Buy Here, Pay Here Industry Benchmarks/Trends

- 2016 -

"Our Goal Is Your Success"

www.bhphinfo.com

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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 BHPH Twenty Group participants from NCM and NIADA.**

2) **All ratio and financial information on pages 5-6 has been verified for accuracy and comparability as to accounting policies and practices.**

3) **Financial results are combined (dealer and related finance affiliate), where applicable.**

4) **Intercompany activity has been eliminated from financial information, as applicable.**

5) **Financial information was provided by SGC Certified Public Accountants, Houston, Texas.**

6) **Loss statistics were electronically determined by Subprime Analytics, who performed computerized portfolio analysis of approximately 1,800,000 subprime auto finance deals – aggregating nearly $18.0 billion – to identify loss rates and patterns.**

2016 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 data base. This year, the NABD benchmarks also include operating information on sales, collections and recoveries, and inventory management developed, supplied by NCM and NIADA 20 Groups, based upon composites of their BHPH 20 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 $18 billion (nearly 1.8 million deals) of subprime 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, and important trend information.

At the Nineteenth (19th) Annual National Buy Here, Pay Here Conference in Las Vegas on May 23-25, 2017, at Wynn|Encore, we will discuss these benchmarks and trends to help operators understand the changing subprime auto finance market. For further information, visit *www.bhphinfo.com*. Industry reports for the past five years can be downloaded free of charge at *www.subanalytics.com*.

2016 YEAR IN REVIEW!

The financial benchmarks for 2016 reflect significantly increased competition within the deep subprime marketplace, which began late 2013. The more significant factors that impacted the deep subprime market in 2016 were:

1) Unit sales for most operators declined or were flat compared with 2015 volumes. Significant market competition continued from third-party finance, credit unions, and franchise dealers who aggressively financed deep subprime customers in late model vehicles over longer terms. Many independent operators chose not to match those underwriting decisions and opted for lower unit sales and debt reduction. Individual operators were affected by varying levels of competition in local markets. Rural markets were less competitive than urban markets. A few operators expanded their lot facilities (added lots) in an attempt to gain market share. Experian market data indicated that the declines in BHPH deep subprime financing by independent operators in 2016 shifted primarily to credit unions. Franchise operators and finance companies slowed sales of

new and CPO vehicles to deep subprime customers as repayment performance deteriorated in the second half of the year.

2) Subprime competition which was particularly aggressive in deep subprime financing (customers with credit scores below 500) who purchased new and late-model CPO (certified pre owned) vehicles (less than two years old) with low down payments, high repayments, and terms of more than 50 months experienced higher defaults. Several deep subprime auto bond securitizations incurred higher losses and lower returns than projected with investors.

3) History indicates that higher default rates occur on deals with “too much vehicle and too little customer”. More charge-offs on deep subprime auto securitizations should be anticipated in the future. These customers will return to the BHPH market and their repossessed vehicles will be available at auction when they default. Profit opportunities for independent operators will improve in the future as this occurs.

4) BHPH operators again found inventory acquisition to be challenging given the increased competition. Wholesale inventory supplies improved from 2015, resulting from greater availability of trades from the increased new car sales, from off-lease and off-rental vehicles, and from repos. Although vehicle prices stabilized some operators bought more expensive vehicles or increased reconditioning in an attempt to compete.

5) Technology now plays a more vital role in improving BHPH operating efficiency. Most BHPH customers have smart phones. This cellular link has become an important way for 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 is now available. Operators who proactively utilized online marketing, social media, and advance tax refunds fared better than those who did not. With inflation and compliance costs increasing, operators must improve efficiency by implementing technology to contain operating cost increases.

6) In June 2016, the AICPA passed a new credit loss measurement standard for all types of receivables. The new standard will require holders of receivables to provide a “life of loan” loss reserve in the future. This accounting change will impact both lenders and borrowers as they implement the new standard. In 2016, bad debt expense increased from greater loss severity caused by charge offs of higher amounts financed and from lower recoveries on the liquidation of repos. Some operators

increased their allowance for bad debts in anticipation of the aforementioned accounting change and from the higher charge offs.

