

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

FOR THIS FISCAL YEAR ENDED DECEMBER 31, 1997

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, SUITE 3000  
SOUTHFIELD, MICHIGAN  
(Address of principal executive offices)

48034-8339  
(Zip Code)

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

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Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act: Common Stock

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 /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

The aggregate market value of 14,662,915 shares of the Registrant's common stock held by nonaffiliates on March 20, 1998 was approximately \$130,133,371. For purposes of this computation all officers, directors and 5% beneficial owners of the Registrant are assumed to be affiliates. Such determination should not be deemed an admission that such officers, directors and beneficial owners are, in fact, affiliates of the Registrant.

At March 20, 1998 there were 46,113,115 shares of the Registrant's Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement pertaining to the 1998 Annual Meeting of Shareholders (the "Proxy Statement") filed pursuant to Regulation 14A are incorporated herein by reference into Part III.

CREDIT ACCEPTANCE CORPORATION  
YEAR ENDED DECEMBER 31, 1997

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PART I

ITEM 1. BUSINESS

GENERAL

Credit Acceptance Corporation ("CAC" or the "Company"), incorporated in Michigan in 1972, is a specialized financial services company which provides funding, receivables management, collection, sales training and related products and services to automobile dealers located in the United States, the United Kingdom, Canada and Ireland. CAC assists such dealers with the sale of used vehicles by providing an indirect financing source for buyers with limited access to traditional sources of consumer credit ("Non-prime Consumers"). As of December 31, 1997, CAC had aggregate gross installment contracts receivable of approximately \$1.25 billion. CAC has developed special-purpose management information and operating systems, utilizing sophisticated computer and telephone interface capabilities, which allow it to efficiently accept, manage and collect installment contracts written by participating dealers.

CAC also provides dealers with enhancements to the Company's program which provide the Non-prime Consumer with the opportunity to purchase a number of ancillary products, including point-of-sale dual interest collateral protection insurance provided by third party insurance carriers, credit life and disability insurance and vehicle service contracts offered by dealers. Through wholly-owned subsidiaries, the Company also reinsures certain of the point-of-sale dual interest collateral protection insurance and credit life and disability insurance policies issued in conjunction with installment contracts

originated by dealers. To a significantly lesser extent, CAC assists dealers in financing their inventories and businesses by providing floor plan financing and secured working capital loans. As of December 31, 1997, floor plan receivables represented 1.8% of total assets while notes receivable (representing working capital loans) represented 0.1% of total assets. In addition, the Company's credit reporting subsidiary provides credit information and consumer reports to companies serving the Non-prime Consumer market.

PRODUCTS AND SERVICES

CAC derives its revenues from four principal sources: (i) servicing fees (which are accounted for as finance charges) earned as a result of servicing and collecting installment contracts originated and assigned to the Company by dealers; (ii) fees charged to dealers at the time they enroll in the Company's program; (iii) vehicle service contract fees and other income earned primarily in connection with loans made directly to dealers for floor plan financing and secured working capital purposes and fees earned from third party service contract and credit life and disability products offered by dealers; and (iv) premiums earned from the Company's reinsurance activities and service contract programs. The following table sets forth the percent relationship to total revenue from each of these sources.

Percent of Total Revenue	For the years ended December 31,		
	1995	1996	1997
Finance charges.....	77.9%	75.0%	71.2%
Dealer enrollment fees.....	3.3	4.1	4.5
Total core products.....	81.2	79.1	75.7
Vehicle service contract fees and other income.....	11.2	13.2	17.4
Premiums earned.....	7.6	7.7	6.9
Total ancillary products.....	18.8	20.9	24.3
Total revenue.....	100.0%	100.0%	100.0%

PRINCIPAL BUSINESS

CAC's principal business involves: (i) the acceptance of installment contracts originated and assigned by participating dealers; and (ii) the subsequent management and collection of such contracts. For installment contracts meeting the Company's criteria, CAC makes a formula-based cash payment to the dealer (an "Advance") . The Company may Advance up to 90% of the amount financed with advances typically ranging between 50% and 75% of the amount financed. To mitigate its risk, at the time of accepting the assignment of an installment contract, CAC obtains a security interest in the vehicle and establishes a dealer holdback equal to the gross amount of the contract, less the Company's servicing fee, which is recorded as an unearned finance charge. CAC's acceptance of such contracts is generally without recourse to the general assets of the dealer.

CAC offers its dealers several Advance alternatives, which are calculated based upon the dealer's history with the Company, the credit profile of a particular customer and the year, make, model, and mileage of the used vehicle to be financed.

Monthly cash receipts, related to the aggregate installment contracts accepted from an individual dealer, are remitted to such dealer, but only after:

- (i) the Company is reimbursed for certain collection costs relating to all contracts accepted from such dealer;
- (ii) the Company receives a servicing fee (typically 20%) of the aggregate net monthly receipts (monthly cash receipts less certain collection costs); and
- (iii) the Company has recovered all advances made to such dealer.

## OPERATIONS

Dealer Selection and Enrollment Fee. CAC has adopted specific policies relative to establishing the eligibility of prospective dealers for the Company's program. A dealer's participation in the Company's program begins with the execution of a servicing agreement, which requires the dealer to meet certain criteria.

Pursuant to such agreement, a dealer represents that it will only submit contracts to CAC which satisfy criteria established by the Company, meet certain conditions with respect to the binding nature and the status of the security interest in the purchased vehicle and comply with applicable state, federal and foreign laws and regulations. Dealers receive a monthly statement from the Company, summarizing all transactions on contracts originated by such dealer. Also, where applicable, the dealer will receive a payment from CAC for any portion of the payments on contracts to which the dealer is entitled under the servicing agreement.

The servicing agreement may be terminated by the Company or by the dealer (as long as there is no event of default or an event which, with the lapse of time, giving of notice or both, would become an event of default) upon 30 days prior written notice. Events of default include, among other things, (i) the dealer's failure to perform or observe covenants in the servicing agreement; (ii) the dealer's breach of a representation in the servicing agreement; (iii) a misrepresentation by the dealer relating to an installment contract submitted to the Company or a related vehicle or purchaser; and (iv) the appointment of a receiver for, or the bankruptcy or insolvency of, the dealer. The Company may terminate the servicing agreement immediately in the case of an event of default by the dealer. Upon any termination by the dealer or in the event of a default, the dealer must immediately pay the Company: (i) any unreimbursed collection costs; (ii) any unpaid advances and all amounts owed by the dealer to the Company; and (iii) a termination fee equal to 20% of the then outstanding amount of the installment contracts originated by such dealer and accepted by the Company. Upon receipt in full of such amounts, the Company will reassign the installment contract receivable and its security interest in the financed vehicle to the dealer. In the event of a termination by the Company (or any other termination if the Company and the dealer agree), the Company may continue to service installment contracts accepted prior to termination in the normal course of business without charging a termination fee.

New dealers located in the United States and Canada are generally charged a \$4,500 dealer enrollment fee, which affords the dealer access to the Company's training material and programs and helps offset the administrative expenses associated with new dealer enrollment. No dealer enrollment fee is charged to dealers in the United Kingdom and Ireland.

Assignment of contracts. The dealer assigns title to the installment contract and the security interest in the vehicle to the Company. Thereafter, the rights and obligations of the Company and the dealer are defined by the servicing agreement, which provides that the contract assignment to the Company is as nominee for the dealer for the purposes of administration, servicing and collection of the amounts due under the assigned contract, as well as for security purposes. At the time a contract is submitted, CAC evaluates the contract to determine if it meets the Company's cash Advance criteria. Contracts which do not meet the Company's cash Advance criteria may still be accepted for servicing without an Advance being paid.

Contract Portfolio. The portfolio of installment contracts contains loans of initial duration generally ranging from six to 36 months, with an average initial maturity of approximately 31 months. The Company receives a servicing fee generally equal to 20% of the gross amount of the contract, with rate of return varying, based upon the amount of the Advance and the maturity of the contract.

The following table sets forth, for each of the periods indicated, the average size of installment contracts accepted by the Company, the percent growth in the average size of contracts accepted, the average initial maturity of the contracts accepted, the average Advance per installment contract accepted and the average advance as a percent of the average installment contract accepted.

Average Contract Data	As of December 31,				
	1993	1994	1995	1996	1997
Average size of installment contracts accepted during the period .....	\$4,415 =====	\$5,922 =====	\$6,507 =====	\$7,249 =====	\$ 8,340 =====
Percentage growth in average size of contract .....	6.1% =====	34.1% =====	9.9% =====	11.4% =====	15.1% =====
Average initial maturity (in months) .....	20 =====	25 =====	25 =====	30 =====	31 =====
Average Advance per installment contract.....	\$1,765 =====	\$2,637 =====	\$3,220 =====	\$3,837 =====	\$ 4,228 =====
Average Advance as a percent of average installment contract .....	40.0% =====	44.5% =====	49.5% =====	52.9% =====	50.7% =====

Servicing and Collections. CAC's staff of professional and experienced collection personnel collect amounts due on installment contracts, assisted by highly specialized computer and telephone interface systems. CAC installed a new, state-of-the-art telephone system during 1994, significantly upgraded this system in December 1995 and expanded the system in early 1997. This system has significantly improved the Company's ability to process telephone calls. CAC's computer system provides personnel with immediate access to all information contained in the customer's contract and application, including the amount of the contract, maturity, interest rate, vehicle and reference information and payment history. See "Systems Overview."

Collectors monitor their assigned contracts, assisted by a computerized priority system, and typically take action on contracts within 5 days of delinquency. If a customer is delinquent, the Company's policy is to attempt to resolve the delinquency by persuading the customer to make some type of payment. Since the customer generally has a poor credit history, the Company's program provides the customer with an opportunity to restore his or her credit rating. The Company believes its interests are best served by permitting the customer to retain the vehicle and make payments, even if the maturity of the loan needs to be extended beyond the original term.

The repossession process typically begins when a customer becomes approximately 60 days past due. However, when a new customer misses their first payment due, the repossession process typically begins when the customer becomes approximately 30 days past due. At that time, the Company contracts with a third party to repossess and sell the vehicle at an auction. These costs, to the extent permitted by law, are added to the amount due from the customer and the dealer Advance amount. If the proceeds from the auction are not sufficient to cover the total balance due, the Company may seek to recover its "deficiency balance" from the customer through legal means, including wage garnishment to the extent permitted by applicable law. Although the Company continues to pursue collection, the deficiency balance is charged-off after nine months of not receiving any material payments.

Systems Overview. The Company employs three major computer systems in its U.S. operations: (i) the Application and Contract System ("ACS") which is used from the time a dealer faxes an application to the Company until the contract is received and funded, (ii) the Loan Servicing System ("LSS") which contains all loan and payment information and is the primary source for management information reporting, and (iii) the Collection System ("CS") which is used by the Company's collections personnel to track and service all active customer accounts.

ACS - The ACS system, designed and built by an independent consulting firm hired by the Company, was installed in May 1997. This system replaced certain functionality of the Company's previous systems. The system enables the Company to efficiently process a large volume of application and contract data. Upon receipt, from the dealer, of a faxed application at the Company's headquarters in Southfield, Michigan, Company personnel input the application data into the ACS system. The system automatically pulls all credit bureau and vehicle guidebook data and includes such data in the application file which is routed to one of seven analyst teams based on the dealer's location. An analyst reviews each application file on-line to determine if the transaction is properly structured and meets the Company's guidelines for an Advance. The ACS system provides the analyst with information regarding the borrower, including information on the borrower's residence, employment, wage level and references, information on the vehicle including the vehicle's age, mileage and guidebook value, and on the transaction information including sale price, down payment, interest rate and term. The system computes the Advance amount according to

predefined programs based on dealer and loan variables, provides the analyst with warning flags on out of tolerance application variables and allows the analyst to select from a predefined set of stipulations to include on the Advance approval transmittal, which is automatically faxed to the dealer. After the sale of the vehicle, the installment contract package is sent to the Company by the dealer. The contract information is input into the ACS system. The system compares the contract data to the application data and reviews compliance with analyst stipulations. After any variances have been addressed, the system sends an Advance payment to the dealer by either check or electronic transaction. The system generally enables the Company to approve application files in under one hour and fund contracts within 24 hours of receipt of all required documents. The system enables management personnel to report on service level by analyst and by region, application and contract volumes by dealer and by program, exceptions granted and various other reports as needed. The ACS system automatically loads all new contract data into the LSS system.

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LSS - The LSS system, designed and built for the Company by the same consulting firm, was installed and implemented in the third quarter 1997. This system contains all loan transaction data, including payments and charge-offs for loans acquired by the Company since July 1990. The system is the Company's primary information source for management reporting including production of monthly statements sent to dealers summarizing the status of their accounts and the Company's static pool system, which provides the Company with a static pool analysis on a per dealer basis. This system projects future collections for each dealer based on actual prior loss history. These projections are then used to analyze dealer profitability and to estimate and record the Company's reserve on advances to dealers. The LSS system interfaces with both the ACS and CS systems.

CS - The CS system which is used by Company collection personnel to service all active accounts was purchased, modified and installed in 1989. The collection system provides data on all of the Company's customer accounts including loan and payment information as well as a log of all account activity including letters sent and summaries of telephone contact. The system generates payment books which are sent on all new accounts, generates all collection letters and notices, allows collectors to record promises to pay and broken promises, interfaces with a predictive dialing system, assigns accounts to collection personnel and tracks results on a per collector basis. Repossession and legal accounts are also processed on this system. The CS system interfaces with the phone system, predictive dialer and the LSS system.

CAC utilizes certain software that will be affected by the year 2000 date change. Modifications to computer systems to process year 2000 date transactions and receipt of vendor confirmations that their software is year 2000 compliant began in 1997. CAC expects that all new software installations or other modifications to its computer systems will be completed by the year 2000. Anticipated spending for modifications will be expensed as incurred, while the cost for new software will be capitalized and amortized over the software's useful life. At this time, CAC does not expect that the cost of these modifications or software will have a material effect on its financial position, liquidity, or results of operations.

#### ANCILLARY PRODUCTS

The Company continually explores methods by which its business relationships with dealers may be enhanced. Since 1993, the Company has introduced several ancillary products, including insurance and service contract programs and enhancements to floor plan and Advance programs.

Insurance and Service Contract Programs. CAC has arrangements with insurance carriers to assist dealers in offering credit life and disability insurance to Non-prime Consumers. Pursuant to this program, the Company advances to dealers an amount equal to the credit life and disability insurance premium on contracts accepted by the Company, which include credit life and disability insurance written by the Company's designated insurance carriers. The Company is not involved in the actual sale of insurance; however, as part of the program, the insurance carriers cede insurance coverages and premiums (less a fee) to a wholly-owned subsidiary of the Company, which reinsures such coverages. As a result, the subsidiary bears the risk of loss attendant to claims under the coverages ceded to it, and earns revenues resulting from premiums ceded and the investment of such funds.

Buyers Vehicle Protection Plan, Inc. ("BVPP"), a subsidiary of CAC, operates as an administrator of certain vehicle service contract programs offered by dealers to consumers. Under this program, the Company is paid an administrative fee and in return agrees to reimburse dealers for designated amounts that the dealer is required to pay for covered repairs on the vehicles it sells. The Company advances to dealers an amount equal to the purchase price of the vehicle service contract on contracts accepted by the Company which include vehicle service contracts. The Company has, in turn, subcontracted its obligations to administer these programs to third parties that have operated such programs for several years. Nevertheless, the risk of loss (reimbursement obligations in excess of the purchase price of the vehicle service contract) remains with the Company. In addition, BVPP has relationships with third party service contract providers which pay BVPP a fee on service contracts included on installment contracts financed through participating dealers. BVPP does not bear any risk of loss for covered claims on these third party service contracts. The income from the non-refundable fee is recognized upon acceptance of the installment contract.

The Company has an arrangement with insurance carriers and a third party administrator to market and provide claims administration for a dual interest collateral protection program. This insurance program, which insures the financed vehicle against physical damage up to the lesser of the cost to repair the vehicle or the unpaid balance owed on the related installment contract, is offered to Non-prime Consumers who finance vehicles through participating dealers. If desired by a Non-prime Consumer, collateral protection insurance coverage is written under a group master policy issued by the unaffiliated insurance carriers to the Company. The Company is not involved in the actual sale of insurance; however, as part of the program, the insurance carriers cede insurance coverages and premiums (less a fee) to CAC Reinsurance, Ltd., a subsidiary of the Company, which acts as a reinsurer of such coverages. As a result, the subsidiary bears the risk of loss attendant to claims under the coverages ceded to it, and earns revenues resulting from premiums ceded and the investment of such funds.

Floor Plan Financing and Secured Working Capital Loans. The Company offers floor plan financing to certain dealers, pursuant to which the Company makes loans to dealers to finance vehicle inventories, in each case secured by the inventory, the related proceeds from the future sale of such inventory and future collections on installment contracts accepted from such dealers. This financing is provided on a selected basis as an accommodation to both affiliated and unaffiliated dealers, generally at a floating rate of interest equal to prime plus 4% (minimum of 12%) on an amount equal to 75% of the market value of the vehicle financed. On a selected basis, the Company also provides dealers with working capital loans. These loans are secured by all assets of the dealer, including any future cash collections owed to the dealer on installment contracts.

Credit Reporting Services. Montana Investment Group, Inc. a subsidiary of the Company, supplies risk assessment and fraud alert information and computerized skiptracing services regarding Non-prime Consumers to companies serving the Non-prime Consumer market. Such information and services are generally not available from traditional consumer information sources.

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The Company continually considers other programs that will increase its services to dealers. The Company intends that such programs, if undertaken, will be initially marketed selectively in order to establish strong operating systems and assess the potential profitability of these services. Such programs may be discontinued at any time.

#### SALES AND MARKETING

The Company's program is marketed directly to used vehicle dealers and to new automobile dealers with used vehicle departments. Marketing efforts are initially concentrated on a particular geographic area through the distribution of marketing brochures and via advertising in trade journals and other industry publications directly to automobile dealers. Follow-up is subsequently conducted through telemarketing, videotapes and monthly newsletters explaining the Company's program. Free training seminars are available to dealers desiring to learn more about the Company's program, as well as to participating dealers. The

Company also establishes relationships with dealers through referrals from third party vendors and participating dealers.

CAC employs experienced sales and marketing professionals (sales representatives) both at the Company's headquarters and in the field for purposes of enrolling new dealers and providing services to existing dealers. The sales force also includes non-employee individuals (sales agents) operating on a contract basis. Sales personnel are compensated on an incentivized, formula basis, which provides specific commissions for levels and types of contracts generated and dealers enrolled in the Company's program.

CAC provides dealers with training regarding the operation of the Company's program. Seminars are held on a regular basis at the Company's headquarters and periodically at locations throughout the country. Pursuant to the servicing agreement, each dealer agrees to attend at least one such seminar each calendar year.

In an effort to better align the long-term interests of participating dealers with those of the Company and to increase the volume of contracts per dealer, the Company has implemented the CAC Century Club. This program offers dealers the opportunity to profit from the growth of the Company by granting the dealers stock options based on the number of contracts accepted by the Company from the dealer. As of December 31, 1997, approximately 450 dealers are included in the program. Options are generally granted to dealers based on the Company accepting a minimum of 100 contracts from the dealer in a calendar year. Upon the Company's acceptance of 100 contracts from a dealer, the dealer receives an option to purchase 1,000 shares of Common Stock. The dealer receives an option to purchase an additional 200 shares for each additional 100 contracts accepted by the Company from the dealer in a calendar year. The exercise price for the options is equal to the fair market value of the Common Stock on the date of the grant. Such options become exercisable in three annual installments beginning one year after grant and expire five years after grant.

The Company has selected ten Century Club dealers as part of a dealer Advisory Board which meets periodically to discuss the Company's financing programs and offer suggestions for enhancements of the Company's products and services.

#### CREDIT LOSS POLICY AND EXPERIENCE

When an installment contract is acquired, the Company generally pays a cash advance to the dealer. These advance balances represent the Company's primary risk of loss related to the funding activity with the dealers. The Company maintains a reserve on Advances to dealers which reflects Advance balances that are not expected to be recovered through collections on that dealer's related installment contract receivable portfolio. For purposes of establishing the reserve, future collections (including the anticipated proceeds from repossessed collateral) are reduced to present value in order to achieve a level yield over the remaining term of the Advance equal to the expected yield at the origination of the impaired Advance. During 1997, the Company implemented a new loan servicing system which allows the Company to better estimate future collections for each dealer pool using historical loss experience and a dealer by dealer static pool analysis. The Company took a charge during 1997 to reflect the impact of this enhancement in the Company's methodology for estimating the reserve. Future reserve requirements will depend in part on the magnitude of the variance between management's prediction of future collections and the actual collections that are realized. Ultimate losses may vary from current estimates and the amount of provision, which is a current expense, may be either greater or less than actual charge offs. The Company charges off dealer Advances against the reserve at such time and to the extent that the Company's static pool analysis determines that the Advance is completely or partially impaired.

The Company maintains an allowance for credit losses which, in the opinion of management, adequately reserves against expected credit losses on installment contracts that are considered impaired. The risk of loss to the Company related to the installment contracts receivable balance relates to earned but unpaid servicing fees or finance charges recognized on contractually delinquent accounts. Servicing fees, which are booked as finance charges, are recognized under the effective interest method of accounting until the underlying obligation is 90 days past due on a recency basis. At such time, the Company suspends the accrual of revenue and makes a provision for credit losses equal to the earned but unpaid revenue. On all accounts which no material payment has been received for nine months, the gross installment contract balance is charged off against dealer holdbacks, unearned finance charges, and

the allowance for credit losses.

During 1997, the Company changed its non-accrual policy from 120 days on a contractual basis to 90 days on a recency basis and changed its charge off policy to nine months on a recency basis from one year. The Company believes these changes will allow for earlier identification of underperforming dealer pools.

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#### COMPETITION

The Non-prime Consumer finance market is very fragmented and highly competitive. The Company believes that there are numerous competitors providing, or capable of providing, financing programs through dealers to purchasers of used vehicles. The Company also competes, indirectly, with dealers operating dealer-financed programs. Because the Company's program is directed to provide financing to individuals who cannot ordinarily qualify for traditional financing, the Company does not believe that it competes currently with commercial banks, thrifts, automobile finance companies and others that apply more traditional lending criteria to the credit approval process. Historically, these traditional sources of used vehicle financing (some of which are larger, have significantly greater financial resources and have relationships with captive dealer networks) have not served the Company's market segment consistently. The Company's market is primarily served by smaller finance organizations which solicit business when and as their capital resources allow. The Company intends to capitalize on this market segment's lack of a major, consistent financing source. However, if such a competitor were to enter the Company's market segment, the Company's financial position and results of operations could be materially adversely affected. The Company believes that it can compete on the basis of service provided to its participating dealers and superior collection performance.

During the past year, many of CAC's competitors have disclosed that they have exited the Non-prime consumer finance market, do not have funding to acquire additional installment contract receivables from dealers or have strengthened credit standards which in turn has reduced the volume of new business. These events suggest that the Non-prime consumer finance market should become less competitive, however, the dealers appear to continue to have many alternatives to sell the installment contract receivables.

