We change lives

Credit Acceptance 2003 Annual Report

In 2003 we celebrated our 31st year in business and our 11th year as a publicly traded company.

Over the years, many competitors have entered the sub-prime auto finance market. None have been able to duplicate our business model. Few have even survived. Credit Acceptance's Guaranteed Credit Approval System remains a dependable source of financing for our dealer-partners and their customers.

Credit Acceptance has been successful because of our unique business model. In short, we bring real value that creates positive changes to the lives of many people.

For our dealer-partners, Credit Acceptance is a true partner providing a wealth of knowledge and resources that help build better and more profitable dealerships. Our core product allows dealer-partners to sell additional vehicles to consumers not able to access traditional funding sources. In turn, our finance program often helps our dealer-partners to create many more loyal customers who generate future sales and referrals.

For customers, Credit Acceptance often provides their only means of obtaining reliable transportation. In addition, by helping our customers make timely payments on their loans, and thereby improving their credit records, we help a significant number of our customers gain access to more traditional sources of financing.

For shareholders, Credit Acceptance's business model today is low risk; we use very little financial leverage and believe we today assume low credit risk. Importantly, we have started to generate Economic Profit, have a unique and valuable product, and have a large market opportunity.

Finally, for our employees, we are creating a great work environment and opportunity for advancement. In 2003, Credit Acceptance was again voted one of the 101 Best and Brightest Companies to Work For in Detroit and received a workplace excellence award in our Nevada office. We have an outstanding group of team members, as evidenced by their accomplishments over the last few years. I am particularly proud of their dedication to providing our customers and dealer-partners with the high level of service they deserve.

Our management team is responsible for putting together the pieces necessary to positively change lives in the ways we do, and while they have made great strides, their focus is on continual improvement in every aspect of the business. I believe they are the best in our industry. I feel the company is fortunate to have such a dedicated and experienced management team.

DONALD A. FOSS
CHAIRMAN AND FOUNDER

Dear Shareholders,
We were pleased with our progress in 2003.

Our financial results improved and we believe we took significant steps toward continued improvements. Having exited under-performing businesses, we ended 2003 with one product. We provide auto loans to consumers regardless of credit history, a product we have offered since 1972.

Financial results

We use Economic Profit to evaluate our financial results. Economic Profit differs from earnings determined under Generally Accepted Accounting Principles in one important respect; Economic Profit includes a cost for equity capital.

Why do we focus on Economic Profit? Economic Profit is the best single tool we know to measure and manage our business. Economic Profit represents after-tax earnings above what shareholders would have earned if, instead of investing in our business, we had returned our equity capital to shareholders and they had invested in an average equity investment. To put it simply, if we can't produce an Economic Profit we shouldn't exist. This clear thought from our Board of Directors has been a catalyst for improvement over the past 4 years.

The following table summarizes Economic Profit and it's related components for 2003 and 2002 for the United States business segment, our only active business:

(dollars in thousands except per share data)	2003	2002
Reported net income	$ 33,014	$ 23,790
Adjustments (1)	1,124	(526)
Adjusted net income	$ 34,138	$ 23,264
Imputed cost of equity at 10%	(29,497)	(23,612)
Economic profit (loss)	$ 4,641	$ (348)
Economic profit (loss) per share	$ 0.11	$ (0.01)

(1) Our calculation of Economic Profit includes two adjustments to reported net income. First, we add back losses recorded in 2003 on foreign currency hedging contracts, since these losses are offset by an increase in the value of net assets held in the United Kingdom, which is recorded as an increase in GAAP shareholder's equity. Second, we reverse any non-recurring gains and losses. These non-recurring gains and losses are appropriate to consider when evaluating our long-term performance, however these items distort recent trends. The non-recurring adjustments in the table above include tax items (both years), a loss on disposal of computer hardware in 2002 and a change in accounting method in 2002. These items are explained in more detail in our 10-K.

Economic Profit per share improved from a loss of ($.01) in 2002 to a profit of $.11 in 2003. Economic Profit is a function of three variables: the return on capital, the weighted average cost of capital, and the average amount of capital invested.

