
BUY HERE, PAY HERE INDUSTRY BENCHMARKS/TRENDS - 2014 -

“Our Goal Is Your Success”



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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, www.ncm20.com.**
- 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 was provided by SGC Certified Public Accountants, Houston, Texas, www.sgcaccounting.com.**
- 6) **Loss statistics were electronically determined by Subprime Analytics, who performed computerized portfolio analysis of nearly 1,700,000 subprime deals aggregating approximately \$15.0 billion to identify loss rates and patterns. Profit Max provides customized credit scoring solutions and is an affiliate of Subprime Analytics, www.subanalytics.com.**



2014 BUY HERE, PAY HERE YEAR-END REVIEW & A LOOK AHEAD!

Annually the National Alliance of Buy Here, Pay Here Dealers (“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 their entire client base. Since 2006, the NABD benchmarks also include operating information on sales, collections and recoveries, and inventory management 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”) which to date has analyzed approximately \$15 billion (nearly 1.7 million 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.

At the Seventeenth (17th) Annual National Buy Here, Pay Here Conference in Las Vegas on May 19-21, 2015, Brent Carmichael of NCM and Ken Shilson will discuss these benchmarks and trends to help operators understand the subprime auto finance market. For further information, visit www.bhphinfo.com.

2014 YEAR IN REVIEW!

The financial benchmarks for 2014 reflect a significantly higher level of competition within the deep subprime marketplace. The more significant factors that impacted the deep subprime market were:

- 1) Unit sales for most operators declined (some by up to 33%) from 2013, due primarily to increased market competition from special finance, credit unions, and franchise dealers that extended credit to deep subprime customers. Individual operators were affected by varying levels of competition in their local markets. Rural markets seemed to be less competitive than urban markets. Some operators expanded their facilities (added lots) to increase market share in an attempt to grow or regain market share. Experian market data indicated that the decline in BHPH deep subprime used vehicle financing in 2014 went primarily to credit unions and finance companies.
- 2) Subprime competition (including franchise operators) were particularly aggressive in financing deep subprime customers (with credit scores below 550) who purchased new and late-model CPO (certified pre owned) vehicles (less than two years old) with low down payments, high

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repayments, and terms of more than 50 months. These aggressive loans were fueled by cheap money and a search for higher yields.

- 3) History indicates that higher default rates occur on deals with “too much vehicle and too little customer”. Increased charge-offs on these loans should therefore be anticipated. These customers will likely return to the BHPH market and their repossessed vehicles will be available at auction in the future.
- 4) BHPH operators again found inventory acquisition to be challenging given the increased competition. Future inventory supplies should improve resulting from greater availability of trades from increased new car sales and from off-lease and off-rental vehicles, and repos.
- 5) Technology can play an important role in BHPH operating efficiency. Most customers now have smart phones. This cellular link has become an important way for BHPH operators to “connect and collect” with their customers and prospects. In addition, the integration of internet-based marketing tools, payment device technology, electronic pay portals, inventory sourcing, and other technology are now available. Operators who proactively utilized online marketing fared better than those who did not.
- 6) New regulatory challenges surfaced in 2014 when the FTC, CFPB, and various state attorney generals’ offices monitored compliance and investigated operating and collection practices. The IRS increased tax audits of used car operations, focusing on compliance issues. Even the Department of Justice joined in by policing discriminatory lending practices using their “disparate impact theory”. We can expect more compliance scrutiny in 2015 and beyond.
- 7) Operators with greater financial flexibility (more equity and/or available lines of credit) fared best. The increased level of competition demands that operators preserve their financial flexibility. Absent an increase in sales, this must be done by cost cutting and managing credit risk.
- 8) Operators who are financially able to withstand competitive challenges from lost market share will prosper in the future when customers return to the BHPH market. In the interim, operators are advised to implement technology that will increase market share and improve operational efficiencies. Maximizing recoveries is also vital to mitigate bad debt losses.
- 9) Lease here, pay here is growing in popularity in several states where sales tax deferral and state regulations favor this business model. Therefore, we have included lease here benchmark loss metrics for the first time. These loss metrics will be a reference for those considering the lease model and for those already using it.