#### CUSTOMER AND GEOGRAPHIC CONCENTRATIONS

Installment contracts receivable attributable to contracts accepted from affiliated dealers owned by the Company's majority shareholder represented approximately 5%, 4% and 4% of gross installment contracts receivable at the end of 1995, 1996 and 1997, respectively. Approximately 6%, 3% and 1% of the value of installment contracts accepted and approximately 5%, 3% and 1% of the number of installment contracts accepted by the Company during 1995, 1996 and 1997, respectively, were originated by affiliated dealers. Affiliated dealers are not obligated to continue doing business with CAC, nor are they precluded from owning or operating businesses which may compete with the Company. As of December 31, 1997, approximately 33.8% of the participating dealers in the United States were located in Michigan, Ohio, Indiana, Illinois and Missouri and these dealers accounted for approximately 34.8% of the number of contracts accepted from United States dealers in 1997. As of December 31, 1997, approximately 13.5% of the Company's total dealers were located in the United Kingdom and during 1997 these dealers accounted for approximately 15.2% of the new contracts accepted by the Company. No single dealer (including no single affiliated dealer) accounted for more than 10% of the number of installment contracts accepted by the Company during 1995, 1996 or 1997.

The following table sets forth, for each of the last three years, the Company's domestic and foreign operations, the amount of revenues from customers, operating profits or loss and identifiable assets.

As of and for Years Ended  
December 31,

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1995                      1996                      1997

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Revenues from customers			
United States .....	\$ 81,820	\$ 107,315	\$ 134,950
United Kingdom .....	3,261	16,600	28,598
Ireland .....		1	195
Canada .....		18	492
Operating profit (loss) (1)			
United States .....	\$ 45,144	\$ 54,302	(\$ 9,244)
United Kingdom .....	349	9,348	10,755
Ireland .....		(58)	(51)
Canada .....		16	(116)
Identifiable assets			
United States .....	\$ 646,601	\$ 934,076	\$ 949,771
United Kingdom .....	39,839	139,764	159,675
Ireland .....		337	2,479
Canada .....		241	3,685

(1) Calculated after deducting interest expenses, but before provision for income taxes.

#### REGULATION

The Company's business is subject to various state, federal and foreign laws and regulations which require licensing and qualification, limit interest rates, fees and other charges associated with the installment contracts assigned to the Company, require specified disclosures by automobile dealers to consumers, govern the sale and terms of the ancillary products and define the Company's rights to repossess and sell collateral. Failure to comply with, or an adverse change in, these laws or regulations could have a material adverse effect on the Company by, among other things, limiting the states or countries in which the Company may operate, restricting the Company's ability to realize the value of the collateral securing the contracts, or resulting in potential liability related to contracts accepted from dealers. In addition, governmental regulations which would deplete the supply of used vehicles, such as environmental protection regulations governing emissions or fuel consumption, could have a material adverse effect on the Company. The Company is not

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aware of any such legislation currently pending. The Company has suspended temporarily its acceptance of contracts in the District of Columbia pending receipt of regulatory approval of contract forms.

The sale of insurance products by dealers is also subject to state laws and regulations. As the Company does not deal directly with consumers in the sale of insurance products, it does not believe that its business is significantly affected by such laws and regulations. Nevertheless, there can be no assurance that insurance regulatory authorities in the jurisdictions in which such products are offered by dealers will not seek to regulate the Company or restrict the operation of the Company's business in such jurisdictions. Any such action could materially adversely affect the income received from such products. CAC's credit life and disability reinsurance subsidiary is licensed, and is subject to regulation, in the state of Arizona, and CAC's property and casualty reinsurance subsidiary is licensed in the Turks and Caicos Islands.

The Company's operations in the United Kingdom, Canada and Ireland are also subject to various laws and regulations. Generally, these requirements tend to be no more restrictive than those in effect in the United States.

Management believes that the Company maintains all material licenses and permits required for its current operations and is in substantial compliance with all applicable laws and regulations. The Company's servicing agreement with dealers provides that the dealer shall indemnify the Company with respect to any loss or expense the Company incurs as a result of the dealer's failure to comply with applicable laws and regulations.

#### EMPLOYEES

As of December 31, 1997, the Company employed 714 persons, 417 of whom were collection personnel, 124 were contract origination and processing personnel, 75 were marketing professionals, 19 were accounting professionals and the remainder were management or support personnel. The Company's employees have no union affiliations and the Company believes its relationship with its employees is

good.

ITEM 2. PROPERTIES

The Company's headquarters are located at 25505 West Twelve Mile Road, Southfield, Michigan 48034. The Company purchased the office building in 1993, which it financed in part by a loan secured by a mortgage on the building. The office building includes approximately 118,000 square feet of space on five floors. The Company occupies approximately 54,000 square feet of the building, with most of the remainder of the building leased to various tenants. The Company plans to continue to lease out excess space in the building until such time as the Company's expansion needs require it to occupy additional space.

The Company leases an office building in Worthing, West Sussex, in the United Kingdom, which is the headquarters for the Company's United Kingdom operations. The Company occupies approximately 10,000 square feet of the building under a lease expiring in September 2007.

The Company owns an office building in Norcross, Georgia which houses the Company's credit reporting services subsidiary. The office building includes approximately 4,100 square feet of space on two floors. In addition, the Company occupies approximately 1,200 square feet of space in an adjacent building under a lease expiring in September 1998.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business and as a result of the consumer-oriented nature of the industry in which the Company operates, industry participants are frequently subject to various consumer claims and litigation seeking damages and statutory penalties. The claims allege, among other theories of liability, violations of state, federal and foreign truth in lending, credit availability, credit reporting, consumer protection, warranty, debt collection, insurance and other consumer-oriented laws and regulations. The Company, as the assignee of finance contracts originated by dealers, may also be named as a co-defendant in lawsuits filed by consumers principally against dealers. Many of these cases are filed as purported class actions and seek damages in large dollar amounts and have received significant attention in recent years due to large punitive awards by juries, particularly in Alabama, where the plaintiff bar has been very active in bringing claims against finance companies.

The Company is currently a defendant in a class action proceeding commenced on October 9, 1997 by Marion Fielder and Deborah Williams which is pending in the United States District Court for the Western District of Missouri. Plaintiffs allege that the Company is liable for multiple violations of state and federal consumer protection laws and are seeking injunctive relief and damages. The court has certified a class for each of the alleged violations. The Company is vigorously defending this litigation.

The Company and certain officers and directors of the Company have been named as defendants in a number of putative class action complaints seeking money damages for alleged violations of the federal securities laws. The complaints were filed between January 29, 1998 and March 3, 1998 in the United States District Court for the Eastern District of Michigan. The complaints generally allege that the Company's financial statements issued during the period September 29, 1995 through October 22, 1997 did not accurately reflect the Company's true financial condition and results of operations because such reported results failed to be in accordance with

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generally accepted accounting principles and that such results contained material accounting irregularities in that they failed to reflect adequate reserves for credit losses. The complaints further allege that the Company issued public statements during the alleged class period which fraudulently created the impression that the Company's accounting practices were proper. The Company intends to vigorously defend these actions.

Management is of the opinion that the resolution of these proceedings will not have a material effect on its financial position or results of operations. Future events and circumstances could alter managements' conclusion with respect to these matters.

The frequency of litigation has increased as the Company's business activities have expanded. The Company believes that the structure of its dealer program and the ancillary products, including the terms and conditions of its servicing agreement with dealers, may mitigate its risk of loss in any such litigation. Management believes the Company has taken prudent steps to address the litigation risks associated with its business activities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

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PART II.

ITEM 5. MARKET PRICE AND DIVIDEND INFORMATION

The Company's Common Stock is traded on the Nasdaq Stock Market's National Market (symbol CACC). The high and low sale prices for the Common Stock for each quarter during the two year period ending December 31, 1997 as reported by the National Association of Securities Dealers, Inc., are set forth in the following table.

Quarter Ended	1996		1997	
	High	Low	High	Low
March 31.....	\$24.50	\$14.75	\$26.00	\$17.00
June 30.....	24.00	17.25	18.50	9.38
September 30.....	28.50	17.13	16.88	11.25
December 31.....	27.50	22.25	13.63	2.50

As of December 31, 1997, the approximate number of beneficial holders and shareholders of record of the Common Stock was 6,000 based upon securities position listings furnished to the Company.

Other than the dividend paid in connection with the Company's conversion from S corporation status to C corporation status during 1992, the Company has never paid and has no present plans to pay any cash dividends on its Common Stock. The Company intends to retain its earnings to finance the growth and development of its business. The Company's credit agreements contain certain covenants pertaining to the Company's tangible net worth which may indirectly limit the payment of dividends on Common Stock.

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ITEM 6. SELECTED FINANCIAL DATA

The selected income statement and balance sheet data presented below for and as of each of the five years ended December 31, 1997 are derived from the Company's consolidated financial statements, audited by Arthur Andersen LLP, independent public accountants. The selected financial data presented below as of December 31, 1996 and 1997 and for the years ended December 31, 1995, 1996 and 1997 should be read in conjunction with the Company's consolidated audited financial statements and notes thereto and "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere in this Report.

(Dollars in thousands, except per share data)

	1993	1994	1995	1996	1997
INCOME STATEMENT DATA:					

REVENUE:					
Finance charges .....	\$ 25,710	\$ 44,550	\$ 66,276	\$ 92,944	\$ 117,020
Vehicle service contract fees and other income .....	1,690	4,219	9,491	16,309	28,598
Dealer enrollment fees .....	1,676	1,950	2,810	5,028	7,313
Premiums earned .....	890	3,756	6,504	9,653	11,304
	-----	-----	-----	-----	-----
Total revenue .....	29,966	54,475	85,081	123,934	164,235
	-----	-----	-----	-----	-----
COSTS AND EXPENSES:					
Salaries and wages .....	4,211	6,893	9,499	11,675	16,978
General and administrative .....	3,517	6,832	9,870	14,305	20,604
Provision for credit losses .....	1,463	3,603	7,066	13,071	85,472
Sales and marketing .....	1,166	1,320	2,347	4,647	8,329
Provision for claims .....	431	1,582	1,964	3,060	3,911
Interest .....		2,651	8,785	13,568	27,597
	-----	-----	-----	-----	-----
Total costs and expenses .....	10,788	22,881	39,531	60,326	162,891
	-----	-----	-----	-----	-----
Operating income .....	19,178	31,594	45,550	63,608	1,344
Foreign exchange gain (loss) .....			(57)	27	(41)
	-----	-----	-----	-----	-----
Income before income taxes .....	19,178	31,594	45,493	63,635	1,303
Provision (credit) for income taxes .....	6,783	11,024	15,921	22,126	(234)
	-----	-----	-----	-----	-----
Net income .....	\$ 12,395	\$ 20,570	\$ 29,572	\$ 41,509	\$ 1,537
	-----	-----	-----	-----	-----
Net income per common share (A):					
Basic .....	\$ .30	\$ .50	\$ .70	\$ .91	\$ .03
	-----	-----	-----	-----	-----
Diluted .....	\$ .29	\$ .49	\$ .68	\$ .89	\$ .03
	-----	-----	-----	-----	-----
Weighted average shares outstanding (A):					
Basic .....	41,192,984	41,270,984	42,385,262	45,605,159	46,081,804
Diluted .....	42,106,762	42,316,105	43,527,770	46,623,655	46,754,713
BALANCE SHEET DATA:					
Installment contracts receivable, net .....	\$ 184,273	\$ 402,379	\$ 652,452	\$ 1,029,951	\$ 1,036,699
Floor plan receivables .....	4,555	7,115	13,249	15,493	19,800
Notes receivables .....	1,741	2,459	3,232	2,663	1,231
All other assets .....	12,320	13,953	17,507	26,311	57,880
	-----	-----	-----	-----	-----
Total assets .....	\$ 202,889	\$ 425,906	\$ 686,440	\$ 1,074,418	\$ 1,115,610
	-----	-----	-----	-----	-----
Dealer holdbacks, net .....	\$ 135,071	\$ 251,997	\$ 363,519	\$ 496,434	\$ 437,065
Total debt .....	4,550	79,652	95,780	288,899	391,666
Other liabilities .....	8,559	18,517	28,166	42,942	37,888
	-----	-----	-----	-----	-----
Total liabilities .....	148,180	350,166	487,465	828,275	866,619
	-----	-----	-----	-----	-----
Shareholders' equity (B) .....	54,709	75,740	198,975	246,143	248,991
	-----	-----	-----	-----	-----
Total liabilities and shareholders' equity..	\$ 202,889	\$ 425,906	\$ 686,440	\$ 1,074,418	\$ 1,115,610
	=====	=====	=====	=====	=====

(A) On September 29, 1995 the Company consummated a public offering of 3,900,000 shares of its Common Stock.

(B) No dividends were paid during the periods presented.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### GENERAL

The Company is a specialized financial services company providing funding, receivables management, collection, sales training and related products and services to automobile dealers located in the United States, the United Kingdom, Ireland and Canada. The Company assists such dealers by providing them with an indirect source of financing for buyers of used vehicles with limited access to traditional sources of consumer credit. In addition, but to a significantly lesser extent, the Company provides floor plan financing and secured working capital loans to dealers, secured by the related vehicle inventory and any future cash collections owed to the dealer on contracts accepted under the Company's program.

The Company's relationship with a dealer is defined by: (i) the servicing agreement which sets forth the terms and conditions associated with the Company's acceptance of a contract from a dealer; and (ii) the contract, which is a retail installment sales contract between a dealer and a purchaser of a used vehicle, providing for payment over a specified term. The dealer assigns title to the contract and the security interest in the vehicle to the Company. Thereafter, the rights and obligations of the Company and the dealer are defined by the servicing agreement, which provides that a contract is assigned to the

Company as nominee for the dealer for purposes of administration, servicing and collection of the amount due under the assigned contract, as well as for security purposes. The Company takes title to the contract as nominee and records the gross amount of the contract as a gross installment contract receivable and the amount of its "servicing fee" (see below) as an unearned finance charge which, for balance sheet purposes, is netted from the gross amount of the contract. The dealer maintains certain rights in future collections, with the Company recording the remaining portion of the contract (the gross amount of the contract less the unearned finance charge) as a "dealer holdback". For balance sheet purposes, dealer holdbacks are shown net of any advances made by the Company to the dealer in connection with accepting the assignment of a contract.

The Company's program allows dealers to establish the interest rate on contracts, which typically is the maximum rate allowable by the state or country in which the dealer is doing business. As the majority of the Company's revenue is derived from the servicing fee it receives on the gross amount due under the contract (typically 20% of the principal and interest), the Company's revenues from servicing fees are not materially impacted by changes in interest rates. The Company's revenue is principally dependent upon the gross value of contracts accepted, which is determined by the number of contracts accepted and the amount of the average contract. The contracts assigned to the Company are: (i) secured by the related vehicle; and (ii) short-term in duration (generally maturing in six to 36 months, with an initial average maturity of approximately 31 months). The interest rates charged on floor plan financing and secured working capital loans are typically prime plus 4%.

The Company's subsidiaries provide additional services to dealers. One such subsidiary is primarily engaged in the business of reinsuring credit life and disability insurance policies issued to borrowers under contracts originated by dealers. Credit life and disability insurance premiums are ceded to the subsidiary on both an earned and written basis and are earned over the life of the contracts using pro rata and sum-of-digits methods. Another subsidiary administers short-term limited extended service contracts offered by dealers. In connection therewith, the subsidiary bears the risk of loss for any repairs covered under the service contract. Revenue is recognized on a straight-line basis over the life of the service contracts. In addition, the subsidiary has relationships with third party service contract providers which pay the subsidiary a fee on service contracts included on installment contracts financed through participating dealers. The subsidiary does not bear the risk of loss for covered claims on these third party service contracts. The income from the non-refundable fee is recognized upon acceptance of the installment contract. A third subsidiary is engaged in the business of reinsuring collateral protection insurance coverage issued to borrowers under contracts originated by dealers. Premiums are ceded to the subsidiary on both an earned and written basis and are earned over the life of the contracts using pro rata and sum-of-digits methods.

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RESULTS OF OPERATIONS

The following table sets forth the percent relationship of certain items to total revenue for the periods indicated.

Percent of Total Revenues	For the years ended		
	1995	December 31, 1996	1997
Finance charges .....	77.9%	75.0%	71.2%
Interest and other income .....	11.2	13.2	17.4
Dealer enrollment fees .....	3.3	4.1	4.5
Premiums earned .....	7.6	7.7	6.9
Total revenue .....	100.0	100.0	100.0
Salaries and wages .....	11.1	9.4	10.3
General and administrative .....	11.6	11.5	12.6
Provision for credit losses .....	8.3	10.5	52.0
Sales and marketing .....	2.8	3.7	5.1

Provision for claims .....	2.3	2.5	2.4
Interest .....	10.3	10.9	16.8
	-----	-----	-----
Total costs and expenses .....	46.4	48.5	99.2
	-----	-----	-----
Operating income .....	53.6	51.5	0.8
Foreign exchange loss .....	(0.1)	--	--
	-----	-----	-----
Income before income taxes .....	53.5	51.5	0.8
Provision (credit) for income taxes	18.7	18.0	(0.1)
	-----	-----	-----
Net income .....	34.8%	33.5%	0.9%
	=====	=====	=====

Year Ended December 31, 1996 Compared To Year Ended December 31, 1997

Total Revenue. Total revenue increased from \$123.9 million in 1996 to \$164.2 million in 1997, an increase of \$40.3 million or 32.5%. This increase was primarily due to the increase in finance charge revenue resulting from an increase in the average installment contracts receivable balance. The increase in gross installment contracts receivable is primarily the result of contract originations for the period exceeding the sum of collections on installment contracts and charge offs of installment contracts for the period. Future increases in the installment contracts receivable balance will, in large part, be dependent on future origination volumes, the growth in which moderated in 1997 and, in particular, in the fourth quarter of 1997, as the Company utilized enhanced analysis, made possible by a new loan servicing system which became operational in the third quarter of 1997, to limit business with marginally profitable dealers. Based on this review of dealer profitability, the Company has discontinued relationships with certain dealers which had accounted for approximately 15% of the Company's originations (based upon the gross contract amount) in the third quarter of 1997. The Company expects to continue to monitor its relationships with dealers and make additional adjustments to these relationships as required. It is expected that contract growth will continue to moderate in 1998 to rates lower than those experienced historically.

The average yield on the Company's portfolio, calculated using finance charge revenue divided by average net installment contracts receivable, was approximately 10.9% and 11.2% in 1996 and 1997, respectively. The increase in the average yield principally resulted from the Company changing its accounting policy relating to the write-off of installment contracts receivable. The revised policy requires write-off of delinquent installment contracts receivable at nine months on a recency basis compared to one year under the old policy. This change was partially offset by an increase in the percent of non-accrual installment contracts (which were 34.1% and 37.6% of contracts as of December 31, 1996 and 1997, respectively). The increase in the percent of non-accrual contracts is principally due to a change in the Company's non-accrual policy in 1997 to 90 days measured on a recency basis from 120 days measured on a contractual basis, as well as a maturing of the installment contract receivable portfolio due to lower origination growth. The Company implemented the change in the non-accrual policy in an effort to more quickly identify unprofitable dealer relationships.

Also contributing to the increase in total revenue was vehicle service contract fees and other income which increased as a percent of total revenue from 13.2% in 1996 to 17.4% in 1997. This increase is primarily due to fees earned from the sale of third party service contract and credit life products offered by dealers, which increased from \$6.5 million in 1996 to \$15.8 million in 1997, and an increase in interest earned on floor plan financing which resulted from increased floor plan balances in 1997. Earned dealer enrollment fees increased, as a percent of total revenue, from 4.1% in 1996 to 4.5% in 1997. This increase is due to the continued increase in the number of new dealers enrolling in the Company's financing program, particularly during 1996, as these fees are deferred and amortized over the estimated repayment term of the outstanding dealer advance. Earned dealer enrollment fees are expected to be lower in 1998 as a result of the Company's efforts to be more selective of dealer quality in efforts to improve the performance of its portfolio of installment contracts receivable. Premiums earned decreased, as a percent of total revenue, from 7.7% in 1996 to 6.9% in 1997. This decrease is primarily the result of decreases, as a percent of total revenue, in premiums reinsured

under the Company's service contract and credit life insurance programs.

Salaries and Wages. Salaries and wages, as a percent of total revenue, increased from 9.4% in 1996 to 10.3% in 1997. This increase is primarily due to increases in employee headcount, particularly collection personnel added to service the Company's larger installment contract portfolio. To a lesser extent, the increase is due to increases in the Company's average wage rates.

A portion of management personnel compensation paid by the Company is charged to a company controlled by the Company's Chairman (the "Affiliated Company"), based upon the percentage of time spent working for the Affiliated Company. The Company charged the Affiliated Company approximately \$311,000 and \$208,000 in 1996 and 1997, respectively. Shared employees devote between 30% and 90% of their time to the Company, depending on their responsibilities. The Company believes that the amounts charged by the Company are representative of the respective employees' activities.

General and Administrative. General and administrative expenses, as a percent of total revenue, increased from 11.5% in 1996 to 12.6% in 1997. This increase is primarily due to: (i) an increase in depreciation and amortization resulting from the addition of new computer systems which became operational in 1997 and (ii) an increase in legal expenses resulting from the increase in the frequency and severity of litigation on 1997 (see Item 3. Legal Proceedings). In addition, this increase is due to a the \$500,000 write-off of computer software in 1997 no longer used in the Company's operations.

Provision for Credit Losses. The amount provided for credit losses, as a percent of total revenue, increased from 10.5% in 1996 to 52.0% in 1997. This increase is primarily the result of a charge recorded to reflect the enhancements in the Company's methodology for estimating its reserve for advances made possible by a new loan servicing system implemented by the Company. Utilizing the new information made available upon the successful implementation of this new system, the Company undertook an extensive review of its exposure related to dealer advances using a static pool analysis on a per dealer basis. In order to reflect the impact of this analysis on the Company's advance reserve additional provisions were recorded in 1997.

Sales and Marketing. Sales and marketing expenses, as a percent of total revenue, increased from 3.7% in 1996 to 5.1% in 1997. The increase corresponds with the increase in earned dealer enrollment fees, as the sales

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commissions paid for dealer enrollments are deferred and amortized to expense over the estimated repayment term of the outstanding dealer advance. In addition, the increase is also the result of increases in advertising and other promotions in 1997.

Provision for Claims. The amount provided for insurance and service contract claims, as a percent of total revenue, decreased from 2.5% in 1996 to 2.4% in 1997. This decrease corresponds with decreases, as a percent of total revenue, in premiums earned from 7.7% in 1996 to 6.9% in 1997.

The Company has established claims reserves based on accumulated estimates of claims reported but unpaid, plus estimates of incurred but unreported claims. The Company believes the reserves are adequate to cover future claims associated with the programs.

Interest Expense. Interest expense, as a percent of total revenue, increased from 10.9% in 1996 to 16.8% in 1997. This increase is a result of an increase in the amount of average outstanding borrowings. To a lesser extent, interest expense increased due to a higher average interest rate. The increase in the average interest rate is primarily the result of the sale of \$71.75 million in senior notes, at a fixed rate of interest, in March 1997. The increase was also attributable to the downgrade of the Company's credit rating with Moody's Investor Service from Baa3 to Ba2 and with Standard and Poor's from BBB- to BB effective October 22, 1997. As a result of these downgrades, the Company's Eurocurrency based borrowing margins under the \$250 million credit agreement were increased from 82.5 basis points to 120 basis points in accordance with the terms of the credit agreement. The Company expects to continue to borrow in future periods, as needed, to assist in funding the Company's operations, and may continue to convert portions of its floating rate debt to longer term fixed rates, which may be higher than rates available on shorter term floating rate borrowings.

