
BUY HERE, PAY HERE INDUSTRY BENCHMARKS/TRENDS - 2012 -

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NOTES TO THESE BENCHMARKS

- 1) **Financial information prepared from the best performing dealers in the SGC database of more than 500 dealers nationwide. The operating information represents a composite of all BHPH NCM Twenty Group participants.**
- 2) **All results have been verified for accuracy and comparability as to accounting policies and practices.**
- 3) **Results are combined (dealer and finance affiliate), where applicable.**
- 4) **Intercompany activity has been eliminated, where applicable.**
- 5) **Financial information provided by SGC Certified Public Accountants, Houston, Texas.**
- 6) **Loss statistics were electronically determined by Subprime Analytics, who performed computerized portfolio analysis of approximately 1,100,000 subprime deals aggregating approximately \$10.2 billion to identify loss rates and patterns.**

2012 BUY HERE, PAY HERE YEAR-END REVIEW & A LOOK AHEAD!

By Kenneth B. Shilson, CPA
Founder, National Alliance of Buy Here Pay Here Dealers (NABD)
President, Subprime Analytics

Annually NABD, with the help of SGC Certified Public Accountants (“SGC”), prepares buy here, pay here (“BHPH”) financial benchmarks from a database of their clients nationwide. These financial benchmarks are a composite of the “best performing” operators and are not an average of the entire database. Since 2006, the NABD benchmarks also include operating information on sales, collections and recoveries, and inventory management which were developed and supplied by NCM Twenty Groups (NCM”), based upon a composite of all of their BHPH twenty group members. The attached NABD benchmarks also include portfolio performance metrics which were compiled electronically by Subprime Analytics (“Subprime”) who, to date, has analyzed approximately \$10.2 billion (over 1,100,000 individual deals) of BHPH installment contracts to identify loss rates, patterns, and trends. In the aggregate, these statistics provide a comprehensive look at the financial and operating performance of the BHPH industry for the last three years and some important trend information for earlier periods.

At the NABD Dealer Training Academy on May 19-21, 2013 and the Fifteenth (15th) Annual National Buy Here, Pay Here Conference (NABD 2013) at the Wynn in Las Vegas, on May 21-23, 2013, Brent Carmichael of NCM and I will explain these benchmarks and trends to help operators identify future profit opportunities. For further information or to register for these important events, visit www.bhphinfo.com.

2012 YEAR IN REVIEW!

The Buy Here, Pay Here (“BHPH”) industry posted another profitable year in 2012, although profitability declined from 2011. In the low-yielding economic environment of today, profit opportunities in BHPH remain exceptional for operators who avoid costly mistakes and operating pitfalls.

A close look at the 2012 financial performance for several of the nation’s best operators revealed the following:



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1. Unit sales for several operators declined slightly (less than 10%) from 2011 levels due to increased competition within the BHPH market and from special finance sources who extended credit to BHPH customers. Many operators tightened their underwriting criteria and adopted a “controlled growth” approach. Other larger operators (who were not constrained by capital limitations) added facilities to avoid a decline in overall unit sales. Dealers increased sales prices in an attempt to offset higher vehicle acquisition costs which have risen steadily since 2010.
2. Auction consignments for BHPH vehicles improved during 2012 but inventory availability remained limited and very competitive. Limited availability and high acquisition costs forced operators to resell repos and to spend more on reconditioning. Overall, the average mileage on vehicles sold has increased by approximately 20,000 miles since 2010, while vehicle acquisition costs have increased approximately 8% during that same period. Dealers have expanded their efforts to locate good inventory by using the internet, traveling further, and increased repo sales. These trends are likely to continue in the future.
3. Profitability in 2012 was adversely impacted by a 3% increase in bad debt expense (expressed as a percentage of sales) resulting from increases in both frequency and severity of charge offs. Increased severity resulted from higher “cash in deal” during 2012, and because operators increased their allowance for bad debts, despite tightening underwriting criteria. The graph on page 9 depicts changes in vehicle costs, downpayments, and cash in deal for the last 5 years.
4. Financing income again failed to “cover” bad debt losses (where interest income equals or exceeds bad debt expense). This occurred because bad debt expense increased by 3% (expressed as a percentage of sales) and financing income declined by 1%.
5. Operating expenses declined by approximately 1% as operators implemented new technology (primarily payment devices and automated customer repayment technology) to increase efficiency and reduce overhead. New technology continues to play a vital role in controlling costs and expenses.