WHAT'S AHEAD FOR 2015?

Although 2014 was very challenging for the BHPH industry, unprecedented profit opportunities are ahead for operators positioned to capitalize on them.

- 1) Sales by independent operators will increase as competition declines from finance companies, credit unions and franchise dealers.
- 2) Although inventory availability will remain challenging, improved sourcing technology is available to help find the desired vehicles. Operators who utilize these new tools will fare better than those who don't. Operators should broaden their inventory mix to meet varying customer financial needs.
- 3) Regulatory scrutiny will force non-compliant "bad apples" from the industry thereby eliminating unwanted and unfair competition. The increased regulatory scrutiny on consumer relationships will force operators to rebuild bonds with their subprime customers.
- 4) In the future, "money on the street" must be reduced by larger down payments and repayments rather than higher sales prices and longer financing terms in order to reduce risk. This strategy will reduce defaults and lower the amounts subject to charge-off.
- 5) Operators who embrace technology can increase efficiency and market share without increasing operating costs. The technology, which is now available, has never been better for those who implement it properly.
- 6) Operators who build positive relationships with customers and prospects can regain lost market share quicker. Competition for deep subprime customers in 2014 focused on transactions while BHPH success was built on relationships!
- 7) The lease model has merit given that payouts have been reduced by increased competition. Leasing can be used to reduce customer repayments and shorten contract terms. The future popularity and growth of this alternative model is dependent upon capital availability and the individual state regulations where it is utilized.

Operators who educate themselves to the latest industry developments, trends, technology, and regulations through networking, education and training will prosper. Success in the deep subprime market is best measured by "Keeping Them Sold!"

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, or by calling (832) 767-4759. Ken Shilson is also founder and President of the National Alliance of Buy Here, Pay Here Dealers (NABD) – www.bhphinfo.com.

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Prepared for NABD by SGC Certified Public Accountants

Ratio Comparisons: 2012 - 2014

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

	2014 Average BHPH Benchmark	2013 Average BHPH Benchmark	2012 Average BHPH Benchmark
(Inventory x Days) / Cost of Vehicle Sales	55.82 days	43.81 days	56.62 days
Cost of Vehicle Sales / Average Inventory Dollars	7.1 x	7.2 x	7.1 x
Vehicle Sales / Average Inventory Dollars	12.47 x	12.61 x	12.82 x
Vehicle Sales / Total Assets	0.93 x	1.05 x	1.06 x
Total Assets / Total Liabilities	1.97 x	1.99 x	1.94 x
Allowance for Bad Debts / Finance Receivables*	23%	25%	24%
Total Debt / Total Assets	51%	50%	52%
	2014 Average BHPH Benchmark	2013 Average BHPH Benchmark	2012 Average BHPH Benchmark
Bad Debts / Vehicle Sales	26%	25%	24%
Cost of Vehicle Sales / Vehicle Sales	60%	60%	58%
Gross Profit*** / Vehicle Sales	31%	31%	34%
Operating Expense / Vehicle Sales	22%	21%	19%
Interest Expense / Financing Income	18%	19%	18%
Operating Income / Vehicle Sales	9%	10%	15%
Financing Income / Vehicle Sales	17%	16%	16%
Compensation** / Vehicle Sales	11%	10%	10%
Reconditioning Cost / Vehicle Sales	8%	6%	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: 2012- 2014

	2014 % of Vehicle Sales	2013 % of Vehicle Sales	2012 % of Vehicle Sales
<u>Cost of Vehicle Sales</u>			
Cost of vehicles	50.06%	51.76%	47.62%
Reconditioning costs	7.63%	5.50%	7.38%
Other	2.72%	2.96%	3.28%
Total cost of vehicle sales	60.41%	60.22%	58.28%
<u>Operating Expense</u>			
Advertising	3.82%	3.80%	2.80%
Bank charges	0.28%	0.20%	0.15%
Contributions	0.03%	0.04%	0.06%
Depreciation	0.46%	0.40%	0.27%
Dues and subscriptions	0.12%	0.12%	0.09%
Insurance	0.29%	0.27%	0.22%
Legal and accounting	0.45%	0.42%	0.20%
Outside services	0.20%	0.03%	0.21%
Office expense	0.83%	0.80%	0.63%
Rent	2.20%	2.39%	1.73%
Repairs and maintenance	0.16%	0.47%	0.57%
Salaries (non-owners)	10.56%	10.17%	10.07%
Taxes - general	0.18%	0.10%	0.07%
Other operating expense	0.03%	0.22%	0.13%
Taxes - payroll	0.84%	0.70%	0.66%
Utilities and telephone	0.67%	0.39%	0.53%
Travel / Training	0.43%	0.40%	0.26%
Total operating expense	21.55%	20.92%	18.65%