Operating Income. As a result of the aforementioned factors, operating income decreased from \$63.6 million in 1996 to \$1.3 million in 1997, a decrease of \$62.3 million or 97.9%.

Foreign Exchange Gain (Loss). The Company incurred a foreign exchange gain of \$27,000 in 1996 and a foreign exchange loss of \$41,000 in 1997. The gain and loss were the result of exchange rate fluctuations between the U.S. dollar and foreign currency on unhedged intercompany balances between the Company and subsidiaries which operate outside the United States.

Provision (Credit) for Income Taxes. The provision (credit) for income taxes decreased from \$22.1 million in 1996 to (\$0.2) million in 1997. The decrease is due to lower pretax profits in 1997.

Year Ended December 31, 1995 Compared To Year Ended December 31, 1996

Total Revenue. Total revenue increased from \$85.1 million in 1995 to \$123.9 million in 1996, an increase of \$38.8 million or 45.6%. This increase was primarily due to the increase in finance charge revenue resulting from an increase in installment contracts receivable. The increase in installment contracts receivable was primarily the result of an increase in the number of dealers participating in the Company's program, and an increase in the average contract size. The Company enrolled 2,487 new dealers into the Company's program during 1996, bringing the total number of dealers to 5,385 as of December 31, 1996 (including 947 in the United Kingdom, 41 in Ireland and 36 in Canada), compared to 3,328 as of December 31, 1995 (including 680 in the United Kingdom and none in Ireland and Canada). The average yield on the Company's portfolio was approximately 12.4% and 10.9% in 1995 and 1996, respectively. The decline in the average yield principally resulted from an increase in the percent of contracts which were greater than 120 days contractually past due (which were 31.8% and 34.1% of contracts as of December 31, 1995 and 1996, respectively). The increase in the level of contractual past due contracts, while significant, is mitigated by the fact that when a contract is 120 days contractually past due, the Company (i) transfers the contract to a non-accrual status; and (ii) makes a provision to credit losses equal to the earned but unpaid revenue previously recognized on such contract. In addition, the decline in the average yield was also the result of an increase in the average outstanding term of the Company's contract portfolio.

Also contributing to the increase in total revenue were premiums earned on the Company's credit life and service contract programs. Premiums earned increased as a percent of total revenue from 7.6% in 1995 to 7.7% in 1996. Vehicle service contract fees and other income increased as a percent of total revenue from 11.2% in 1995 to 13.2% in 1996. The increase is primarily due to commissions earned on credit life and service contract products offered by dealers, as well as an increase in interest earned on floor plan financing which resulted from higher floor plan balances. Earned dealer enrollment fees increased as a percent of revenue from 3.3% in 1995 to 4.1% in 1996. These fees, and the related direct incremental costs of originating these fees, are deferred and amortized on a straight-line basis over the estimated repayment term of the outstanding Advance. The increase is due to the continued increase in the number of dealers enrolled in the Company's financing program.

Salaries and Wages. Salaries and wages, as a percent of total revenue, decreased from 11.1% in 1995 to 9.4% in 1996. The Company continues to benefit from increased efficiencies, which have allowed it to increase revenue with a less than proportionate increase in personnel costs.

A portion of management personnel compensation paid by the Company is charged to a company controlled by the Company's Chairman (the AAffiliated Company), based upon the percentage of time spent working for the Affiliated

Company. The Company charged the Affiliated Company approximately \$354,000 and \$311,000 in 1995 and 1996, respectively. Shared employees devote between 30% and 90% of their time to the Company, depending on their responsibilities. The Company believes that the amounts charged by the Company are representative of the respective employees' activities.

General and Administrative. General and administrative expenses, as a percent of total revenue, decreased from 11.6% in 1995 to 11.5% in 1996. This

decrease reflects the Company's ability to benefit from economies of scale, increasing revenue with a less than proportionate increase in general and administrative costs.

Provision for Credit Losses. The amount provided for credit losses, as a percent of total revenue, increased from 8.3% in 1995 to 10.5% in 1996. The increase is the result of an increase in amounts provided to cover anticipated credit losses from certain advances made to dealers which the Company does not expect to recover and is to a lesser extent a result of an increase in the percent of installment contracts receivable which are greater than 120 days contractually past due.

Sales and Marketing. Sales and marketing expenses, as a percent of total revenue, increased from 2.8% in 1995 to 3.7% in 1996. The increase is primarily the result of increased sales commissions as a result of the increased rate of enrollment of new dealers into the Company's program, as well as an increase in other costs directly associated with the enrollment of new dealers.

Provision for Claims. The amount provided for insurance and service contract claims, as a percent of total revenue, increased from 2.3% in 1995 to 2.5% in 1996. This increase was a result of an increase in the provision for claims as a percentage of premiums earned from 30.2% in 1995 to 31.7% in 1996 due to slightly higher levels of claims under insurance policies and service contracts.

The Company has established claims reserves based on accumulated estimates of claims reported but unpaid, plus estimates of incurred but unreported claims. The Company believes the reserves are adequate to cover future claims associated with the programs.

Interest Expense. Interest expense, as a percent of total revenue, increased from 10.3% in 1995 to 10.9% in 1996. The increase was primarily the result of an increase in average total outstanding borrowings. The increase was partially offset by lower average borrowing rates on the revolving credit facility in 1996. The Company expects to continue to borrow in future periods to assist in funding the continued growth of the Company.

Operating Income. As a result of the aforementioned factors, operating income increased from \$45.6 million in 1995 to \$63.6 million in 1996, an increase of \$18.0 million or 39.5%.

Foreign Exchange Gain (Loss). The Company incurred a foreign exchange loss of \$57,000 in 1995 and a foreign exchange gain of \$27,000 in 1996. The gain and loss were the result of the effect of exchange rate fluctuations between the U.S. dollar and foreign currencies on unhedged intercompany balances between the Company and its subsidiaries which operate outside the United States.

Provision for Income Taxes. The provision for income taxes increased from \$15.9 million in 1995 to \$22.1 million in 1996. The increase is due to a higher level of pretax income in 1996. The effective tax rate was 35.0% in 1995 and 34.8% in 1996.

#### CREDIT LOSS POLICY AND EXPERIENCE

When an installment contract is acquired, the Company generally pays a cash Advance to the dealer. These Advance balances represent the Company's primary risk of loss related to the funding activity with the dealers.

The Company maintains a reserve against Advances to dealers that are not expected to be recovered through collections on the related contract portfolio. For purposes of establishing the reserve, future collections are reduced to present-value in order to achieve a level yield over the remaining term of the Advance equal to the expected yield at the origination of the impaired Advance. During 1997, the Company implemented a new loan servicing system which allows the Company to better estimate future collections for each dealer pool using historical loss experience and a dealer by dealer static pool analysis. The Company took a non-cash charge during 1997 to reflect the impact of this enhancement in the Company's methodology for estimating the Advance reserve. Future reserve requirements will depend in part on the magnitude of the variance between management's prediction of future collections and the actual collections that are realized. Ultimate losses may vary from current estimates and the amount of provision, which is a current expense, may be either greater or less than actual charge offs. The Company charges off dealer Advances against the reserve at such time and to the extent that the Company's static pool analysis

determines that the Advance is completely or partially impaired.

The Company also maintains an allowance for credit losses which, in the opinion of management, adequately reserves against expected future losses in the portfolio of receivables. The risk of loss to the Company related to the installment contracts receivable balances relates primarily to the earned but unpaid servicing fee or finance charge recognized on contractually delinquent accounts.

Servicing Fees, which are booked as Finance Charges, are recognized under the interest method of accounting until the underlying obligation is 90 days past due on a recency basis. At such time, the Company suspends the accrual of revenue and makes a provision for credit losses equal to the earned but unpaid revenue. In all cases, contracts on which no

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material payment has been received for nine months are charged off against dealer holdbacks, unearned finance charges and the allowance for credit losses.

During 1997, the Company changed its non-accrual policy from 120 days on a contractual basis to 90 days on a recency basis and changed its charge off policy to nine months on a recency basis from one year. The Company believes these changes will allow for earlier identification of underperforming dealer pools.

The following table sets forth information relating to charge offs, the allowance for credit losses, the reserve on Advances, and dealer holdbacks.

(Dollars in thousands)	For the years ended December 31,		
	1995	1996	1997
Provision for credit losses - installment contracts	\$ 5,323	\$ 7,222	\$ 11,072
Provision for credit losses - Advances .....	1,743	5,849	74,400
Charged against dealer holdbacks (1) .....	55,648	103,497	374,646
Charged against unearned finance charges (1).....	11,844	23,045	82,748
Charged against allowance for credit losses (1)....	1,776	2,863	10,138
Total contracts charged off (1).....	\$ 69,268	\$129,405	\$467,532
Net charge off against the reserve on Advances ....	\$ 86	\$ 444	\$ 71,391

(1)1997 charge offs based on nine month recency method; 1996 and 1995 based on one year recency method.

Credit Ratios	As of December 31,		
	1995	1996	1997
Allowance for credit losses as a percent of gross installment contracts receivable .....	1.0%	1.0%	1.0%
Reserve on Advances as a percent of Advances (2).....	1.2%	1.7%	2.8%
Gross dealer holdbacks as a percent of installment contracts receivable .....	79.5%	79.8%	79.9%

(2)During the fourth quarter of 1997, the Company reevaluated the timing of the charge off of advances to dealers and concluded that it was appropriate to accelerate the recognition of charge offs since the static pool analysis demonstrated that the advances were uncollectable. Prior to this change, the reserve percentage would have been approximately 12%.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's principal need for capital is to fund cash Advances made to dealers in connection with the acceptance of contracts and for the payment of dealer holdbacks to dealers who have repaid their Advance balances. These cash outflows to dealers decreased from \$540 million in 1996 to \$523 million in 1997. These amounts have been funded from cash collections on installment contracts,

cash provided by operating activities and draws under the Company's credit agreements. In 1997, the Company borrowed approximately \$123 million through the sale of \$71.75 million of senior notes and draws under its credit agreements to assist in funding the Company's operations. The need for these borrowings is primarily a result of cash Advances to dealers and payments of dealer holdbacks exceeding principal collections on installment contracts receivable. During the fourth quarter of 1997, the Company implemented more conservative Advance programs and reduced business with marginally profitable and unprofitable dealers in order to improve the performance of its portfolio of installment contracts. These changes resulted in reduced levels of originations and cash Advances to dealers in the fourth quarter of 1997, a trend which is expected to continue in future periods. To the extent that such growth is reduced to lower levels, the Company could experience a proportionate decrease in its need for capital in future periods.

The Company has a \$250 million credit agreement with a commercial bank syndicate. The agreement consists of a \$150 million line of credit facility with a commitment period through May 15, 1998 and a \$100 million revolving credit facility with a commitment period through May 15, 2000. Both facilities are subject to annual extension for additional one year periods at the request of the Company with the consent of each of the banks in the facility. The borrowings are unsecured with interest payable at the Eurocurrency rate plus a minimum of 61.25 basis points and a maximum of 140 basis points (currently 120 basis points) dependent on the Company's debt ratings, or at the prime rate. The Eurocurrency borrowings may be fixed for periods up to one year. The credit agreement has certain restrictive covenants, including limits on the ratio of the Company's debt-to-equity, limits on the ratio of fixed charges to net income, limits on the Company's investment in its foreign subsidiaries, and requirements that the Company maintain a specified minimum level of net worth. As of December 31, 1997, there was approximately \$210.3 million outstanding under these facilities. During January and February of 1998, the Company experienced positive cash flow. As of March 16, 1998, there was approximately \$171.4 million outstanding under these facilities.

During the fourth quarter of 1997, amendments were made to the Company's \$250 million credit agreement and senior note agreements. Such amendments were required as a result of the Company's violation of a fixed charge coverage covenant based on the Company's third quarter financial results. The new amendments modified the required fixed charge coverage ratio and added several new financial covenants to the Company's senior note and bank agreements, including limits on the ratio of debt to Advances, the ratio of debt to gross installment contracts receivable and the ratio of Advances to installment contracts receivable.

As the Company's \$150 million line of credit facility expires on May 15, 1998, the Company is required to refinance any amounts outstanding under this facility on or before such date. The Company continues to evaluate alternatives, including the securitization of assets and the sale of senior notes, for refinancing amounts outstanding under the \$150 million credit facility. The Company has entered into an agreement to contribute dealer advances and the related installment contracts receivable into a multi-asset special purpose corporation owned by a large commercial bank. The transaction is anticipated to close prior to May 15, 1998, with the issuance of commercial paper by the special purpose corporation generating proceeds of \$50 million which are anticipated to be used to reduce outstandings under the \$150 million credit facility. The agreement with the special purpose corporation includes a Parallel Purchase Commitment with a large commercial bank which can be utilized, if necessary, to fund the contemplated transaction. The Company anticipates extending the existing credit facility with modified terms and reduced commitment amounts. Based upon anticipated cash flows, management believes that amounts available under its revolving credit facility, amounts provided as a result of the above transaction and other available alternatives will provide sufficient financing for future operations.

If the Company experiences difficulties with its refinancing effort, the Company may reduce the volume of installment contract acquisitions and, thereby, reduce capital needs as well. The Company believes that it will be successful in refinancing any amounts outstanding under this facility. Failure to complete such refinancing or failure to obtain other financing alternatives may have a material adverse effect on the Company's operations.

The Company also has a 2.0 million British pound sterling (\$3.3 million U.S. dollars) line of credit agreement with a commercial bank in the United Kingdom, which is used to fund the day to day cash flow requirements of the Company's United Kingdom subsidiary. The borrowings are secured by a letter

of credit issued by the Company's principal commercial bank with interest payable at the United

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Kingdom bank's base rate (7.25% at December 31, 1997) plus 65 basis points or at the LIBOR rate plus 56.25 basis points. The rates may be fixed for periods up to six months. As of December 31, 1997, there was approximately 1.5 million British pounds (\$2.4 million U.S. dollars) outstanding under this facility which becomes due on August 31, 1998.

When borrowing to fund the operations of its foreign subsidiaries, the Company's policy is to borrow funds denominated in the currency of the country in which the subsidiary operates, thus mitigating the Company's exposure to foreign exchange fluctuations.

The Company maintains a significant dealer holdback on installment contracts accepted which assists the Company in funding its long-term cash flow requirements. In future periods, the Company's short and long-term cash flow requirements will continue to be funded primarily through , cash flow from the collection of installment contracts, cash provided by operating activities and the Company's credit facilities. The Company will continue to utilize various sources of financing available from time to time to fund the operations of the Company. Should such financing become limited, the Company's ability to maintain or increase loan originations will be funded through earnings from operations and cash flow from the collection of installment contracts.

CAC utilizes certain software that will be affected by the year 2000 date change. Modifications to computer systems to process year 2000 date transactions and receipt of vendor confirmations that their software is year 2000 compliant began in 1997. CAC expects that all new software installations or other modifications to its computer systems will be completed by the year 2000. Anticipated spending for modifications will be expensed as incurred, while the cost for new software will be capitalized and amortized over the software's useful life. At this time, CAC does not expect that the cost of these modifications or software will have a material effect on its financial position, liquidity, or results of operations.

The foregoing discussion and analysis contains a number of "forward looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, both as amended, with respect to expectations for future periods which are subject to various uncertainties, including competition from traditional financing sources and from non-traditional lenders, availability of funding at competitive rates of interest, adverse changes in applicable laws and regulations, adverse changes in economic conditions, adverse changes in the automobile or finance industries or in the Non-prime Consumer finance market and the Company's ability to increase or maintain the volume of installment contracts accepted and historical collection rates.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders  
Credit Acceptance Corporation:

We have audited the accompanying consolidated balance sheets of Credit Acceptance Corporation (a Michigan corporation) and subsidiaries as of December 31, 1996 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Credit Acceptance Corporation and subsidiaries as of December 31, 1996 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Detroit, Michigan,  
February 2, 1998.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	December 31,	
	1996	1997
<hr/>		
ASSETS:		
Cash and cash equivalents .....	\$ 229	\$ 349
Investments .....	6,320	9,973
Installment contracts receivable .....	1,042,146	1,049,818
Allowances for credit losses .....	(12,195)	(13,119)
Installment contracts receivable, net .....	1,029,951	1,036,699
Floor plan receivables:		
Nonaffiliated companies .....	3,690	8,137
Affiliated companies .....	11,803	11,663
	15,493	19,800
Notes receivable:		
Nonaffiliated companies .....	1,446	700
Affiliated companies .....	1,217	531
	2,663	1,231
Property and equipment, net .....	14,958	20,839
Other assets .....	4,804	26,719
TOTAL ASSETS .....	\$ 1,074,418	\$ 1,115,610
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
LIABILITIES:		
Senior notes .....	\$ 123,400	\$ 175,150
Lines of credit .....	161,482	212,717
Mortgage loan payable to bank .....	4,017	3,799
Income taxes payable .....	2,569	
Accounts payable and accrued liabilities .....	29,121	22,851
Deferred dealer enrollment fees, net .....	2,264	421
Dealer holdbacks, net .....	496,434	437,065
Deferred income taxes, net .....	8,988	14,616
TOTAL LIABILITIES .....	828,275	866,619
	-----	-----

## CONTINGENCIES (Note 11)

## SHAREHOLDERS' EQUITY

Preferred stock, \$.01 par value, 1,000,000 shares authorized, none issued		
Common stock, \$.01 par value, 80,000,000 shares authorized, 45,842,986 and 46,113,115 shares issued and outstanding in 1996 and 1997, respectively .....	458	461
Paid-in capital .....	125,398	128,336
Retained earnings .....	116,486	118,023
Cumulative translation adjustment .....	3,801	2,171
	-----	-----
TOTAL SHAREHOLDERS' EQUITY .....	246,143	248,991
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY .....	\$ 1,074,418	\$ 1,115,610
	=====	=====

See accompanying notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except for income per share data)	For the years ended December 31,		
	1995	1996	1997
REVENUE:			
Finance charges .....	\$ 66,276	\$ 92,944	\$ 117,020
Vehicle service contract fees and other income .....	9,491	16,309	28,598
Dealer enrollment fees .....	2,810	5,028	7,313
Premiums earned .....	6,504	9,653	11,304
	-----	-----	-----
Total revenue .....	85,081	123,934	164,235
	-----	-----	-----
COSTS AND EXPENSES:			
Salaries and wages .....	9,499	11,675	16,978
General and administrative .....	9,870	14,305	20,604
Provision for credit losses .....	7,066	13,071	85,472
Sales and marketing .....	2,347	4,647	8,329
Provision for claims .....	1,964	3,060	3,911
Interest .....	8,785	13,568	27,597
	-----	-----	-----
Total costs and expenses .....	39,531	60,326	162,891
	-----	-----	-----
Operating income .....	45,550	63,608	1,344
Foreign exchange gain (loss) .....	(57)	27	(41)
	-----	-----	-----
Income before provision for income taxes ..	45,493	63,635	1,303
Provision (credit) for income taxes .....	15,921	22,126	(234)
	-----	-----	-----
Net income .....	\$ 29,572	\$ 41,509	\$ 1,537
	=====	=====	=====
Net income per common share:			
Basic .....	\$ .70	\$ .91	\$ .03
	=====	=====	=====
Diluted .....	\$ .68	\$ .89	\$ .03
	=====	=====	=====
Weighted average shares outstanding:			
Basic .....	42,385,262	45,605,159	46,081,804
Diluted .....	43,527,770	46,623,655	46,754,713

See accompanying notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY For the Years Ended December 31, 1995, 1996 and 1997

(Dollars in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Cumulative Translation Adjustment
------------------------	-----------------	--------------------	----------------------	---

Balance - December 31, 1994 .....	\$ 411	\$ 29,921	\$ 45,405	\$ 3
Net income .....			29,572	
Proceeds from common stock offering, net of stock issuance costs of \$576 .	40	90,683		
Foreign currency translation adjustment				(338)
Stock options exercised .....	4	3,274		
Balance - December 31, 1995 .....	455	123,878	74,977	(335)
Net income .....			41,509	
Foreign currency translation adjustment				4,136
Stock options exercised .....	1	1,527		
Issuance of 200,000 common shares for acquisition of subsidiary .....	2	(7)		
Balance - December 31, 1996 .....	458	125,398	116,486	3,801
Net income .....			1,537	
Foreign currency translation adjustment				(1,630)
Stock options exercised .....	3	2,871		
Dealer stock option plan expense .....		67		
Balance - December 31, 1997 .....	\$ 461	\$ 128,336	\$ 118,023	\$ 2,171

See accompanying notes to consolidated financial statements

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#### CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For the years ended December 31,		
	1995	1996	1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income .....	\$ 29,572	\$ 41,509	\$ 1,537
Adjustments to reconcile cash provided by operating activities -			
Provision for deferred income taxes .....	2,799	964	5,628
Depreciation and amortization .....	927	1,369	2,550
Loss on retirement of property and equipment ...			512
Provision for credit losses .....	7,066	13,071	85,472
Dealer stock option plan expense .....			67
Change in operating assets and liabilities -			
Accounts payable and accrued liabilities .....	6,050	10,842	(6,270)
Income taxes payable .....	201	2,355	(2,569)
Unearned insurance premiums, insurance reserves and fees .....	2,669	2,371	1,450
Deferred dealer enrollment fees, net .....	599	615	(1,843)
Other assets .....	(1,614)	(165)	(21,915)
Net cash provided by operating activities ..	48,269	72,931	64,619
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Principal collected on installment contracts receivable ..	193,296	280,051	370,059
Purchase of investments .....	(1,063)	(3,795)	(3,653)
Decrease (Increase) in floor plan receivables - affiliated companies .....	(5,771)	(815)	140
Increase in floor plan receivables - non-affiliated companies .....	(363)	(1,429)	(4,447)
Increases in notes receivable - affiliated companies .....	(991)	(600)	(363)
Decreases in notes receivable - affiliated companies .....	827	298	1,049
Increases in notes receivable - non-affiliated companies .	(2,751)	(903)	(345)
Decreases in notes receivable - non-affiliated companies .	2,142	1,774	1,091
Issuance of common shares for acquisition .....		(5)	
Purchases of property and equipment .....	(1,908)	(5,985)	(8,943)
Net cash provided by investing activities ..	183,418	268,591	354,588
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from sale of senior notes .....		70,000	71,750
Repayment of senior notes .....		(6,600)	(20,000)
Net borrowings under line of credit agreements .....	16,319	129,923	51,235
Repayment of other debt .....	(191)	(204)	(218)
Advances to dealers and payments of dealer holdback .....	(341,582)	(540,077)	(523,098)
Proceeds from stock options exercised .....	3,278	1,528	2,874
Proceeds from public stock offering, net .....	90,723		
Net cash used in financing activities .....	(231,453)	(345,430)	(417,457)
Effect of exchange rate changes on cash ...	(338)	4,136	(1,630)
Net increase (decrease) in cash and cash equivalents .....	(104)	228	120
Cash and cash equivalents beginning of period .....	105	1	229

CASH AND CASH EQUIVALENTS END OF PERIOD .....	----- \$ 1 -----	----- \$ 229 -----	----- \$ 349 -----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest .....	\$ 8,581	\$ 11,114	\$ 27,464
Cash paid during the period for income taxes .....	\$ 10,520	\$ 18,280	\$ 14,887

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

Description Of Business

Credit Acceptance Corporation and its subsidiaries ("CAC" or the "Company") is a specialized financial services company which provides funding, receivables management, collection, sales training and related products and services to automobile dealers located in the United States, the United Kingdom, Canada and Ireland. The Company assists such dealers by providing an indirect source of financing for buyers with limited access to traditional sources of consumer credit due to past credit history. Installment contracts originated and assigned to the Company by automobile dealers are generally considered to have a high risk of default. To a significantly lesser extent, CAC provides inventory floor plan financing and working capital loans for dealers secured by inventory and the related cash collections owed to the dealer by CAC.

