CREDIT ACCEPTANCE CORP
Form 10-Q
April 29, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 March 31, 2019
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 W. 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No o

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

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

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

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

The number of shares of Common Stock, $0.01 par value, outstanding on April 22, 2019 was 18,797,045.

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PART I. - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Dollars in millions, except per share data)	As of March 31, 2019	December 31, 2018
ASSETS:		
Cash and cash equivalents	$41.3	$ 25.7
Restricted cash and cash equivalents	417.9	303.6
Restricted securities available for sale	62.0	58.6
Loans receivable	6,617.9	6,225.2
Allowance for credit losses	(474.2)	(461.9)
Loans receivable, net	6,143.7	5,763.3
Property and equipment, net	43.4	40.2
Income taxes receivable	7.5	7.9
Other assets	34.1	38.1
Total Assets	$6,749.9	$ 6,237.4
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Accounts payable and accrued liabilities	$192.0	$ 186.4
Revolving secured line of credit	—	171.9
Secured financing	3,280.5	3,092.7
Senior notes	939.1	544.4
Mortgage note	11.7	11.9
Deferred income taxes, net	256.3	236.7
Income taxes payable	21.4	2.5
Total Liabilities	4,701.0	4,246.5
Commitments and Contingencies - See Note 15		
Shareholders' Equity:		
Preferred stock, $0.01 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value, 80,000,000 shares authorized, 18,797,071 and 18,972,558 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	0.2	0.2
Paid-in capital	152.2	154.9
Retained earnings	1,896.2	1,836.1
Accumulated other comprehensive gain (loss)	0.3	(0.3)
Total Shareholders' Equity	2,048.9	1,990.9
Total Liabilities and Shareholders' Equity	$6,749.9	$ 6,237.4

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 March 31, 2019	2018
Revenue:		
Finance charges	$321.9	$ 270.3
Premiums earned	12.2	10.3
Other income	19.7	15.0
Total revenue	353.8	295.6
Costs and expenses:		
Salaries and wages	48.7	42.5
General and administrative	13.9	14.5
Sales and marketing	18.8	17.8
Provision for credit losses	14.5	23.4
Interest	45.0	34.5
Provision for claims	6.6	5.2
Total costs and expenses	147.5	137.9
Income before provision for income taxes	206.3	157.7
Provision for income taxes	41.9	37.6
Net income	$164.4	$ 120.1
Net income per share:		
Basic	$8.67	$ 6.18
Diluted	$8.65	$ 6.17
Weighted average shares outstanding:		
Basic	18,955,119	19,437,735
Diluted	19,004,498	19,473,563

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 March 31,	
	2019	2018
Net income	$164.4	$120.1
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on securities, net of tax	0.6	(0.3)
Other comprehensive income (loss)	0.6	(0.3)
Comprehensive income	$165.0	$119.8

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

(Dollars in millions)	Common Stock					
	Number	Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2018	18,972,558	$ 0.2	$ 154.9	$ 1,836.1	$ (0.3)	$ 1,990.9
Net income	—	—	—	164.4	—	164.4
Other comprehensive income	—	—	—	—	0.6	0.6
Stock-based compensation	—	—	2.2	—	—	2.2
Restricted stock awards, net of forfeitures	5,282	—	—	—	—	—
Repurchase of common stock	(268,611)	—	(4.9)	(104.3)	—	(109.2)
Restricted stock units converted to common stock	87,842	—	—	—	—	—
Balance, March 31, 2019	18,797,071	$ 0.2	$ 152.2	$ 1,896.2	$ 0.3	$ 2,048.9
Balance, December 31, 2017	19,310,049	$ 0.2	$ 145.5	$ 1,390.3	$ (0.2)	$ 1,535.8
Net income	—	—	—	120.1	—	120.1
Other comprehensive loss	—	—	—	—	(0.3)	(0.3)
Stock-based compensation	—	—	3.1	—	—	3.1
Restricted stock awards, net of forfeitures	4,634	—	—	—	—	—
Repurchase of common stock	(6,185)	—	(0.9)	(1.1)	—	(2.0)
Restricted stock units converted to common stock	1,439	—	—	—	—	—
Balance, March 31, 2018	19,309,937	$ 0.2	$ 147.7	$ 1,509.3	$ (0.5)	$ 1,656.7

See accompanying notes to consolidated financial statements.