The following table summarizes our financial performance in these terms for 2003 and 2002 for the United States business segment:

(dollars in thousands)	2003	2002	Change
Return on capital	10.1 %	7.6 %	2.5 %
Weighted average cost of capital	8.9 %	7.7 %	1.2 %
Spread	1.2 %	(0.1 %)	1.3 %
Average capital	$ 379,200	$ 350,298	8.3%

Return on Capital

Our return on capital improved from 7.6% to 10.1%. The improvement in return on capital was a result of greater revenue per dollar of capital invested, lower provisions for credit losses, and slightly lower operating expenses.

Revenue increased faster than capital because of pricing changes, which are changes in advance rates, or changes in the pricing of ancillary products. Pricing changes accounted for 1.4% of the 2.5% increase in the return on capital.

The provision for credit losses decreased by $4.8 million ($3.1 million after taxes) in 2003. The decrease in the provision for credit losses accounted for 0.8% of the 2.5% increase in the return on capital. The improvement in credit losses was expected. Credit losses were unusually high in 2002 because of problems caused by a difficult conversion to a new collection system, which were resolved by early 2003. Last year's letter predicted our new collection system would improve our collection operation beyond what was possible with our prior system. We believe the new system functions as well as the old one, but the expected benefits have been slow to develop. We are hopeful they will be realized in 2004.

Finally, a reduction in support expenses (expenses for information systems, corporate finance, human resources, Six Sigma, corporate legal affairs, internal audit activities, and risk management), as a percentage of capital increased the 2003 return on capital. As last year's letter indicated, we expect support expenses to increase by no more than the growth in assets going forward.

Weighted Average Cost of Capital

In 2003, our weighted average cost of capital increased as the average cost of our debt increased and we used more equity in our capital structure. This reduced Economic Profit by $4.2 million.

We plan to reduce our cost of capital by increasing our ratio of debt to equity to 1:1, from the 2003 year-end ratio of .3:1. The financings we completed in 2003 (detailed below) and our share repurchase program should help us achieve this leverage ratio over time.

Average Capital

Average capital increased 8.3% during 2003 as a result of a 37% increase in loan originations. Over time, the growth in capital will approximate the growth in loan originations if origination growth is consistent from year to year. Capital grew much slower than loan originations in 2003 because of the contraction of loan origination volumes in 2002.

Achievements in 2003:

- *We increased origination unit volumes 25.6%. Dollar volumes increased 37.4%.*
- *We increased new dealer-partner enrollments to 399 compared to 143 in 2002.*
- *We reduced dealer-partner attrition and increased volume per active dealer-partner.*
- *We improved our access to capital.*
- *We ended the year with 91% of our capital invested in our remaining active business compared to 79% at the start of the year, as we stopped originating new loans in the United Kingdom and in Canada, and stopped investing in several smaller non-core businesses.*
- *We completed the first full year of our Six Sigma initiative. Six Sigma systematically focuses on improving routine processes. We believe a systematic approach maximizes process improvement in a high growth environment where operating managers have many competing demands on their time. We intend to continue our program at its current size as we learn and refine our skills. Longer term we expect to expand this program.*
- *We successfully moved our data center. At a cost of $1.3 million, this new data center is projected to meet our needs through 2014.*
- *We completed the second year of quarterly meetings with our National Dealer-Partner Council. This group of 12 dealer-partners is now an integral part of our strategic planning process, providing us with feedback on our strengths and, more importantly, our weaknesses.*
- *We created a new loan product. This "Challenger" product, developed from National Dealer-Partner Council suggestions, addresses the same market as our existing product, but with changes in advance rates and credit policy. Most of the changes combine higher advances with tighter credit policy. In a few cases, we reduced advance rates and relaxed our policies. The Challenger is being tested on a small scale and is intended to generate more volume per dealer-partner while maintaining current levels of risk and profitability.*
- *We completed the first phase of our dealer- partner Internet training initiative (E-Learning). Training, a critical part of our program, is now available to dealer-partners and their employees who cannot attend our live training in Southfield, Michigan.*
- *We again made progress towards our goal of becoming one of the 100 Best Companies to Work For. While not currently large enough to qualify for Fortune magazine's list, for the second consecutive year we were named one of Metropolitan Detroit's 101 Best and Brightest Companies to Work For and received a workplace excellence award in our Henderson, Nevada office.*
- *Our forecasts indicate we increased the spread between the amount advanced to dealer-partners and the expected collections on new loans for the second consecutive year.*