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Dealer Operating Information: 2012 - 2014

(Statistics provided by NCM Associates, Inc.)

	2014 NCM Benchmarks	2013 NCM Benchmarks	2012 NCM Benchmarks
<u>Sales</u>			
Average units sold per dealer (BHPH deals only)	550	610	653
Average cash in deal per vehicle sold	\$ 5,777	\$ 4,926	\$ 4,971
Average ACV per vehicle sold (includes recon)	\$ 6,237	\$ 5,487	\$ 5,612
Average reconditioning cost per vehicle sold	\$ 1,207	\$ 1,026	\$ 968
Average gross profit per vehicle sold	\$ 4,484	\$ 4,509	\$ 4,502
Average cash down payment (including trades)	\$ 1,089	\$ 1,134	\$ 1,209
Average amount financed	\$ 10,567	\$ 9,664	\$ 9,627
Average term of loan (in weeks)	153	143	139
<u>Collections / Recoveries</u>			
Average weekly payment amount	\$ 89	\$ 87	\$ 87
Percentage of accounts past due	16.3%	17.8%	28.6%
Average # of past due accounts per collector	101	88	102
Average net loss per charge off	\$ 4,820	\$ 4,584	\$ 4,216
Average portfolio delinquency			
Current	83.80%	83.70%	83.10%
0-10 days	8.60%	9.30%	10.30%
11-29 days	3.90%	4.10%	3.70%
30-59 days	2.30%	1.70%	1.70%
60-89 days	0.90%	0.60%	0.60%
90+ days	0.50%	0.60%	0.60%
	100.00%	100.00%	100.00%
<u>Inventory Management</u>			
Vehicle Days Supply (Units)	91	94	103
Average inventory aging			
0-30 days	42.40%	40.80%	40.50%
31-60 days	23.70%	25.30%	25.50%
61-90 days	15.50%	14.10%	12.90%
91+ days	18.40%	19.80%	21.10%
	100.00%	100.00%	100.00%



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Loss Statistics - 2014
 (Statistics supplied by Subprime Analytics)

<u>Loss Statistics</u>	<u>2014 BHPH Benchmarks</u>	<u>2013 BHPH Benchmarks</u>	<u>2012 BHPH Benchmarks</u>
Average gross dollar loss (before recoveries)	\$ 8,408	\$ 8,381	\$ 7,737
Average net dollar loss (after recoveries)	\$ 5,749	\$ 5,410	\$ 5,300
Average default rate (% of loans written off)	31.16%	31.41%	31.32%
Average gross dollar loss rate (% of principal)	38.57%	37.75%	38.64%
Average net dollar loss rate (% of principal)	26.37%	24.37%	25.95%
Average recovery (% of principal charged off)	31.60%	35.40%	31.50%
Highest cumulative default month after origination	18th Month	19th Month	20th Month
Highest frequency of default (month after origination)	7th Month	5th Month	5th Month
Worst periodic loss month after origination	February	February	February

Note: The above referenced loss data was determined by electronically analyzing nearly 1,700,000 loans, aggregating approximately \$15.0 billion to identify loss rates and to understand why they occurred.