LOOKING AHEAD TO 2013

With 2012 in the rearview mirror, here is a look at the profit opportunities and challenges ahead in 2013.



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1. BHPH sales in 2013 started slowly due to delays by the IRS in processing tax refunds. It is still hoped that tax refund delays will extend the selling season for operators who depend on tax business.
2. Vehicle acquisition costs during the first three months of 2013 have stabilized, in part, due to slower unit sales and increased auction consignments. It is now hoped that the increases in vehicle acquisition costs since 2010 are behind us. Many dealers are now carrying a broader range of inventory and integrating BHPH with retail sales.
3. Improved technology will help operators control expenses, increase profits and cash flow. Payment devices, automated customer repayment technology, and internet tools increase efficiency, reduce collection costs, and improve profitability. Operators should identify how new products and services can make them more competitive.
4. Compliance takes center stage in 2013 as the CFPB, the FTC, and state attorney generals' offices regulate the industry. Prudent operators must get compliant now and have a qualified attorney review their disclosures and establish written policies and procedures.
5. All of the aforementioned regulatory groups are organized to target consumer complaints. Operators must establish a customer complaint resolution protocol and implement a compliance management system under the supervision of a chief compliance officer.
6. Locating the best inventory at competitive costs will be challenging. Operators should identify new sources of inventory by using the internet and control their reconditioning costs.
7. With more "cash in deal", operators must control risk by establishing tighter underwriting and collection procedures and mitigate losses by maximizing recoveries. Payment device technology (like GPS and dual devices) can help.
8. Capital availability to the industry has improved for operators who have good management, efficient systems and processes, prudent financial management, equity, and portfolio performance metrics. Capital providers expect more sophistication by borrowers than in the past. Good operators build long-term relationships with the capital market providers.



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9. Successful operators must educate themselves to all the latest developments, trends, and regulatory changes by networking, reading and attending training conferences. The more you learn, the more you will earn!

Unprecedented profit opportunities in BHPH are available to those who can capitalize on them. However, it takes more knowledge, training, and skill than ever before. Operators must work smarter, not harder to prosper in 2013 and beyond. Good luck!

Kenneth B. Shilson, CPA, is President of **Subprime Analytics**, www.subanalytics.com, a consulting company which provides subprime portfolio analysis services and custom credit scoring solutions (**Profit Max**). Subprime Analytics utilizes state-of-the-art data mining and extraction technology in order to identify loss trends and areas for underwriting improvement. Questions can be directed to him at ken@kenshilson.com. Ken Shilson is also founder and Convention Chairman of the **National Alliance of Buy Here, Pay Here Dealers (NABD)**, which will host its 15th Annual National Conference For Buy Here, Pay Here and Dealer Academy at the Wynn in Las Vegas, Nevada on May 19-23, 2013. For registration or for more information, visit www.bhphinfo.com or call 832-767-4759.



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Prepared for NABD by SGC Certified Public Accountants

Ratio Comparisons: 2010 - 2012

COMBINED BUY HERE / PAY HERE

Balance Sheet

(Inventory x Days) / Cost of Vehicle Sales
Cost of Vehicle Sales / Average Inventory Dollars
Vehicle Sales / Average Inventory Dollars
Vehicle Sales / Total Assets
Total Assets / Total Liabilities
Allowance for Bad Debts / Finance Receivables*
Total Debt / Total Assets