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CREDIT ACCEPTANCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In millions)	For the Three Months Ended March 31, 2019	2018
Cash Flows From Operating Activities:		
Net income	$164.4	$120.1
Adjustments to reconcile cash provided by operating activities:		
Provision for credit losses	14.5	23.4
Depreciation	1.5	1.3
Amortization	3.6	2.9
Provision for deferred income taxes	19.5	19.1
Stock-based compensation	2.2	3.1
Other	(0.1)	—
Change in operating assets and liabilities:		
Increase (decrease) in accounts payable and accrued liabilities	(2.6)	19.1
Decrease (increase) in income taxes receivable	0.4	(0.3)
Increase in income taxes payable	18.9	15.7
Decrease in other assets	7.4	3.0
Net cash provided by operating activities	229.7	207.4
Cash Flows From Investing Activities:		
Purchases of restricted securities available for sale	(15.4)	(13.7)
Proceeds from sale of restricted securities available for sale	9.4	6.7
Maturities of restricted securities available for sale	3.4	1.4
Principal collected on Loans receivable	757.4	643.9
Advances to Dealers	(719.0)	(709.2)
Purchases of Consumer Loans	(386.4)	(342.4)
Accelerated payments of Dealer Holdback	(12.3)	(12.6)
Payments of Dealer Holdback	(34.6)	(33.2)
Purchases of property and equipment	(4.7)	(1.2)
Net cash used in investing activities	(402.2)	(460.3)
Cash Flows From Financing Activities:		
Borrowings under revolving secured line of credit	1,066.9	465.4
Repayments under revolving secured line of credit	(1,238.8)	(456.3)
Proceeds from secured financing	814.0	1,000.0
Repayments of secured financing	(625.9)	(632.2)
Proceeds from issuance of senior notes	400.0	—
Payments of debt issuance costs	(8.9)	(3.9)
Repurchase of common stock	(109.2)	(2.0)
Other	4.3	(1.9)
Net cash provided by financing activities	302.4	369.1
Net increase in cash and cash equivalents and restricted cash and cash equivalents	129.9	116.2
Cash and cash equivalents and restricted cash and cash equivalents beginning of period	329.3	263.8
Cash and cash equivalents and restricted cash and cash equivalents end of period	$459.2	$380.0
Supplemental Disclosure of Cash Flow Information:		

Cash paid during the period for interest	$48.8	$40.3
Cash paid during the period for income taxes	$1.8	$1.6

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, 2018 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, 2018 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 March 31, 2019 for items that could potentially be recognized or disclosed in these financial statements. We did not identify any items which would require disclosure in or adjustment to the consolidated financial statements.

Reclassification

Certain amounts for prior periods have been reclassified to conform to the current presentation.

2. DESCRIPTION OF BUSINESS

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

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

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

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

	For the Three Months Ended March 31,	
Consumer Loan Assignment Volume	2019	2018
Percentage of total unit volume with either FICO® scores below 650 or no FICO® scores	96.6 %	96.3 %

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

	Unit Volume		Dollar Volume (1)	
Three Months Ended	Dealer Loans	Purchased Loans	Dealer Loans	Purchased Loans
March 31, 2018	70.1%	29.9 %	67.4%	32.6 %
June 30, 2018	69.7%	30.3 %	66.8%	33.2 %
September 30, 2018	69.5%	30.5 %	67.0%	33.0 %
December 31, 2018	69.4%	30.6 %	67.4%	32.6 %
March 31, 2019	67.4%	32.6 %	65.0%	35.0 %

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

Portfolio Program

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

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

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

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

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

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

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

Since typically the combination of the advance and the consumer's down payment provides the Dealer with a cash profit at the time of sale, the Dealer's risk in the Consumer Loan is limited. We cannot demand repayment of the advance from the Dealer except in the event the Dealer is in default of the Dealer servicing agreement. Advances are made only after the consumer and Dealer have signed a Consumer Loan contract, we have received the executed Consumer Loan contract and supporting documentation in either physical or electronic form, and we have approved all of the related stipulations for funding.

