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NO FEE PURSUANT TO GOV. CODE § 6103

SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF ALAMEDA

THE PEOPLE OF THE STATE OF CALIFORNIA, Plaintiff, v. CREDIT ACCEPTANCE CORPORATION, Defendant.	Case No. **COMPLAINT FOR PERMANENT INJUNCTION, CIVIL PENALTIES, RESTITUTION, AND OTHER EQUITABLE RELIEF** (BUS. & PROF. CODE, § 17200 et seq.)

Plaintiff, the People of the State of California ("People"), by Rob Bonta, Attorney General of the State of California, brings this action against Credit Acceptance Corporation for violating the Unfair Competition Law (Bus. & Prof. Code, § 17200 et seq.) and False Advertising Law (Bus. & Prof. Code, § 17500 et seq.), and alleges the following on information and belief:

INTRODUCTION

1. Since at least 2015, Credit Acceptance Corporation has engaged in deceptive, unfair, and abusive business practices when offering subprime auto loans to consumers in California and nationwide by: (i) financing loans that Credit Acceptance Corporation knew, or should have known, consumers are unable to reasonably afford; and (ii) financing the sale of vehicle service contracts ("VSCs") and Guaranteed Asset Protection ("GAP") products with loans when it knew

or should have known that consumers were either unaware they were purchasing the products, or were led to believe the products must be purchased to get financing.

DEFENDANT

2. Defendant Credit Acceptance Corporation ("CAC") indirectly finances motor vehicle sales, vehicle service contracts, and GAP products to subprime or credit invisible borrowers. CAC is incorporated in Michigan and headquartered at 25505 W 12 Mile Road, Southfield, Michigan 48034. Since 2015 or earlier, Defendant has done business in California.

JURISDICTION AND VENUE

3. The Court has jurisdiction over the allegations and subject matter of the People's Complaint filed in this action, brought under Business and Professions Code sections 17200 et seq. and 17500 et seq.

4. Venue is proper here because Defendant's acts or omissions giving rise to the claims alleged in this Complaint occurred in part in Alameda County and have harmed Californians residing in Alameda County.

BACKGROUND

5. CAC is one of the country's largest publicly traded auto lenders, specializing in the indirect financing of loans to borrowers with impaired credit, including subprime, deep-subprime, and credit invisible customers, *i.e.* borrowers without available credit history. Since 2015, CAC has originated millions of auto loans to subprime or credit invisible consumers through a network of more than 12,000 affiliated motor vehicle dealers.

I. CAC Originated Auto Loans When It Knew that Many Consumers Would Not Be Able to Afford To Pay Those Loans According to Their Terms

6. CAC's primary underwriting tool is its proprietary "CAC Score." The CAC Score is a number from 0 to 1 that represents the percentage amount the company predicts it will collect on a consumer loan from all sources, including borrower payments, debt collection lawsuits, and repossession auctions. Thus, for example, when CAC attributes a CAC Score of .64 to a loan, CAC predicts that it will collect 64% of the overall value (including principal and interest) of the loan.

7. Unsurprisingly, a consumer's CAC Score is highly correlated with the risk that the consumer's loan will end up in default, vehicle repossession, and vehicle auction. Consumers who received CAC loans with lower CAC Scores (and therefore lower predicted collection rates) have experienced higher rates of default, vehicle repossession, and auction than consumers who received loans with higher CAC Scores (and therefore higher predicted collection rates).

8. The CAC Score model has historically forecast that CAC would collect less than the principal amount of loans to a significant number of CAC's most financially vulnerable consumers (a loan like this is referred to herein as a "Set Up to Fail Loan"). Historically, in any given year, all CAC contracts with the lowest 20% of CAC Scores have been Set Up to Fail Loans.

9. Predictably, a high number of Set Up to Fail Loans result in quick consumer default and vehicle repossession and auction. Between 25-30% are in arrears of 90 days within 12 months; about 70% are in arrears of 90 days within 36 months; over 40% result in repossession within 36 months; and over 50% end up in repossession and auction over the lifetime of the loan. Over 25% of the CAC loans in the bottom 5% of CAC Score have historically resulted in repossession and auction of the relevant vehicle within 18 months of the loan's origination.