Forecasts

On the day of origination we forecast expected cash flows from a loan. Based on these forecasts, we advance the dealer-partner an amount that allows us to achieve an acceptable return on capital. As a result, our ability to reliably forecast these cash flows is critical to building a profitable company. Knowing this, we dedicate significant resources to continually improving our forecasting process.

The following table presents forecasted collection rates, advance rates, the spread (the forecasted collection rate less the advance rate), and the percentage of the forecasted collections that have been realized as of December 31, 2003.

December 31, 2003

Loan Origination Year	Forecasted Collection Rate (1)	Advance Rate (2)	Spread	% of Forecast Realized
1992	81.5%	35.3%	46.2%	100.0%
1993	75.7%	37.3%	38.4%	100.0%
1994	61.8%	41.8%	20.0%	99.8%
1995	56.2%	45.9%	10.3%	99.1%
1996	56.5%	49.1%	7.4%	98.7%
1997	59.3%	49.1%	10.2%	98.4%
1998	67.7%	49.7%	18.0%	98.4%
1999	71.9%	53.6%	18.3%	98.2%
2000	71.0%	52.5%	18.5%	96.0%
2001	66.9%	49.3%	17.6%	83.2%
2002	69.1%	46.0%	23.1%	59.2%
2003	72.0%	47.0%	25.0%	19.8%

(1) Forecasted collection rate as of December 31, 2003 expressed as a percentage of the loan balance (principal and interest) at the inception of the loan. (2) Amount advanced to dealer-partners expressed as a percentage of the loan balance (principal and interest) at the inception of the loan.

Our 2003 expected spread (forecasted collection rate less the advance rate) of 25% is larger than the expected spread on 2002 originations, and much larger than our spreads in the mid 90's. A large spread reduces the risk of impaired advances, increases our return on capital since more revenue is generated per dollar of capital invested, and ensures we have dealer-partners committed to long-term success since a greater percentage of their profits are generated through the successful collection of their portfolio.

Shareholders should pay close attention to our forecasts. If we do not create Economic Profit it will likely be because we overestimate loan performance. The following table compares our initial forecast of loan performance with our most current forecast for each year of loan originations since 1999.

	Initial Forecast	Current Forecast	Change	Years Since Initial Forecast
1999	73.6%	71.9%	(1.7%)	4
2000	72.8%	71.0%	(1.8%)	3
2001	70.4%	66.9%	(3.5%)	2
2002	67.9%	69.1%	1.2%	1
2003	72.0%			

A change in collection rate of 1% (70% vs. 69%) changes our return on capital by approximately 40 basis points. The most critical time to correctly assess the collection rate is at loan origination, as our advance is determined at that time. After that, detecting variances from our forecast as quickly as possible is important so future advances can be adjusted accordingly.

Our least accurate forecast for the years shown in the table is 2001. This was not unexpected. In the 2001 Annual Report we expressed concern over the accuracy of our forecast for three reasons: (1) the loan term was increasing, (2) our Internet origination system was new, and (3) the economic environment was more difficult. Our concern proved to be warranted and 2001 loans were not as profitable as we intended.

We recognized this in late 2001, and made adjustments to our program that have improved loan performance. In addition, as we accumulated more data and made improvements in our forecasting methods, the accuracy of our forecasts improved. In fact, after one year of seasoning, 2002 loans show a positive variance of 1.2% against our initial forecast.

We will continue to dedicate significant resources to improving the accuracy of our forecasts. We are optimistic that the combination of improving the expected return on capital of new loans, and improving the accuracy of our forecasts, will create acceptable financial results going forward.