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 Prepared for NABD by Subprime Analytics

Loss Statistics - 2014
 (Statistics supplied by Subprime Analytics)

<u>Loss Statistics</u>	2014 LPH Benchmarks	2014 BPH Benchmarks
Average gross dollar loss (before recoveries)	\$ 9,556	\$ 8,408
Average net dollar loss (after recoveries)	\$ 5,801	\$ 5,749
Average default rate (% of loans written off)	25.31%	31.16%
Average recovery (% of vehicle cost)	60.42%	35.07%
Highest cumulative default month after origination	14th Month	18th Month
Highest frequency of default (month after origination)	4th Month	7th Month
Worst periodic loss month after origination	May	February

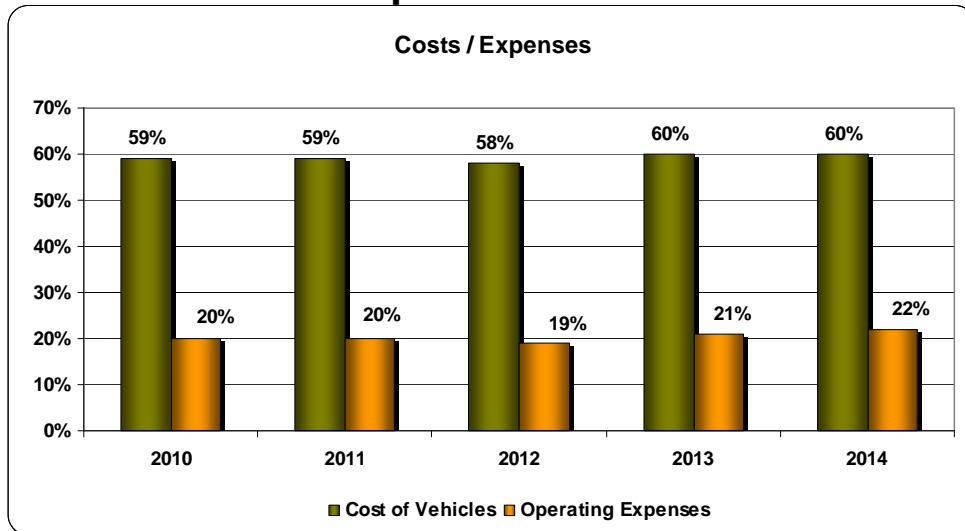
Source: Subprime Analytics



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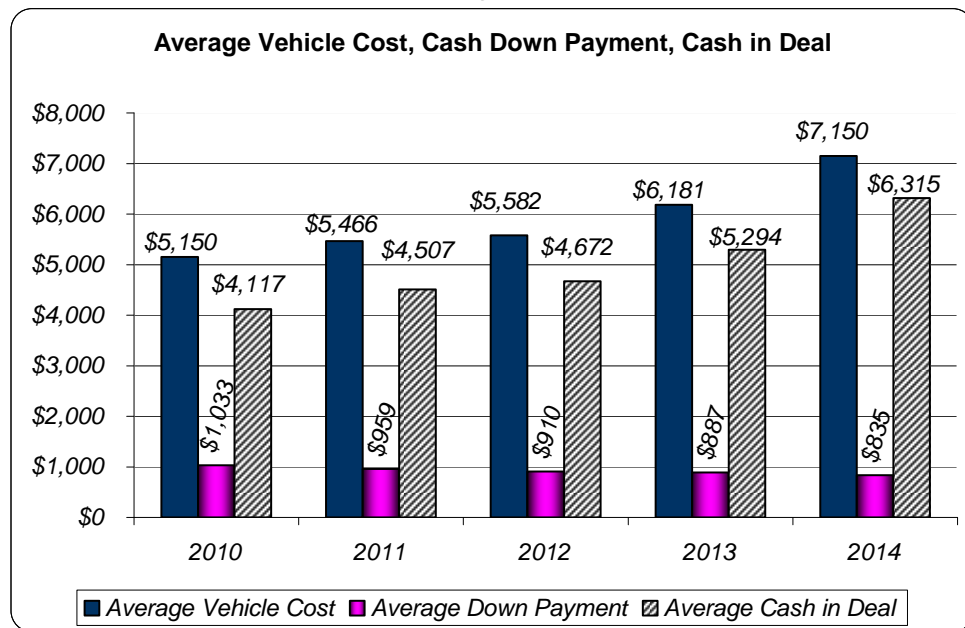
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Costs / Expenses: 2010 – 2014