7) New regulatory challenges surfaced in 2016 as the FTC, CFPB, and various state attorney generals' offices scrutinized BHPH compliance and investigated operating and collection practices.

8) Operators with greater financial flexibility (more equity and/or available lines of credit) fared best. The increased competition requires that operators preserve their financial flexibility. Absent increases in sales, this can be done by controlling expenses, better underwriting and collections, debt reduction, and by having more cash efficient business models.

9) Operators who are financially able to withstand competitive challenges from lost market share will prosper in the future as subprime customers return to the independent dealers. In the interim, operators are advised to implement technology to improve operational efficiencies, streamline internal systems and processes, and maximize recoveries to mitigate bad debt losses. Business models should maximize cash returns on investment (ROI) as increased borrowing becomes a more expensive alternative.

10) 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 again included lease benchmark metrics in 2016. These loss metrics are a guide for those considering the lease model and for those already using it. It is recommended that operators understand their applicable state laws and obtain capital before implementing a leasing model.

WHAT'S AHEAD FOR 2017?

Although profitability was again challenging for the BHPH industry in 2016, better profit opportunities are ahead for operators positioned to capitalize on them as follows:

1) Sales by independent operators should increase as competition declines and as some deep subprime securitizations continue to default sending customers back into the independent operators market.

2) Although inventory availability remains challenging, improved sourcing tools are available to help locate wholesale vehicles. Operators who utilize these new tools will fare better than those who don't. Price stabilization will benefit future acquisition costs.

3) Regulatory scrutiny will continue to detect non-compliant "bad apples" in the subprime auto industry thereby eliminating unwanted and unfair

competition. Building stronger customer relationships versus just adding more sales transactions will help operators regain market share and keep their customers paying. Operators must be proactive in order to regain lost market share and become compliant with existing regulations.

4) "Money on the street" must be reduced by larger down payments and higher repayments rather than more borrowing. Shorter repayment terms produce a higher cash ROI and increases cash flow thereby creating improved financial flexibility.

5) Risk and portfolio ROI are best managed and monitored by using metrics like static pool, loss liquidation and default calculations. These metrics are needed to access the tightening capital markets and to properly apply the new credit loss measurement standard.

6) Operators who implement technology will improve efficiency and regain market share without incurring corresponding increases in operating costs. Technology has never been more beneficial for those who implement it properly.

7) Future success will be best achieved by "keeping vehicles sold" and customers paying over the entire life of the contracts. This requires matching customers with vehicles they can afford, and by keeping contract terms shorter rather than longer.

8) The lease model has merit. Leasing can be used to reduce customer repayments, shorten contract terms, and increase recoveries. However, the future popularity and growth of this alternative business model is dependent upon capital availability and the state regulations where it is utilized.

Operators must educate themselves to the latest industry developments, manage portfolio risk, implement technology, improve financial flexibility and become compliant. Networking, education and training can help. Success in the BHPH industry is achieved over time, not overnight! The old ways are not working like they used to, so it's important to embrace the changes!

Kenneth B. Shilson, CPA, is President of Subprime Analytics, www.subanalytics.com, a consulting company that provides subprime portfolio analysis services. 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, who will hold its 19th annual BHPH convention on May 23-25, 2017, at Wynn|Encore in Las Vegas. The conference will focus on "The Changing World of BHPH".

BUY HERE, PAY HERE INDUSTRY BENCHMARKS / TRENDS 2016

Prepared for NABD by SGC Certified Public Accountants

Ratio Comparisons: 2014 - 2016

COMBINED BUY HERE / PAY HERE	2016 Average BHPH Benchmark	2015 Average BHPH Benchmark	2014 Average BHPH Benchmark
Balance Sheet			
(Inventory x Days) / Cost of Vehicle Sales	53.21 days	53.44 days	55.82 days
Cost of Vehicle Sales /Average Inventory Dollars	6.89 x	6.73 x	6.54 x
Vehicle Sales / Average Inventory Dollars	11.39 x	11.55 x	11.47 x
Vehicle Sales / Total Assets	0.89 x	0.89 x	0.93 x
Total Assets / Total Liabilities	1.63 x	1.78 x	1.97 x
Allowance for Bad Debts / Finance Receivables*	26%	24%	23%
Total Debt / Total Assets	62%	56%	51%