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

Purchase Program

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

Program Enrollment

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Segment Information

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

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Cash equivalents consist of readily marketable securities with original maturities at the date of acquisition of three months or less. As of March 31, 2019 and December 31, 2018, we had $40.5 million and $25.1 million, respectively, in cash and cash equivalents that were not insured by the Federal Deposit Insurance Corporation ("FDIC").

Restricted cash and cash equivalents consist of cash pledged as collateral for secured financings and cash held in a trust for future vehicle service contract claims. As of March 31, 2019 and December 31, 2018, we had $414.4 million and $303.0 million, respectively, in restricted cash and cash equivalents that were not insured by the FDIC.

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

(In millions)	As of			
	March 31, 2019	December 31, 2018	March 31, 2018	December 31, 2017
Cash and cash equivalents	$41.3	$ 25.7	$ 11.5	$ 8.2
Restricted cash and cash equivalents	417.9	303.6	368.5	255.6
Total cash and cash equivalents and restricted cash and cash equivalents	$459.2	$ 329.3	$ 380.0	$ 263.8

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

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.

Loans Receivable and Allowance for Credit Losses

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

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

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

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

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

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

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

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

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

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

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;
- recoveries; and
- transfers.

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

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

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

Under our Portfolio Program, certain events may result in Dealers forfeiting their rights to Dealer Holdback. We transfer the Dealer’s outstanding Dealer Loan balance and the related allowance for credit losses balance to Purchased Loans in the period this forfeiture occurs. We aggregate these Purchased Loans by Dealer for purposes of recognizing revenue and evaluating impairment.

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

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

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 months ended March 31, 2019 and 2018, we did not make any methodology changes for Loans that had a material impact on our financial statements.

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 offered through one of our third party providers. Vehicle service contract premiums, which represent the selling price of the vehicle service contract to the consumer, less fees and certain administrative costs, are contributed to a trust account controlled by VSC Re. These premiums are used to fund claims covered under the vehicle service contracts. VSC Re is a bankruptcy remote entity. As such, our exposure to fund claims is limited to the trust assets controlled by VSC Re and our net investment in VSC Re.

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

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 premiums written and placed in the trust through Consumer Loan assignments under our Programs, which is the activity that most significantly impacts the

economic performance of the trust. We have the right to receive benefits from the trust that could potentially be significant. In addition, VSC Re has the obligation to absorb losses of the trust that could potentially be significant.

New Accounting Update Adopted During the Current Year

Leases. In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, which required lessees to recognize a right-of-use asset and related lease liability for leases classified as operating leases at the commencement date that have lease terms of more than 12 months. This ASU retains the classification distinction between finance leases and operating leases. The standard required application using a retrospective transition method. Our population of leases consists of operating leases for office space and office equipment. The adoption of ASU 2016-02 on January 1, 2019 required us to record a $3.7 million right-of-use asset and a $3.8 million lease liability on our consolidated balance sheets as of March 31, 2019. The right-of-use asset and the lease liability were recognized within Other assets and Accounts payable and accrued liabilities, respectively, in our consolidated balance sheets. The adoption of ASU 2016-02 did not materially change the recognition of operating lease expense in our consolidated statements of income.

