

KBJ Consulting

<u>Team Member Name</u>	<u>Year</u>	<u>Major</u>
Member 1 Jonathan-Bruce King	2024	MBA
Member 2 Kavya Paribathian	2024	MBA
Member 3 Bruna Passos Amaral	2024	MBA

Advisor(s): Jennifer Merton

Topic Title: Credit Acceptance Corporation (CAC) and the Ethics of Sub-prime Lending

Audience: CAC's Board of Directors and C-Suite

Sustainable Development Goal

SDG #10: Reduce inequality within and among countries

Executive Summary

We are examining how Credit Acceptance Corporation (CAC) can weather the upcoming economic storm and reform itself after indulging in deceptive and predatory lending practices despite claiming to have the interests of buyers at heart. Using the 1990 Langenderfer and Rockness ACCA ethics model, we will illustrate, outline and propose cures to this fraught but necessary corner of the lending market. The key stakeholders in this are the company and its ownership, the people serviced, and society at large. Lenders like CAC represent an unsavory but necessary vehicle towards economic improvement and stability.

Founded in 1972, CAC is the largest subprime auto lender in the United States. The company specializes in offering loans to customers who might not qualify for traditional financing. These loans are bundled and commoditized as securities and rated via Moody's. Recently, large numbers of auto-loans have been reported to be underwater and in high risk of default. Should there be a further economic downturn, CAC could find itself in dangerous financial territory. To add to this challenging market, in January 2023, CAC was sued by the State of New York for predatory and illegal fees and lending practices.

The ethical issues are focused on the market to which they lend, their predatory practices, and the larger philosophical issue of whether the company would be bailed out by the federal government because of the market segment they serve. CAC is operating in an ethically precarious realm by offering less than ideal loans to marginalized consumers. However, they and other companies like them represent a place where average people can get financing for a necessary vehicle. This vehicle enables an enormous amount of economic improvement and could be a difference maker for someone to access a better paying job. To lose CAC or to see a major contraction in the sub-prime lender market would be a loss to the market writ large. This company does provide a service to an underserved population, and we recommend that the company brings their practices into a more transparent and fairer realm, while still ensuring they are making money.