10. Exacerbating the issue of consumer loan affordability, analyses of CAC's internal data show that CAC-affiliated dealers mark up the prices of vehicles more for lower CAC Score consumers than for higher CAC Score consumers. Increasing the price of a car based on a consumer's credit worthiness is unlawful.

11. CAC tracks and analyzes data points about its consumer loans, including the loan outcomes and the prices dealers charge for their vehicles. CAC therefore was or should have been aware that many of the consumers to whom CAC provided loans with low CAC Scores could not reasonably have been expected to afford their loans, and that dealers were raising vehicle prices based on consumer credit worthiness. Despite this, CAC continued to originate risky low CAC Score loans including Set Up to Fail loans, and has failed to adopt effective processes to prevent dealers from marking up vehicles based on credit worthiness.

12. Moreover, although CAC generates the CAC Score and uses it to calculate loan terms and dealer compensation for originating the loan before offering consumers financing and loan terms for a vehicle purchase, CAC does not reveal either the CAC Score, or the known risks of loan default to consumers.

13. To the contrary, rather than disclose the high risk of default to its most vulnerable borrowers, CAC advertised its loans as a means for consumers to "improve your credit score," or to "build a better future," when the reality was that the loans CAC gave to its many consumers were both likely to fail and extremely unlikely to improve the consumers' credit scores.

II. CAC FINANCED ANCILLARY PRODUCTS IN ITS LOANS WHEN IT KNEW THAT CONSUMERS HAD NOT CONSENTED TO THOSE PRODUCTS

14. CAC finances the sales of VSCs and GAP products (referred to herein as "Ancillary Products") with its loans. VSCs can cost $2,000 or more, and GAP products can cost $1,000 or more.

15. The sale of Ancillary Products is required to be optional for consumers. Dealers therefore cannot make the sale of a vehicle, or access to financing, contingent on a consumer's purchase of an Ancillary Product.

16. CAC incentivizes affiliated dealers to sell Ancillary Products by paying dealers both a commission from the sale of Ancillary Products, and, ordinarily, additional compensation for originating loans that include the sale of Ancillary Products.

17. CAC often contractually mandates that, for CAC loans, dealers can only finance Ancillary Products from companies affiliated with CAC, meaning that CAC reinsures the company's Ancillary Products, or has a profit-sharing agreement with the company.

18. Starting around 2015, to further incentivize dealers to sell Ancillary Products, CAC increased compensation to dealers who finance the sale of those products through CAC loans. Following that change, a dealer could more easily turn a vehicle sale financed by a CAC loan from a transaction that would not have been profitable for the dealer into a profitable transaction, simply by including Ancillary Product sales.

19. The result of increasing the compensation to dealers was a drastic surge in the sales penetration rate for Ancillary Products financed via CAC loans (i.e. the percentage rate that CAC loans contained Ancillary Product sales). Nationally, the sales penetration rate for VSCs alone went from around 50-60% in 2015-2016, to a near 90% sales penetration rate by 2021.

20. CAC closely tracks the rate at which dealers finance Ancillary Products with CAC loans and provides those statistics to each dealer every month via a "dealer dashboard." By 2021, it was not uncommon for these "dealer dashboards" to show that even some of CAC's largest affiliated dealerships reported a 100% or near 100% sales penetration rate for VSCs for months, or even years in a row.

21. A 90-100% sales penetration rate for VSC sales, particularly when sold to higher risk and financially strapped borrowers, was a glaring red flag that dealers were selling Ancillary Products to consumers without their knowledge or consent. It is highly improbable that any dealership can consistently sell expensive optional products like Ancillary Products to 100% of financially vulnerable subprime consumers whose loans already showed warning signs that they were not affordable.

22. Consumers confirm that many were unaware they were purchasing the products, did not understand that the products were optional, or were led to believe the products must be purchased to get financing.