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: 2010 – 2014



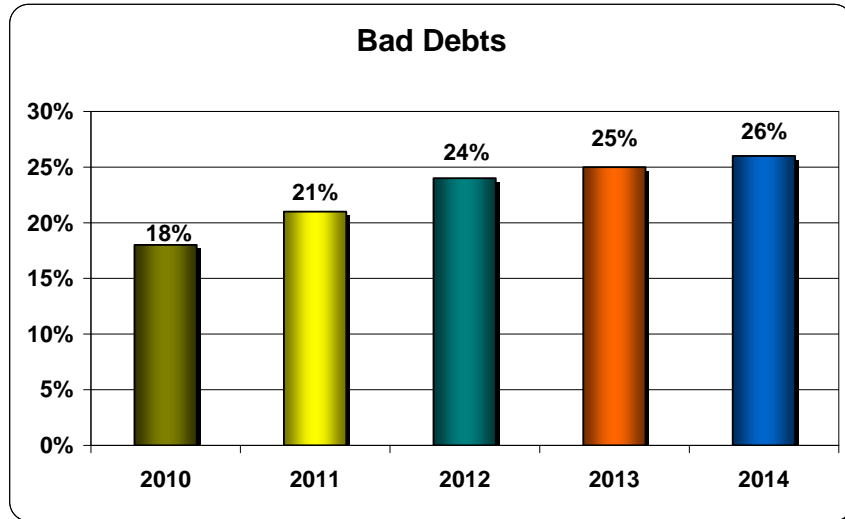
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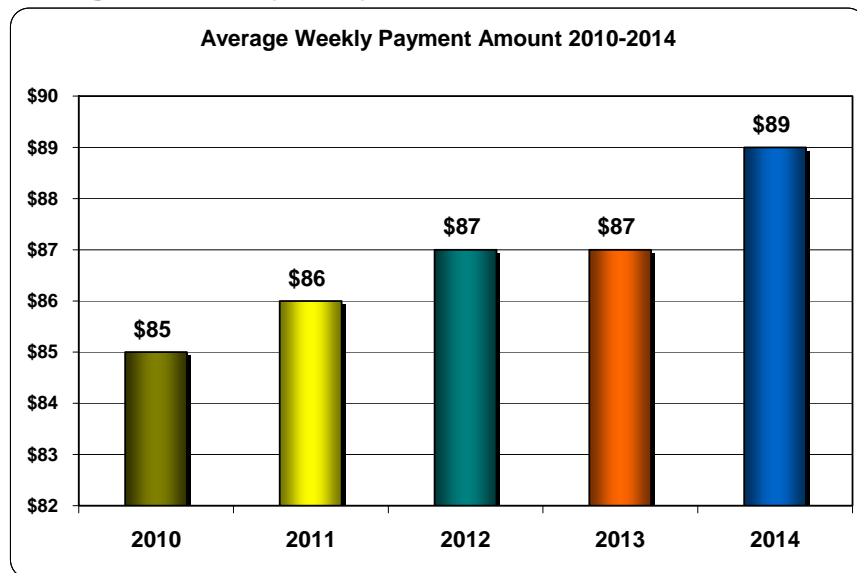
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Bad Debts: 2010 - 2014