* Finance receivables are net of unearned finance charges

COMBINED BUY HERE / PAY HERE	2016 Average BHPH Benchmark	2015 Average BHPH Benchmark	2014 Average BHPH Benchmark
Income Statement			
Bad Debts / Vehicle Sales	27%	25%	26%
Cost of Vehicle Sales / Vehicle Sales	61%	60%	60%
Gross Profit*** / Vehicle Sales	29%	31%	31%
Operating Expense / Vehicle Sales	23%	22%	22%
Interest Expense / Financing Income	18%	19%	18%
Operating Income / Vehicle Sales	6%	9%	9%
Financing Income / Vehicle Sales	17%	16%	17%
Compensation** / Vehicle Sales	12.0%	11.4%	10.6%
Reconditioning Cost / Vehicle Sales	8.4%	8.3%	7.6%

NOTES TO RATIO COMPARISONS:
**Compensation excludes those of the owners
***Gross Profit is net of bad debts and financing income
x = times

S | Certified
G | Public
C | Accountants

Cost of Goods Sold and Operating Expense Detail: 2014- 2016

	2016 % of Vehicle Sales	2015 % of Vehicle Sales	2014 % of Vehicle Sales
Cost of Vehicle Sales			
Cost of vehicles	49.24%	49.59%	50.06%
Reconditioning costs	8.39%	8.31%	7.63%
Other	3.13%	2.44%	2.72%
Total cost of vehicle sales	**60.76%**	**60.34%**	**60.41%**
Operating Expense			
Advertising	3.74%	3.93%	3.82%
Bank charges	0.17%	0.18%	0.28%
Contributions	0.03%	0.02%	0.03%
Depreciation	0.49%	0.52%	0.46%
Dues and subscriptions	0.15%	0.14%	0.12%
Insurance	0.31%	0.32%	0.29%
Legal and accounting	0.24%	0.28%	0.45%
Outside services	0.79%	0.38%	0.20%
Office expense	0.79%	0.90%	0.83%
Rent	2.28%	2.27%	2.20%
Repairs and maintenance	0.15%	0.34%	0.16%
Salaries (non-owners)	11.97%	11.36%	10.56%
Taxes - general	0.09%	0.07%	0.18%
Other operating expense	0.16%	0.23%	0.03%
Taxes - payroll	0.51%	0.52%	0.84%
Utilities and telephone	0.59%	0.42%	0.67%
Travel / Training	0.33%	0.38%	0.43%
Total operating expense	**22.79%**	**22.26%**	**21.55%**

