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CASE #: 26-2-30433-5 SEA

STATE OF WASHINGTON
KING COUNTY SUPERIOR COURT

STATE OF WASHINGTON, Plaintiff, v. CREDIT ACCEPTANCE CORPORATION, Defendant.	NO. COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

COMPLAINT

Plaintiff, the State of Washington, by and through its attorneys Nicholas W. Brown, Attorney General of the State of Washington, and Bret Finkelstein, Assistant Attorney General, brings this action for injunctive and other relief against Defendant, Credit Acceptance Corporation ("CAC"), for violations of the Washington Consumer Protection Act, RCW 19.86 ("CPA"). The State alleges the following on information and belief:

I. NATURE OF THE CASE

1. Since at least 2015, CAC has engaged in deceptive and unfair business practices when offering subprime auto loans to Washington consumers by: (i) financing loans that CAC knows, or should know, consumers are unable to reasonably afford; and (ii) financing the sale of vehicle service contracts ("VSCs") and GAP products with loans when consumers were either

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Consumer Protection Division
800 Fifth Avenue, Suite 2000
Seattle, WA 98104-3188
206-464-7744

unaware they were purchasing the products, or were led to believe the products must be purchased to get financing.

II. PARTIES

2. The Plaintiff is the State of Washington. The Attorney General is authorized to commence this action pursuant to RCW 19.86.080 and RCW 19.86.140. The Washington State Attorney General's Office created the Consumer Protection Division to detect, investigate, and prosecute any act prohibited or declared to be unlawful under the Washington Consumer Protection Act.

3. Defendant Credit Acceptance Corporation ("CAC") indirectly finances the sale of used vehicle sales, vehicle service contracts, and GAP products to subprime or credit invisible borrowers. CAC is incorporated in Michigan and headquartered at 25505 West 12 Mile Road, Southfield, Michigan 48034. Since 2015 or earlier, Defendant has done business in Washington.

4. For purposes of this Complaint for Injunctive and Other Relief, any references to the acts and practices of Defendant shall mean that such acts and practices are by and through the acts of CAC's officers, members, owners, directors, employees, salespersons, representatives and/or other agents.

III. JURISDICTION AND VENUE

5. The State files this Complaint and institutes these proceedings under the provisions of the CPA.

6. Defendant has engaged in the conduct set forth in this Complaint in King County and elsewhere in the State of Washington.

7. Venue is proper in King County Superior Court pursuant to RCW 4.12.020 and 4.12.025, and Court Rule 82 because Defendant transacts business in King County. Defendant also engaged in the conduct set forth in this Complaint in King County and elsewhere in the State of Washington.

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Consumer Protection Division
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8. The Attorney General has the authority to commence this action as conferred by RCW 19.86.080 and RCW 19.86.140.

IV. FACTS

9. 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 and deep-subprime customers, 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 used-car dealers.

A. CAC's Underwriting Model Either Did or Should Have Alerted CAC that Many Consumers Could Not Afford Their Loans Because the Model Is Highly Predictive of Rates of Default, Vehicle Repossession, and Vehicle Auction

10. 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 (principal plus interest) of the loan.

11. 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).

12. 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.

13. 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;

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800 Fifth Avenue, Suite 2000
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206-464-7744

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.

14. 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.

15. 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 cars based on credit worthiness.

16. 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.

17. 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.

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Consumer Protection Division
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B. CAC Finances Ancillary Products in CAC Loans that CAC Knew or Should Have Known Were Included Without the Consumer's Affirmative Consent

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

19. 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.

20. 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.

21. 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.

22. Starting around 2015, to further incentivize dealers to sell the products, CAC increased compensation to dealers who finance the sale of Ancillary Products through CAC loans. After, 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.

23. 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.

24. 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

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affiliated dealerships reported a 100% or near 100% sales penetration rates for VSCs for months, or even years in a row.

25. A 90-100% sales penetration rate for VSC sales, particularly when sold to higher risk and financially strapped borrowers, was a clear red flag that dealers were selling Ancillary Products to consumers without their full 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.

26. 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.

27. 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.

28. 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.

CAUSE OF ACTION
(Unfair or Deceptive Acts in Violation of the Washington Consumer Protection Act, RCW 19.86.020)

29. Plaintiff re-alleges and incorporates by reference the allegations in Paragraphs 1 through 28.

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800 Fifth Avenue, Suite 2000
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206-464-7744

30. The Attorney General may obtain injunctive relief, as well as monetary relief, including restitution, disgorgement, civil penalties, and recovery of costs and fees for violations of the Consumer Protection Act. RCW 19.86.080, .140.

31. The CPA prohibits "unfair methods of competition and unfair or deceptive acts or practices in the conduct of any trade or commerce." RCW 19.86.020.

32. CAC has committed unfair and deceptive acts or practices by:

a. Unfairly and deceptively extending credit to consumers who CAC knew or should have known had no reasonable probability of being able to repay;

b. Failing to disclose to consumers that they were obtaining credit on terms that were likely to cause failure; and

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

33. CAC's provision, marketing, and advertising of unfair and deceptive conduct occurred and are occurring in trade or commerce under RCW 19.86.010, as constituting the sale of assets or services, and any commerce directly or indirectly affecting the people of the state of Washington and are likely to continue without relief from this Court.

34. Based on the above deceptive acts and practices, Plaintiff is entitled to relief under the CPA.

PRAYER FOR RELIEF

WHEREFORE, the State prays for the following relief:

35. That the Court enter the Consent Decree filed with this Complaint;

36. That the Court retain jurisdiction over this matter to enable the State to seek to enforce the terms of the Consent Decree if necessary;

37. That the Court order Defendant to comply with the terms of the Consent Decree upon petition by the State;

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38. That the Court impose civil penalties for violations of any of the injunctions outlined in the Consent Decree upon petition by the State; and,

39. For such other relief as the Court may deem just and proper.

DATED this 17th day of September, 2026.

NICHOLAS W. BROWN
Attorney General

s/ Bret Finkelstein
BRET FINKELSTEIN, WSBA #48845
Assistant Attorney General
Attorneys for Plaintiff State of Washington
800 Fifth Avenue, Suite 2000
Seattle, WA 98104
206-464-7744
bret.finkelstein@atg.wa.gov