* Finance receivables are net of unearned finance charges

COMBINED BUY HERE / PAY HERE

Income Statement

Bad Debts / Vehicle Sales
Cost of Vehicle Sales / Vehicle Sales
Gross Profit*** / Vehicle Sales
Operating Expense / Vehicle Sales
Interest Expense / Financing Income
Operating Income / Vehicle Sales
Financing Income / Vehicle Sales
Compensation** / Vehicle Sales
Reconditioning Cost / Vehicle Sales

2012 Average Benchmark	2011 Average Benchmark	2010 Average Benchmark
56.62 days	62.29 days	63.40 days
7.1 x	6.1 x	6.4 x
12.82 x	11.16 x	11.92 x
1.06 x	0.97 x	0.97 x
1.94 x	1.98 x	1.93 x
24%	23%	22%
52%	51%	52%
2012 Average Benchmark	2011 Average Benchmark	2010 Average Benchmark
24%	21%	18%
58%	59%	59%
34%	37%	38%
19%	20%	20%
18%	15%	17%
15%	17%	18%
16%	17%	15%
10%	10%	10%
7%	7%	7%

NOTES TO RATIO COMPARISONS:

**Compensation excludes those of the owners

***Gross Profit is net of bad debts and financing income

x = times



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Prepared for NABD by SGC Certified Public Accountants

Cost of Goods Sold and Operating Expense Detail: 2010 - 2012

	2012 % of Vehicle Sales	2011 % of Vehicle Sales	2010 % of Vehicle Sales
<u>Cost of Vehicle Sales</u>			
Cost of vehicles	47.62%	48.94%	48.13%
Reconditioning costs	7.38%	7.08%	7.17%
Other	3.28%	3.38%	3.21%
Total cost of vehicle sales	58.28%	59.40%	58.51%
<u>Operating Expense</u>			
Advertising	2.80%	2.76%	2.50%
Bank charges	0.15%	0.29%	0.27%
Contributions	0.06%	0.02%	0.03%
Depreciation	0.27%	0.38%	0.45%
Dues and Subscriptions	0.09%	0.02%	0.10%
Insurance	0.22%	0.52%	0.27%
Legal and accounting	0.20%	0.44%	0.35%
Outside services	0.21%	0.30%	0.50%
Office expense	0.63%	0.73%	0.65%
Rent	1.73%	2.30%	2.33%
Repairs and maintenance	0.57%	0.43%	0.41%
Salaries (non-owners)	10.07%	10.15%	10.26%
Taxes - general	0.07%	0.14%	0.11%
Other Operating Expense	0.13%	0.14%	0.30%
Taxes - payroll	0.66%	0.54%	0.49%
Utilities and Telephone	0.53%	0.49%	0.50%
Travel / Training	0.26%	0.30%	0.26%
Total operating expense	18.65%	19.95%	19.78%

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Dealer Operating Information: 2010 - 2012

(Statistics provided by NCM Associates, Inc.)

Sales

	2012 NCM Benchmarks	2011 NCM Benchmarks	2010 NCM Benchmarks
Average units sold per dealer (BHPH deals only)	653	687	543
Average cash in deal per vehicle sold	\$ 4,435	\$ 3,947	\$ 4,850
Average ACV per vehicle sold (includes recon)	\$ 6,366	\$ 5,792	\$ 5,458
Average reconditioning cost per vehicle sold	\$ 768	\$ 806	\$ 798
Average gross profit per vehicle sold	\$ 5,009	\$ 4,731	\$ 4,314
Average cash down payment (including trades)	\$ 1,494	\$ 1,504	\$ 1,152
Average amount financed	\$ 9,627	\$ 9,427	\$ 9,380
Average term of loan (in weeks)	139	135	134

Collections / Recoveries

Average weekly payment amount	\$ 87	\$ 86	\$ 85
Percentage of accounts past due	28.6%	25.9%	21.0%
Average # of past due accounts per collector	102	93	95
Average net loss per charge off	\$ 4,216	\$ 3,542	\$ 4,273
Average portfolio delinquency			
Current	83.10%	85.20%	76.50%
0-10 days	10.30%	8.40%	10.30%
11-29 days	3.70%	4.00%	7.30%
30-59 days	1.70%	1.50%	2.90%
60-89 days	0.60%	0.50%	1.30%
90+ days	0.60%	0.40%	1.70%
	100.00%	100.00%	100.00%