SGC Certified Public Accountants

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BUY HERE, PAY HERE INDUSTRY BENCHMARKS / TRENDS 2016

Prepared for NABD by NCM and NIADA 20 Groups

20 Group Dealer Operating Information: 2014 - 2016

Sales	2016 NIADA Benchmarks	2016 NCM Benchmarks	2015 NCM Benchmarks	2014 NCM Benchmarks
Average units sold per dealer (BHPH deals only)	708	585	635	550
Average cash in deal per vehicle sold	$ 6,466	$ 5,656	$ 6,353	$ 5,777
Average ACV per vehicle sold (includes recon)	$ 7,438	$ 6,034	$ 6,403	$ 6,237
Average reconditioning cost per vehicle sold	$ 811	$ 1,126	$ 1,221	$ 1,207
Average gross profit per vehicle sold	$ 5,868	$ 4,462	$ 4,675	$ 4,484
Average cash down payment (including trades)	$ 972	$ 1,014	$ 1,091	$ 1,089
Average amount financed	$ 12,862	$ 10,395	$ 10,909	$ 10,567
Average term of loan (in weeks)	186	147	159	153
Collections / Recoveries				
Average weekly payment amount	$ 98	$ 84	$ 91	$ 89
Percentage of accounts past due	17.9%	18.7%	17.6%	16.3%
Average # of past due accounts per collector	94	87	82	101
Average net loss per charge off	6,807	$ 5,098	$ 5,058	$ 4,820
Average portfolio delinquency				
Current	82.10%	81.30%	83.10%	83.80%
0-10 days	N/A	12.00%	9.70%	8.60%
1-15 days	10.50%	N/A	N/A	N/A
11-29 days	N/A	3.60%	3.90%	3.90%
16-29 days	3.60%	N/A	N/A	N/A
30-59 days	2.30%	1.70%	1.90%	2.30%
60-89 days	0.80%	0.60%	0.80%	0.90%
90+ days	0.70%	0.80%	0.60%	0.50%
	100.00%	100.00%	100.00%	100.00%
Inventory Management				
Vehicle Days Supply (Units)	59	71	84	91
Average inventory aging				
0-30 days	48.70%	44.00%	41.30%	42.40%
31-60 days	23.50%	23.50%	22.20%	23.70%
61-90 days	14.30%	11.40%	14.70%	15.50%
91+ days	13.50%	21.10%	21.80%	18.40%
	100.00%	100.00%	100.00%	100.00%

NATIONAL INDEPENDENT AUTOMOBILE DEALERS ASSOCIATION

ncm ASSOCIATES

Loss Metrics - 2016

Loss Metrics	2016 BHPH Benchmarks	2015 BHPH Benchmarks	2014 BHPH Benchmarks
Average gross dollar loss (before recoveries)	$ 7,771	$ 8,111	$ 8,408
Average net dollar loss (after recoveries)	$ 6,355	$ 6,061	$ 5,749
Average default rate (% of loans written off)	33.96%	31.45%	31.16%
Average gross dollar loss rate (% of principal)	38.76%	37.35%	38.57%
Average net dollar loss rate (% of principal)	28.42%	27.91%	26.37%
Average recovery (% of charge off recovered)	23.87%	25.30%	31.60%
Highest cumulative default month after origination	22nd Month	21st Month	18th Month
Highest frequency of default (month after origination)	7th Month	7th Month	7th Month
Worst periodic loss month after origination	February	February	February

Note: The above referenced loss data was determined by electronically analyzing approximately 1,800,000 loans, aggregating nearly $18.0 billion to identify loss rates and to understand why they occurred.

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Loss Metrics - 2016

Loss Metrics	2016 LHPH Benchmarks	2015 LHPH Benchmarks	2016 BHPH Benchmarks
Average gross dollar loss (before recoveries)	$ 12,070	$ 11,657	$ 7,771
Average net dollar loss (after recoveries)	$ 5,578	$ 5,523	$ 6,355
Average default rate (% of loans written off)	32.26%	32.21%	33.96%
Average recovery (% of charge off recovered)	53.79%	52.62%	23.87%
Highest cumulative default month after origination	18th Month	22nd Month	22nd Month
Highest frequency of default (month after origination)	6th Month	10th Month	7th Month
Worst periodic loss month after origination	February	March	February

