CREDIT ACCEPTANCE CORP
Form 10-Q
July 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2016

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 (State or other jurisdiction of incorporation or organization)	38-1999511 (I.R.S. Employer Identification No.)
25505 WEST TWELVE MILE ROAD SOUTHFIELD, MICHIGAN (Address of principal executive offices)	48034-8339 (Zip Code)

248-353-2700
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 þ No o

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

Large accelerated filer þ	Accelerated filer o	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

The number of shares of Common Stock, par value $0.01, outstanding on July 22, 2016 was 20,328,315.

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PART I. - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Dollars in millions, except per share data)	As of June 30, 2016	December 31, 2015
ASSETS:		
Cash and cash equivalents	$158.3	$ 6.3
Restricted cash and cash equivalents	233.7	167.4
Restricted securities available for sale	46.6	48.3
Loans receivable (including $16.8 and $12.6 from affiliates as of June 30, 2016 and December 31, 2015, respectively)	3,812.0	3,345.1
Allowance for credit losses	(276.9)	(243.6)
Loans receivable, net	3,535.1	3,101.5
Property and equipment, net	18.6	18.9
Income taxes receivable	10.0	10.0
Other assets (1)	22.1	20.2
Total Assets	$4,024.4	$ 3,372.6
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Accounts payable and accrued liabilities	$142.3	$ 127.8
Revolving secured line of credit	—	57.7
Secured financing (1)	1,997.7	1,470.1
Senior notes (1)	540.6	540.0
Deferred income taxes, net	265.7	248.9
Total Liabilities	2,946.3	2,444.5
Commitments and Contingencies - See Note 14		
Shareholders' Equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, $.01 par value, 80,000,000 shares authorized, 20,328,362 and 20,132,972 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	0.2	0.2
Paid-in capital	128.0	100.8
Retained earnings	949.5	827.2
Accumulated other comprehensive income (loss)	0.4	(0.1)
Total Shareholders' Equity	1,078.1	928.1
Total Liabilities and Shareholders' Equity	$4,024.4	$ 3,372.6

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

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(Dollars in millions, except per share data)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Finance charges	$215.2	$ 180.2	$418.0	$ 350.1
Premiums earned	10.9	12.6	21.7	24.7
Other income	12.4	10.3	26.7	22.5
Total revenue	238.5	203.1	466.4	397.3
Costs and expenses:				
Salaries and wages	30.1	28.5	62.8	58.9
General and administrative	12.6	9.1	24.7	18.2
Sales and marketing	11.9	10.9	25.6	22.6
Provision for credit losses	17.9	8.4	40.0	14.6
Interest	24.3	19.6	46.4	34.5
Provision for claims	7.0	9.2	13.8	17.8
Total costs and expenses	103.8	85.7	213.3	166.6
Income before provision for income taxes	134.7	117.4	253.1	230.7
Provision for income taxes	49.8	43.2	93.8	85.0
Net income	$84.9	$ 74.2	$159.3	$ 145.7
Net income per share:				
Basic	$4.17	$ 3.54	$7.81	$ 6.96
Diluted	$4.17	$ 3.54	$7.80	$ 6.95
Weighted average shares outstanding:				
Basic	20,379,557	20,946,827	20,407,329	20,934,790
Diluted	20,382,804	20,951,832	20,433,524	20,949,048

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(In millions)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$84.9	$74.2	$159.3	$145.7
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities, net of tax	0.1	(0.2)	0.5	0.1
Other comprehensive income (loss)	0.1	(0.2)	0.5	0.1
Comprehensive income	$85.0	$74.0	$159.8	$145.8