The dealer assigns title to the installment contract and the security interest in the vehicle to the Company. At the time it accepts the assignment of a contract, CAC records the gross amount of the contract as a gross installment contract receivable. The Company records the amount of its servicing fee as an unearned finance charge with the remaining portion recorded as a dealer holdback. At the time of acceptance, contracts which meet certain criteria are eligible for a cash Advance, which is computed on a formula basis. Advances are non-interest bearing and are secured by the cash collections on all of the installment contracts receivable assigned from an individual dealer. Dealer advances are netted against dealer holdbacks in the accompanying consolidated financial statements, as dealer holdbacks are not paid until such time as all advances related to such dealer have been recovered.

CAC collects the scheduled monthly payments based on contractual arrangements with the consumer. Monthly cash collections are remitted to the dealer subject to the Company first: (i) being reimbursed for certain collection costs associated with all installment contracts originated by such dealer; (ii) reducing the collections by the Company's servicing fee; and (iii) recovering the aggregate advances made to such dealer.

Credit Acceptance Corporation Life Insurance Company ("CAC Life"), Buyers Vehicle Protection Plan, Inc. ("BVPP"), Credit Acceptance Reinsurance, LTD. ("CAC Reinsurance") and Montana Investment Group, Inc. ("Montana"), all wholly-owned subsidiaries of the Company, provide additional services to participating dealers.

CAC Life is engaged primarily in the business of reinsuring credit life and disability insurance policies issued to borrowers under installment contracts originated by participating dealers. CAC advances to dealers an amount equal to the credit life and disability insurance premium on contracts accepted by the Company which include credit life and disability insurance written by the Company's designated insurance carriers. The policies insure the holder of the installment contract for the outstanding balance payable in the event of death or disability of the debtor. Premiums are ceded to CAC Life on both an earned and written basis and are earned over the life of the contracts using pro rata and sum-of-digits methods. CAC Life bears the risk of loss attendant to claims under the coverages ceded to it.

BVPP administers short-term limited extended service contracts offered by participating dealers. In connection therewith, BVPP bears the risk of loss for any repairs covered under the service contract. Income is recognized on a straight-line basis over the life of the service contracts. In addition, BVPP has relationships with third party service contract providers which pay BVPP a fee on service contracts included on installment contracts financed through participating dealers. BVPP does not bear any risk of loss for covered claims on these third party service contracts. The income from the non-refundable fee is recognized upon acceptance of the installment contract. The Company advances to dealers an amount equal to the purchase price of the vehicle service contract on contracts accepted by the Company which include vehicle service contracts.

CAC has arrangements with insurance carriers and a third party administrator to market and provide claims administration for a dual interest collateral protection program. This insurance program, which insures the financed vehicle against physical damage up to the lesser of the cost to repair the vehicle or the unpaid balance owed on the related installment contract, is made available to borrowers who finance vehicles through participating dealers. If desired by a borrower, collateral protection insurance coverage is written under group master policies issued by unaffiliated insurance carriers to the Company. As part of the program, the insurance carriers cede insurance coverages and premiums (less a fee) to CAC Reinsurance, which acts as a reinsurer of such coverages. As a result, CAC Reinsurance bears the risk of loss attendant to claims under the coverages ceded to it, and earns revenues resulting from premiums ceded and the investment of such funds.

Montana supplies risk assessment and fraud alert information and computerized skiptracing services regarding borrowers to companies serving the Non-prime Consumer market.

Credit Acceptance Corporation UK, Ltd., CAC of Canada, Ltd., and Credit Acceptance Corporation of Ireland Ltd. are all wholly-owned subsidiaries of the Company which operate in their respective countries. These subsidiary companies offer essentially the same dealer programs as are offered in the United States.

Upon enrollment into the Company's financing program, the dealer enters into a servicing agreement with CAC which defines the rights and obligations of CAC and the dealer. The servicing agreement may be terminated by the Company or by the dealer (so long as there is no event of default or

an event which with the lapse of time, giving of notice or both, would become an event of default) upon 30 days prior written notice. The Company may also terminate the servicing agreement immediately in the case of an event of default by the dealer. Upon any termination by the dealer or in the event of a default, the dealer must immediately pay the Company: (i) any unreimbursed collection costs; (ii) any unpaid advances and all amounts owed by the dealer to the Company; and (iii) a termination fee equal to the unearned finance charge of the then outstanding amount of the installment contracts originated by such dealer and accepted by the Company.

The accounting and reporting policies of the Company require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The accounts which are subject to such estimation techniques include the reserve against advances and the allowances for credit losses. Actual results could differ from those estimates.

Significant accounting policies are described in the following paragraphs.

#### Principles Of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated.

#### Foreign Currency Translation

The financial position and results of operations of the Company's foreign operations are measured using the local currency as the functional currency.

Revenues and expenses are translated at average exchange rates during the year and assets and liabilities are translated at current exchange rates at the balance sheet date. Translation adjustments are accumulated as a separate component of shareholders' equity.

#### Revenue Recognition

Finance Charges. The Company computes its servicing fee based upon the gross amount due under the installment contract. Income is recognized under the interest method of accounting until the underlying obligation is 90 days past due on a recency basis. At such time, the Company suspends the accrual of revenue and makes a provision for credit losses equal to the earned but unpaid revenue.

Vehicle Service Contract Fees And Other Income. Dealers are charged an initial fee to floor plan a vehicle. Interest is charged based on the number of days a vehicle remains on the floor plan. Interest rates are 4% above the prime rate with a minimum rate of 12% per annum.

Interest on notes receivable is charged based on the outstanding monthly balance and ranges from 1% to 4% above prime per annum, generally with a minimum rate of 12% per annum.

Fees received by the Company for the sale of third party vehicle service contracts are recognized upon acceptance of the related installment contract receivable as the Company bears no further obligation.

Rental income on office space leased at the Company's office building is recognized on a straight-line basis over the related lease term.

Dealer Enrollment Fees. Enrollment fees are paid by each dealer in the United States and Canada signing a servicing agreement and are nonrefundable. These fees and the related direct incremental costs of originating these fees are deferred and amortized on a straight-line basis over the estimated repayment term of the outstanding dealer Advance.

Premiums Earned. Credit life and disability premiums are ceded to CAC Life and collision premiums are ceded to CAC Reinsurance on both an earned and written basis and are earned over the life of the contracts using the pro rata and sum-of-digits methods. Premiums on BVPP warranties are earned on a straight-line basis over the life of the service contracts.

Cash Equivalents. Cash equivalents consist of readily marketable securities with original maturities of three months or less.

Investments. Investments consist principally of short-term money market instruments and U.S. Treasury Bills which the Company has both the intent and the ability to hold to maturity. Investments are carried at amortized cost which approximates fair value.

Allowance For Credit Losses. The Company maintains an allowance for credit losses which, in the opinion of management, adequately reserves against expected credit losses on installment contracts that are considered to be impaired. The risk of loss to the Company related to the installment contracts receivable balances relates primarily to the earned but unpaid servicing

fee or finance charge recognized on contractually delinquent accounts. To the extent that the Company does not collect the gross amount of the contract balance, the remaining gross installment contract receivable balance is charged off against dealer holdbacks, unearned finance charges and the allowance for credit losses. Ultimate losses may vary from current estimates and the amount of the provision, which is current expense, may be either greater or less than actual charge-offs.

Installment contracts receivable are collateralized by vehicle titles, and the Company has the right to repossess the vehicle in the event that the consumer defaults on the payment terms of the contract. Repossessed collateral is valued at the lower of cost or estimated fair value, less estimated costs of disposition, and is classified in installment contracts receivable on the balance sheets. At December 31, 1997 and 1996, repossessed assets totaled approximately \$13.8 million and \$8.4 million, respectively.

The Company changed its policy relating to non-accrual loans in the third quarter of 1997 to 90 days measured on a recency basis from 120 days measured on a contractual basis. The Company believes this change will allow for earlier identification of underperforming dealer pools. As a result of this change and the resulting increase in non-accrual loans, the 1997 financial results reflect a higher provision for credit losses related to earned but unpaid revenue on installment contracts receivable and a lower finance charge yield. As of December 31, 1996 and 1997, the accrual of finance charge revenue has been suspended, and fully reserved for, on approximately \$426.6 million and \$471.8 million of delinquent installment contracts, respectively.

During the fourth quarter of 1997, the Company changed its accounting policies relating to the write-off of installment contracts receivable based on data available from the Company's new loan servicing system. The revised policy requires write-off of delinquent installment contracts at nine months on a recency basis compared to one year under the old policy.

Reserve On Advances

When an installment contract is acquired, the Company generally pays a cash advance to the dealer. These advance balances represent the Company's primary risk of loss related to the funding activity with the dealers. The Company maintains a reserve on advances to dealers which reflects advance balances that are not expected to be recovered through collections on the related installment contract receivable portfolio. To serve as a basis for evaluating the reserve requirement, management reviews delinquencies, charge-off experience factors, the payment performance of loan pools, changes in collateral value, economic conditions and trends and other information. For purposes of establishing the reserve, future collections (including the anticipated proceeds from repossessed collateral) are reduced to present-value in order to achieve a level yield over the remaining term of the advance equal to the expected yield at the origination of the impaired advance. During 1997, the Company implemented a new loan servicing system which allows the Company to better estimate future collections for each dealer pool using historical loss experience and a dealer by dealer static pool analysis. The Company took a charge during 1997 to reflect the impact of this enhancement in the Company's methodology for estimating the reserve. During the fourth quarter of 1997, the Company reevaluated the timing of the charge off of advances to dealers and concluded that it was appropriate to accelerate the recognition of charge offs since the static pool analysis demonstrated that the advances were uncollectable.

The Company charges certain dealers a fee for each installment contract receivable accepted. These fees are recorded as an addition to the reserve on advances.

A summary of the change in the reserve against advances (classified with dealer holdbacks, net in the accompanying balance sheets) is as follows (in thousands):

	Years ended December 31,		
	1995	1996	1997
Balance - beginning of period.....	\$1,557	\$3,214	\$ 8,754
Provision for advance losses.....	1,743	5,849	74,400
Advance reserve fees.....			4,673
Charge offs, net.....	(86)	(444)	(71,391)
Currency translation.....		135	(67)
Balance - end of period.....	\$3,214	\$8,754	\$16,369

Future reserve requirements will depend in part on the magnitude of the variance between management's prediction of future collections and the actual collections that are realized. Estimating cash collections from the installment contracts receivable is complicated by the unusual payment patterns of the borrowers who generally cannot obtain traditional financing. The evaluation of

the reserve against advances considers such factors as current delinquencies, the characteristics of the accounts, the value of the underlying collateral, the location of the borrower, general economic conditions and trends among other information. Although the Company uses many resources to assess the adequacy of the reserve against advances, there is no precise method for accurately estimating the ultimate losses and actual losses may vary significantly from current estimates and the amount of provision, which is a current expense, may be either greater or less than actual charge offs.

Floor Plan Receivables

CAC finances used vehicle inventories for both affiliated dealers and nonaffiliated dealers. Amounts loaned are secured by the related inventories and any future cash collections owed to the dealer on outstanding contracts. The fair value of these receivables is estimated by discounting the future cash flows associated with the loans, using current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying amounts of these receivables approximate fair value as of December 31, 1997 and 1996.

Notes Receivable

Notes receivable are primarily working capital loans to dealers and are due on demand. These notes receivable are secured by all assets of the dealer including any future cash collections owed to the dealer on outstanding contracts. The fair value of these receivables is estimated by discounting the future cash flows associated with the loans, using current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying amounts of these receivables approximate fair value as of December 31, 1997 and 1996.

Property And Equipment

Additions to property and equipment are recorded at cost. Depreciation is provided using both straight-line and accelerated methods over the estimated useful lives (primarily five to forty years) of the related assets.

Property and equipment consists of the following at December 31 (in thousands):

	1996	1997
Land.....	\$ 2,251	\$ 2,577
Building and improvements.....	6,306	6,761
Data processing equipment.....	7,641	14,814
Office furniture & equipment.....	1,953	2,061
Leasehold improvements.....	541	711
	-----	-----
	18,692	26,924
Less accumulated depreciation and amortization.....	3,734	6,085
	-----	-----
	\$ 14,958	\$ 20,839
	=====	=====

Income Taxes

Deferred income taxes are provided for all temporary differences between the book and tax basis of assets and liabilities. Deferred income taxes are adjusted to reflect new tax rates when they are enacted into law.

Dealer Holdbacks

As part of the dealer servicing agreement, the Company establishes a dealer holdback to protect the Company from potential losses associated with installment contracts. This dealer holdback is not paid until such time as all advances related to such dealer have been recovered.

Dealer holdbacks consisted of the following (in thousands):

	As of	
	December 31,	
	1996	1997
Dealer holdbacks.....	\$998,593	\$1,002,033
Less: advances (net of reserve of \$8,754 and \$16,369 in 1996 and 1997, respectively.....)	(502,159)	(564,968)
Dealer holdbacks, net.....	\$496,434	\$ 437,065

Capital Stock Transactions

On September 29, 1995 the Company consummated a public offering of 3,900,000 shares of its Common Stock. The shares were sold at a price of \$24.50 per share. The Company received net proceeds, after deducting underwriting discounts, commissions, and other fees, of \$90,723,000. On December 11, 1996, the Company acquired all of the outstanding shares of Montana Investment Group, Inc. in exchange for a total of 200,000 shares of the Company's common stock which were issued to two shareholders of Montana. The acquisition has been accounted for under the pooling of interests method. The impact of this acquisition was not significant to the Company's financial statements. The issuance of such shares was exempt from registration under Section 4(2) of the Securities Act of 1933. On May 19, 1997, CAC's Board of Directors and shareholders approved an amendment to the Articles of Incorporation of the Company increasing the number of authorized Common shares to 80,000,000.

Net Income Per Share

In accordance with Statement of Financial Accounting Standard No. 128, "Earnings per Share", basic net income per share has been computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per share has been computed by dividing net income by the total of the weighted average number of common shares and common stock equivalents outstanding. Common stock equivalents included in the computation represent shares issuable upon assumed exercise of stock options which would have a dilutive effect.

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The share effect is as follows:

	Years ended December 31,		
	1995	1996	1997
Weighted average common shares outstanding.....	42,385,262	45,605,159	46,081,804
Common stock equivalents.....	1,142,508	1,018,496	672,909
Weighted average common shares and common stock equivalents.....	43,527,770	46,623,655	46,754,713

New Accounting Standards

Effective January 1, 1997 the Company adopted Statement of Financial Accounting Standard No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The new accounting standard provides

accounting and reporting guidance for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996 and is applied prospectively. The adoption of this accounting standard has not affected the Company's financial position or results of operations.

Effective January 1, 1997 the Company adopted Statement of Financial Accounting Standard No. 129, "Disclosure of Information About Capital Structure." The adoption of this accounting standard did not materially impact the Company's financial statement disclosures.

Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income," was issued in July 1997. SFAS 130 establishes standards for reporting and displaying comprehensive income. Management does not expect the adoption of this statement to have a significant impact on the financial statement disclosures of the Company. This statement is effective for financial statements for fiscal years beginning after December 15, 1997.

Reclassification

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

(2) INSTALLMENT CONTRACTS RECEIVABLE

Installment contracts generally have initial terms ranging from six to 36 months and are collateralized by the related vehicles. Contractual maturities of contracts by year have not been presented as this information is not meaningful due to the uneven payment patterns of non-prime consumers. The initial average term of an installment contract was approximately 25 months in 1995, 30 months in 1996 and 31 months in 1997. Installment contracts receivable consisted of the following (in thousands):

	As of December 31,	
	1996	1997
Gross installment contracts receivable .....	\$ 1,251,139	\$ 1,254,858
Unearned finance charges .....	(201,760)	(196,357)
Unearned insurance premiums, insurance reserves and fees..	(7,233)	(8,683)
Installment contracts receivable .....	\$ 1,042,146	\$ 1,049,818
Non-accrual installment contracts as a percent of total gross installment contracts .....	34.1%	37.6%

A summary of changes in gross installment contracts receivable is as follows (in thousands):

	Years Ended December 31,		
	1995	1996	1997
Balance - beginning of period .....	\$ 486,897	\$ 790,607	\$ 1,251,139
Gross amount of installment contracts accepted .....	634,899	965,690	983,459
Cash collections on installment contracts accepted .....	(261,921)	(388,328)	(505,925)
Charge offs .....	(69,268)	(129,405)	(467,532)

Currency translation .....		12,575	(6,283)
	-----	-----	-----
Balance - end of period ...	\$ 790,607	\$ 1,251,139	\$ 1,254,858
	=====	=====	=====

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

	Years ended December 31,		
	1995	1996	1997
-----			
Balance - beginning of period .....	\$ 4,210	\$ 7,757	\$ 12,195
Provision for loan losses...	5,323	7,222	11,072
Charge offs, net .....	(1,776)	(2,863)	(10,138)
Currency translation .....		79	(10)
	-----	-----	-----
Balance - end of period ....	\$ 7,757	\$ 12,195	\$ 13,119
	=====	=====	=====

Recoveries related to charged off contracts are primarily the result of the recovery of earned but unpaid interest and are netted against charge-offs.

The Company's financing and service program allows dealers to establish the interest rate on contracts, which typically is the maximum rate allowable by the state or country in which the dealer is doing business. As the majority of the Company's revenue is derived from the servicing fee it receives on the gross amount due under the installment contract (typically 20% of the principal and interest), the Company's revenues from servicing fees are not materially impacted by changes in interest rates. As such, the balances recorded on a historical cost basis in the financial statements related to the financing and service program which the Company provides to dealers, including net installment contracts receivable and net dealer holdbacks, approximates fair value.

### (3) SENIOR NOTES

On November 7, 1994, the Company completed the sale of its \$60 million 8.87% Senior Notes due November 1, 2001 to various insurance companies. The Notes are unsecured and require semi-annual interest payments and annual payments of principal.

On August 29, 1996, the Company completed the sale of its \$70 million 7.99% Senior Notes due July 1, 2001 to various insurance companies. The Notes are unsecured and require semi-annual interest payments and annual payments of principal.

On March 25, 1997, the Company completed the sale of its \$71.75 million 7.77% Senior Notes due October 1, 2001 to various insurance companies. The Notes are unsecured and require semi-annual payments of interest and annual payments of principal commencing on October 1, 1998.

The principal maturities of these Notes at December 31, 1997 are as follows (in thousands):

1998.....	\$ 38,985
1999.....	42,235
2000.....	45,410
2001.....	48,520
	-----
	\$ 175,150
	=====

The fair value of the Senior Notes is estimated by discounting the future cash payments using a rate currently offered for a note with a comparable remaining maturity. The estimated fair value of the Senior Notes at December 31, 1996 and 1997 was approximately \$126.2 million and \$180.2 million respectively.

(4) LINES OF CREDIT

The Company has a \$250 million credit agreement with a commercial bank syndicate. The agreement consists of a \$150 million line of credit facility with a commitment period through May 15, 1998 and a \$100 million revolving credit facility with a commitment period through May 15, 2000. Both facilities are subject to annual extensions for additional one year periods at the request of the Company and with the consent of each of the banks in the facility. The borrowings are unsecured with interest payable at the Eurocurrency rate plus a minimum of .6125% and a maximum of 1.4% (1.2% as of December 31, 1997), dependent on the Company's debt rating, or at the prime rate (8.50% as of December 31, 1997). The Eurocurrency borrowings may be fixed for periods of up to one year. The Company must pay an agent's fee of \$100,000 annually and a commitment fee of between .1875% and .60% (.40% as of December 31, 1997) quarterly on the amount of the commitment, dependent on the Company's debt rating. As of December 31, 1997, there was approximately \$210.3 million outstanding under this facility. The maximum amount outstanding was approximately \$158.9 million and \$213.4 million in 1996 and 1997, respectively. The weighted average balance outstanding was \$91.1 million and \$172.5 million in 1996 and 1997, respectively.

As the Company's \$150 million line of credit facility expires on May 15, 1998, the Company is required to refinance any amounts outstanding under this facility on or before such date. The Company continues to evaluate alternatives, including the securitization of assets and the sale of senior notes, for refinancing amounts outstanding under the \$150 million credit facility. The Company has entered into an agreement to contribute dealer advances and the related installment contracts receivable into a multi-asset special purpose corporation owned by a large commercial bank. The transaction is anticipated to close prior to May 15, 1998, with the issuance of commercial paper by the special purpose corporation generating proceeds of \$50 million which are anticipated to be used to reduce outstandings under the \$150 million credit facility. The agreement with the special purpose corporation includes a Parallel Purchase Commitment with a large commercial bank which can be utilized, if necessary, to fund the contemplated transaction. The Company anticipates extending the existing credit facility with modified terms and reduced commitment amounts. Based upon anticipated cash flows, management believes that amounts available under its revolving credit facility, amounts provided as a result of the above transaction and other available alternatives will provide sufficient financing for future operations.

If the Company experiences difficulties with its refinancing effort, the Company may reduce the volume of installment contract acquisitions and, thereby, reduce capital needs as well. The Company believes that it will be successful in refinancing any amounts outstanding under this facility. Failure to complete such refinancing or failure to obtain other financing alternatives may have a material adverse effect on the Company's operations.

The Company also has a 2,000,000 British pound sterling line of credit agreement with a commercial bank in the United Kingdom, which is used to fund the day to day cash flow requirements of the Company's United Kingdom subsidiary. The borrowings are secured by a letter of credit issued by the Company's principal commercial bank, with interest payable at the greater of the United Kingdom bank's base rate (7.25% as of December 31, 1997) plus 65 basis points or at the LIBOR rate plus 56.25 basis points. The rates may be fixed for periods of up to six months. As of December 31, 1997, there was approximately 1.5 million British pounds (\$2.4 million U.S. dollars), outstanding under this facility which was extended to August 31, 1998. The maximum amount outstanding was 1.8 million British pounds (\$2.8 million U.S. dollars) and 2.2 million British pounds (\$3.6 million U.S. dollars) in 1996 and 1997, respectively. The weighted average balance outstanding was 733,000 British pounds (\$1.2 million U.S. dollars) and 795,000 British pounds (\$1.3 million U.S. dollars) in 1996 and 1997, respectively.

During 1995, the Company entered into forward currency exchange contracts to manage its exposure against foreign currency fluctuations on amounts owed to the Company from its foreign subsidiary which were denominated in British pounds. These contracts were short-term in nature, with initial maturities less than 30 days. Gains and losses on these contracts were included in the carrying amount

of those borrowings and were ultimately recognized in income as part of these carrying amounts. There were no forward currency exchange contracts outstanding as of December 31, 1995 and the Company did not enter into any contracts during 1996 and 1997.

The weighted average interest rate on line of credit borrowings outstanding was 6.52% and 7.34% as of December 31, 1996 and 1997, respectively.