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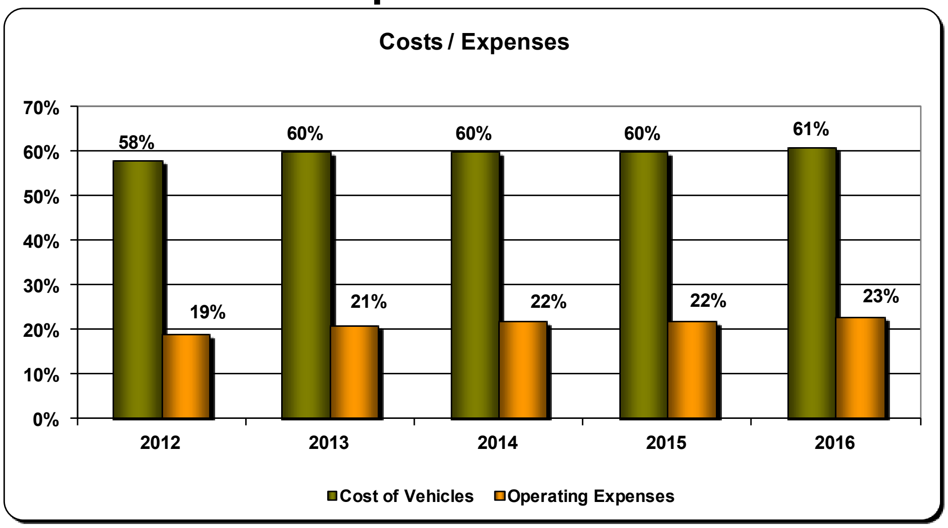
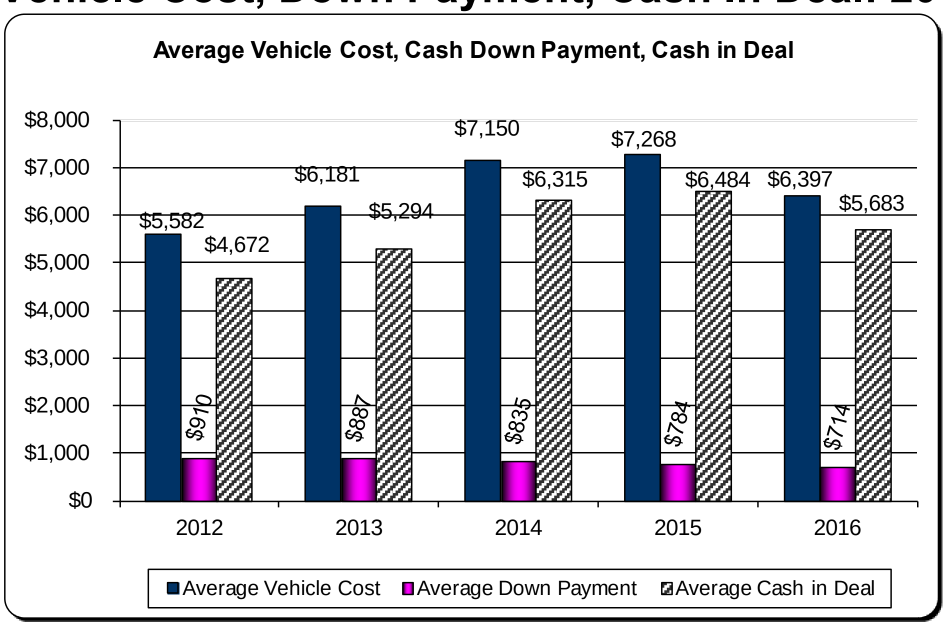
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS
Costs / Expenses: 2012 – 2016



Note: Percentages are expressed as a percentage of total sales.
Source: SGC Certified Public Accountants

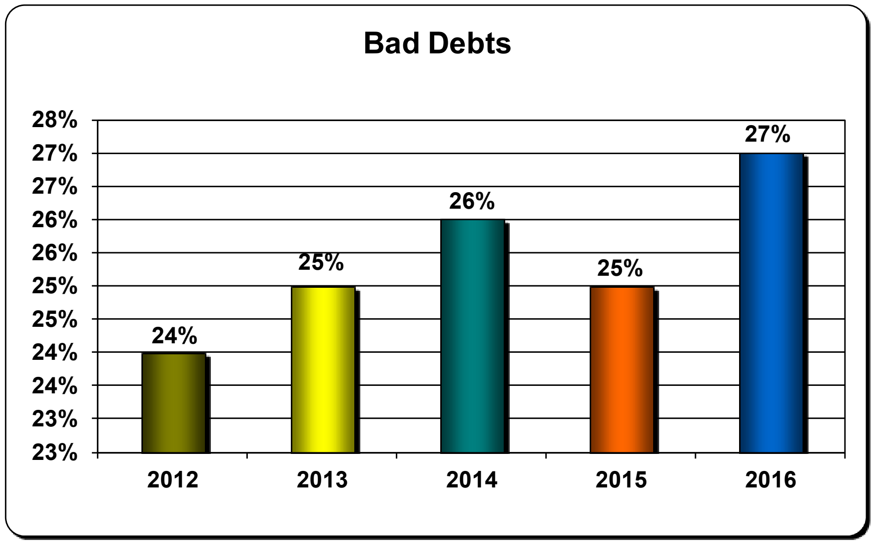
BHPH FINANCIAL TRENDS
Average Vehicle Cost, Down Payment, Cash In Deal: 2012 – 2016