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In millions)	For the Six Months Ended June 30, 2016	2015
Cash Flows From Operating Activities:		
Net income	$159.3	$145.7
Adjustments to reconcile cash provided by operating activities:		
Provision for credit losses	40.0	14.6
Depreciation	3.2	2.9
Amortization	4.4	4.1
Loss on retirement of property and equipment	—	0.2
Provision for deferred income taxes	16.5	15.2
Stock-based compensation	3.8	6.7
Change in operating assets and liabilities:		
Increase in accounts payable and accrued liabilities	2.6	11.2
Increase in income taxes receivable	—	(9.3)
Decrease in income taxes payable	—	(2.9)
Decrease (increase) in other assets	(1.3)	1.1
Net cash provided by operating activities	228.5	189.5
Cash Flows From Investing Activities:		
Increase in restricted cash and cash equivalents	(66.3)	(19.9)
Purchases of restricted securities available for sale	(18.7)	(20.1)
Proceeds from sale of restricted securities available for sale	19.0	18.6
Maturities of restricted securities available for sale	2.1	2.4
Principal collected on Loans receivable	1,003.4	886.6
Advances to Dealers	(1,000.7)	(943.6)
Purchases of Consumer Loans	(370.8)	(174.2)
Accelerated payments of Dealer Holdback	(29.7)	(26.6)
Payments of Dealer Holdback	(75.8)	(78.6)
Purchases of property and equipment	(2.9)	(2.2)
Net cash used in investing activities	(540.4)	(357.6)
Cash Flows From Financing Activities:		
Borrowings under revolving secured line of credit	1,036.1	1,123.1
Repayments under revolving secured line of credit	(1,093.8)	(1,217.8)
Proceeds from secured financing	1,397.3	571.4
Repayments of secured financing	(868.5)	(559.4)
Proceeds from issuance of senior notes	—	248.2
Payments of debt issuance costs	(5.5)	(8.1)
Repurchase of common stock	(40.8)	(1.1)
Tax benefits from stock-based compensation plans	27.2	0.3
Other financing activities	11.9	6.4
Net cash provided by financing activities	463.9	163.0
Net increase (decrease) in cash and cash equivalents	152.0	(5.1)
Cash and cash equivalents, beginning of period	6.3	6.4

Cash and cash equivalents, end of period	$158.3	$1.3
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for interest	$41.6	$25.7
Cash paid during the period for income taxes	$47.8	$79.9

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles” or “GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of actual results achieved for full fiscal years. The consolidated balance sheet as of December 31, 2015 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2015 for Credit Acceptance Corporation (the “Company”, “Credit Acceptance”, “we”, “our” or “us”).

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

We have evaluated events and transactions occurring subsequent to the consolidated balance sheet date of June 30, 2016 for items that could potentially be recognized or disclosed in these financial statements. We did not identify any items which would require disclosure in or adjustment to the financial statements.

Reclassification

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

2. DESCRIPTION OF BUSINESS

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

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

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 Three Months Ended June 30,		For the Six Months Ended June 30,	
Consumer Loan Assignment Volume	2016	2015	2016	2015
Percentage of total unit volume with either FICO® scores below 650 or no FICO® scores	95.4 %	95.6 %	96.1 %	96.2 %

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

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

Quarter Ended	Portfolio Program	Purchase Program
March 31, 2015	88.6 %	11.4 %
June 30, 2015	87.7 %	12.3 %
September 30, 2015	87.3 %	12.7 %
December 31, 2015	85.7 %	14.3 %
March 31, 2016	82.4 %	17.6 %
June 30, 2016	77.8 %	22.2 %

Portfolio Program

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

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

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

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

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

If the collections on Consumer Loans from a Dealer's pool are not sufficient to repay the advance balance and any other amounts due to us, the Dealer will not receive Dealer Holdback.

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

Since typically the combination of the advance and the consumer's down payment provides the Dealer with a cash profit at the time of sale, the Dealer's risk in the Consumer Loan is limited. We cannot demand repayment of the advance from the Dealer except in the event the Dealer is in default of the Dealer servicing agreement. Advances are made only after the consumer and Dealer have signed a Consumer Loan contract, we have received the executed Consumer Loan contract and supporting documentation in either physical or electronic form, and we have approved all of the related stipulations for funding. The Dealer can also opt to repurchase Consumer Loans that have been assigned to us under the Portfolio Program, at their discretion, for a fee.