Inventory Management

Vehicle Days Supply (Units)	103	74	63
Average inventory aging			
0-30 days	40.50%	49.80%	36.00%
31-60 days	25.50%	24.40%	21.10%
61-90 days	12.90%	12.50%	15.40%
91+ days	21.10%	13.30%	27.50%
	100.00%	100.00%	100.00%



Driving Profitability Together Since 1947

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 Prepared for NABD by Subprime Analytics

Loss Statistics - 2012
 (Statistics supplied by Subprime Analytics)

<u>Loss Statistics</u>	2012 Subprime Analytics Benchmarks	2011 Subprime Analytics Benchmarks	2010 Subprime Analytics Benchmarks
Average gross dollar loss (before recoveries)	\$ 7,737	\$ 7,245	\$ 7,072
Average net dollar loss (after recoveries)	\$ 5,300	\$ 4,950	\$ 4,786
Average default rate (% of loans written off)	31.32%	31.03%	30.39%
Average gross dollar loss rate (% of principal)	38.64%	38.61%	39.18%
Average net dollar loss rate (% of principal)	25.95%	26.38%	26.52%
Average recovery (% of principal charged off)	31.50%	31.70%	32.30%
Highest cumulative default month after origination	20th Month	22nd Month	21st Month
Highest frequency of default (month after origination)	5th Month	5th Month	4th Month
Worst periodic loss month after origination	February	February	February

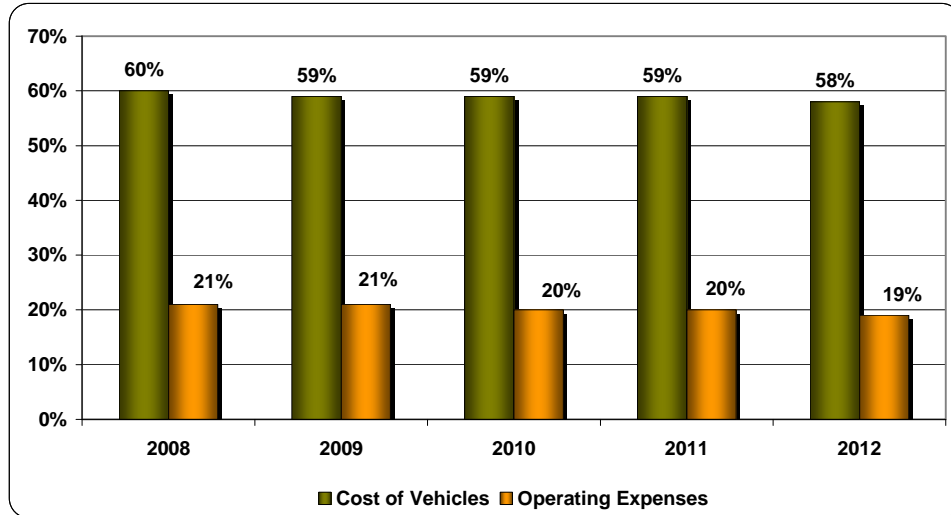
Note: The above referenced loss data was determined by electronically analyzing approximately 1,100,000 loans, aggregating approximately \$10.2 billion to identify loss rates and to understand why they occurred.



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BHPH INDUSTRY TRENDS - GRAPHS