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New Accounting Updates Not Yet Adopted

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

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

Application of CECL to Existing Loans

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

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

For each reporting period subsequent to adoption, we would:

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

Application of CECL to Future Loans

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

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

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

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

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For each reporting period subsequent to assignment, we would:

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

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

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

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

Election of the Fair Value Option for Future Loans

Under ASC 825, Financial Instruments, we have the ability to choose to measure Loans at fair value on an instrument-by-instrument basis at specified election dates, with changes in fair value reported in net income (the fair value option). Dealer Loans are only eligible for fair value election at the time a new active Dealer assigns the first Consumer Loan under the Portfolio Program. All Purchased Loans are eligible for fair value election at the time of assignment. The fair value election may not be revoked once an election is made. In February 2019, the FASB proposed new guidance that, if finalized, would allow us to irrevocably elect the fair value option for all of our existing Loans upon adoption of CECL.

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

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4. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

(In millions)

	As of March 31, 2019		As of December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$41.3	$ 41.3	$25.7	$ 25.7
Restricted cash and cash equivalents	417.9	417.9	303.6	303.6
Restricted securities available for sale	62.0	62.0	58.6	58.6
Loans receivable, net	6,143.7	6,229.5	5,763.3	5,855.1
Liabilities				
Revolving secured line of credit	$—	$ —	$171.9	$ 171.9
Secured financing	3,280.5	3,306.3	3,092.7	3,100.9
Senior notes	939.1	965.1	544.4	556.3
Mortgage note	11.7	11.7	11.9	11.9

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

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

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

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

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

(In millions)	As of March 31, 2019			
	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Cash and cash equivalents (1)	$41.3	$ —	$ —	$ 41.3
Restricted cash and cash equivalents (1)	417.9	—	—	417.9
Restricted securities available for sale (2)	49.6	12.4	—	62.0
Loans receivable, net (1)	—	—	6,229.5	6,229.5
Liabilities				
Revolving secured line of credit (1)	$—	$ —	$ —	$ —
Secured financing (1)	—	3,306.3	—	3,306.3
Senior notes (1)	965.1	—	—	965.1
Mortgage note (1)	—	11.7	—	11.7

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

Secured financing (1)	—	3,100.9	—	3,100.9
Senior notes (1)	556.3	—	—	556.3
Mortgage note (1)	—	11.9	—	11.9

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

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5. RESTRICTED SECURITIES AVAILABLE FOR SALE

Restricted securities available for sale consist of the following:

(In millions)	As of March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$25.0	$ 0.2	$ (0.1)	$ 25.1
Corporate bonds	24.3	0.3	(0.1)	24.5
Asset-backed securities	11.5	—	—	11.5
Mortgage-backed securities	0.9	—	—	0.9
Total restricted securities available for sale	$61.7	$ 0.5	$ (0.2)	$ 62.0

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

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 March 31, 2019					
	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	$ —	$9.2	$ (0.1)	$ 10.0	$ (0.1)
Corporate bonds	1.2	—	7.0	(0.1)	8.2	(0.1)
Asset-backed securities	1.0	—	3.6	—	4.6	—
Mortgage-backed securities	—	—	0.5	—	0.5	—
Total restricted securities available for sale	$3.0	$ —	$20.3	$ (0.2)	$ 23.3	$ (0.2)

(In millions)	Securities Available for Sale with Gross Unrealized Losses as of December 31, 2018					
	Less than 12 Months		12 Months or More			
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Total Estimated	Total Gross Unrealized

					Fair Value	Losses
U.S. Government and agency securities	$2.2	$ —	$10.5	$ (0.2)	$ 12.7	$ (0.2)
Corporate bonds	12.0	(0.1)	6.5	(0.1)	18.5	(0.2)
Asset-backed securities	4.7	—	3.3	(0.1)	8.0	(0.1)
Mortgage-backed securities	—	—	1.4	—	1.4	—
Total restricted securities available for sale	$18.9	$ (0.1)	$21.7	$ (0.4)	$ 40.6	$ (0.5)