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

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

Purchase Program

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

Program Enrollment

Dealers may enroll in our Portfolio Program by (1) paying an up-front, one-time fee of $9,850, or (2) agreeing to allow us to retain 50% of their first accelerated Dealer Holdback payment. Access to the Purchase Program is typically only granted to Dealers that meet one of the following:

- received first accelerated Dealer Holdback payment under the Portfolio Program;
- franchise dealership; or
- independent dealership that meets certain criteria upon enrollment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Segment Information

We currently operate in one reportable segment which represents our core business of offering Dealers financing programs and related products and services that enable them to sell vehicles to consumers, regardless of their credit history. The consolidated financial statements reflect the financial results of our one reportable operating segment.

Cash and Cash Equivalents

Cash equivalents consist of readily marketable securities with original maturities at the date of acquisition of three months or less. As of June 30, 2016 and December 31, 2015, we had $157.4 million and $6.0 million, respectively, in cash and cash equivalents that were not insured by the Federal Deposit Insurance Corporation ("FDIC").

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of cash pledged as collateral for secured financings and cash held in a trust for future vehicle service contract claims. As of June 30, 2016 and December 31, 2015, we had $231.3 million and $165.1 million, respectively, in restricted cash and cash equivalents that was not insured by the FDIC.

Loans Receivable and Allowance for Credit Losses

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

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

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

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

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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); and
- write-offs.

An allowance for credit losses is maintained at an amount that reduces the net asset value (Dealer Loan balance less the allowance) to the value of forecasted future cash flows discounted at the yield established at the time of assignment. This allowance calculation is completed for each individual Dealer. 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.

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; and
- recoveries.

Less:

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

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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.

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

We monitor and evaluate the credit quality of Consumer Loans on a monthly basis by comparing our current forecasted collection rates to our initial expectations. We use a statistical model that considers a number of credit quality indicators to estimate the expected collection rate for each Consumer Loan at the time of assignment. The credit quality indicators considered in our model include attributes contained in the consumer's credit bureau report, data contained in the consumer's credit application, the structure of the proposed transaction, vehicle information and other factors. We continue to evaluate the expected collection rate of each Consumer Loan subsequent to assignment primarily through the monitoring of consumer payment behavior. Our evaluation becomes more accurate as the Consumer Loans age, as we use actual performance data in our forecast. Since all known, significant credit quality indicators have already been factored into our forecasts and pricing, we are not able to use any specific credit quality indicators to predict or explain variances in actual performance from our initial expectations. Any variances in performance from our initial expectations are the result of Consumer Loans performing differently than historical Consumer Loans with similar characteristics. We periodically adjust our statistical pricing model for new trends that we identify through our evaluation of these forecasted collection rate variances.

When overall forecasted collection rates underperform our initial expectations, the decline in forecasted collections has a more adverse impact on the profitability of the Purchased Loans than on the profitability of the Dealer Loans. For Purchased Loans, the decline in forecasted collections is absorbed entirely by us. For Dealer Loans, the decline in the forecasted collections is substantially offset by a decline in forecasted payments of Dealer Holdback.

Methodology Changes. For the three and six months ended June 30, 2016 and 2015, we did not make any methodology changes for Loans that had a material impact on our financial results.

Reinsurance

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

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

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

(In millions)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net assumed written premiums	$9.0	$10.6	$20.9	$26.1
Net premiums earned	10.9	12.6	21.7	24.7
Provision for claims	7.0	9.2	13.8	17.8
Amortization of capitalized acquisition costs	0.3	0.2	0.5	0.5

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

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

The trust assets and related reinsurance liabilities are as follows:

(In millions)		As of	
	Balance Sheet location	June 30, 2016	December 31, 2015
Trust assets	Restricted cash and cash equivalents	$0.7	$ 0.8
Trust assets	Restricted securities available for sale	46.6	48.3
Unearned premium	Accounts payable and accrued liabilities	34.4	35.2
Claims reserve (1)	Accounts payable and accrued liabilities	1.2	1.2

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

New Accounting Updates

Measurement of Credit Losses on Financial Instruments. In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") No. 2016-13, which includes 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 as an allowance its estimate of expected credit losses. ASU No. 2016-13 is effective for fiscal years, and interim periods, beginning after January 1, 2020. Early application is permitted for fiscal years, and interim periods, beginning after January 1, 2019. The adoption of ASU No. 2016-13 is expected to have a material impact on our consolidated financial statements and related disclosures.