(5) MORTGAGE LOAN PAYABLE

The Company has a loan from its principal commercial bank secured by a mortgage on the Company's headquarters building. The loan bears interest at 6.5% and is secured by a first mortgage lien on the building and an assignment of all leases, rents, revenues and profits under all present and future leases. There was \$4,017,000 and \$3,799,000 outstanding on this loan as of December 31, 1996 and 1997, respectively. The loan matures on May 1, 1999.

The principle maturities of the loan at December 31, 1997 are as follows (in thousands):

1998.....	\$ 236
1999.....	3,563
	-----
Total mortgage loan payable.....	\$ 3,799
	=====

The fair value of the mortgage loan is estimated by discounting the future cash payments using a rate currently offered for a loan with a comparable remaining maturity. The carrying amount of the mortgage loan as of December 31, 1996 and 1997 approximates fair value.

(6) DEBT COVENANTS

The Company must comply with various restrictive debt covenants which require the maintenance of certain financial ratios and other financial conditions. The most restrictive covenants limit the ratio of the Company's debt-to-equity, limit the ratio of the Company's fixed charges to net income, limit the Company's investment in its foreign subsidiaries and require that the Company maintain specified minimum levels of net worth.

During the fourth quarter of 1997, amendments were made to the Company's \$250 million credit agreement and senior note agreements. Such amendments were required as a result of the Company's violation of a fixed charge coverage covenant based on the Company's third quarter financial results. The new amendments modified the required fixed charge coverage ratio and added

several new financial covenants to the Company's senior note and bank agreements, including limits on the ratio of debt to Advances, the ratio of debt to gross installment contracts receivable and the ratio of Advances to installment contracts receivable. The Company is currently in compliance with all debt covenants.

(7) RELATED PARTY TRANSACTIONS

CONTRACT ASSIGNMENTS

In the normal course of its business, the Company regularly accepts assignments of installment contracts originated by affiliated dealers owned by the Company's majority shareholder. Installment contracts accepted from affiliated dealers were approximately \$35.1 million, \$25.6 million and \$13.4 million in 1995, 1996 and 1997 respectively. Remaining installment contracts receivable from affiliated dealers represented approximately 4.2% and 3.9% of the gross installment contracts receivable balance as of December 31, 1996 and 1997, respectively. The Company accepted installment contracts from affiliated dealers and nonaffiliated dealers on the same terms. Dealer holdbacks recorded from contracts accepted from affiliated dealers were approximately \$28.1

million, \$20.5 million and \$10.7 million in 1995, 1996 and 1997, respectively.

OTHER AFFILIATED TRANSACTIONS

The Company receives interest income and fees from affiliated dealers on floor plan receivables and notes receivable. Total income earned was \$1,104,000, \$1,409,000 and \$1,564,000 for the years ended December 31, 1995, 1996 and 1997, respectively.

The Company shares certain expenses including payroll and related benefits, occupancy costs and insurance with its affiliated company owned by the Company's majority shareholder. For the years ended December 31, 1995, 1996 and 1997, the Company charged its affiliated company approximately \$354,000, \$311,000 and \$247,000, and was charged \$48,000, \$97,000 and \$45,000 by the affiliated company for such shared expenses incurred in its operations. This arrangement is covered under a services agreement. The agreement has an indefinite term, but may be terminated upon 30 days written notice by either party.

(8) CONCENTRATION OF CREDIT RISKS

As of December 31, 1997, approximately 13.5% of the Company's total dealers were located in the United Kingdom and during 1997, these dealers accounted for approximately 15.2% of the new contracts accepted by the Company.

The following table sets forth, for each of the last three years for the Company's domestic and foreign operations, the amount of revenues, net income, and identifiable assets (in thousands):

	As of and for Years Ended		
	December 31,		
	1995	1996	1997
Revenues from customers			
United States.....	\$ 81,820	\$107,315	\$134,950
United Kingdom.....	3,261	16,600	28,598
Ireland.....		1	195
Canada.....		18	492
Operating income (loss)			
United States.....	\$ 45,144	\$ 54,302	(\$ 9,244)
United Kingdom.....	349	9,348	10,755
Ireland.....		(58)	(51)
Canada.....		16	(116)
Identifiable assets			
United States.....	\$646,601	\$934,076	\$949,771
United Kingdom.....	39,839	139,764	159,675
Ireland.....		337	2,479
Canada.....		241	3,685

The Company's operations are structured to achieve consolidated objectives. As a result, significant interdependencies and overlaps exist among the Company's domestic and foreign operations. Accordingly, the revenue, operating income, and identifiable assets shown may not be indicative of the amounts which would have been reported if the domestic and foreign operations were independent of one another.

The demographic and geographic dispersion of the Company's installment contract portfolio mitigates any concentration of risk. As of December 31, 1997, approximately 33.8% of the participating dealers in the United States were located in Michigan, Ohio, Indiana, Illinois and Missouri and these dealers accounted for approximately 34.8% of the number of contracts accepted from United States dealers in 1997. No single dealer accounted for more than 10% of the contracts accepted by the Company during 1995, 1996 or 1997.

The income tax provision (credit) consists of the following (in thousands):

	Years Ended December 31,		
	1995	1996	1997
Income (loss) before provision (benefit) for income taxes:			
Domestic .....	\$ 45,144	\$ 54,329	(\$ 9,285)
Foreign .....	349	9,306	10,588
	-----	-----	-----
	\$ 45,493	\$ 63,635	\$ 1,303
	=====	=====	=====
Domestic provision (benefit) for income taxes:			
Current .....	\$ 13,111	\$ 18,044	(\$ 6,516)
Deferred .....	2,687	1,009	2,799
Foreign provision (benefit) for income taxes:			
Current .....	11	3,118	654
Deferred .....	112	(45)	2,829
	-----	-----	-----
Provision (credit) for income taxes .....	\$ 15,921	\$ 22,126	(\$ 234)
	=====	=====	=====

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities consist of the following (in thousands):

	As of December 31,	
	1996	1997
Deferred tax assets:		
Allowance for credit losses ....	\$ 7,744	\$11,165
Reserve on advances .....	2,272	1,731
Deferred dealer enrollment fees .....	793	166
Accrued warranty claims .....	555	646
Deferred commissions .....	190	2
Other, net .....	666	46
	-----	-----
Total deferred tax assets ....	\$12,220	\$13,756
	=====	=====
Deferred tax liabilities:		
Unearned finance charges .....	\$20,343	\$27,233
Accumulated depreciation .....	383	642
Deferred credit life and warranty costs .....	482	497
	-----	-----
Total deferred tax liabilities	\$21,208	\$28,372
	-----	-----
Net deferred tax liability ...	\$ 8,988	\$14,616
	=====	=====

No valuation allowances were considered necessary in the calculation of deferred tax assets as of December 31, 1996 and 1997.

The Company's effective income tax rate was approximately equal to the domestic and foreign statutory rates in 1995, 1996 and 1997.

Deferred U.S. federal income taxes and withholding taxes have not been provided on the undistributed earnings of the Company's foreign subsidiaries as such amounts are considered to be permanently reinvested. The cumulative undistributed earnings at December 31, 1997 on which the Company had not provided additional national income taxes and withholding taxes were approximately \$13.4 million.

(10) STOCK OPTION PLANS

Pursuant to the Company's 1992 Stock Option Plan (the "1992 Plan"), the Company has reserved 5,000,000 shares of its common stock for the future granting of options to officers and other key employees. The exercise price of the options is equal to the fair market value on the date of the grant. Options under the 1992 Plan become exercisable over a three to five year period, or immediately upon a change of control. Nonvested options are forfeited upon termination of employment and otherwise expire ten years from the date of grant. Shares available for future grants totaled 1,767,500, 1,179,559 and 967,066 as of December 31, 1995, 1996 and 1997, respectively.

Pursuant to the Company's Stock Option Plan for dealers (the "Dealer Plan") the Company has reserved 1,000,000 shares of its common stock for the future granting of options to participating dealers. Options are generally granted to participating dealers based on the Company accepting a minimum of 100 retail installment contracts from the dealer in a calendar year. Upon the Company's acceptance of 100 contracts from a dealer, the dealer receives an option to purchase 1,000 shares of the Company's Common Stock. The dealer receives an option to purchase an additional 200 shares for each additional 100 contracts accepted by the Company. The exercise price of the options is equal to the fair market value on the date of grant. The options become exercisable over a three year period. Nonvested options are forfeited upon the termination of the dealer's servicing agreement by the Company or the dealer and otherwise expire five years from the date of grant. Shares available for future grants totaled 440,200, 235,600 and 185,600 as of December 31, 1995, 1996 and 1997, respectively.

Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 establishes financial accounting and reporting standards for stock-based compensation plans such as stock purchase plans and stock options.

As permitted by the standard, the Company accounts for the 1992 Plan under APB Opinion No. 25, under which no compensation cost has been recognized. The Company has elected to provide the pro forma disclosures, as permitted under the provisions of SFAS 123. Had compensation cost for the 1992 Plan been determined consistent with SFAS 123, the Company's net income and earnings per share would have been reduced to the following pro forma amounts:

	Years ended December 31,		
	----- 1995	1996	1997 -----
Net income (loss)			
As reported.....	\$29,572	\$41,509	\$1,537
Pro forma.....	29,412	36,972	(2,519)
Net income (loss) per common share:			
As reported - basic.....	\$ 0.70	\$ 0.91	\$ 0.03
As reported - diluted....	\$ 0.68	\$ 0.89	\$ 0.03
Pro forma - basic.....	\$ 0.69	\$ 0.81	(\$ 0.05)
Pro forma - diluted.....	\$ 0.68	\$ 0.79	(\$ 0.05)

The Company accounts for the compensation costs related to its grants under the Dealer Plan in accordance with SFAS 123. The sales and marketing cost that has been charged against income for the non-employee Dealer Plan

was \$67,000 in 1997. No costs were charged against income for 1995 or 1996.

Because the SFAS 123 method of accounting has not been applied to options granted prior to January 1, 1995 (December 15, 1995 for the Dealer Plan), the resulting cost is not necessarily indicative of costs which may be recognized in future years.

The fair value of each option granted included in the above calculations is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the years ended December 31, 1995, 1996 and 1997:

1992 Plan	For the years ended December 31,		
	1995	1996	1997
Risk-free interest rate.....	5.45%	6.42%	6.50%
Expected life.....	7.0 years	7.0 years	6.0 years
Expected volatility.....	36.74%	37.73%	43.97%
Dividend yield.....	0%	0%	0%

Dealer Plan	For the years ended December 31,		
	1995	1996	1997
Risk-free interest rate.....	5.25%	6.21%	5.89%
Expected life.....	3.5 years	3.5 years	5.0 years
Expected volatility.....	36.74%	37.73%	48.40%
Dividend yield.....	0%	0%	0%

Additional information relating to the Stock Option Plans are as follows:

	1992 Plan		Dealer Plan	
	Number of options	Weighted average exercise price per share	Number of options	Weighted average exercise price per share
Outstanding at:				
December 31, 1994	1,574,000	\$ 5.77	382,900	\$ 14.59
Options granted .	562,500	19.50	200,000	23.08
Options exercised	(323,166)	2.50	(10,888)	12.94
Options forfeited	-	-	(23,100)	13.87
Outstanding at:				
December 31, 1995	1,813,334	10.63	548,912	17.75
Options granted .	606,275	21.60	205,600	24.37
Options exercised	(103,000)	3.44	(34,948)	13.00
Options forfeited	(18,334)	20.50	(1,000)	23.88
Outstanding at:				
December 31, 1996	2,298,275	13.73	718,564	18.60
Options granted .	3,020,129	9.42	173,400	11.49
Options exercised	(266,532)	4.11	(3,597)	13.95
Options forfeited	(1,807,636)	20.70	(123,400)	21.35
Outstanding at:				
December 31, 1997	3,244,236	\$ 6.63	764,967	\$ 17.76

Exercisable at:

=====		=====			
December 31,					
1995 .....	277,661	\$	8.44	109,613	\$ 14.91
1996 .....	795,988		10.49	260,762	17.10
1997 .....	894,167	\$	7.95	481,318	\$ 17.90

Options granted and options forfeited under the 1992 Plan for 1997 include 1,713,577 options which were repriced on November 3, 1997. The options which were repriced were originally granted between September 30, 1995 and September 2, 1997 with original exercise prices between \$12.75 and \$27.50. These options were cancelled on November 3, 1997 and reissued at an exercise price of \$6.00 per share with a new three year vesting period.

The weighted average fair value of options granted during 1995, 1996 and 1997 was \$10.17, \$10.92 and \$4.68 respectively, for the 1992 Plan and \$7.42, \$8.88 and \$4.06, respectively, for the Dealer Plan.

As of December 31, 1997, the options outstanding under the 1992 Plan had exercise prices between \$2.17 and \$22.25 and a weighted average remaining contractual life of 8.6 years and the options outstanding under the Dealer Plan had exercise prices between \$7.53 and \$27.63 and a weighted average remaining contractual life of 2.8 years.

(11) LITIGATION AND CONTINGENT  
LIABILITIES

In the normal course of its business, the Company is named as a defendant in legal proceedings. A number of such actions, including one case which has been brought as a class action, are pending in the various states in which the Company does business. It is the policy of the Company to vigorously defend litigation, but the Company has and may in the future enter into settlements of claims where management deems appropriate.

The Company is currently a defendant in a class action proceeding commenced on October 9, 1997 by Marion Fielder and Deborah Williams which is pending in United States District Court for the Western District of Missouri. Plaintiffs allege that the Company is liable for money damages resulting from multiple violations of state and federal consumer protection laws, and the court has certified a class for each of the alleged violations. The Company is vigorously defending this litigation.

The Company and certain officers and directors of the Company have been named as defendants in a number of putative class action complaints seeking money damages for alleged violations of the federal securities laws. The complaints were filed between January 29, 1998 and March 3, 1998 in the United States District Court for the Eastern District of Michigan. The complaints generally allege that the Company's financial statements issued during the period September 29, 1995 through October 22, 1997 did not accurately reflect the Company's true financial condition and results of operations because such reported results failed to be in accordance with generally accepted accounting principles and that such results contained material accounting irregularities in that they failed to reflect adequate reserves for credit losses. The complaints

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further allege that the Company issued public statements during the alleged class period which fraudulently created the impression that the Company's accounting practices were proper. The Company intends to vigorously defend these actions.

Management is of the opinion that the resolution of these proceedings will not have a material effect on the financial position of the Company. Future events and circumstances could alter management's conclusion with respect to these matters.

## (12) QUARTERLY FINANCIAL DATA (unaudited)

The following is a summary of quarterly financial position and results of operations for the years ended December 31, 1996 and 1997.

(Dollars in thousands, except per share data)	1996			
	1st Q	2nd Q	3rd Q	4th Q
<b>BALANCE SHEETS</b>				
Installment contracts				
receivable, net .....	\$ 729,523	\$ 809,594	\$ 920,291	\$ 1,029,951
Floor plan receivables .....	14,491	14,996	15,325	15,493
Notes receivables .....	3,078	3,008	2,892	2,663
All other assets .....	17,936	19,453	21,478	26,311
	-----	-----	-----	-----
Total assets .....	\$ 765,028	\$ 847,051	\$ 959,986	\$ 1,074,418
	=====	=====	=====	=====
Dealer holdbacks, net .....	\$ 401,718	\$ 426,693	\$ 461,560	\$ 496,434
Total debt .....	119,748	169,710	229,191	288,899
Other liabilities .....	35,720	31,373	38,422	42,942
	-----	-----	-----	-----
Total liabilities .....	557,186	627,776	729,173	828,275
Shareholders' equity .....	207,842	219,275	230,813	246,143
	-----	-----	-----	-----
Total liabilities and shareholders' equity .....	\$ 765,028	\$ 847,051	\$ 959,986	\$ 1,074,418
	=====	=====	=====	=====
<b>INCOME STATEMENTS</b>				
Revenue:				
Finance charges .....	\$ 20,373	\$ 22,159	\$ 23,720	\$ 26,692
Vehicle service				
contract fees and				
other income .....	2,903	3,556	4,539	5,311
Dealer enrollment fees .....	964	1,261	1,378	1,425
Premiums earned .....	2,365	2,236	2,855	2,197
	-----	-----	-----	-----
Total revenue .....	\$ 26,605	\$ 29,212	\$ 32,492	\$ 35,625
	-----	-----	-----	-----
<b>COSTS AND EXPENSES</b>				
Salaries and wages .....	\$ 2,740	\$ 2,965	\$ 2,900	\$ 3,070
General & administrative .....	3,240	3,513	3,881	3,671
Provision for credit losses .....	2,726	2,721	3,422	4,202
Sales and marketing .....	902	945	1,268	1,532
Provision for insurance and				
warranty claims .....	757	777	936	590
Interest .....	2,073	2,751	3,801	4,943
	-----	-----	-----	-----
Total costs and expenses .....	\$ 12,438	\$ 13,672	\$ 16,208	\$ 18,008
	-----	-----	-----	-----
<b>OPERATING INCOME</b>				
(LOSS) .....	\$ 14,167	\$ 15,540	\$ 16,284	\$ 17,617
Foreign exchange gain				
(loss) .....	(2)	3	2	24
	-----	-----	-----	-----
Income (loss) before income taxes .....	14,165	15,543	16,286	17,641
Provision (credit) for income taxes .....	4,977	5,406	5,643	6,100
	-----	-----	-----	-----
NET INCOME (LOSS) .....	\$ 9,188	\$ 10,137	\$ 10,643	\$ 11,541
	=====	=====	=====	=====
Net income (loss) per common share				
Basic .....	\$ 0.20	\$ .22	\$ .23	\$ 0.25
Diluted .....	\$ 0.20	\$ .22	\$ .23	\$ 0.25

Weighted average shares outstanding				
Basic .....	45,505	45,577	45,629	45,843
Diluted .....	46,436	46,480	46,630	46,948

1997

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(Dollars in thousands,  
except per share data)

	1st Q	2nd Q	3rd Q	4th Q
-----				
BALANCE SHEETS				
Installment contracts				
receivable, net .....	\$ 1,119,314	\$ 1,171,036	\$ 1,205,331	\$ 1,036,699
Floor plan receivables .....	15,667	16,320	19,359	19,800
Notes receivables .....	1,746	1,818	1,589	1,231
All other assets .....	28,529	30,776	46,770	57,880
Total assets .....	<u>\$ 1,165,256</u>	<u>\$ 1,219,950</u>	<u>\$ 1,273,049</u>	<u>\$ 1,115,610</u>
Dealer holdbacks, net .....	\$ 534,162	\$ 552,840	\$ 618,443	\$ 437,065
Total debt .....	326,487	354,834	379,269	391,666
Other liabilities .....	45,540	40,112	32,624	37,888
Total liabilities .....	906,189	947,786	1,030,336	866,619
Shareholders' equity .....	259,067	272,164	242,713	248,991
Total liabilities and shareholders' equity .....	<u>\$ 1,165,256</u>	<u>\$ 1,219,950</u>	<u>\$ 1,273,049</u>	<u>\$ 1,115,610</u>
INCOME STATEMENTS				
Revenue:				
Finance charges .....	\$ 30,691	\$ 32,602	\$ 28,956	\$ 24,771
Vehicle service contract fees and other income .....	6,905	7,494	7,076	7,123
Dealer enrollment fees .....	1,790	2,132	1,750	1,641
Premiums earned .....	2,383	2,625	3,111	3,185
Total revenue .....	<u>\$ 41,769</u>	<u>\$ 44,853</u>	<u>\$ 40,893</u>	<u>\$ 36,720</u>
COSTS AND EXPENSES				
Salaries and wages .....	\$ 3,810	\$ 4,261	\$ 4,278	\$ 4,629
General & administrative .....	4,179	5,315	4,916	6,194
Provision for credit losses .....	7,053	7,669	64,071	6,679
Sales and marketing .....	1,898	2,059	2,100	2,272
Provision for insurance and warranty claims .....	803	878	1,095	1,135
Interest .....	5,669	6,808	7,162	7,958
Total costs and expenses .....	<u>\$ 23,412</u>	<u>\$ 26,990</u>	<u>\$ 83,622</u>	<u>\$ 28,867</u>
OPERATING INCOME				
(LOSS) .....	\$ 18,357	\$ 17,863	(\$ 42,729)	\$ 7,853
Foreign exchange gain (loss) .....	(20)	5	(7)	(19)
Income (loss) before income taxes .....	18,337	17,868	(42,736)	7,834
Provision (credit) for income taxes .....	6,299	5,818	(15,028)	2,677
NET INCOME (LOSS) .....	<u>\$ 12,038</u>	<u>\$ 12,050</u>	<u>\$ (27,708)</u>	<u>\$ 5,157</u>
Net income (loss) per common share				
Basic .....	\$ 0.26	\$ 0.26	(\$ 0.60)	\$ 0.11
Diluted .....	\$ 0.26	\$ 0.26	(\$ 0.60)	\$ 0.11
Weighted average shares outstanding				
Basic .....	46,076	46,112	46,113	46,113

Diluted ..... 46,902 46,595 46,113 46,679

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information is contained under the captions "Matters to Come Before the Meeting - Election of Directors" in the Company's Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information is contained under the caption "Compensation of Executive Officers" (excluding the Report of the Executive Compensation Committee, the Report on Stock Option Repricing, the Ten Year Option Repricing Table and the stock performance graph) in the Company's Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information is contained under the caption "Common Stock Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information is contained under the caption "Certain Relationships and Transactions" in the Company's Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) The following consolidated financial statements of the Company and Report of Independent Public Accountants are contained "Item 8 - Financial Statements and Supplementary Data."

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

CONSOLIDATED FINANCIAL STATEMENTS:

- Consolidated Balance Sheets as of December 31, 1996 and 1997
- Consolidated Income Statements for the years ended December 31, 1995, 1996 and 1997
- Consolidated Statements of Cash Flows for the years ended

December 31, 1995, 1996 and 1997  
 -Consolidated Statements of Shareholders' Equity for the  
 years ended December 31, 1995, 1996 and 1997

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (2) Financial Statement Schedules have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.
- (3) The Exhibits filed in response to Item 601 of Regulation S-K are listed in the Exhibit Index . Included in such list as Item 10(f) (2) and 10 (f) (3) (Stock Option Plans) and 10(n) (4) and 10(n) (5) (Management Incentive Plans) are the Company's management contracts and compensatory plans and arrangements which are required to be filed as exhibits to this Form 10-K.
- (b) During the quarter ended December 31, 1997, the Company filed Current Reports on Form 8-K on October 23, 1997 and December 15, 1997. Each of the reports reported information under Item 5 and neither Report contained financial statements.

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The following documents are filed as part of this report. Those exhibits previously filed and incorporated herein by reference are identified below. Exhibits not required for this report have been omitted.

