6.9%

(1) Includes underwriter s fees, insurance premiums and other costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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5. DEBT (Concluded)

Residual Credit Facility

Another wholly-owned subsidiary, Credit Acceptance Residual Funding LLC, had a $50.0 million secured credit facility with an institutional investor. On August 26, 2009, the $50.0 million residual credit facility matured and was not renewed. No amounts were outstanding under the $50.0 million residual credit facility at the maturity date.

Mortgage Note

During 2009, the mortgage note on our Southfield headquarters was amended to extend the maturity date from June 9, 2009 to June 22, 2014. Additionally, the interest rate on the note was increased from 5.35% to 5.70%. There was $4.8 million and $5.3 million outstanding on this loan as of September 30, 2009 and December 31, 2008, respectively.

Debt Covenants

As of September 30, 2009, we are in compliance with all our debt covenants including those that require the maintenance of certain financial ratios and other financial conditions. The most restrictive covenants require a minimum ratio of our assets to debt and a minimum ratio of our earnings before interest, taxes and non-cash expenses to fixed charges. The covenants also limit the maximum ratio of our funded debt to tangible net worth. Additionally, we must maintain consolidated net income of not less than $1 for the two most recently ended fiscal quarters. Some of the debt covenants may indirectly limit the payment of dividends on common stock.

6. DERIVATIVE INSTRUMENTS

Interest Rate Caps. We purchase interest rate cap agreements to manage the interest rate risk on our $325.0 million revolving secured warehouse facility and on $50.0 million of the $75.0 million revolving secured warehouse facility. As we have not designated these agreements as hedges as defined under the Derivatives and Hedging Topic of the FASB ASC, changes in the fair value of these agreements will increase or decrease interest expense.

As of September 30, 2009, eight interest rate cap agreements with various maturities between May 2010 and August 2011 were outstanding with a cap rate of 6.75% plus the spread over the LIBOR rate or the commercial paper rate, as applicable, and a nominal fair value. As of December 31, 2008, seven interest rate cap agreements with various maturities between July 2009 and February 2011 were outstanding with a cap rate of 6.75% plus the spread over the LIBOR rate or the commercial paper rate, as applicable, and a nominal fair value.

Interest Rate Swaps. We have entered into two interest rate swaps to convert $50.0 million and $150.0 million in floating rate Term ABS 144A ass