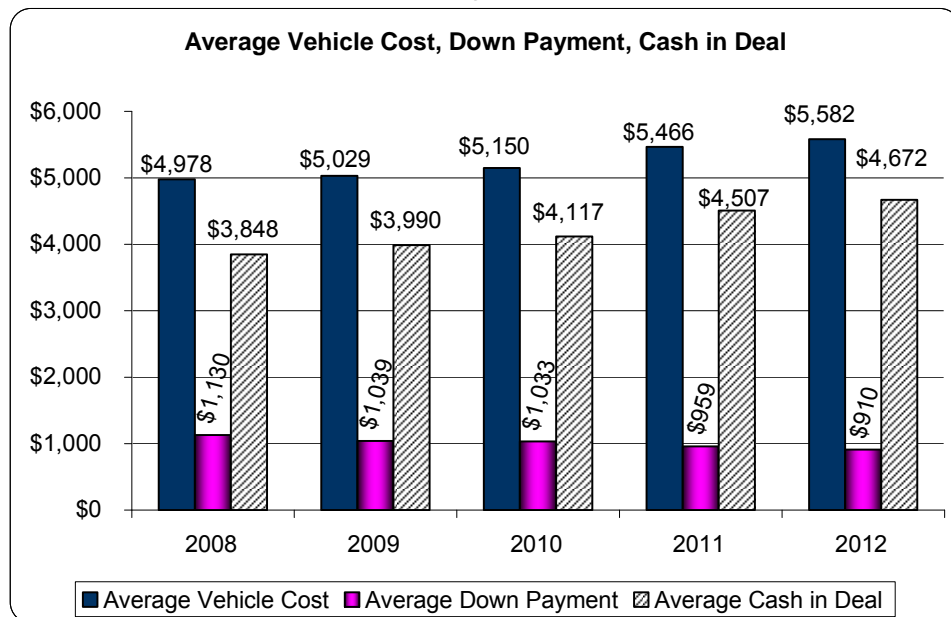
BHPH FINANCIAL TRENDS Costs / Expenses: 2008 – 2012



Note: All percentages are expressed as a percentage of total sales.

Source: SGC Certified Public Accountants

BHPH FINANCIAL TRENDS Average Vehicle Cost, Down Payment, Cash In Deal: 2008 – 2012