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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			
	March 31, 2019		December 31, 2018	
Contractual Maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$4.7	$ 4.7	$1.7	$ 1.7
Over one year to five years	54.7	55.0	55.1	54.7
Over five years to ten years	1.7	1.7	0.8	0.8
Over ten years	0.6	0.6	1.4	1.4
Total restricted securities available for sale	$61.7	$ 62.0	$59.0	$ 58.6

6. LOANS RECEIVABLE

Loans receivable consists of the following:

(In millions)	As of March 31, 2019		
	Dealer Loans	Purchased Loans	Total
Loans receivable	$4,347.5	$2,270.4	$6,617.9
Allowance for credit losses	(383.1)	(91.1)	(474.2)
Loans receivable, net	$3,964.4	$2,179.3	$6,143.7

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

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A summary of changes in Loans receivable is as follows:

(In millions)	For the Three Months Ended March 31, 2019		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$4,141.0	$2,084.2	$6,225.2
New Consumer Loan assignments (1)	719.0	386.4	1,105.4
Principal collected on Loans receivable	(531.3)	(226.1)	(757.4)
Accelerated Dealer Holdback payments	12.3	—	12.3
Dealer Holdback payments	34.6	—	34.6
Transfers (2)	(25.7)	25.7	—
Write-offs	(2.8)	(0.1)	(2.9)
Recoveries (3)	0.4	0.3	0.7
Balance, end of period	$4,347.5	$2,270.4	$6,617.9

(In millions)	For the Three Months Ended March 31, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$3,518.1	$1,530.9	$5,049.0
New Consumer Loan assignments (1)	709.2	342.4	1,051.6
Principal collected on Loans receivable	(478.7)	(165.2)	(643.9)
Accelerated Dealer Holdback payments	12.6	—	12.6
Dealer Holdback payments	33.2	—	33.2
Transfers (2)	(18.4)	18.4	—
Write-offs	(4.3)	(2.1)	(6.4)
Recoveries (3)	1.8	0.2	2.0
Balance, end of period	$3,773.5	$1,724.6	$5,498.1

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

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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 March 31, 2019		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$1,283.0	$ 782.5	$2,065.5
New Consumer Loan assignments (1)	291.3	160.0	451.3
Accretion (2)	(215.7)	(108.4)	(324.1)
Provision for credit losses	11.6	2.9	14.5
Forecast changes	0.5	16.2	16.7
Transfers (3)	(9.5)	11.8	2.3
Balance, end of period	$1,361.2	$ 865.0	$2,226.2

(In millions)	For the Three Months Ended March 31, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$1,088.6	$ 576.9	$1,665.5
New Consumer Loan assignments (1)	289.4	147.8	437.2
Accretion (2)	(192.3)	(80.1)	(272.4)
Provision for credit losses	18.7	4.7	23.4
Forecast changes	(6.1)	(4.7)	(10.8)
Transfers (3)	(7.2)	9.2	2.0
Balance, end of period	$1,191.1	$ 653.8	$1,844.9

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

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

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

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

(In millions)	For the Three Months Ended March 31, 2019		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	$1,131.5	$ 850.3	$1,981.8
Expected net cash flows at the time of assignment (2)	1,010.3	546.4	1,556.7
Fair value at the time of assignment (3)	719.0	386.4	1,105.4

(In millions)	For the Three Months Ended March 31, 2018		
	Dealer Loans	Purchased Loans	Total
Contractual net cash flows at the time of assignment (1)	$1,122.7	$ 765.9	$1,888.6
Expected net cash flows at the time of assignment (2)	998.6	490.2	1,488.8
Fair value at the time of assignment (3)	709.2	342.4	1,051.6

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

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

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

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Credit Quality

We monitor and evaluate the credit quality of Consumer Loans assigned under our Portfolio and Purchase Programs on a monthly basis by comparing our current forecasted collection rates to our initial expectations. For additional information regarding credit quality, see Note 3 to the consolidated financial statements. The following table compares our forecast of Consumer Loan collection rates as of March 31, 2019 with the forecasts as of December 31, 2018 and at the time of assignment, segmented by year of assignment:

