Isenberg Graduate Consulting

Team Member Name	**Year**	**Major**
Member 1 Jonathan-Bruce King	2024	MBA
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Topic Title: A Chicken in Every Pot, a Car in Every Garage – How subprime auto lender Credit Acceptance Corporation can translate an ethical deficit into a market differentiator.

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

Executive Summary

Isenberg Graduate Consulting has spent the last few months analyzing the ethically challenging space of subprime auto lending. We are eager to present Credit Acceptance Corporation (CAC) and its board with a more ethical path forward for their subprime auto loan market. CAC claims to have the interests of buyers at heart. However, the company has allegedly indulged in deceptive and predatory lending practices. We recommend that CAC reform its business practices to allow the company to better weather the coming economic issues facing the lending market. We are using the 1990 Langenderfer and Rockness ACCA ethics model as a framework to assist us as we illustrate, outline, and propose cures to this ethically fraught but necessary corner of the lending market. The key stakeholders for our discussion are the company and its ownership, the borrowers serviced, and society at large.

CAC is the largest subprime auto lender in the United States. CAC offers loans to customers who might not otherwise qualify for 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 and the Consumer Financial Protection Bureau for predatory and illegal lending practices.

The ethical issues of this case are focused on the market to which CAC lends, 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 loan terms to marginalized consumers. However, they and other companies like them, represent a market where average people can get financing for a necessary vehicle. Full participation in economic and social activities often requires a vehicle, which low-income individuals may not have access to without CAC's services. To lose CAC or to see a major contraction in the sub-prime lender market would be a loss to the market writ large. We see CAC's path forward as one that incorporates ethical training for employees, financial clarity and education of potential borrowers, and an opportunity to use their reformed ethics as a marketing tool to differentiate them from otherwise identical competitor loan companies. This must be done while also recognizing the financial risks and ensuring the business can continue to be a going concern. While this could be difficult, we believe that our recommendations thread the needle between ethical responsibility and financial well-being.