Credit Acceptance
We change lives!

May 16, 2018

Mr. Russell Golden, Chairman
Ms. Susan Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7 P.O. Box 5116
Norwalk, CT 06856-5116

Re: Agenda Request – One-Time Option to Elect the Fair Value Option Upon Adoption of ASU 2016-13

Dear Mr Golden and Ms Cosper:

Credit Acceptance Corporation (the "Company", "Credit Acceptance", "we", "our", or "us") is submitting this letter to request that the Financial Accounting Standards Board (FASB) consider amending the transition guidance in ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, to allow for a one-time option to elect the fair value option (FVO) in ASC 825, *Financial Instruments*, for financial instruments previously recognized and measured at amortized cost in the period of adoption of ASU 2016-13.

BACKGROUND

Since 1972, we have 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 ("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.

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.

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 Portfolio Program, we are entitled to certain cash flows from the underlying Consumer Loan, as well as a servicing fee, with excess cash flows going to the Dealer. 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.

Substantially all of the Consumer Loans assigned to us are made to consumers with impaired or limited credit histories., and, accordingly, there is a significant difference between contractually required cash flows and the cash flows we expect to collect. The users of our financial statements are therefore most interested in our expected returns – the amount of cash flows we expect to collect in excess of what we advance. To provide our users with meaningful financial reporting, we have historically accounted for both programs by applying ASC 310-30 by analogy. However, ASU 2016-13 eliminates ASC 310-30, and we do not believe our financial instruments meet the scope of the purchased credit deteriorated (or PCD) guidance in ASC 326.

AGENDA REQUEST

We believe applying ASC 326 to our financial instruments will result in financial reporting that does not serve the needs of our users because it will not clearly report our expected returns. Rather, application of ASC 326 to our financial instruments will result in significant losses recognized up front (including losses for amounts we never expected to realize) and interest income in later periods that is significantly in excess of our expected returns. Rather, we believe that accounting for our financial instruments under the FVO will provide more meaningful information to the users of our financial statements, as the fair value of our financial instruments will be based largely on expected future cash flows. As a result, we intend to elect the FVO on newly acquired financial instruments upon the adoption of ASU 2016-13. We are, however, concerned that electing the FVO for newly acquired financial instruments will result in a lack of comparability of our financial results for our users for several years as we transition our balance sheet from amortized cost to the FVO over time. Accordingly, in order to provide our users with comparable financial information upon the adoption of ASU 2016-13, we believe the FASB should amend the transition guidance in ASU 2016-13 to allow for a one-time option to elect the FVO for financial instruments previously recognized and measured at amortized cost in the period of adoption of ASU 2016-13.

Thank you for your consideration of this matter. We would be happy to discuss this matter with you.

Sincerely,

Kenneth S. Booth
Chief Financial Officer
Credit Acceptance Corporation

CONTACT INFORMATION

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