EXHIBIT NO. -----	DESCRIPTION -----
3(a) 3	Articles of Incorporation, as amended
3(a)(1) 9	Articles of Incorporation, as amended July 1, 1997
3(b) 3	Bylaws of the Company, as amended
4(a) 2	Note Purchase Agreement dated October 1, 1994 between various insurance companies and the Company and related form of note.
4(a)(1) 4	First Amendment dated November 15, 1995 to Note Purchase Agreement dated October 1, 1994 between various insurance companies and the Company.
4(a)(2) 6	Second Amendment dated August 29, 1996 to Note Purchase Agreement dated October 1, 1994 between various insurance companies and the Company.
4(a)(3) 10	Third Amendment dated December 12, 1997 to Note Purchase Agreement dated October 1, 1994 between various insurance companies and the Company
4(b) 6	Note Purchase Agreement dated August 1, 1996 between various insurance companies and the Company and the related form of note
4(b)(1) 10	First Amendment dated December 12, 1997 to Note Purchase Agreement dated August 1, 1996 between various insurance companies and the Company
4(c) 12	Second Amended and Restated \$150,000,000 Line of Credit and \$100,000,000 Revolving Credit Agreement dated December 4, 1996 between the Company, Comerica Bank as agent and LaSalle National Bank and The Bank of New York as co-agents, and various commercial banks.
4(c)(1) 9	First Amendment and Consent, dated June 4, 1997, to Second Amended and Restated Credit Agreement dated as of December 4, 1996 and a memorandum evidencing extension of maturity dates

- 4(c)(2) 10 Second Amendment dated December 12, 1997 to Second Amended and Restated Credit Agreement dated as of December 4, 1996
- 4(e) 8 Note Purchase Agreement dated March 25, 1997 between various insurance companies and the Company and related form of note
- 4(e)(1) 10 First Amendment dated December 12, 1997 to Note Purchase Agreement dated March 25, 1997 between various insurance companies and the Company

Other instruments, notes or extracts from agreements defining the rights of holders of long-term debt of the Company or its subsidiaries have not been filed because (i) in each case the total amount of long-term debt permitted thereunder does not exceed 10% of the Company's consolidated assets, and (ii) the Company hereby agrees that it will furnish such instruments, notes and extracts to the Securities and Exchange Commission upon its request.

EXHIBIT NO. -----	DESCRIPTION -----
10(b)(1) 5	Amended and Restated Services Agreement dated April 17, 1996 between the Company and Larry Lee's Auto Finance Center, Inc. d/b/a Dealer Enterprise Group.
10(d) (4) 2	Form of Addendum 3 to Servicing Agreement (Multiple Lots).
10(d) (5) 4	Current form of Servicing Agreement, including form of Addendum 1 to Servicing Agreement (CAC Life) and form of Addendum 2 to Servicing Agreement (BVPP, Inc.).
10(e)1	Promissory Notes dated various dates, to the Company, from various affiliated companies.
10(f)(2) 7	Credit Acceptance Corporation 1992 Stock Option Plan, as amended effective December 1, 1996.
10(f)(3) 9	Credit Acceptance Corporation 1992 Stock Option Plan, as amended and restated May 1997
10(g)1	Promissory Note dated May 3, 1991 to the Company from Richard E. Beckman and related assignment
10(n)(4) 7	Credit Acceptance Corporation Management Incentive Plan B Fiscal Year 1997
10(n)(5) 10	Credit Acceptance Corporation Management Incentive Plan - Fiscal Year 1998
10(o)(1) 7	Credit Acceptance Corporation Stock Option Plan for Dealers, as amended January 22, 1997
21(1) 10	Schedule of Credit Acceptance Corporation Subsidiaries
23(1) 10	Consent of Arthur Andersen LLP
27 10	Financial Data Schedule

- 1 reference to the Company's Registration Statement on Form S-1, File No. 33-46772.
- 2 Previously filed as an exhibit to the Company's Form 10-Q for the quarterly period ended September 30, 1994, and incorporated herein by reference.
- 3 Previously filed as an exhibit to the Company's Form 10-K Annual Report for the year ended December 31, 1994, and incorporated herein by reference.

- 4 Previously filed as an exhibit to the Company's Form 10-K Annual Report for the year ended December 31, 1995, and incorporated herein by reference.
- 5 Previously filed as an exhibit to the Company's Form 10-Q for the quarterly period ended March 31, 1996, and incorporated herein by reference.
- 6 Previously filed as an exhibit to the Company's Form 10-Q for the quarterly period ended September 30, 1996 and incorporated herein by reference.
- 7 Previously filed as an exhibit to the Company's Form 10-K Annual Report for the year ended December 31, 1996, and incorporated herein by reference.
- 8 Previously filed as an exhibit to the Company's Form 10-Q for the quarterly period ended March 31, 1997 and incorporated herein by reference.
- 9 Previously filed as an exhibit to the Company's Form 10-Q for the quarterly period ended June 30, 1997, and incorporated herein by reference.
- 10 Filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 20, 1998.

CREDIT ACCEPTANCE CORPORATION

By: /S/ Donald A. Foss

-----  
 Donald A. Foss  
 Chairman of the Board and  
 Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on March 20, 1998 on behalf of the registrant and in the capacities indicated.

Signature -----	Title -----
/S/ Donald A. Foss ----- Donald A. Foss	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/S/ Brett A. Roberts ----- Brett A. Roberts	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ John P. Cavanaugh ----- John P. Cavanaugh	Corporate Controller and Assistant Secretary (Principal Accounting Officer)
/S/ Harry E. Craig -----	Director

Harry E. Craig

/S/ Thomas A. FitzSimmons  
-----  
Thomas A. FitzSimmons

Director

/S/ David T. Harrison  
-----  
David T. Harrison

Director

/S/ Sam M. LaFata  
-----  
Sam M. LaFata

Director

THIRD AMENDMENT TO NOTE PURCHASE AGREEMENT  
 RE:  
 CREDIT ACCEPTANCE CORPORATION  
 8.87% SENIOR NOTES DUE NOVEMBER 1, 2001

Dated as of December 12, 1997

To the Noteholders listed on Annex I hereto

Ladies and Gentlemen:

Credit Acceptance Corporation, a Michigan corporation (together with its successors and assigns, the "Company"), hereby agrees with you as follows:

SECTION 1. INTRODUCTORY MATTERS.

1.1 DESCRIPTION OF OUTSTANDING NOTES. The Company currently has outstanding \$45,900,000 in aggregate unpaid principal amount of its 8.87% Senior Notes due November 1, 2001 (the "Notes") which it issued pursuant to the separate Note Purchase Agreements, each dated as of October 1, 1994 (collectively, as amended by the First Amendment to Note Purchase Agreement dated as of November 15, 1995 and the Second Amendment to Note Purchase Agreement dated as of August 29, 1996, the "Agreement"), entered into by the Company with each of you, respectively. Terms used herein but not otherwise defined herein shall have the meanings assigned thereto in the Agreement.

1.2 PURPOSE OF AMENDMENT. The Company and you desire to amend the Agreement to modify various covenants in and add certain definitions to the Agreement.

SECTION 2. AMENDMENT TO THE AGREEMENT.

Pursuant to Section 10.5 of the Agreement, the Company hereby agrees with you that the Agreement shall be amended by this Third Amendment to Note Purchase Agreement (the "Third Amendment"), effective as of September 30, 1997, in the following respects:

2.1 SECTION 6.1

(a) The heading for Section 6.1 is hereby modified to read "Debt and Advances".

(b) Paragraph (a) of Section 6.1 is hereby amended and restated in its entirety as follows:

"(a) TOTAL DEBT. The Company will not at any time permit Consolidated Total Debt to exceed any of the following:

(i) two hundred seventy-five percent (275%) of Consolidated Tangible Net Worth;

(ii) ninety percent (90%) of Advances; or

(iii) sixty percent (60%) of Gross Current Installment Contract Receivables."

(c) Section 6.1 is hereby further amended by adding, immediately after paragraph (e), the following:

"(f) GROSS ADVANCES. The Company will not at any time permit Gross Advances to exceed sixty-five percent (65%) of Net Installment Contract Receivables."

2.2 SECTION 6.2 Section 6.2 is hereby amended and restated in its entirety as follows:

"The Company will not at any time permit the ratio of

(a) Consolidated Income Available for Fixed Charges for the period of four (4) consecutive fiscal quarters of the Company most recently ended at such time to

(b) Consolidated Fixed Charges for such period

to be less than (i) 2.5 to 1.0 for any period of four fiscal quarters ended on or prior to September 30, 1997, (ii) 1.9 to 1.0 for the four fiscal quarters ended December 31, 1997, (iii) 1.7 to 1.0 for the four fiscal quarters ended March 31, 1998, (iv) 1.6 to 1.0 for the four fiscal quarters ended June 30, 1998, and (v) 2.0 to 1.0 for any four fiscal quarters ended on or after September 30, 1998."

### 2.3 SECTION 9.1

(a) The definition of "Consolidated Income Available for Fixed Charges" in Section 9.1 of the Agreement is hereby amended by adding immediately after clause (b) and before the final clause of such definition the following:

"plus (c) with respect to the periods ending September 30, 1997, December 31, 1997, March 31, 1998 and June 30, 1998, \$30,000,000

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representing the portion of the non-cash charge recorded by the Company during the period ended September 30, 1997 attributable to the present valuing of future cash flows consistent with Statement of Financial Accounting Standards No. 114 'Accounting by Creditors for Impairment of a Loan',"

(B) The definition of "Net Dealer Holdbacks" in Section 9.1 of the Agreement is hereby amended by deleting the definitions of "Advances," "Charged-Off Advances," "Established Dealer" and "Trailing Twelve Months Payments" therefrom.

(C) The following new definitions are added to Section 9.1 of the Agreement:

"ADVANCES means, at any time, the dollar amount of advances, as such amount would appear in the footnotes to the financial statements of the Company and the Restricted Subsidiaries prepared in accordance with GAAP (if such amount would not appear net of reserves, then net of any reserves established by the Company as an allowance for credit losses related to such advances not expected to be recovered), provided that Advances shall not include Charged-Off Advances to the extent that such Charged-Off Advances exceed the portion of the Company's allowance for credit losses related to reserves against advances not expected to be recovered as such allowance would appear in the footnotes to the financial statements of the Company and the Restricted Subsidiaries prepared in accordance with GAAP and provided further, that Advances shall not include Excess New Dealer Advances."

"CHARGED-OFF ADVANCES means, with respect to an Established Dealer, at any time, the dollar amount of the advance balance related to the pool of installment contract receivables of such Established Dealer which exceeds the Trailing Twelve Months Payments for such pool multiplied by three (3)."

"ESTABLISHED DEALER means, at any time, a dealer that has participated in the Company's program of financing and collecting installment contract receivables for the immediately preceding period of twelve (12) consecutive complete calendar months and has an advance balance in excess of Ten Thousand Dollars (\$10,000) at such time."

"EXCESS NEW DEALER ADVANCES means, at any time, the aggregate amount of advances to New Dealers to the extent such amount exceeds 10% of Gross Advances."

"GROSS ADVANCES means, as of any applicable date of determination, the dollar amount of Advances (without giving effect to the last proviso to the

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definition of such term), plus any reserves established by the Company as an allowance for credit losses related to such advances not expected to be recovered, plus Charged-Off Advances to the extent Charged-Off Advances exceed the amount of such reserves."

"GROSS CURRENT INSTALLMENT CONTRACT RECEIVABLES means, as of any applicable date of determination, the aggregate amount of Net Installment Contract Receivables, plus unearned finance charges, plus allowance for credit losses, minus the amount of such receivables which can be classified as being on 'non-accrual' under the '90 days measured on a recency basis' method."

"INVESTMENT GRADE RATING means a rating of at least, but not lower than:

- (i) "Baa3" by Moody's Investors Service, Inc.,
- (ii) "BBB-" by Standard & Poor's Ratings Group,
- (iii) a category "1" or category "2" designation from the National Association of Insurance Commissioners, and
- (iv) "BBB-" by Fitch Investors Services, Inc."

"NEW DEALER means, at any time, a dealer who participates in the Company's program of financing and collecting installment contract receivables, whose oldest pool of installment contracts held by the Company is dated as of a date which is not more than six months prior to such time and who has an advance balance in excess of ten thousand dollars (\$10,000) at such time."

"RESTRICTED PAYMENT means (x) any dividend or other distribution, direct or indirect and whether payable in cash or property, on account of any capital stock or other equity interest of the Company or any of its Restricted Subsidiaries and (y) any redemption, retirement, purchase, or other acquisition, direct or indirect, of any capital stock or other equity interests of the Company or any of its Restricted Subsidiaries now or hereafter outstanding, or of any warrants, rights or options to acquire any such capital stock or other equity interests or any securities convertible into such capital stock or other equity interests, except to the extent that any such dividend or distribution, or any such redemption, retirement, purchase or other acquisition (i) is payable to the Company or any of its Restricted Subsidiaries

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or (ii) is payable solely in capital stock or other equity interests of the Company or any such Restricted Subsidiary."

"TRAILING TWELVE MONTHS PAYMENTS means, at any time, the gross amount of payments on installment contract receivables received by the Company for the account of an Established Dealer during the immediately preceding period of twelve (12) consecutive complete calendar months."

2.4 INTEREST RATE APPLICABLE TO NOTES.

(a) Notwithstanding anything to the contrary set forth in the Agreement or in the Notes, the interest rate applicable to the Notes shall be 9.37% per annum effective as of October 23, 1997; provided, however, that such interest rate shall be 8.87% per annum effective as of the first date that at least two of the following four organizations shall have assigned an Investment Grade Rating to the Company, the Notes or any other senior unsecured debt obligation of the Company: Moody's Investors Service, Inc., Standard & Poor's Ratings Group, the National Association of Insurance Commissioners (the "NAIC"), or Fitch Investors Services, Inc.

(b) The signatories hereto specifically acknowledge that the NAIC is not in any way a rating agency with functions such as those performed by Moody's Investors Service, Inc., Standard & Poor's Ratings Group, or Fitch Investors Services, Inc. Further, the signatories hereto specifically acknowledge that any rating given to the Notes by the NAIC is not to be interpreted as an expression by the NAIC with respect to the suitability of an investment in the Notes or the likelihood of any payment in respect thereof. In addition, the signatories hereto specifically affirm that the holders of the Notes will not obtain any benefit from satisfaction of the condition set forth in the proviso to Section 2.4(a) or in Section 2.5.

2.5 RESTRICTED PAYMENTS. The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, declare, make, set apart any funds or other property for, or incur any liability to make any Restricted Payment unless, at the time of such action, at least two of the following four organizations shall have assigned an Investment Grade Rating to the Company, the Notes or any other senior unsecured debt obligation of the Company: Moody's Investors Service, Inc., Standard & Poor's Ratings Group, the NAIC, or Fitch Investors Services, Inc.

2.6 ADVERSE ACTION. If the NAIC makes specific reference to this Third Amendment and states that it will withdraw any rating or designation of the Notes, or will take any other action adverse to any one or more of the holders of the Notes, as a result of the agreement set forth in Section 2.4(a) or in Section 2.5, the parties hereto hereby agree that (x) the proviso to Section 2.4(a) and Section 2.5 shall, in lieu of the requirement set forth therein, be deemed to require an Investment Grade Rating from at least two of the following three organizations: Moody's Investors Service, Inc., Standard & Poor's Ratings Group, or Fitch Investors Services, Inc. and (y) clause (iii) of the definition of "Investment Grade Rating" shall be deemed to have been deleted. Such changes shall take effect upon delivery of written notice to the Company by the Required Holders referring to such

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proposed withdrawal or other action and stating that the condition set forth in this Section 2.6 has occurred.

### SECTION 3. MISCELLANEOUS

3.1 COUNTERPARTS. This Third Amendment may be executed in any number of counterparts, each executed counterpart constituting an original, but all together only one Third Amendment.

3.2 HEADINGS. The headings of the sections of this Third Amendment are for purposes of convenience only and shall not be construed to affect the meaning or construction of any of the provisions hereof.

3.3 GOVERNING LAW. This Third Amendment shall be governed by and construed in accordance with the internal laws of the State of Connecticut.

3.4 EFFECT OF AMENDMENT. Except as expressly provided herein (a) no other terms and provisions of the Agreement shall be modified or changed by this Amendment and (b) the terms and provisions of the Agreement, as amended by this Third Amendment, shall continue in full force and effect. The Company hereby acknowledges and reaffirms all of its obligations and duties under the Agreement as modified by this Third Amendment and under the Notes issued thereunder.

3.5 REFERENCES TO THE AGREEMENT. Any and all notices, requests, certificates and other instruments executed and delivered concurrently with or after the execution of the Third Amendment may refer to the Agreement without making specific reference to this Third Amendment but nevertheless all such references shall be deemed to include, to the extent applicable, this Third

Amendment unless the context shall otherwise require.

3.6 COMPLIANCE. The Company certifies that immediately before and after giving effect to this Third Amendment, no Default or Event of Default exists or would exist after giving effect hereto.

3.7 FEE. In consideration of the amendment set forth herein, the Company agrees to pay, promptly following the execution hereof, to each holder of a Note a fee in an amount equal to 0.05% of the outstanding principal amount of each Note held by such holder as of the date hereof.

3.8 EFFECTIVENESS. This Third Amendment shall become effective (retroactive to September 30, 1997) at the time the Second Amendment to the Credit Agreement becomes effective, provided that such effectiveness shall occur on or before December 31, 1997.

3.9 AMENDMENT TO CREDIT AGREEMENT. The Company represents that the Second Amendment to the Credit Agreement is in the form attached as Exhibit A hereto.

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[Remainder of page intentionally blank. Next page is signature page.]

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ACCEPTED:

J. ROMEO & CO.

By /S/ Robert Kissiel

-----

Name: Robert Kissiel

Title: Director of Investments

[Signature Page to Third Amendment to Note Purchase Agreement in respect of 8.87% Senior Notes Due November 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

AID ASSOCIATION FOR LUTHERANS

By /S/ James Abitz

-----

Name: James Abitz

Title: Vice President - Investments

By /S/ R. Jerry Scheel

-----  
Name: R. Jerry Scheel  
Title: Second Vice President - Securities

[Signature Page to Third Amendment to Note Purchase Agreement in respect of  
8.87% Senior Notes Due November 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

CONNECTICUT GENERAL LIFE INSURANCE  
COMPANY  
By Cigna Investments, Inc.

By /S/ James F. Coggins, Jr.

-----  
Name: James F. Coggins, Jr.  
Title: Managing Director

CONNECTICUT GENERAL LIFE  
INSURANCE COMPANY  
On behalf of one ore more separate  
accounts By Cigna Investments, Inc.

By /S/ James F. Coggins, Jr.

-----  
Name: James F. Coggins, Jr.  
Title: Managing Director

[Signature Page to Third Amendment to Note Purchase Agreement in respect of  
8.87% Senior Notes Due November 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

THE OHIO CASUALTY INSURANCE  
COMPANY

By /S/ Barry S. Porter

-----  
Name: Barry S. Porter

Title: CFO and Treasurer

THE OHIO LIFE INSURANCE COMPANY

By /S/ Barry S. Porter

-----  
Name: Barry S. Porter  
Title: CFO and Treasurer

[Signature Page to Third Amendment to Note Purchase Agreement in respect of  
8.87% Senior Notes Due November 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

WESTERN FARM BUREAU LIFE INSURANCE  
COMPANY

By /S/ Richard D. Warming

-----  
Name: Richard D. Warming  
Title: VP - Chief Investment Officer

FARM BUREAU LIFE INSURANCE COMPANY

By /S/ Richard D. Warming

-----  
Name: Richard D. Warming  
Title: VP - Chief Investment Officer

[Signature Page to Third Amendment to Note Purchase Agreement in respect of  
8.87% Senior Notes Due November 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

WASHINGTON NATIONAL INSURANCE  
COMPANY

By /S/ C. Bruce Dunn

-----  
Name: C. Bruce Dunn  
Title: Director of Investments

[Signature Page to Third Amendment to Note Purchase Agreement in respect of  
8.87% Senior Notes Due November 1, 2001 of Credit Acceptance Corporation]

FIRST AMENDMENT TO NOTE PURCHASE AGREEMENT  
 RE:  
 CREDIT ACCEPTANCE CORPORATION  
 7.99% SENIOR NOTES DUE JULY 1, 2001

Dated as of December 12, 1997

To the Noteholders listed on Annex I hereto

Ladies and Gentlemen:

Credit Acceptance Corporation, a Michigan corporation (together with its successors and assigns, the "Company"), hereby agrees with you as follows:

SECTION 1. INTRODUCTORY MATTERS.

1.1 DESCRIPTION OF OUTSTANDING NOTES. The Company currently has outstanding \$57,500,000 in aggregate unpaid principal amount of its 7.99% Senior Notes due July 1, 2001 (the "Notes") which it issued pursuant to the separate Note Purchase Agreements, each dated as of August 1, 1996 (collectively, the "Agreement"), entered into by the Company with each of you, respectively. Terms used herein but not otherwise defined herein shall have the meanings assigned thereto in the Agreement.

1.2 PURPOSE OF AMENDMENT. The Company and you desire to amend the Agreement to modify various covenants in and add certain definitions to the Agreement.

SECTION 2. AMENDMENT TO THE AGREEMENT.

Pursuant to Section 10.5 of the Agreement, the Company hereby agrees with you that the Agreement shall be amended by this First Amendment to Note Purchase Agreement (the "First Amendment"), effective as of September 30, 1997, in the following respects:

2.1 SECTION 6.1

(A) The heading for Section 6.1 is hereby modified to read "Debt and Advances".

(B) Paragraph (a) of Section 6.1 is hereby amended and restated in its entirety as follows:

"(A) TOTAL DEBT. The Company will not at any time permit Consolidated Total Debt to exceed any of the following:

(i) two hundred seventy-five percent (275%) of Consolidated Tangible Net Worth;

(ii) ninety percent (90%) of Advances; or

(iii) sixty percent (60%) of Gross Current Installment Contract Receivables."

(C) Section 6.1 is hereby further amended by adding, immediately after paragraph (e), the following:

"(F) GROSS ADVANCES. The Company will not at any time permit Gross Advances to exceed sixty-five percent (65%) of Net Installment Contract Receivables."

2.2 SECTION 6.2 Section 6.2 is hereby amended and restated in its entirety as follows:

"The Company will not at any time permit the ratio of

(a) Consolidated Income Available for Fixed Charges for the period of four (4) consecutive fiscal quarters of the Company most recently ended at such time to

(b) Consolidated Fixed Charges for such period to be less than (i) 2.5 to 1.0 for any period of four fiscal quarters ended on or prior to September 30, 1997, (ii) 1.9 to 1.0 for the four fiscal quarters ended December 31, 1997, (iii) 1.7 to 1.0 for the four fiscal quarters ended March 31, 1998, (iv) 1.6 to 1.0 for the four fiscal quarters ended June 30, 1998, and (v) 2.0 to 1.0 for any four fiscal quarters ended on or after September 30, 1998."

2.3 SECTION 9.1

(A) The definition of "Consolidated Income Available for Fixed Charges" in Section 9.1 of the Agreement is hereby amended by adding immediately after clause (b) and before the final clause of such definition the following:

"plus (c) with respect to the periods ending September 30, 1997, December 31, 1997, March 31, 1998 and June 30, 1998, \$30,000,000 representing the portion of the non-cash charge recorded by the Company during the period ended September 30, 1997 attributable to the present valuing of future cash flows consistent with Statement of Financial

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Accounting Standards No. 114 "Accounting by Creditors for Impairment of a Loan",

(B) The definition of "Net Dealer Holdbacks" in Section 9.1 of the Agreement is hereby amended by deleting the definitions of "Advances," "Charged-Off Advances," "Established Dealer" and "Trailing Twelve Months Payments" therefrom.

(C) The following new definitions are added to Section 9.1 of the Agreement:

"ADVANCES means, at any time, the dollar amount of advances, as such amount would appear in the footnotes to the financial statements of the Company and the Restricted Subsidiaries prepared in accordance with GAAP (if such amount would not appear net of reserves, then net of any reserves established by the Company as an allowance for credit losses related to such advances not expected to be recovered), provided that Advances shall not include Charged-Off Advances to the extent that such Charged-Off Advances exceed the portion of the Company's allowance for credit losses related to reserves against advances not expected to be recovered as such allowance would appear in the footnotes to the financial statements of the Company and the Restricted Subsidiaries prepared in accordance with GAAP and provided further, that Advances shall not include Excess New Dealer Advances."