23. Moreover, between January 2017 and August 2020, CAC itself received more than one thousand consumer complaints related to Ancillary Products, including complaints that dealers were requiring borrowers to purchase add-on products in order to obtain a CAC loan agreement. CAC also received complaints from borrowers who were unaware that an add-on product was included in their contract and discovered the product only after the transaction was completed.

24. Despite all this, even while CAC's sales penetration rate for Ancillary Products was skyrocketing, rather than increasing its dealer oversight to ensure that the Ancillary Product sales financed via CAC loans were lawful, CAC instead relaxed its oversight processes for preventing dealer misfeasance related to Ancillary Product sales.

FIRST CAUSE OF ACTION

VIOLATIONS OF BUSINESS AND PROFESSIONS CODE SECTION 17500 ET SEQ.

(False or Misleading Statements)

25. The People reallege and incorporate by reference each of the paragraphs above as though fully set forth herein.

26. Defendant has violated Business and Professions Code section 17500 et seq. by making or disseminating, or causing to be made or disseminated, false or misleading statements and omissions, with the intent to induce members of the public to obtain credit facilitated by defendant, and it knew, or by the exercise of reasonable care should have known, that the statements and omissions were false or misleading. The false or misleading statements and omissions include, but are not limited to, concealing from consumers that they were obtaining credit on terms that were likely to result in default and repossession.

SECOND CAUSE OF ACTION

VIOLATIONS OF BUSINESS AND PROFESSIONS CODE SECTION 17200 ET SEQ.

(Unlawful, Unfair, and/or Fraudulent Business Practices)

27. The People reallege and incorporate by reference each of the paragraphs above as though fully set forth herein.

28. Defendant has engaged in business acts or practices that constitute unfair competition as defined in the Unfair Competition Law, Business and Professions Code section 17200 et seq. These acts or practices include, but are not limited to, the following:

a. Unfairly, deceptively, and abusively extending credit to consumers who CAC knew or should have known had no reasonable probability of being able to repay that credit according to its terms.

b. Concealing from consumers that they were obtaining credit on terms that were likely to cause failure.

c. Encouraging and turning a blind eye to the unfair, deceptive, and abusive sale of Ancillary Products to consumers.

d. Violating the Consumer Financial Protection Act, 12 U.S.C. §§ 5536 and 5552 in the aforesaid manner.

e. Violating Business and Professions Code section 17500 et seq., as alleged in the First Cause of Action.

PRAYER FOR RELIEF

WHEREFORE, the People pray for judgment as follows:

1. That the Court make such orders or judgments as may be necessary to prevent the use or employment by Defendant, its successors, agents, representatives, employees, and all persons who act in concert with them of any practice that constitutes unfair competition or false or misleading advertising or statements, under the authority of Business and Professions Code sections 17203 and 17535, respectively;

2. That the Court make such orders or judgments as may be necessary to restore to any person in interest any money or property that Defendant may have acquired by violations of sections 17200 and 17500 et seq. in an amount according to proof, under the authority of Business and Professions Code sections 17203 and 17535;

3. That the Court asses a civil penalty of up to $2,500 against each Defendant for each violation of Business and Professions Code section 17200 a in an amount according to proof, under the authority of Business and Professions Code section 17206;

4. That the Court assess a civil penalty of $2,500 against each Defendant for each violation of Business and Professions Code section 17500 in an amount according to proof, under the authority of Business and Professions Code section 17536;

5. In addition to any penalties assessed under Business and Professions Code sections 17206 and 17536, that the Court assess a civil penalty of $2,500 against each Defendant for each violation of Business and Professions Code section 17200 perpetrated against a senior citizen or

disabled person, in an amount according to proof, under the authority of Business and Professions Code section 17206.1;

6. That the Court award disgorgement in an amount according to proof, under the authority of Government Code section 12527.6;

7. That the People recover their costs of suit, including costs of their investigation;

8. That the People receive all other relief to which they are legally entitled; and

9. For such other and further relief that the Court deems just and proper.

Dated: September 17, 2026

Respectfully submitted,

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