



## Factsheet

### Overview

We are a nationwide automobile dealer services company, providing dealers with unique financial and servicing solutions, including advances on automobile loans and servicing and collection services on these loans. We provide consumers, who in many cases, without our program, would not be able to finance their automobile purchase, with the opportunity to change their lives by establishing or reestablishing their credit. We refer to participating dealers who share our commitment to changing customers' lives as "dealer-partners."

### Corporate History

In 1967, Donald Foss, the Company's current Chairman, began selling used automobiles in the greater Detroit metropolitan area, principally to customers who did not qualify for traditional financing. At this time, Mr. Foss was extending credit to sub-prime obligors and collecting these loans from each dealership location. Credit Acceptance was incorporated in 1972 for the purpose of centralizing the receivables management and collection activities of the dealerships owned by Mr. Foss. In 1982, Credit Acceptance began offering collection services to unaffiliated dealers. During the period from its founding in 1972 through early 1989, the Company primarily focused on providing funding, receivables management and collection services to affiliated dealers, and gradually to unaffiliated dealers, located in the Great Lakes region.

With the goal of making its program more attractive, the Company introduced its present Advance concept in 1988. The Advance was based on a formula designed to provide dealers with an initial, positive cash flow upon the sale of a vehicle, but not enough for the Company to assume the primary credit risk on the transaction. Following the introduction of this concept, the Company experienced growth in both dealers participating in the program and the dollar amount of loans serviced.

During the late 1980's, the Company experienced significant growth in the Great Lakes region and by 1991, began developing a nationwide growth strategy. By 1996, the Company had operations in all 50 states, the United Kingdom, Canada, and Ireland.

### Business Operations

We are organized into two reportable business segments - United States and Other. The United States segment is our only active business segment and consists of our United States automobile financing business. We derive revenue primarily from: (1) fees earned as a result of servicing automobile loans originated and assigned to us by dealer-partners; (2) license fees from our dealer-partners for access to our patented proprietary Internet-based credit application processing system, called CAPS; and (3) other sources, such as fees earned from third party service contract programs, fees charged to dealer-partners at the time they enroll in our program, and premiums earned on credit life insurance programs.

We discontinued originating leases in January 2002 and ceased originating new loans in the United Kingdom and Canada effective June 30, 2003. The results of these businesses are now included in the Other business segment. We exited these businesses because we believed that capital invested in these operations could be redeployed at higher returns in the United States.

### Program Benefits

Our program is designed to maximize the opportunity for profits for both Credit Acceptance and our dealer-partners. The program significantly increases dealer-partners' profits in the following ways:

- Enables dealer-partners to sell vehicles to consumers who may not be able to obtain financing without the Company's program. In addition, consumers often become repeat customers by financing future vehicle purchases either through the Company's program or, after they have successfully established or reestablished their credit, through conventional financing.
- Allows dealer-partners to share in the profits not only from the sale of the vehicle, but also from its financing.
- Enables dealer-partners to attract consumers by advertising "guaranteed credit approval", where allowed by law. The consumers will often use other services of the dealer-partners and refer friends and relatives to them.
- Enables dealer-partners to attract consumers who mistakenly assume they do not qualify for conventional financing.

## **Technology Driven**

Our patented CAPS internet origination system allows dealer-partners to (1) receive an approval from us much faster than with traditional methods and (2) interact with our credit scoring and inventory management system to optimize each transaction prior to delivery. We also provide dealer-partners with sales training and marketing assistance.

## **Unique Business Model**

We believe our business model significantly reduces the risk of credit loss. For approved loans, we make an advance to the dealer-partner and accept assignment of the dealer-partner's automobile loan. While our program permits dealer-partners to offer guaranteed credit approval, we use a proprietary credit scoring system, based on historical collection data and detailed static pool analyses, that enables us to structure automobile loans and our advances to achieve an appropriate risk-adjusted return. To further mitigate our risk of advance losses, we cross-collateralize, or "pool," a dealer-partner's advances so that cash flows from all of the automobile loans originated by a given dealer-partner are used to reduce the aggregate advance balance related to those loans.

We service and collect payments on the automobile loans assigned to us by our dealer-partners. Payments received are first applied to reimburse us for certain collection costs and pay our 20% servicing fee, with the remainder used to reduce the dealer-partner's outstanding advance balance on the related pool. After the advance balance owed to us for the pool is fully repaid, we continue to collect payments on these loans on the dealer-partner's behalf, with the residual collections passed through to the dealer-partner after we have been reimbursed for certain collection costs and collected our servicing fee. These additional payments, which we call "dealer holdbacks," allow dealer-partners to share in the profits not only from the sale of the vehicle, but also from its financing. As a result, we align the interests of the dealer-partners with ours to maximize the profitability of both.

To illustrate how our business model works, assume that a customer purchases a vehicle from a dealer-partner and enters into a financing arrangement that provides for payments totaling \$10,000 over 36 months. Using our proprietary credit scoring system, we determine an appropriate advance to the dealer-partner. Assuming an advance rate of 46% for this transaction, we make an advance to the dealer-partner of \$4,600. The customer makes payments directly to us. In this example, the monthly payments are approximately \$280. Of each \$280 monthly payment, assuming no reimbursable collection costs, we retain 20%, or \$56, as our servicing fee and apply the remaining 80% of each payment to repay the dealer-partner's outstanding advance with us. Once the dealer-partner's advance balance is fully repaid, we continue to retain 20% of each payment as our servicing fee and remit the remaining amount to the dealer-partner. Assuming this loan was repaid in full, we would receive \$2,000 in servicing fees, the advance to the dealer-partner would be fully repaid, and the dealer-partner would receive \$8,000 (which includes the dealer-partner's advance of \$4,600), plus the down payment originally received from the customer, as payment for the vehicle.

We pool loans received by each dealer-partner and agree to make further payments to the dealer-partner only after all advances in the pool are fully repaid. For example, if our dealer-partner finances the sale of 20 vehicles on economic terms identical to those described in the preceding paragraph, we would make a total of \$92,000 in advances to the dealer-partner and would be owed approximately \$5,600 in monthly payments. Under our pooling arrangement, however, we are not obligated to make any additional payments to the dealer-partner until the aggregate amount of the dealer-partner's advance balance (\$92,000) is repaid. Thus, even if one or more customers default on payments on their loans, we can apply the payments received from the non-defaulting customers to offset the aggregate amount of the dealer-partner's advance.

## **Economic Profit Focus**

Since January of 2000, we have directed our business focus on maximizing Economic Profit. Economic Profit calculates the true profitability of a company by including a cost for equity capital in addition to the costs for debt capital (i.e. interest) already inherent in Net Income. Economic Profit serves as a basis for setting corporate, business unit, departmental, and individual as well as dealer-partner objectives and goals. Dealer-partners are evaluated based on their ability to generate economic profit in their pools of automobile loans, and management compensation is directly tied to factors that drive improvements in economic profit.