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

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Leases. In February 2016, the FASB issued ASU No. 2016-02, which requires lessees to recognize a right-of-use asset and related lease liability for leases classified as operating leases at the commencement date that have lease terms of more than 12 months. This ASU retains the classification distinction between finance leases and operating leases. ASU No. 2016-02 is effective for fiscal years, and interim periods, beginning after December 15, 2018. Early application is permitted, but we have not yet adopted ASU No. 2016-02. We are currently assessing the impact the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures.

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

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

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

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

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09 which supersedes the revenue recognition requirements Topic 605 (Revenue Recognition) and most industry-specific guidance. ASU No. 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU No. 2015-14 to defer the effective date of ASU No. 2014-09 by one year to fiscal years beginning after December 15, 2017. ASU No. 2015-14 also permits early adoption of ASU No. 2014-09, but not before the original effective date, which was for fiscal years beginning after December 15, 2016. We have not yet determined the effect that ASU No. 2014-09, as amended by ASU No. 2015-14, will have on our consolidated financial statements and related disclosures.

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4. RESTRICTED SECURITIES AVAILABLE FOR SALE

Restricted securities available for sale consist of amounts held in a trust 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.

Restricted securities available for sale consist of the following:

(In millions)	As of June 30, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$20.7	$ 0.3	$ —	$ 21.0
Corporate bonds	15.7	0.3	—	16.0
Asset-backed securities	5.1	—	—	5.1
Mortgage-backed securities	3.8	—	—	3.8
Commercial paper	0.7	—	—	0.7
Total restricted securities available for sale	$46.0	$ 0.6	$ —	$ 46.6

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

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

(In millions)	Securities Available for Sale with Gross Unrealized Losses as of June 30, 2016					
	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	$0.8	$ —	$ —	$ —	$ 0.8	$ —
Asset-backed securities	0.3	—	—	—	0.3	—
Mortgage-backed securities	0.3	—	—	—	0.3	—
Total restricted securities available for sale	$1.4	$ —	$ —	$ —	$ 1.4	$ —

(In millions)	Securities Available for Sale with Gross Unrealized Losses as of December 31, 2015					
	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	$16.0	$ (0.1)	$ 0.7	$ —	$ 16.7	$ (0.1)
Corporate bonds	12.6	(0.1)	1.7	—	14.3	(0.1)
Asset-backed securities	5.4	—	—	—	5.4	—
Mortgage-backed securities	3.1	—	—	—	3.1	—
Total restricted securities available for sale	$37.1	$ (0.2)	$ 2.4	$ —	$ 39.5	$ (0.2)

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

(In millions)	As of			
	June 30, 2016		December 31, 2015	
Contractual Maturity	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Within one year	$1.6	$ 1.6	$2.6	$ 2.6
Over one year to five years	41.1	41.7	42.5	42.4
Over five years to ten years	0.5	0.5	0.5	0.5
Over ten years	2.8	2.8	2.9	2.8
Total restricted securities available for sale	$46.0	$ 46.6	$48.5	$ 48.3

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5. LOANS RECEIVABLE

Loans receivable consists of the following:

(In millions)	As of June 30, 2016		
	Dealer Loans	Purchased Loans	Total
Loans receivable	$3,049.2	$ 762.8	$3,812.0
Allowance for credit losses	(268.2)	(8.7)	(276.9)
Loans receivable, net	$2,781.0	$ 754.1	$3,535.1