	Forecasted Collection Percentage as of (1)			Current Forecast Variance from	
Consumer Loan Assignment Year	March 31, 2019	December 31, 2018	Initial Forecast	December 31, 2018	Initial Forecast
2010	77.7%	77.7 %	73.6 %	0.0 %	4.1 %
2011	74.8%	74.7 %	72.5 %	0.1 %	2.3 %
2012	73.8%	73.8 %	71.4 %	0.0 %	2.4 %
2013	73.5%	73.5 %	72.0 %	0.0 %	1.5 %
2014	71.7%	71.7 %	71.8 %	0.0 %	-0.1 %
2015	65.4%	65.4 %	67.7 %	0.0 %	-2.3 %
2016	64.1%	64.2 %	65.4 %	-0.1 %	-1.3 %
2017	65.2%	65.5 %	64.0 %	-0.3 %	1.2 %
2018	65.5%	65.0 %	63.6 %	0.5 %	1.9 %
2019	64.1%	—	63.9 %	—	0.2 %

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

Consumer Loans assigned in 2010 through 2013, 2017 and 2018 have yielded forecasted collection results materially better than our initial estimates, while Consumer Loans assigned in 2015 and 2016 have yielded forecasted collection results materially worse than our initial estimates. For Consumer Loans assigned in 2014 and 2019, actual results have been close to our initial estimates. For the three months ended March 31, 2019, forecasted collection rates improved for Consumer Loans assigned in 2018 and 2019, declined for Consumer Loans assigned in 2017 and were generally consistent with expectations at the start of the period for all other assignment years presented.

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Advances paid to Dealers on Consumer Loans assigned under our Portfolio Program and one-time payments made to Dealers to purchase Consumer Loans assigned under our Purchase Program are aggregated into pools for purposes of recognizing revenue and evaluating impairment. As a result of this aggregation, we are not able to segment the carrying amounts of the majority of our Loan portfolio by year of assignment. We are able to segment our Loan portfolio by the performance of the Loan pools. Performance considers both the amount and timing of expected net cash flows and is measured by comparing the balance of the Loan pool to the discounted value of the expected future net cash flows of each Loan pool using the yield established at the time of assignment. The following table segments our Loan portfolio by the performance of the Loan pools:

(In millions)	As of March 31, 2019					
	Loan Pool Performance Meets or Exceeds Initial Estimates			Loan Pool Performance Less than Initial Estimates		
	Dealer Loans	Purchased Loans	Total	Dealer Loans	Purchased Loans	Total
Loans receivable	$1,479.7	$ 1,607.2	$3,086.9	$2,867.8	$ 663.2	$3,531.0
Allowance for credit losses	—	—	—	(383.1)	(91.1)	(474.2)
Loans receivable, net	$1,479.7	$ 1,607.2	$3,086.9	$2,484.7	$ 572.1	$3,056.8

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

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

(In millions)	For the Three Months Ended March 31, 2019		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$378.1	$ 83.8	$461.9
Provision for credit losses	11.6	2.9	14.5
Transfers (1)	(4.2)	4.2	—
Write-offs	(2.8)	(0.1)	(2.9)
Recoveries (2)	0.4	0.3	0.7
Balance, end of period	$383.1	$ 91.1	$474.2

(In millions)	For the Three Months Ended March 31, 2018		
	Dealer Loans	Purchased Loans	Total
Balance, beginning of period	$366.0	$ 63.4	$429.4
Provision for credit losses	18.7	4.7	23.4

Transfers (1)	(2.9)	2.9	—
Write-offs	(4.3)	(2.1)	(6.4)
Recoveries (2)	1.8	0.2	2.0
Balance, end of period	$379.3	$ 69.1	$448.4

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

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

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7. REINSURANCE

A summary of reinsurance activity is as follows:

(In millions)	For the Three Months Ended March 31, 2019	2018
Net assumed written premiums	$15.8	$16.2
Net premiums earned	12.2	10.3
Provision for claims	6.6	5.2
Amortization of capitalized acquisition costs	0.3	0.3

The trust assets and related reinsurance liabilities are as follows:

(In millions)	Balance Sheet location	As of March 31, 2019	December 31, 2018
Trust assets	Restricted cash and cash equivalents	$1.0	$ 0.3
Trust assets	Restricted securities available for sale	62.0	58.6
Unearned premium	Accounts payable and accrued liabilities	46.9	43.3
Claims reserve (1)	Accounts payable and accrued liabilities	1.6	1.6

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

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8. OTHER INCOME

Other income consists of the following:

	For the Three Months Ended March 31,	
(In millions)	2019	2018
Ancillary product profit sharing	$10.4	$6.4
Remarketing fees	3.4	3.1
Interest	2.3	0.7
GPS-SID fees	1.4	2.5
Dealer enrollment fees	1.0	1.1
Dealer support products and services	0.7	1.2
Other	0.5	—
Total	$19.7	$15.0

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

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

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

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

Dealer enrollment fees include fees from Dealers that enroll in our Portfolio Program. Depending on the enrollment option selected by the Dealer, Dealers may have enrolled by paying us an upfront, one-time fee, or by agreeing to allow us to retain 50% of their first accelerated Dealer Holdback payment. For additional information regarding program enrollment, see Note 2 to the consolidated financial statements. A portion of the $9,850 upfront, one-time fee is considered to be Dealer support products and services revenue. The remaining portion of the $9,850 fee is considered to be a Dealer enrollment fee, which is amortized on a straight-line basis over the estimated life of the Dealer relationship. The 50% portion of the first accelerated Dealer Holdback payment is also considered to be a

Dealer enrollment fee. We do not recognize any of this Dealer enrollment fee until the Dealer has met the eligibility requirements to receive an accelerated Dealer Holdback payment and the amount of the first payment, if any, has been calculated. Once the accelerated Dealer Holdback payment has been calculated, we defer the 50% portion that we keep and recognize it on a straight-line basis over the remaining estimated life of the Dealer relationship.

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

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

(In millions)	For the Three Months Ended March 31, 2019							
	Ancillary product profit sharing	Remarketing fees	Interest	GPS-SID fees	Dealer enrollment fees	Dealer support products and services	Other	Total Other Income
Source of income								
Third Party Providers	$10.4	$ —	$ 2.3	$ 1.4	$ —	$ —	$ 0.5	$ 14.6
Dealers	—	3.4	—	—	1.0	0.7	—	5.1
Total	$10.4	$ 3.4	$ 2.3	$ 1.4	$ 1.0	$ 0.7	$ 0.5	$ 19.7
Timing of revenue recognition								
Over time	$10.4	$ —	$ 2.3	$ —	$ 1.0	$ —	$ —	$ 13.7
At a point in time	—	3.4	—	1.4	—	0.7	0.5	6.0
Total	$10.4	$ 3.4	$ 2.3	$ 1.4	$ 1.0	$ 0.7	$ 0.5	$ 19.7

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9. DEBT

Debt consists of the following:

(In millions)	As of March 31, 2019			
	Principal Outstanding	Unamortized Debt Issuance Costs	Unamortized Discount	Carrying Amount
Revolving secured line of credit (1)	$—	$ —	$ —	$—
Secured financing (2)	3,296.8	(16.3)	—	3,280.5
Senior notes	950.0	(9.8)	(1.1)	939.1
Mortgage note	11.7	—	—	11.7
Total debt	$4,258.5	$ (26.1)	$ (1.1)	$4,231.3

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

(1) Excludes deferred debt issuance costs of $2.6 million and $2.9 million as of March 31, 2019 and December 31, 2018, respectively, which are included in other assets.
(2) Warehouse facilities and Term ABS.