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

BHPH FINANCIAL TRENDS Average Weekly Payment Amount: 2010 - 2014



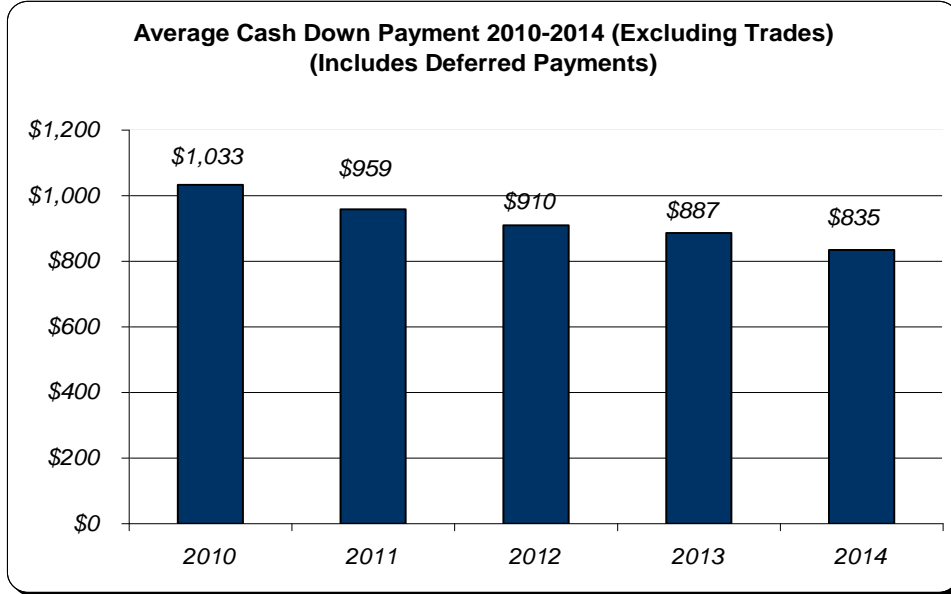
Source: NCM, Subprime Analytics



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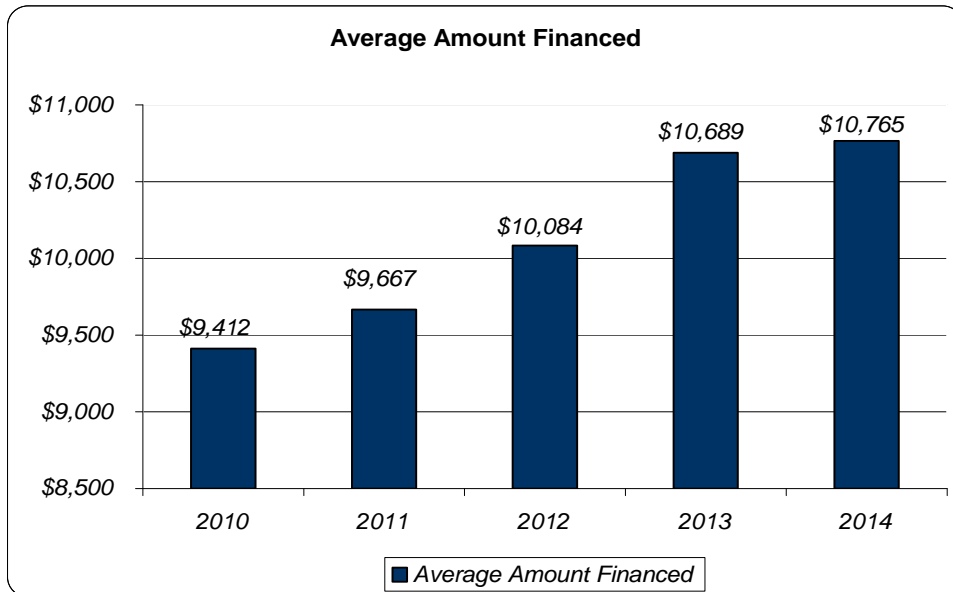
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Average Customer Down Payment: 2010 – 2014