Unit volume growth and dealer attrition

Our unit volumes increased 25.6% in 2003. Unit volume growth is determined by the number of dealer-partners added, the average volume per dealer-partner and dealer-partner attrition. All three improved in 2003. Accelerating the rate of growth in new dealer-partners and lowering attrition typically reduces average volume per dealer-partner since both of these categories of dealer-partners generate below average volumes. Considering this, we are very pleased with our progress in 2003. Keith McCluskey, our President, has primary responsibility for growing unit volumes. His efforts, and the efforts of his team, have been outstanding. Keith deserves of a large share of the credit for our progress.

We have made progress in understanding dealer-partner attrition, an area that requires considerable improvement. Our average annual attrition over the past 4 years is as follows:

Annual Dealer-Partner Attrition Rate (1)

2000	54.0 %
2001	48.0 %
2002	32.4 %
2003	28.8 %

(1)We measure dealer-partner attrition each month according to the following formula: (dealer-partners active during the prior month who become inactive in the current month) less (dealer-partners who were inactive during the prior month who become active in the current month) divided by (the number of active dealer-partners at the start of the month.)

Attrition is improving, but is still too high. We estimate dealer-partner attrition reduced 2003 loan volumes by 12%. There are several reasons we believe attrition will decrease. First, our program is more profitable than ever for dealer-partners due to improvements in collection rates and increases in average dealer-partner volumes. Second, we expect to have more consistent access to capital going forward. Several times in our history we were forced to reduce our dealer count due to capital constraints. Third, after several years effort we now have a high-quality field sales force. Finally, our Internet origination system, installed in 2001, has greatly simplified our program for dealer-partners.

Reducing attrition is a big opportunity and will be a primary focus in 2004.

Exit from United Kingdom

During 2003 we decided to liquidate our United Kingdom business. We exited with mixed feelings, as many talented people were disappointed.

The decision to exit was based more on strategy than performance. We believe we could have created a sound business in the UK. However, we concluded we should focus all our resources on the US market as the effort required to improve the UK business was likely to be significant, the amount of capital employed in the UK would likely have continued to be small, and the future returns on capital would likely have been less than our returns in the United States.

We entered the United Kingdom in late 1994. Over the past 9 years our average investment was $43.6 million, and our average return on capital 9.2%.

Steve Jones, our former Managing Director in the United Kingdom, has joined our team in the US as Chief Administrative Officer. He has proven to be a real asset and will make a large positive impact going forward. Carole Berresford and David Page, who have done a terrific job under very difficult circumstances, are managing the task of winding down the UK operation. We are grateful for their efforts.

Liquidation of leasing portfolio

The liquidation of our leasing portfolio continued to go well in 2003 and is virtually complete with approximately $2.5 million in capital left to recover. We entered the leasing business in 1999 and exited in 2002 with $44.3 million invested. Over the three year period our average investment was $18.5 million and our average return on capital 1.3%.

Share repurchases

Since our share repurchase program began in mid-1999, we have repurchased 8.1 million shares at an average price of $9.90. Included in this amount are 2.2 million shares, repurchased in January of 2004 through a Dutch tender offer at a price of $17. We use excess capital to repurchase shares when prices are below our estimate of intrinsic value (the discounted value of future cash flows).

Access to capital

As outlined in our previous two Annual Reports, our long-term financing goals are to expand our borrowing capacity to allow for a 1:1 relationship of debt to equity, increase funding sources, and increase the average term of our debt.

We made substantial progress in 2003. We renewed our $135 million line of credit and extended its term from one year to two. We established a warehouse line of credit of $100 million. Finally, and most importantly, we completed a $100 million secured financing. Although this was our tenth secured financing, it was our first that was rated and insured, which is likely to make similar financings available in the future.

Looking forward

We hope shareholders are pleased with our progress. Substantial energy and commitment was required to create the Company we have today. Many on our team have spent the majority of the last 10 years putting in place the pieces required to be successful in an industry where few companies have even survived. There were times when success seemed close to impossible. In spite of this, these individuals refused to give up. I am proud to be associated with them.