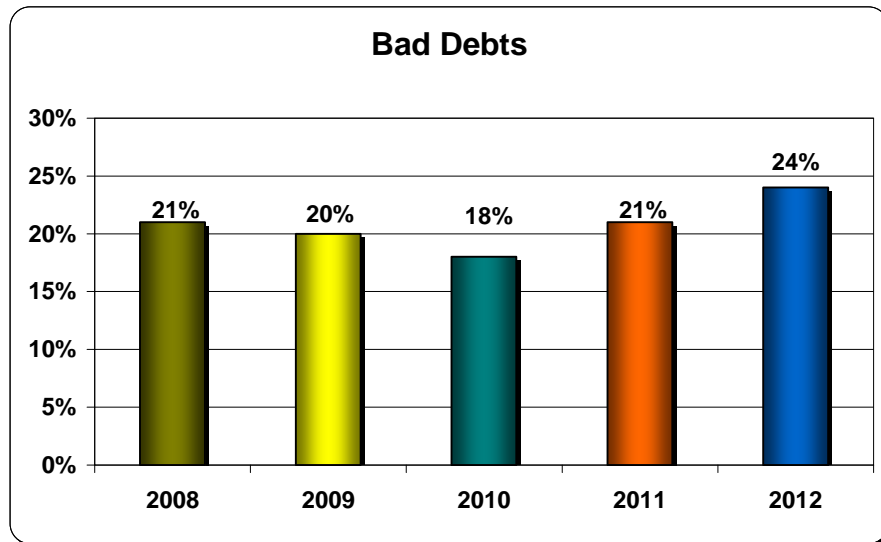
Source: Subprime Analytics



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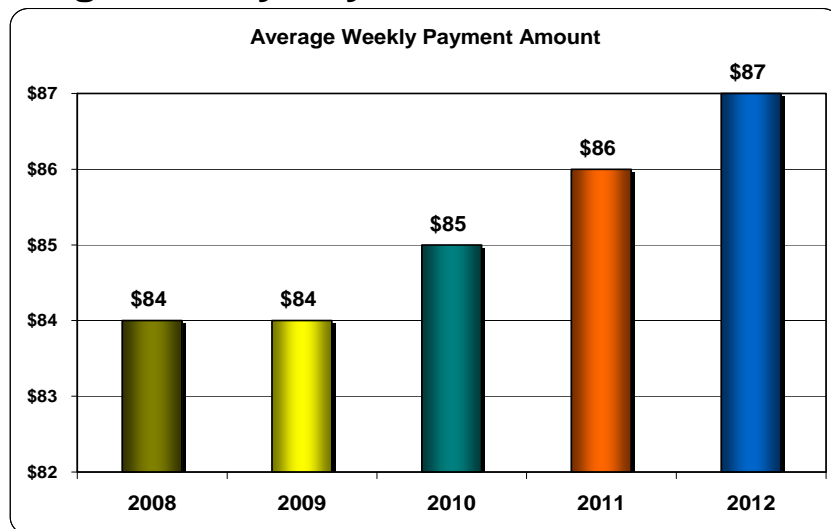
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Bad Debts: 2008 - 2012



*Note: Percentages are expressed as percentage of vehicle sales
Source: SGC Certified Public Accountants*

BHPH FINANCIAL TRENDS Average Weekly Payment Amount: 2008 - 2012



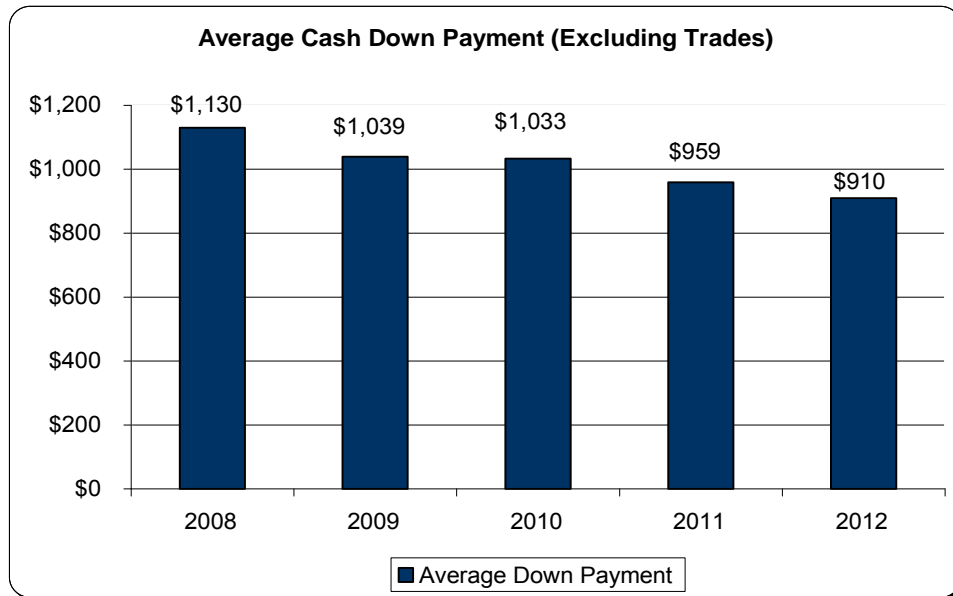
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BHPH INDUSTRY TRENDS - GRAPHS