Source: Subprime Analytics

BHPH FINANCIAL TRENDS Average Amount Financed: 2010 – 2014



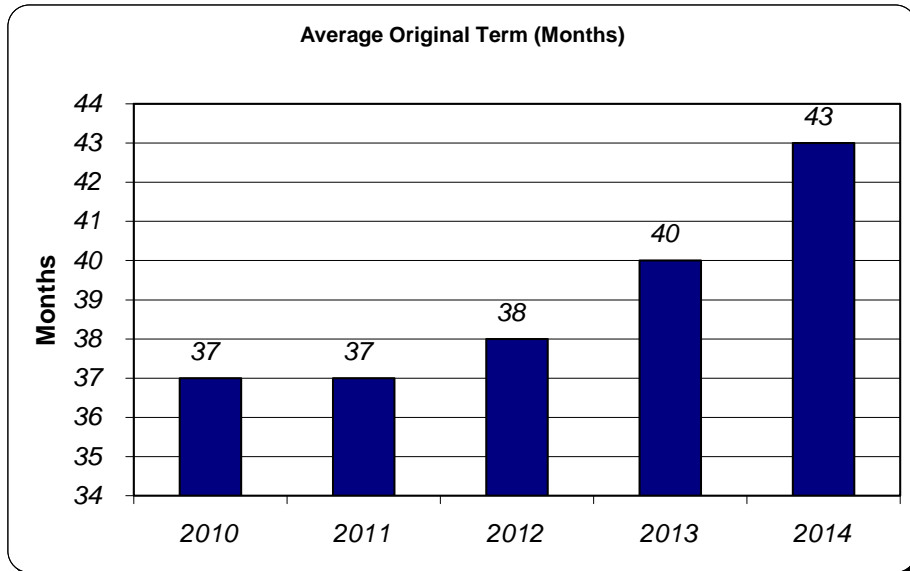
Source: Subprime Analytics



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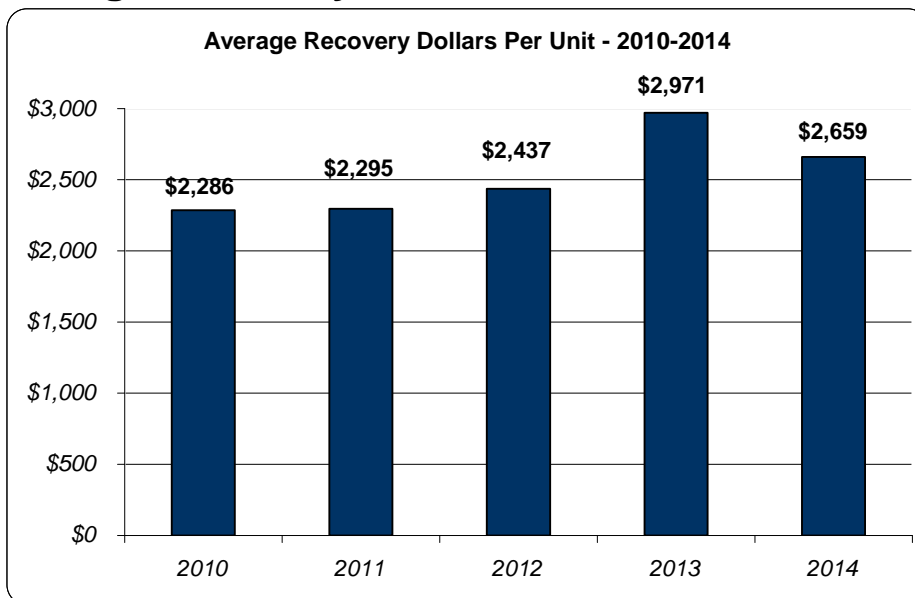
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Average Original Term (Months)



Source: Subprime Analytics

BHPH FINANCIAL TRENDS Average Recovery Dollars Per Unit: 2010 – 2014



Source: Subprime Analytics

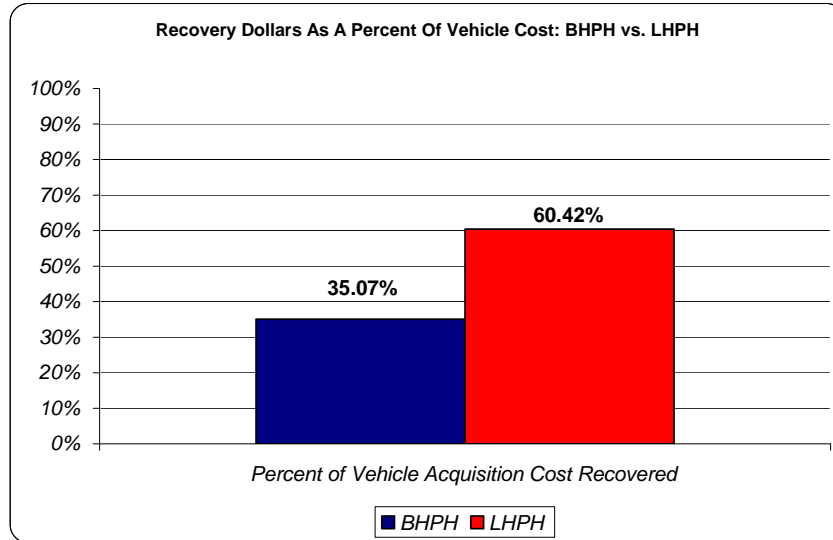


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BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS

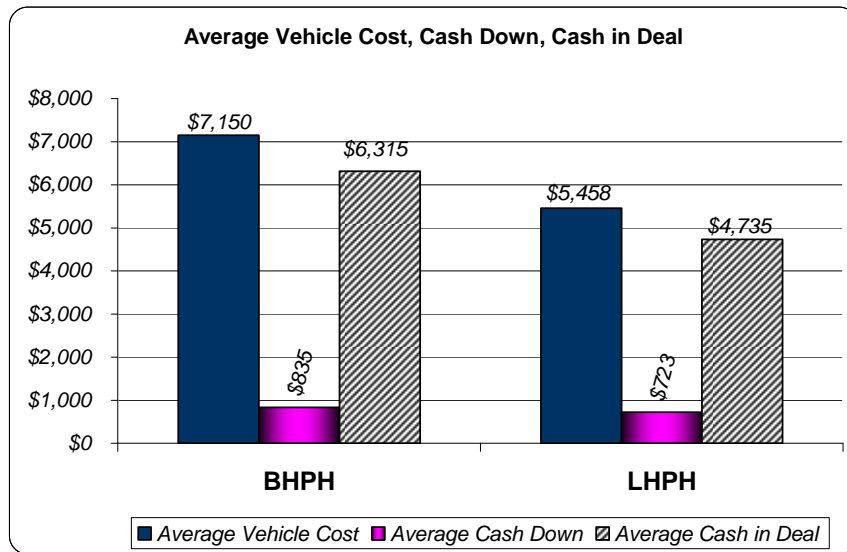
Recovery Dollars As a Percent of Vehicle Cost: BHPH vs. LPHH



Source: Subprime Analytics

BHPH FINANCIAL TRENDS

Average Vehicle Cost, Cash Down Payment, Cash in Deal: BHPH vs. LPHH



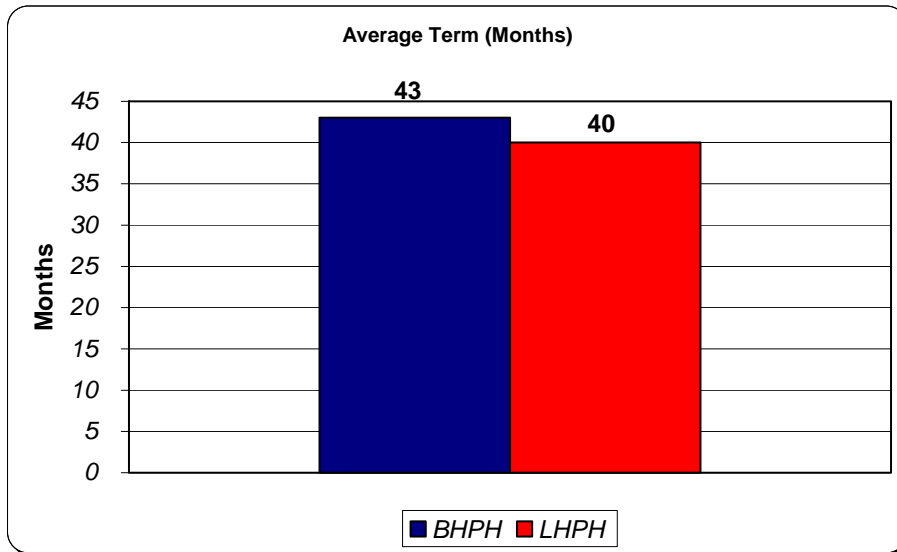
Source: Subprime Analytics



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BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Average Term: BHPH vs. LPHH



Source: Subprime Analytics



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