As proud as we are of what has been accomplished, we realize most of the work is still ahead. Our market share is small and the opportunity is large. We can continue to improve every aspect of our business, and expect to do so. Our 694 team members are up to the challenge and we look forward to reporting our progress in next year's letter.

BRETT A. ROBERTS
CHIEF EXECUTIVE OFFICER

Our financial highlights

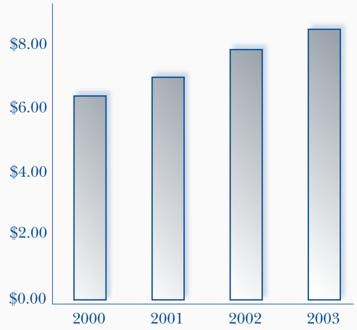
2003 Financial Summary

(dollars in thousands except per share data)	2003	2002
Revenue	$ 145,788	$ 154,334
Net Income	$ 28,181	$ 28,365
Diluted Earnings Per Share	$ 0.65	$ 0.65
Total Loan Origintions	$ 814,182	$ 625,385
Assets	$ 943,780	$ 826,831
Gross Loans Receivable	$ 1,033,234	$ 910,417
Non-accrual Loans as a Percent of Total Gross Loans	19.5%	23.3%
Debt	$ 106,467	$ 109,841
Shareholders' Equity	$ 357,565	$ 325,457
Debt to Equity Ratio	0.30	0.34
Actual Shares Outstanding	42,128,087	42,325,615
Book Value Per Share	$ 8.49	$ 7.69
Change in Book Value Per Share	10.4%	11.5%

Revenue (In Thousands)

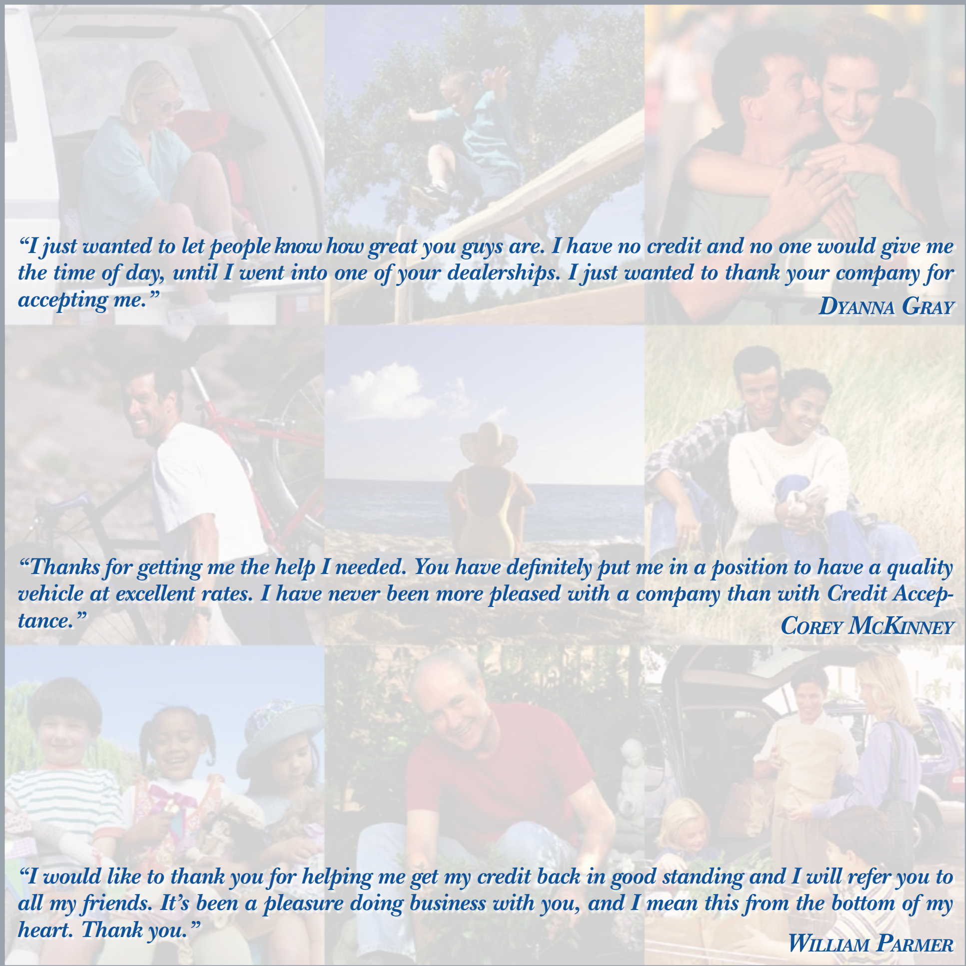
Loan Originations (In Thousands)