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General information for each of our financing transactions in place as of March 31, 2019 is as follows:
(Dollars in millions)

Financings	Wholly-owned Subsidiary	Maturity Date	Financing Amount	Interest Rate as of March 31, 2019
Revolving Secured Line of Credit	n/a	06/22/2021	$ 350.0 (1)	At our option, either LIBOR plus 187.5 basis points or the prime rate plus 87.5 basis points
Warehouse Facility II (2)	CAC Warehouse Funding Corp. II	12/20/2020 (3)	400.0	LIBOR plus 175 basis points (4)
Warehouse Facility IV (2)	CAC Warehouse Funding LLC IV	04/30/2020 (3)	250.0	LIBOR plus 225 basis points (4)
Warehouse Facility V (2)	CAC Warehouse Funding LLC V	08/17/2021 (5)	100.0	LIBOR plus 190 basis points (4)
Warehouse Facility VI (2)	CAC Warehouse Funding LLC VI	09/30/2020 (3)	75.0	LIBOR plus 200 basis points
Warehouse Facility VII (2)	CAC Warehouse Funding LLC VII	12/17/2020 (6)	150.0	Commercial paper rate plus 200 basis points (4)
Term ABS 2016-1 (2)	Credit Acceptance Funding LLC 2016-1	02/15/2018 (3)	385.0	LIBOR plus 195 basis points (4)
Term ABS 2016-2 (2)	Credit Acceptance Funding LLC 2016-2	05/15/2018 (3)	350.2	Fixed rate
Term ABS 2016-3 (2)	Credit Acceptance Funding LLC 2016-3	10/15/2018 (3)	350.0	Fixed rate
Term ABS 2017-1 (2)	Credit Acceptance Funding LLC 2017-1	02/15/2019 (3)	350.0	Fixed rate
Term ABS 2017-2 (2)	Credit Acceptance Funding LLC 2017-2	06/17/2019 (3)	450.0	Fixed rate
Term ABS 2017-3 (2)	Credit Acceptance Funding LLC 2017-3	10/15/2019 (3)	350.0	Fixed rate
Term ABS 2018-1 (2)	Credit Acceptance Funding LLC 2018-1	02/17/2020 (3)	500.0	Fixed rate
Term ABS 2018-2 (2)	Credit Acceptance Funding LLC 2018-2	05/15/2020 (3)	450.0	Fixed rate
Term ABS 2018-3 (2)	Credit Acceptance Funding LLC 2018-3	08/17/2020 (3)	398.3	Fixed rate
Term ABS 2019-1 (2)	Credit Acceptance Funding LLC 2019-1	02/15/2021 (3)	402.5	Fixed rate
2021 Senior Notes	n/a	02/15/2021	300.0	Fixed rate
2023 Senior Notes	n/a	03/15/2023	250.0	Fixed rate
2026 Senior Notes	n/a	03/15/2026	400.0	Fixed rate
Mortgage Note	Chapter 4 Properties, LLC	08/06/2023	12.0	LIBOR plus 150 basis points

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

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

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

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

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

(In millions)	For the Three Months Ended March 31, 2019	2018
Revolving Secured Line of Credit		
Maximum outstanding principal balance	$276.4	$177.5
Average outstanding principal balance	88.4	39.1
Warehouse Facility II		
Maximum outstanding principal balance	201.0	201.0
Average outstanding principal balance	93.0	4.5
Warehouse Facility IV		
Maximum outstanding principal balance	100.0	—
Average outstanding principal balance	4.4	—
Warehouse Facility V		
Maximum outstanding principal balance	—	99.0
Average outstanding principal balance	—	2.2
Warehouse Facility VI		
Maximum outstanding principal balance	101.5	75.0
Average outstanding principal balance	2.3	1.7
Warehouse Facility VII		
Maximum outstanding principal balance	—	125.0
Average outstanding principal balance	—	2.8

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(Dollars in millions)	As of	
	March 31, 2019	December 31, 2018
Revolving Secured Line of Credit		
Principal balance outstanding	$	