Source: NCM / Subprime Analytics

BHPH FINANCIAL TRENDS

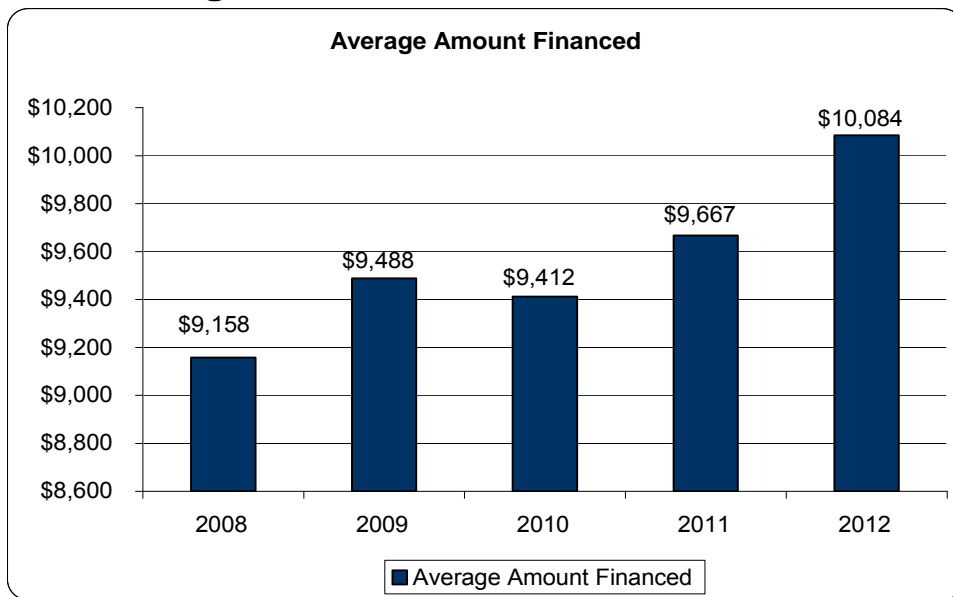
Average Customer Down Payment: 2008 – 2012



Source: Subprime Analytics

BHPH FINANCIAL TRENDS

Average Amount Financed: 2008 – 2012

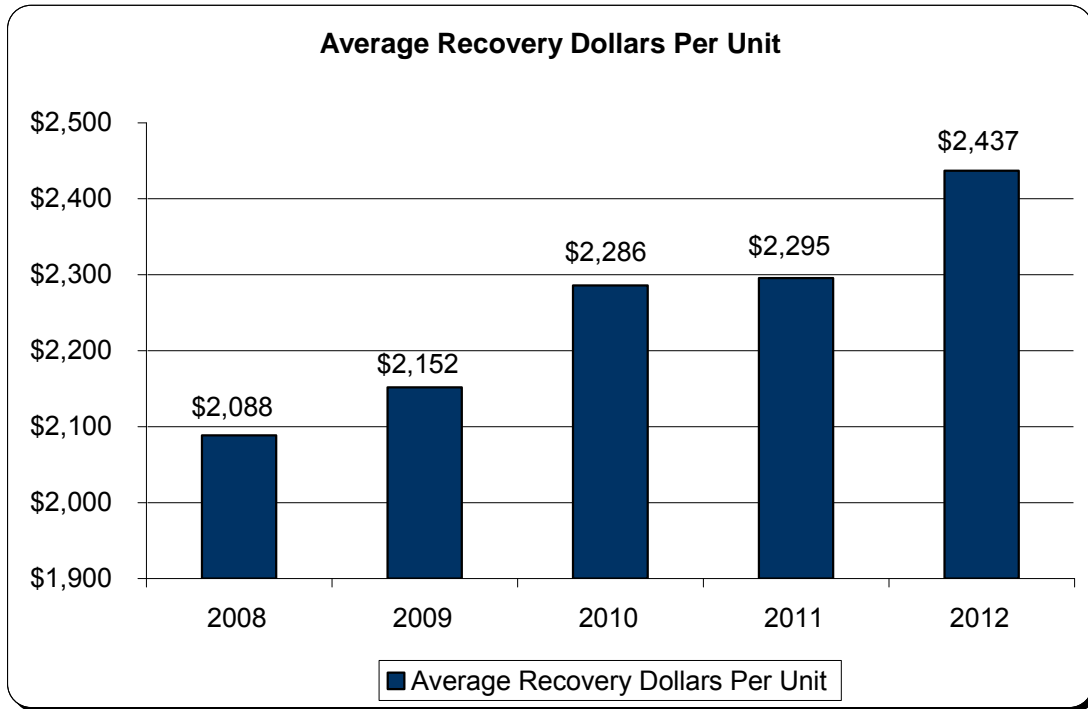


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BHPH INDUSTRY TRENDS - GRAPHS

Source: Subprime Analytics

BHPH FINANCIAL TRENDS Average Recovery Dollars Per Unit: 2008 – 2012



Source: Subprime Analytics



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