Book Value Per Share



. . . one at a time.

Our Customers



"I just wanted to let people know how great you guys are. I have no credit and no one would give me the time of day, until I went into one of your dealerships. I just wanted to thank your company for accepting me."

Dyanna Gray

"Thanks for getting me the help I needed. You have definitely put me in a position to have a quality vehicle at excellent rates. I have never been more pleased with a company than with Credit Acceptance."

Corey McKinney

"I would like to thank you for helping me get my credit back in good standing and I will refer you to all my friends. It's been a pleasure doing business with you, and I mean this from the bottom of my heart. Thank you."

William Parmer

Our Customers

"I've always had a fairly high opinion of your services. Because of my experience with you, I'll likely use your service in the future, and I'll definitely recommend you to the people that I know in a similar situation."

Jasmine Scott

"It is so refreshing to find someone on the other end of a call who treats you like a real person, with kindness and courtesy. We are very grateful for your help and it has been a pleasure doing business with you."

Bob & Karen Graulich

"I just wanted to really thank you for allowing me to have a second chance with establishing my credit. You all are so understanding and I thank you so much. I will be able to make my payments promptly."

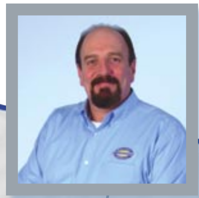
Jessica Weathersby

. . . one at a time.

Our Dealer-Partners

"Credit Acceptance has certainly changed my life! Nine years ago I was a one-man operation working out of an 8'X15 foot office trailer selling 15 cars a month and now I have 16 employees and I am closing pools every month or two!"

Patrick O'Hern
One Way Auto Sales



Ken Haug
Wyoming Auto Group

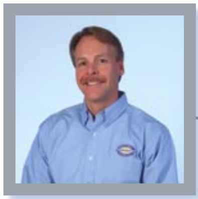
"Credit Acceptance has positively changed my life by helping me grow from being a car salesman to becoming a dealership owner. Now that's life-changing!"

Jay Friedman
Best Deals on Wheels

"The dealer-partner relationship with Credit Acceptance has given our company the "magical edge" over the competition. Our front-end gross rose while increasing our volume. With Credit Acceptance, you control your destiny... now and in the future."

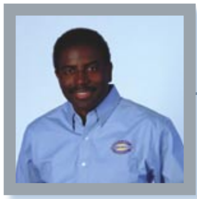
Mickey Richesin
Car Company

"Thanks to Credit Acceptance I know now what a real partnership is all about. I'm proud to be part of something that helps so many people change their lives and yet is a great way to make a living."



Daniel Mink
Killeen Imports

"With Credit Acceptance Guaranteed Credit Approval we change lives by turning empathy into action."



Anthony Underwood
Anthony Underwood Auto Sales

OUR DEALER-PARTNERS

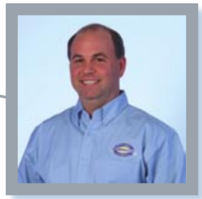
NATIONAL DEALER-PARTNER COUNCIL

"CA stands for more than just Credit Acceptance, it stands for Caring Attitudes."

DENNIS CRAIG
INSTANT CAR CREDIT

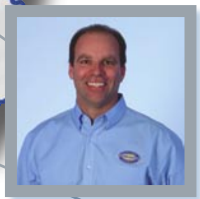
BEN DONNARUMMA
2004 NDPC CHAIRMAN
ALL STAR AUTO SALES

"I am very proud to have been elected Chairman of this year's NDPC and will do my best to represent my fellow dealer-partners."