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

A summary of changes in Loans receivable is as follows:

(In millions)	For the Three Months Ended June 30, 2016		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$2,985.7	$ 640.5	$3,626.2
New Consumer Loan assignments (1)	438.0	189.4	627.4
Principal collected on Loans receivable	(420.5)	(68.1)	(488.6)
Accelerated Dealer Holdback payments	14.9	—	14.9
Dealer Holdback payments	35.9	—	35.9
Transfers (2)	(1.1)	1.1	—
Write-offs	(4.1)	(0.1)	(4.2)
Recoveries (3)	0.4	—	0.4
Balance, end of period	$3,049.2	$ 762.8	$3,812.0

(In millions)	For the Three Months Ended June 30, 2015		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$2,564.3	$ 379.3	$2,943.6
New Consumer Loan assignments (1)	410.1	81.6	491.7
Principal collected on Loans receivable	(385.8)	(46.3)	(432.1)
Accelerated Dealer Holdback payments	12.8	—	12.8
Dealer Holdback payments	37.5	—	37.5
Transfers (2)	(3.3)	3.3	—
Write-offs	(1.3)	(0.1)	(1.4)
Recoveries (3)	0.5	—	0.5
Balance, end of period	$2,634.8	$ 417.8	$3,052.6

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(In millions)	For the Six Months Ended June 30, 2016		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$2,823.4	$ 521.7	$3,345.1
New Consumer Loan assignments (1)	1,000.7	370.8	1,371.5
Principal collected on Loans receivable	(871.3)	(132.1)	(1,003.4)
Accelerated Dealer Holdback payments	29.7	—	29.7
Dealer Holdback payments	75.8	—	75.8
Transfers (2)	(2.5)	2.5	—
Write-offs	(7.3)	(0.1)	(7.4)
Recoveries (3)	0.7	—	0.7
Balance, end of period	$3,049.2	$ 762.8	$3,812.0

(In millions)	For the Six Months Ended June 30, 2015		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$2,389.8	$ 330.0	$2,719.8
New Consumer Loan assignments (1)	943.6	174.2	1,117.8
Principal collected on Loans receivable	(793.4)	(93.2)	(886.6)
Accelerated Dealer Holdback payments	26.6	—	26.6
Dealer Holdback payments	78.6	—	78.6
Transfers (2)	(6.9)	6.9	—
Write-offs	(4.4)	(0.2)	(4.6)
Recoveries (3)	0.9	0.1	1.0
Balance, end of period	$2,634.8	$ 417.8	$3,052.6

(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.

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

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The excess of expected net cash flows over the outstanding balance of Loans receivable, net is referred to as the accretable yield and is recognized on a level-yield basis as finance charge income over the remaining lives of the Loans. A summary of changes in the accretable yield is as follows:

(In millions)	For the Three Months Ended June 30, 2016		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$946.6	$ 238.6	$1,185.2
New Consumer Loan assignments (1)	183.6	70.3	253.9
Accretion (2)	(180.4)	(37.0)	(217.4)
Provision for credit losses	17.9	—	17.9
Forecast changes	(3.9)	10.4	6.5
Transfers (4)	(0.6)	1.0	0.4
Balance, end of period	$963.2	$ 283.3	$1,246.5

(In millions)	For the Three Months Ended June 30, 2015		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$802.4	$ 155.1	$957.5
New Consumer Loan assignments (1)	170.1	30.4	200.5
Accretion (2) (3)	(157.7)	(24.8)	(182.5)
Provision for credit losses (3)	8.6	(0.2)	8.4
Forecast changes (3)	2.6	5.9	8.5
Transfers (4)	(0.9)	2.0	1.1
Balance, end of period	$825.1	$ 168.4	$993.5

(In millions)	For the Six Months Ended June 30, 2016		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$874.2	$ 198.6	$1,072.8
New Consumer Loan assignments (1)	417.7	137.6	555.3
Accretion (2)	(354.1)	(68.4)	(422.5)
Provision for credit losses	39.7		