"CHARGED-OFF ADVANCES means, with respect to an Established Dealer, at any time, the dollar amount of the advance balance related to the pool of installment contract receivables of such Established Dealer which exceeds the Trailing Twelve Months Payments for such pool multiplied by three (3)."

"ESTABLISHED DEALER means, at any time, a dealer that has participated in the Company's program of financing and collecting installment contract receivables for the immediately preceding period of twelve (12) consecutive complete calendar months and has an advance balance in excess of Ten Thousand Dollars (\$10,000) at such time."

"EXCESS NEW DEALER ADVANCES means, at any time, the aggregate amount of advances to New Dealers to the extent such amount exceeds 10% of Gross Advances."

"GROSS ADVANCES means, as of any applicable date of determination, the dollar amount of Advances (without giving effect to the last proviso to the definition of such term), plus any reserves established by the Company as an allowance for credit losses related to such advances not expected to be

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recovered, plus Charged-Off Advances to the extent Charged-Off Advances exceed the amount of such reserves."

"GROSS CURRENT INSTALLMENT CONTRACT RECEIVABLES means, as of any applicable date of determination, the aggregate amount of Net Installment Contract Receivables, plus unearned finance charges, plus allowance for credit losses, minus the amount of such receivables which can be classified as being on "non-accrual" under the "90 days measured on a recency basis" method."

"INVESTMENT GRADE RATING means a rating of at least, but not lower than:

- (i) "Baa3" by Moody's Investors Service, Inc.,
- (ii) "BBB-" by Standard & Poor's Ratings Group,
- (iii) a category "1" or category "2" designation from the National Association of Insurance Commissioners, and
- (iv) "BBB-" by Fitch Investors Services, Inc."

"NEW DEALER means, at any time, a dealer who participates in the Company's program of financing and collecting installment contract receivables, whose oldest pool of installment contracts held by the Company is dated as of a date which is not more than six months prior to such time and who has an advance balance in excess of ten thousand dollars (\$10,000) at such time."

"RESTRICTED PAYMENT means (x) any dividend or other distribution, direct or indirect and whether payable in cash or property, on account of any capital stock or other equity interest of the Company or any of its Restricted Subsidiaries and (y) any redemption, retirement, purchase, or other acquisition, direct or indirect, of any capital stock or other equity interests of the Company or any of its Restricted Subsidiaries now or hereafter outstanding, or of any warrants, rights or options to acquire any such capital stock or other equity interests or any securities convertible into such capital stock or

other equity interests, except to the extent that any such dividend or distribution, or any such redemption, retirement, purchase or other acquisition (i) is payable to the Company or any of its Restricted Subsidiaries or (ii) is payable solely in capital stock or other equity interests of the Company or any such Restricted Subsidiary."

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"TRAILING TWELVE MONTHS PAYMENTS means, at any time, the gross amount of payments on installment contract receivables received by the Company for the account of an Established Dealer during the immediately preceding period of twelve (12) consecutive complete calendar months."

#### 2.4 INTEREST RATE APPLICABLE TO NOTES.

(A) Notwithstanding anything to the contrary set forth in the Agreement or in the Notes, the interest rate applicable to the Notes shall be 8.49% per annum effective as of October 23, 1997; provided, however, that such interest rate shall be 7.99% per annum effective as of the first date that at least two of the following four organizations shall have assigned an Investment Grade Rating to the Company, the Notes or any other senior unsecured debt obligation of the Company: Moody's Investors Service, Inc., Standard & Poor's Ratings Group, the National Association of Insurance Commissioners (the "NAIC"), or Fitch Investors Services, Inc.

(B) The signatories hereto specifically acknowledge that the NAIC is not in any way a rating agency with functions such as those performed by Moody's Investors Service, Inc., Standard & Poor's Ratings Group, or Fitch Investors Services, Inc. Further, the signatories hereto specifically acknowledge that any rating given to the Notes by the NAIC is not to be interpreted as an expression by the NAIC with respect to the suitability of an investment in the Notes or the likelihood of any payment in respect thereof. In addition, the signatories hereto specifically affirm that the holders of the Notes will not obtain any benefit from satisfaction of the condition set forth in the proviso to Section 2.4(a) or in Section 2.5.

2.5 RESTRICTED PAYMENTS. The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, declare, make, set apart any funds or other property for, or incur any liability to make any Restricted Payment unless, at the time of such action, at least two of the following four organizations shall have assigned an Investment Grade Rating to the Company, the Notes or any other senior unsecured debt obligation of the Company: Moody's Investors Service, Inc., Standard & Poor's Ratings Group, the NAIC, or Fitch Investors Services, Inc.

2.6 ADVERSE ACTION. If the NAIC makes specific reference to this First Amendment and states that it will withdraw any rating or designation of the Notes, or will take any other action adverse to any one or more of the holders of the Notes, as a result of the agreement set forth in Section 2.4(a) or in Section 2.5, the parties hereto hereby agree that (x) the proviso to Section 2.4(a) and Section 2.5 shall, in lieu of the requirement set forth therein, be deemed to require an Investment Grade Rating from at least two of the following three organizations: Moody's Investors Service, Inc., Standard & Poor's Ratings Group, or Fitch Investors Services, Inc. and (y) clause (iii) of the definition of "Investment Grade Rating" shall be deemed to have been deleted. Such changes shall take effect upon delivery of written notice to the Company by the Required Holders referring to such proposed withdrawal or other action and stating that the condition set forth in this Section 2.6 has occurred.

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SECTION 3. MISCELLANEOUS

3.1 COUNTERPARTS. This First Amendment may be executed in any number of counterparts, each executed counterpart constituting an original, but all together only one First Amendment.

3.2 HEADINGS. The headings of the sections of this First Amendment are for purposes of convenience only and shall not be construed to affect the meaning or construction of any of the provisions hereof.

3.3 GOVERNING LAW. This First Amendment shall be governed by and construed in accordance with the internal laws of the State of Connecticut.

3.4 EFFECT OF AMENDMENT. Except as expressly provided herein (a) no other terms and provisions of the Agreement shall be modified or changed by this Amendment and (b) the terms and provisions of the Agreement, as amended by this First Amendment, shall continue in full force and effect. The Company hereby acknowledges and reaffirms all of its obligations and duties under the Agreement as modified by this First Amendment and under the Notes issued thereunder.

3.5 REFERENCES TO THE AGREEMENT. Any and all notices, requests, certificates and other instruments executed and delivered concurrently with or after the execution of the First Amendment may refer to the Agreement without making specific reference to this First Amendment but nevertheless all such references shall be deemed to include, to the extent applicable, this First Amendment unless the context shall otherwise require.

3.6 COMPLIANCE. The Company certifies that immediately before and after giving effect to this First Amendment, no Default or Event of Default exists or would exist after giving effect hereto.

3.7 FEE. In consideration of the amendment set forth herein, the Company agrees to pay, promptly following the execution hereof, to each holder of a Note a fee in an amount equal to 0.05% of the outstanding principal amount of each Note held by such holder as of the date hereof.

3.8 EFFECTIVENESS. This First Amendment shall become effective (retroactive to September 30, 1997) at the time the Second Amendment to the Credit Agreement becomes effective, provided that such effectiveness shall occur on or before December 31, 1997.

3.9 AMENDMENT TO CREDIT AGREEMENT. The Company represents that the Second Amendment to the Credit Agreement is in the form attached as Exhibit A hereto.

[Remainder of page intentionally blank. Next page is signature page.]

ACCEPTED:

CONNECTICUT GENERAL LIFE INSURANCE COMPANY  
By Cigna Investments, Inc.

By /S/ James F. Coggins, Jr.

-----  
Name: James F. Coggins, Jr.  
Title: Managing Director

CONNECTICUT GENERAL LIFE INSURANCE COMPANY  
On behalf of one ore more separate accounts

By Cigna Investments, Inc.

By /S/ James F. Coggins, Jr.

-----  
Name: James F. Coggins, Jr.  
Title: Managing Director

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.99% Senior Notes Due July 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

NATIONWIDE LIFE INSURANCE COMPANY

By /S/ Edwin P. McCausland, Jr.

-----  
Name: Edwin P. McCausland, Jr.  
Title: Vice President  
Fixed-Income Securities

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.99% Senior Notes Due July 1, 2001 of Credit Acceptance Corporation]

ACCEPTED:

PHOENIX HOME LIFE MUTUAL INSURANCE  
COMPANY  
By Phoenix Investment Counsel, Inc.

By /S/ Rosemary T. Strekel

-----  
Name: Rosemary T. Strekel  
Title: Senior Vice President

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.99% Senior Notes Due July 1, 2001 of Credit Acceptance Corporation]

ACCEPTED:

AID ASSOCIATION FOR LUTHERANS

By /S/ James Abitz

-----  
Name: James Abitz  
Title: Vice President -  
Investments

By /S/ R. Jerry Scheel

-----  
Name: R. Jerry Scheel  
Title: Second Vice President -  
Securities

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.99% Senior Notes Due July 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

SECURITY BENEFIT LIFE INSURANCE  
COMPANY

By /S/ Steven M. Bowser

-----  
Name: Steven M. Bowser  
Title: Second VP - Portfolio  
Manager

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.99% Senior Notes Due July 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

COMBINED INSURANCE COMPANY OF  
AMERICA

BY: AON ADVISORS, INC.

By /S/ Keith Lemmer

-----  
Name: Keith Lemmer  
Title: Senior Portfolio Manager

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.99% Senior Notes Due July 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

PAN AMERICAN LIFE INSURANCE  
COMPANY

By /S/ F. Anderson Stone

-----  
Name: F. Anderson Stone  
Title: Vice President Corporate  
Securities

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ACCEPTED:

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR CENTRAL  
STATES HEALTH & LIFE COMPANY OF  
OMAHA

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR THE CHARLES  
SCHWAB TRUST COMPANY FBO GUARANTY  
INCOME LIFE INSURANCE COMPANY

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR AMERICAN  
COMMUNITY MUTUAL INSURANCE

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR CENTRAL RE  
CORP. & PHOENIX

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

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ACCEPTED:

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR LONE STAR  
LIFE INSURANCE COMPANY

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange

Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR OZARK  
NATIONAL LIFE INSURANCE COMPANY

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR CSA  
FRATERNAL LIFE

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR KANAWHA  
INSURANCE COMPANY

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.99% Senior Notes Due July 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR OLD GUARD  
MUTUAL INSURANCE COMPANY

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.99% Senior Notes Due July 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

MASSACHUSETTS MUTUAL LIFE  
INSURANCE COMPANY

By /S/ Richard E. Spencer II

-----  
Name: Richard E. Spencer  
Title: Managing Director

CM LIFE INSURANCE COMPANY

By /S/ Thomas Li

-----  
Name: Thomas Li  
Title: Managing Director

Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.99% Senior Notes Due July 1, 2001 of Credit Acceptance Corporation]

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## SECOND AMENDMENT TO CREDIT AGREEMENT

This SECOND AMENDMENT TO CREDIT AGREEMENT ("Second Amendment") is made as of this 12th day of December, 1997 by and among Credit Acceptance Corporation, a Michigan corporation ("Company"), the Permitted Borrowers signatory hereto (each, a "Permitted Borrower" and collectively, the "Permitted Borrowers"), Comerica Bank and the other banks signatory hereto (individually, a "Bank" and collectively, the "Banks") and Comerica Bank, as agent for the Banks (in such capacity, "Agent").

## RECITALS

A. Company, Permitted Borrowers, Agent and the Banks entered into that certain Second Amended and Restated Credit Agreement dated as of December 4, 1996, as amended by First Amendment and Consent dated as of June 4, 1997 (the "Credit Agreement") under which the Banks renewed and extended (or committed to extend) credit to the Company and the Permitted Borrowers, as set forth therein.

B. The Company and the Permitted Borrowers have requested that Agent and the Banks agree to make certain amendments to the Credit Agreement, and Agent and the Banks are willing to do so, but only on the terms and conditions set forth in this Second Amendment.

NOW, THEREFORE, Company, Permitted Borrowers, Agent and the Banks agree:

1. Section 1 of the Credit Agreement is hereby amended, as follows:

(a) (i) The first sentence of the definition of "Advances to Dealers" is amended (in the second, third and fourth lines thereof) to replace the phrase "as such amount would appear in the footnotes to the financial statements of the Company and its Subsidiaries prepared in accordance with GAAP at such time, provided that" with the phrase "as such amount would appear in the footnotes to the financial statements of the Company and its Subsidiaries prepared in accordance with GAAP (and if such amount is not shown net of such reserves, then net of any reserves established by the Company as an allowance for credit losses related to such advances not expected to be recovered), provided that Advances to Dealers shall not include Excess New Dealer Advances and provided further that", and

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(ii) the second sentence of the definition of "Advances to Dealers" is amended to add at the end of such sentence the following:

"and (iv) 'Excess New Dealer Advances' means, at any time, the aggregate amount of advances to New Dealers to the extent such amount exceeds 10% of Gross Advances to Dealers; and (v) 'New Dealer' means, at any time, a Dealer who participates in the Company's program of financing and collecting installment contract receivables, whose oldest pool of Installment Contracts held by the Company is dated as of a date which is not more than six months prior to such time and who has an advance balance in excess of Ten Thousand Dollars (\$10,000) at such time".

(b) The definition of "Consolidated Income Available for Fixed Charges" is amended to add at the end of such definition (following the word "GAAP") the words:

", plus (c) for the next succeeding four fiscal quarters of the Company (commencing with the fiscal quarter ending September 30, 1997), the non-cash charge in the amount of \$30,000,000 taken by the Company in its financial statements for its fiscal quarter ending September 30,

1997 relating to the application of Statement of Financial Accounting Standards No. 114 "Accounting by Creditors for Impairment of a Loan'."

(c) A new definition of "Gross Current Installment Contracts Receivable" is added to the Credit Agreement (to be inserted in alphabetical order), as follows:

"'Gross Current Installment Contract Receivables' shall mean, as of any applicable date of determination, the aggregate amount of Gross Installment Contract Receivables, less the amount of such receivables which can be classified as being on "non-accrual" under the "90 days measured on a recency basis" method."

(d) A new definition of "Gross Advances to Dealers" is added to the Credit Agreement (to be inserted in alphabetical order), as follows:

"'Gross Advances to Dealers' shall mean, as of any applicable date of determination, the dollar amount of Advances to Dealers (without giving effect to the first proviso to the definition of such term), plus any reserves established by the Company as an allowance for credit losses related to such advances not expected to be recovered, plus Charged-off Advances to the extent Charged-off Advances exceed the amount of such reserves."

(e) The definition of "Rating Level 5" is amended and restated in its entirety, as follows:

"'Rating Level 5" shall mean (a) so long as no Debt Rating from S&P or Moody's is obtained by the Company, then a Debt Rating of BB+ from Fitch, and (b) in the event that a Debt Rating is obtained from S&P and/or Moody's, then (i) if both ratings are obtained, the lower of, and (ii) if only one rating is obtained, then either a Debt Rating of BB (or higher) from S&P or Ba2 (or higher) from Moody's."

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(f) The definition of "Rating Level 6" is added to the Credit Agreement (immediately following the definition of "Rating Level 5"), as follows:

'Rating Level 6' shall mean the Rating Level (if any) which exists whenever the Company does not qualify for Rating Level 1, 2, 3, 4 or 5."

2. Section 7 of the Credit Agreement is amended, as follows:

(a) Section 7.4 is amended and restated in its entirety as follows:

"7.4 Maintain Total Debt Level. On a Consolidated basis, maintain as of the end of each fiscal quarter, Consolidated Total Debt at a level equal to or less than:

- (a) Two Hundred Seventy-Five Percent (275%) of Company's Consolidated Tangible Net Worth;
- (b) Ninety Percent (90%) of Advances to Dealers; and
- (c) Sixty Percent (60%) of Gross Current Installment Contract Receivables.

(b) Section 7.8 is amended and restated in its entirety, as follows:

"7.8 Maintain Gross Dealer Advances to Net Installment Contract Receivables Level. On a Consolidated Basis, maintain as of the end of each fiscal quarter Gross Advances to Dealers at a level not to exceed Sixty-Five Percent (65%) of Net Installment Contract Receivables."

(c) Section 7.9 is amended and restated in its entirety, as

follows:

"7.9 Maintain Fixed Charge Coverage Ratio. On a Consolidated basis, maintain as of the end of each fiscal quarter a Fixed Charge Coverage Ratio of not less than:

- (a) from the date hereof to December 30, 1997, 2.5 to 1.0;
- (b) from December 31, 1997 to March 30, 1998, 1.9 to 1.0;
- (c) from March 31, 1998 to June 29, 1998, 1.7 to 1.0;
- (d) from June 30, 1998 to September 29, 1998, 1.6 to 1.0;  
and
- (e) from and after September 30, 1998, 2.0 to 1.0."

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3. Section 8 of the Credit Agreement is hereby amended to add new Section 8.15, as follows:

"8.15 'Limitation on Dividends'. Declare, make or otherwise set apart, directly or indirectly, any funds or other property for, or incur any liability to make any dividend or other distribution, direct or indirect and whether payable in cash or property, on account of any capital stock or other equity interest of the Company or any of its Subsidiaries, except to the extent that any such dividend or distribution (i) is payable to the Company or any of its Subsidiaries or (ii) is payable solely in capital stock or other equity interests of the Company or any such Subsidiary, unless, at the time of such action (and giving effect thereto) such dividend or distribution is permitted under Section 2.5 of each of the amendments to the note agreements which constitute Senior Debt Documents executed concurrently with the execution of the Second Amendment to this Agreement (the "December 1997 Note Agreement Amendments"), as such note agreements are presently in effect (after giving effect to the December 1997 Note Agreement Amendments) without giving effect to any subsequent amendments, modifications or waivers thereof, except to the extent expressly provided in Section 2.6 of the December 1997 Note Agreement Amendments."

4. The consent of the Majority Banks (the "Consent") under paragraph 3 of the First Amendment to Credit Agreement and Consent dated as of June 4, 1997 to Stock Repurchases (as such term is defined therein) is hereby modified such that, notwithstanding the terms of such Consent, Stock Repurchases shall not be permitted unless, at the time of any such Stock Repurchase, Company is permitted to make such repurchases under Section 2.5 of each of the amendments to the note agreements which constitute Senior Debt Documents executed concurrently with the execution of this Second Amendment (the "December 1997 Note Agreement Amendments"), as such note agreements are presently in effect (after giving effect to the December 1997 Note Agreement Amendments) without giving effect to any amendments, modifications or waivers thereof, except to the extent expressly provided in Section 2.6 of the December 1997 Note Agreement Amendments.

5. This Second Amendment shall become effective (according to the terms hereof) upon satisfaction by the Company and the Permitted Borrowers, on or before December 15, 1997, of the following conditions:

(a) Agent shall have received counterpart originals of this Second Amendment, in each case duly executed and delivered by Company, the Permitted Borrowers and the requisite Banks, in form satisfactory to Agent and the Banks;

(b) Agent shall have received, with a copy for each of the Banks, amendments to the Senior Debt Documents executed and delivered by the Company and the requisite holders of the Senior Debt reflecting amendments to the applicable Senior Debt Documents identical in substance (or more favorable to the Company) to the amendments set forth in paragraphs 1 and 2 of this Second Amendment;

(c) Agent shall have received from the Company and each of the Permitted Borrowers a certification (i) that all necessary actions have been taken by such parties to

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authorize execution and delivery of this Second Amendment, supported by such resolutions or other evidence of corporate authority or action as reasonably required by Agent and the Majority Banks; and (ii) that, after giving effect to this Second Amendment, no Default or Event of Default has occurred and is continuing on the proposed effective date of the Second Amendment; and

(d) Company shall have paid (through Agent) to those Banks which have approved (in writing) the execution and delivery of this Second Amendment on or before the close of business on December 3, 1997 an amendment fee in the amount of five basis points on the aggregate commitment of each such Bank under the Line of Credit and the Revolving Credit as of the date of the Second Amendment.

provided, however, that subject to the foregoing, the Amendment set forth in paragraph 1(a) of this Second Amendment shall be given retroactive effect to September 30, 1997.

If the foregoing conditions have not been satisfied or waived on or before December 15, 1997, this Second Amendment shall lapse and be of no further force and effect.

6. New Exhibit F (Request for Swing Line Advance) attached hereto as Attachment 1 shall replace existing Exhibit F in its entirety and new Schedule 4.1 (Pricing Matrix) attached hereto as Attachment 2 shall replace existing Schedule 4.1 in its entirety. New Schedule 6.15 (Litigation) attached hereto as Attachment 3 shall replace existing Schedule 6.15 in its entirety.

7. Each of the Company and the Permitted Borrowers ratifies and confirms, as of the date hereof and after giving effect to the amendments contained herein, each of the representations and warranties set forth in Sections 6.1 through 6.22, inclusive, of the Credit Agreement and acknowledges that such representations and warranties are and shall remain continuing representations and warranties during the entire life of the Credit Agreement.

8. Except as specifically set forth above, this Second Amendment shall not be deemed to amend or alter in any respect the terms and conditions of the Credit Agreement, any of the Notes issued thereunder or any of the other Loan Documents, or to constitute a waiver by the Banks or Agent of any right or remedy under or a consent to any transaction not meeting the terms and conditions of the Credit Agreement, any of the Notes issued thereunder or any of the other Loan Documents.

9. Unless otherwise defined to the contrary herein, all capitalized terms used in this Second Amendment shall have the meaning set forth in the Credit Agreement.

10. This Second Amendment may be executed in counterpart in accordance with Section 13.10 of the Credit Agreement.

[SIGNATURES FOLLOW ON SUCCEEDING PAGES]

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WITNESS the due execution hereof as of the day and year first above written.

COMERICA BANK,

CREDIT ACCEPTANCE CORPORATION

as Agent

By: /S/ Jatinder P. Kalia  
-----  
Its: Corporate Finance Officer  
-----

One Detroit Center  
500 Woodward Avenue  
Detroit, Michigan 48226  
Attention: Michael P. Stapleton

By: /S/ Richard E. Beckman  
-----  
Its: President  
-----

CREDIT ACCEPTANCE CORPORATION  
UK LIMITED

By: /S/ Richard E. Beckman  
-----  
Its: Secretary  
-----

CAC OF CANSAND LIMITED

By: /S/ Richard E. Beckman  
-----  
Its: Secretary  
-----

CREDIT ACCEPTANCE CORPORATION  
IRELAND LIMITED

By: /S/ Richard E. Beckman  
-----  
Its: Secretary  
-----

BANKS:

COMERICA BANK

By: /S/ Michael P. Stapleton  
-----  
Its: Vice President  
-----

LASALLE NATIONAL BANK

THE BANK OF NEW YORK

By: /S/ Terry Keating  
-----  
Its: 1st Vice President  
-----

By: /S/ William Barnum  
-----  
Its: Vice President  
-----

THE FIRST NATIONAL BANK OF  
CHICAGO

THE FIFTH THIRD BANK OF NORTHWESTERN  
OHIO, N.A.