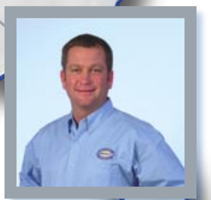
"Having Credit Acceptance's Guaranteed Credit Approval System means never having to say "NO" again. When you give someone a second chance at something as important as credit, you've made more than just another customer, you've made another friend."

GARY SULLIVAN
LOEHMANN-BLASIUS CHEVROLET



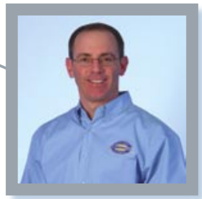
"I've been a Credit Acceptance dealer-partner for 13 years. They've been the best partner a guy could ever ask for!"

JEFF BRAATZ
2004 NDPC VICE-CHAIRMAN
PARADISE MOTOR SALES



CHIP ELLIS
ELLIS MOTOR CARS

"Credit Acceptance is the only finance company I know of that could have helped me deliver over 1,000 extra customers out of one location in 2003... 238 in February alone!"



"Credit Acceptance has given us the ability to say "Yes, you are approved!" to every customer and this is a huge factor in the way we are able to bring in customers and sell them a vehicle."

JON PHILLIPS
STEW HANSENS DODGE

...one at a time.

Our Team Members

"In my seven years at Credit Acceptance I have found it both professionally and personally rewarding to be a member of a Human Resources team that cares so much about its people. I'm happy to be recognized as a significant contributor to the strategic value that the HR department brings to the organization."

Aleyce Joshua
Employee Relations Manager

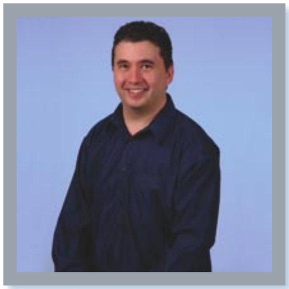
"Receiving the MVP Award for the Legal Department has been most rewarding. Working in Back End Recovery has broadened my knowledge in Legal Collections. Credit Acceptance is an exceptional work place."

Valeria Daniels
Legal Attorney Coordinator

"Working for Credit Acceptance has been a great experience. The Corporate Legal Department is a team-oriented and fun environment to work in; we communicate and work well together. I have had the chance to meet several team members throughout the company and I have always been treated with much respect. "

Wendy Mack
Legal Assistant

Credit Acceptance gives me the ability and opportunity to grow in knowledge, experience and responsibility. I have built relationships that will last a lifetime. My career here can be summed up in four small words: "You can do it!"



Scott Rogus
Supervisor, DPSC

"Working for Credit Acceptance has allowed me to be a better person and assist customers in changing their lives. I was very happy to have received the MVP of the Year Award and want to say thanks to my managers and fellow co-workers."

TAMEKA SMITH
ROUTE COLLECTOR

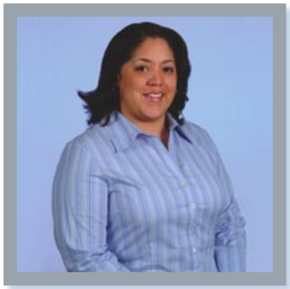
"Pursuing a career with Credit Acceptance after graduation was one of the best decisions I have ever made. This is where I have built the foundation for a prosperous career and best of all, with the guidance of world class team members."

PAUL SHAMMAS
UNIX ADMINISTRATOR

"Working for Credit Accepance has taught me the importance of having good credit. It is satisfying to know that I am working for a company that is here to help people when no one else will. So, at the end of the day I know that I have helped change someone's life."

ROSILAND ROUSER
COLLECTIONS REPRESENTATIVE

"Credit Acceptance has changed my life by showing what it takes to deliver world class customer satisfaction, both externally and internally. Working at Credit Acceptance is more than a job, it's like family."



TIFFANY TAYLOR
QUALITY SPECIALIST

Our Mission...

To create one of the world's greatest financial services companies measured by creation of shareholder value and raving fan team members, customers, and dealer-partners!