By: /S/ Craig Goldsmith  
-----

By: /S/ Brent J. Lochbihler  
-----

Its: Assistant Vice President  
-----

THE SUMITOMO BANK, LIMITED,  
CHICAGO BRANCH

By: /S/ H.W. Redding  
-----

Its: Vice President and Manager  
-----

and

By: /S/ Thomas A. Garza  
-----

Its: Vice President  
-----

HARRIS TRUST AND SAVINGS BANK

By: /S/ Robert G. Bomben  
-----

Its: Vice President  
-----

U.S. BANK NATIONAL ASSOCIATION, AS  
SUCCESSOR BY MERGER to United States  
National Bank of Oregon

By: /S/ David Larson  
-----

Its: Vice President  
-----

THE BANK OF TOKYO-MITSUBISHI, LTD.  
(CHICAGO BRANCH)

By: -----

Its: -----

Its: Vice President  
-----

THE LONG-TERM CREDIT BANK OF JAPAN,  
LTD. (CHICAGO BRANCH)

By: /S/ Mark Thompson  
-----

Its: Senior Vice President  
-----

CREDIT LYONNAIS  
NEW YORK BRANCH

FIRSTAR BANK MILWAUKEE, N.A.

By: /S/ Sebastian Rocco  
-----

By: /S/ Thomas Richtman  
-----

Its: First Vice President  
-----

Its: Vice President  
-----

NATIONSBANK, N.A.

FIRST UNION NATIONAL BANK OF  
NORTH CAROLINA

By: /S/ Elizabeth Kurilecz  
-----

Its: Senior Vice President  
-----

By: -----

Its:

-----  
THE BANK OF NOVA SCOTIA

CIBC INC.

By: /S/ F.C.H. Ashby  
-----

By: /S/ Gerald Girardi  
-----

Its: Senior Manager Loan Operations  
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Its: Executive Director  
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FIRST AMENDMENT TO NOTE PURCHASE AGREEMENT  
 RE:  
 CREDIT ACCEPTANCE CORPORATION  
 7.77% SENIOR NOTES DUE OCTOBER 1, 2001

Dated as of December 12, 1997

To the Noteholders listed on Annex I hereto

Ladies and Gentlemen:

Credit Acceptance Corporation, a Michigan corporation (together with its successors and assigns, the "Company"), hereby agrees with you as follows:

SECTION 1. INTRODUCTORY MATTERS.

1.1 DESCRIPTION OF OUTSTANDING NOTES. The Company currently has outstanding \$71,750,000 in aggregate unpaid principal amount of its 7.77% Senior Notes due October 1, 2001 (the "Notes") which it issued pursuant to the separate Note Purchase Agreements, each dated as of March 25, 1997 (collectively, the "Agreement"), entered into by the Company with each of you, respectively. Terms used herein but not otherwise defined herein shall have the meanings assigned thereto in the Agreement.

1.2 PURPOSE OF AMENDMENT. The Company and you desire to amend the Agreement to modify various covenants in and add certain definitions to the Agreement.

SECTION 2. AMENDMENT TO THE AGREEMENT.

Pursuant to Section 10.5 of the Agreement, the Company hereby agrees with you that the Agreement shall be amended by this First Amendment to Note Purchase Agreement (the "First Amendment"), effective as of September 30, 1997, in the following respects:

2.1 SECTION 6.1

(A) The heading for Section 6.1 is hereby modified to read "Debt and Advances".

(B) Paragraph (a) of Section 6.1 is hereby amended and restated in its entirety as follows:

"(A) TOTAL DEBT. The Company will not at any time permit Consolidated Total Debt to exceed any of the following:

(i) two hundred seventy-five percent (275%) of Consolidated Tangible Net Worth;

(ii) ninety percent (90%) of Advances; or

(iii) sixty percent (60%) of Gross Current Installment Contract Receivables."

(C) Section 6.1 is hereby further amended by adding, immediately after paragraph (e), the following:

"(F) GROSS ADVANCES. The Company will not at any time permit Gross Advances to exceed sixty-five percent (65%) of Net Installment Contract Receivables."

2.2 SECTION 6.2 Section 6.2 is hereby amended and restated in its entirety as follows:

"The Company will not at any time permit the ratio of

(a) Consolidated Income Available for Fixed Charges for the period of four (4) consecutive fiscal quarters of the Company most recently ended at such time to

(b) Consolidated Fixed Charges for such period

to be less than (i) 2.5 to 1.0 for any period of four fiscal quarters ended on or prior to September 30, 1997, (ii) 1.9 to 1.0 for the four fiscal quarters ended December 31, 1997, (iii) 1.7 to 1.0 for the four fiscal quarters ended March 31, 1998, (iv) 1.6 to 1.0 for the four fiscal quarters ended June 30, 1998, and (v) 2.0 to 1.0 for any four fiscal quarters ended on or after September 30, 1998."

### 2.3 SECTION 9.1

(A) The definition of "Consolidated Income Available for Fixed Charges" in Section 9.1 of the Agreement is hereby amended by adding immediately after clause (b) and before the final clause of such definition the following:

"plus (c) with respect to the periods ending September 30, 1997, December 31, 1997, March 31, 1998 and June 30, 1998, \$30,000,000 representing the portion of the non-cash charge recorded by the Company during the period ended September 30, 1997 attributable to the present valuing of future cash flows consistent with Statement of Financial

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Accounting Standards No. 114 "Accounting by Creditors for Impairment of a Loan", "

(B) The definition of "Net Dealer Holdbacks" in Section 9.1 of the Agreement is hereby amended by deleting the definitions of "Advances," "Charged-Off Advances," "Established Dealer" and "Trailing Twelve Months Payments" therefrom.

(C) The following new definitions are added to Section 9.1 of the Agreement:

"ADVANCES means, at any time, the dollar amount of advances, as such amount would appear in the footnotes to the financial statements of the Company and the Restricted Subsidiaries prepared in accordance with GAAP (if such amount would not appear net of reserves, then net of any reserves established by the Company as an allowance for credit losses related to such advances not expected to be recovered), provided that Advances shall not include Charged-Off Advances to the extent that such Charged-Off Advances exceed the portion of the Company's allowance for credit losses related to reserves against advances not expected to be recovered as such allowance would appear in the footnotes to the financial statements of the Company and the Restricted Subsidiaries prepared in accordance with GAAP and provided further, that Advances shall not include Excess New Dealer Advances."

"CHARGED-OFF ADVANCES means, with respect to an Established Dealer, at any time, the dollar amount of the advance balance related to the pool of installment contract receivables of such Established Dealer which exceeds the Trailing Twelve Months Payments for such pool multiplied by three (3)."

"ESTABLISHED DEALER means, at any time, a dealer that has participated in the Company's program of financing and collecting installment contract receivables for the immediately preceding period of twelve (12) consecutive complete calendar months and has an advance balance in excess of Ten Thousand Dollars (\$10,000) at such time."

"EXCESS NEW DEALER ADVANCES means, at any time, the aggregate amount of advances to New Dealers to the extent such amount exceeds 10% of Gross Advances."

"GROSS ADVANCES means, as of any applicable date of determination, the dollar amount of Advances (without giving effect to the last proviso to the definition of such term), plus any reserves established by the Company as an allowance for credit losses related to such advances not expected to be

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recovered, plus Charged-Off Advances to the extent Charged-Off Advances exceed the amount of such reserves."

"GROSS CURRENT INSTALLMENT CONTRACT RECEIVABLES means, as of any applicable date of determination, the aggregate amount of Net Installment Contract Receivables, plus unearned finance charges, plus allowance for credit losses, minus the amount of such receivables which can be classified as being on "non-accrual" under the "90 days measured on a recency basis" method."

"INVESTMENT GRADE RATING means a rating of at least, but not lower than:

- (i) "Baa3" by Moody's Investors Service, Inc.,
- (ii) "BBB-" by Standard & Poor's Ratings Group,
- (iii) a category "1" or category "2" designation from the National Association of Insurance Commissioners, and
- (iv) "BBB-" by Fitch Investors Services, Inc."

"NEW DEALER means, at any time, a dealer who participates in the Company's program of financing and collecting installment contract receivables, whose oldest pool of installment contracts held by the Company is dated as of a date which is not more than six months prior to such time and who has an advance balance in excess of ten thousand dollars (\$10,000) at such time."

"RESTRICTED PAYMENT means (x) any dividend or other distribution, direct or indirect and whether payable in cash or property, on account of any capital stock or other equity interest of the Company or any of its Restricted Subsidiaries and (y) any redemption, retirement, purchase, or other acquisition, direct or indirect, of any capital stock or other equity interests of the Company or any of its Restricted Subsidiaries now or hereafter outstanding, or of any warrants, rights or options to acquire any such capital stock or other equity interests or any securities convertible into such capital stock or other equity interests, except to the extent that any such dividend or distribution, or any such redemption, retirement, purchase or other acquisition (i) is payable to the Company or any of its Restricted Subsidiaries or (ii) is payable solely in capital stock or other equity interests of the Company or any such Restricted Subsidiary."

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"TRAILING TWELVE MONTHS PAYMENTS means, at any time, the gross amount of payments on installment contract receivables received by the Company for the account of an Established Dealer during the immediately preceding period of twelve (12) consecutive complete calendar months."

2.4 INTEREST RATE APPLICABLE TO NOTES.

(A) Notwithstanding anything to the contrary set forth in the Agreement or in the Notes, the interest rate applicable to the Notes shall be 8.27% per annum effective as of October 23, 1997; provided, however, that such interest rate shall be 7.77% per annum effective as of the first date that at least two of the following four organizations shall have assigned an Investment Grade Rating to the Company, the Notes or any other senior unsecured debt obligation of the Company: Moody's Investors Service, Inc., Standard & Poor's Ratings Group, the National Association of Insurance Commissioners (the "NAIC"), or Fitch Investors Services, Inc.

(B) The signatories hereto specifically acknowledge that the NAIC is not in any way a rating agency with functions such as those performed by Moody's Investors Service, Inc., Standard & Poor's Ratings Group, or Fitch Investors Services, Inc. Further, the signatories hereto specifically acknowledge that any rating given to the Notes by the NAIC is not to be interpreted as an expression by the NAIC with respect to the suitability of an investment in the Notes or the likelihood of any payment in respect thereof. In addition, the signatories hereto specifically affirm that the holders of the Notes will not obtain any benefit from satisfaction of the condition set forth in the proviso to Section 2.4(a) or in Section 2.5.

2.5 RESTRICTED PAYMENTS. The Company shall not, and shall not permit any Restricted Subsidiary to, directly or indirectly, declare, make, set apart any funds or other property for, or incur any liability to make any Restricted Payment unless, at the time of such action, at least two of the following four organizations shall have assigned an Investment Grade Rating to the Company, the Notes or any other senior unsecured debt obligation of the Company: Moody's Investors Service, Inc., Standard & Poor's Ratings Group, the NAIC, or Fitch Investors Services, Inc.

2.6 ADVERSE ACTION. If the NAIC makes specific reference to this First Amendment and states that it will withdraw any rating or designation of the Notes, or will take any other action adverse to any one or more of the holders of the Notes, as a result of the agreement set forth in Section 2.4(a) or in Section 2.5, the parties hereto hereby agree that (x) the proviso to Section 2.4(a) and Section 2.5 shall, in lieu of the requirement set forth therein, be deemed to require an Investment Grade Rating from at least two of the following three organizations: Moody's Investors Service, Inc., Standard & Poor's Ratings Group, or Fitch Investors Services, Inc. and (y) clause (iii) of the definition of "Investment Grade Rating" shall be deemed to have been deleted. Such changes shall take effect upon delivery of written notice to the Company by the Required Holders referring to such proposed withdrawal or other action and stating that the condition set forth in this Section 2.6 has occurred.

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### SECTION 3. MISCELLANEOUS

3.1 COUNTERPARTS. This First Amendment may be executed in any number of counterparts, each executed counterpart constituting an original, but all together only one First Amendment.

3.2 HEADINGS. The headings of the sections of this First Amendment are for purposes of convenience only and shall not be construed to affect the meaning or construction of any of the provisions hereof.

3.3 GOVERNING LAW. This First Amendment shall be governed by and construed in accordance with the internal laws of the State of New York.

3.4 EFFECT OF AMENDMENT. Except as expressly provided herein (a) no other terms and provisions of the Agreement shall be modified or changed by this Amendment and (b) the terms and provisions of the Agreement, as amended by this First Amendment, shall continue in full force and effect. The Company hereby acknowledges and reaffirms all of its obligations and duties under the Agreement as modified by this First Amendment and under the Notes issued thereunder.

3.5 REFERENCES TO THE AGREEMENT. Any and all notices, requests, certificates and other instruments executed and delivered concurrently with or after the execution of the First Amendment may refer to the Agreement without making specific reference to this First Amendment but nevertheless all such references shall be deemed to include, to the extent applicable, this First Amendment unless the context shall otherwise require.

3.6 COMPLIANCE. The Company certifies that immediately before and after giving effect to this First Amendment, no Default or Event of Default exists or would exist after giving effect hereto.

3.7 FEE. In consideration of the amendment set forth herein, the Company agrees to pay, promptly following the execution hereof, to each holder of a Note a fee in an amount equal to 0.05% of the outstanding principal amount of each Note held by such holder as of the date hereof.

3.8 EFFECTIVENESS. This First Amendment shall become effective (retroactive to September 30, 1997) at the time the Second Amendment to the Credit Agreement becomes effective, provided that such effectiveness shall occur on or before December 31, 1997.

3.9 AMENDMENT TO CREDIT AGREEMENT. The Company represents that the Second Amendment to the Credit Agreement is in the form attached as Exhibit A hereto.

[Remainder of page intentionally blank. Next page is signature page.]

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ACCEPTED:

THE GUARDIAN LIFE INSURANCE COMPANY  
OF AMERICA

By /S/ Thomas. M. Donohue

-----  
Name: Thomas M. Donohue  
Title: Vice President

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.77% Senior Notes Due October 1, 2001 of Credit Acceptance Corporation]

ACCEPTED: NATIONWIDE LIFE INSURANCE COMPANY

By /S/ Edwin P. McCausland, Jr.

-----  
Name: Edwin P. McCausland, Jr.  
Title: Vice President Fixed Income Securities

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.77% Senior Notes Due October 1, 2001 of Credit Acceptance Corporation]

ACCEPTED: AID ASSOCIATION FOR LUTHERANS

By /S/ James Abitz

-----  
Name: James Abitz  
Title: Vice President - Investments

By /S/ R. Jerry Scheel

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Name: R. Jerry Scheel  
Title: Second Vice President - Securities

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.77% Senior Notes Due October 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

AMERICAN BANKERS INSURANCE COMPANY  
OF FLORIDA

By /S/ Gus Rodriguez

-----  
Name: Gus Rodriguez  
Title: Director of Investments

VOYAGER PROPERTY & CASUALTY  
INSURANCE COMPANY

By /S/ Gus Rodriguez

-----  
Name: Gus Rodriguez  
Title: Director of Investments

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.77% Senior Notes Due October 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

FARM BUREAU LIFE INSURANCE COMPANY

By /S/ Richard D. Warming

-----  
Name: Richard D. Warming

Title: VP - Chief Investment Officer

FARM BUREAU MUTUAL INSURANCE  
COMPANY

By /S/ Richard D. Warming

-----  
Name: Richard D. Warming

Title: VP - Chief Investment Officer

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.77% Senior Notes Due October 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

GENERAL AMERICAN LIFE INSURANCE  
COMPANY  
By: Corning Asset Management Company

By /S/ Douglas R. Koester

-----  
Name: Douglas R. Koester  
Title: Senior Vice President

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.77% Senior Notes Due October 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR PHYSICIANS  
LIFE INSURANCE COMPANY VISTA 500

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR WORLD  
INSURANCE COMPANY

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR UNITED  
TEACHERS ASSOCIATES INSURANCE  
COMPANY

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.77% Senior Notes Due October 1, 2001 of Credit Acceptance Corporation]

ACCEPTED:

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR AMERICAN  
PIONEER LIFE INSURANCE COMPANY  
OF NEW YORK

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR AMERICAN  
PROGRESSIVE LIFE AND HEALTH  
INSURANCE COMPANY OF NEW YORK

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange

Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR FEDERATED  
RURAL ELECTRIC INSURANCE CORP.

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

ASSET ALLOCATION & MANAGEMENT  
COMPANY AS AGENT FOR TOWER LIFE  
INSURANCE COMPANY

By /S/ Kathy Lange

-----  
Name: Kathy R. Lange  
Title: Portfolio Manager

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.77% Senior Notes Due October 1, 2001 of Credit Acceptance Corporation]

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ACCEPTED:

MASSACHUSETTS MUTUAL LIFE  
INSURANCE COMPANY

By /S/ Richard E. Spencer II

-----  
Name: Richard E. Spencer II  
Title: Managing Director

[Signature Page to First Amendment to Note Purchase Agreement in respect of  
7.77% Senior Notes Due October 1, 2001 of Credit Acceptance Corporation]

## CREDIT ACCEPTANCE CORPORATION

## MANAGEMENT INCENTIVE PLAN

Fiscal Year 1998

## 1. Purpose

The purpose of this Management Incentive Plan - Fiscal Year 1998 ("Plan") of Credit Acceptance Corporation ("Company") is to promote the interests of the Company and its shareholders by providing incentives to selected key employees ("Participants") of the Company and its subsidiaries who have principal responsibility for the Company's long-term profitability and growth. Awards will be made in the form of cash bonuses contingent on attainment of defined performance goals.

## 2. Administration

The Plan shall be administered by the Compensation Committee ("Committee") of the Company's Board of Directors ("Board"). Only directors who are not employees of the Company may be members of the Committee. The Committee shall have power and authority to construe and interpret the Plan, to establish and amend rules for administration of the Plan, and to exercise all powers granted to it pursuant to the Plan.

## 3. Participants

Participants in the Plan shall be not more than 30 key employees of the Company or its subsidiaries (including officers who are also members of the Board) as the Committee may select from time to time. The selection of Participants and the determination of their respective participation, shall be made in accordance with paragraph 5 hereof. No Participant shall be entitled to share in any awards under the Plan if he or she is not an employee of the Company on December 31, 1998 unless the Committee makes a special exception for him or her or his or her estate.

## 4. Bonus Pool

A Bonus Pool will be established pursuant to this paragraph 4 not later than March 1, 1999 (provided that the Company has by such date completed its financial statements for the year ended December 31, 1998, or otherwise, as soon thereafter as practicable), from which awards in cash, as determined by the Committee, will be paid to Participants as soon thereafter as practicable. The Bonus Pool for the fiscal year ending December 31, 1998 (the "Plan Year") shall be equal to 20% of the amount by which the Company's net income exceeds 12.5% multiplied by the Company's Consolidated Shareholders Equity of December 31, 1997 (the "Earnings Target"). A portion of the Bonus Pool, (the "Deferred Amount"), may be deferred in the discretion of the Committee for payment as follows: 50% of the Deferred Amount shall be paid on December 31, 1999; and 50% of the Deferred Amount shall be paid on December 31, 2000. If the Committee decides to defer any portion of the Bonus Pool, such deferral shall apply to all Participants; provided that if a Participant's portion of the deferred amount is equal to or less than \$10,000, such amount may, on the discretion of the Committee be paid to such participant without such deferral. No Participant shall be entitled to receive any portion of the Deferred Amount if he or she is not an employee of the Company on December 31, 1999 or December 31, 2000, as the case may be, unless the Committee makes a special exception for him or her or his or her estate. The Committee reserves the right to pay any amount less than 100% of the total Bonus Pool and in every case an individual award will not exceed 100% of the employee's base salary.

## 5. Manner and Extent of Participants

The Committee, after consultation with the chief executive officer of the Company, shall determine the number, identity and participation of the

Participants. Each Participant shall be entitled to receive the amount of his participation if a Bonus Pool is established only if he equals or exceeds, in the sole judgment of the Committee, after consultation with the chief executive officer, the specific performance goals or other requirements established for him by the chief executive officer at the time that he is notified that he will be a Participant. Participants scoring below the median score of all Participants with respect to any numerical

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assessment of performance utilized by the Committee shall not be eligible to receive any portion of the amounts he or she otherwise would have been eligible to receive.

#### 6. Adjustments

In the event of a change of control of the Company during the Plan Year, as set forth below, the Company will be deemed to have achieved the Earnings Target and the Committee shall establish a Bonus Pool which, in its judgment reflects, by annualizing results to the then current date for the Plan Year, results to be expected for the full year. In such event, individual awards will be prorated, based on the months in such year that have elapsed prior to the effective time of such change of control. For the purposes of the Plan, a change of control shall consist of:

- (a) the election of a Board of Directors of the Company, a majority of the members of whom were nominees of a person (including an individual, a corporation, partnership, joint venture, trust or other entity), or a group of persons acting together (other than persons who were members of the Board of Directors or officers of the Company as of the date of the Plan or an employee stock ownership plan approved by a majority of such members of the Board of Directors), following the acquisition by such person, group of persons or plan of ownership (directly or indirectly or beneficially or of record) of 25% or more of the outstanding stock;
- (b) the acquisition of ownership by a person or group of persons described in subparagraph (a) above of 51% or more of the Stock;
- (c) a sale of all or substantially all of the assets of the Company to any entity not controlled by the persons who were members of the Board of Directors or officers of the Company as of the date of the Plan or by an employee stock ownership plan approved by a majority of the members of such Board of Directors, or
- (d) a merger, consolidation or similar transaction between the Company and another entity if a majority of the members of the Board of Directors of the surviving corporation are not persons who were members of the Board of Directors of the Company as of the date of the Plan.

#### 7. Termination and Amendment

The Board may terminate the Plan at any time. No bonus participation may be granted after such termination of the Plan, but the termination of the Plan shall not affect the rights of any participant previously granted and then outstanding. The Board may amend or modify the Plan at any time. No such amendment or modification shall affect the rights of any participant with respect to any bonus participation previously granted and then outstanding without his consent.

#### 8. Miscellaneous

- (a) Neither the adoption of the Plan nor the granting of any awards pursuant to it shall be deemed to create any right in any individual to be retained or continued in the employment of the Company or any of its subsidiaries.
- (b) As used in the Plan, the terms "net income" shall mean the

after-tax earnings of the Company to be reported by the Company in its Annual Report to shareholders for the Plan Year, adjusted by the Committee, in its sole judgment, after consultation with the independent auditors then retained by the Company and with the chief executive officer and the chief financial officer of the Company, to take into account the effect of any material extraordinary or non-recurring items and of any bonuses accrued pursuant to the Plan.

- (c) The existence of the Plan or the making of awards to participants shall not preclude the Board from paying bonuses or granting other benefits to them outside of the Plan.

The following is a list of subsidiaries as of the date of this filing of Credit Acceptance Corporation, other than subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary, as defined by the Securities and Exchange Commission Regulation S-X.

BUYERS VEHICLE PROTECTION PLAN, INC.  
CREDIT ACCEPTANCE CORPORATION LIFE INSURANCE COMPANY  
CAC INTERNATIONAL, INC.  
CREDIT ACCEPTANCE CORPORATION UK LIMITED  
CAC OF CANADA LIMITED  
CREDIT ACCEPTANCE CORPORATION IRELAND LIMITED  
CAC LEASING, INC.  
CAC REINSURANCE, LTD.  
MONTANA INVESTMENT GROUP, INC.  
VEHICLE REMARKETING SERVICES, INC.

## Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements File Nos. 33-80339, 33-64876, 33-75246 (as amended), 333-18301 and 333-30661.

ARTHUR ANDERSEN LLP

Detroit, Michigan  
March 20, 1998

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