Source: Subprime Analytics

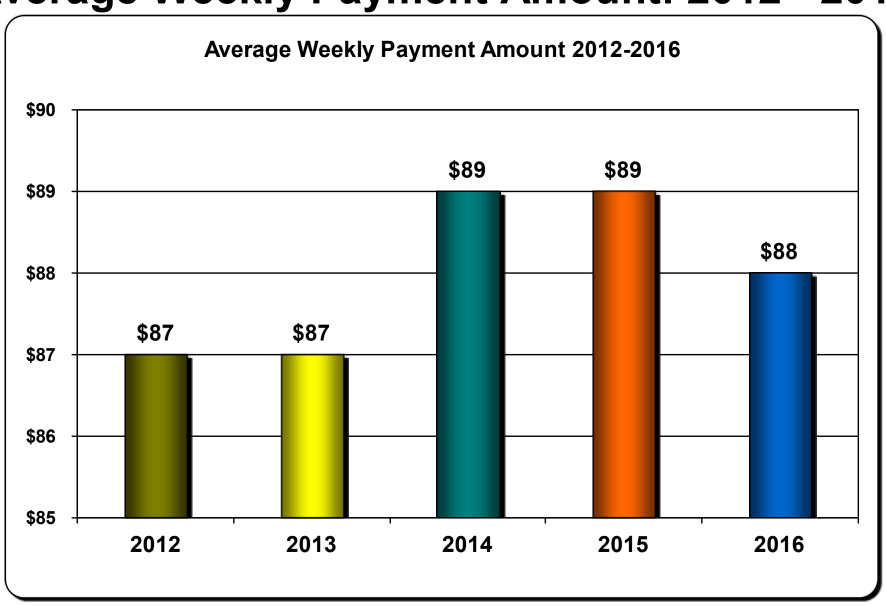
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS
Bad Debts: 2012 - 2016



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

BHPH FINANCIAL TRENDS
Average Weekly Payment Amount: 2012 - 2016



Source: Subprime Analytics

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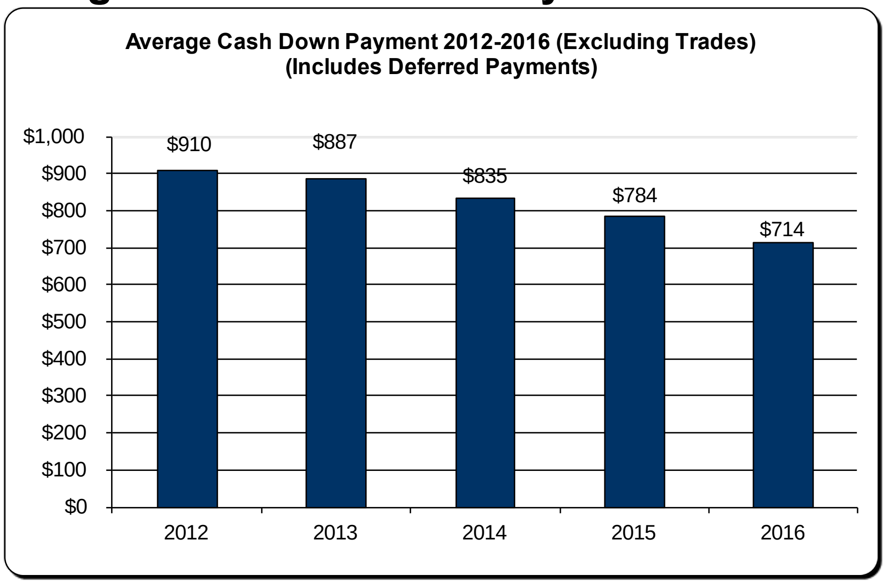
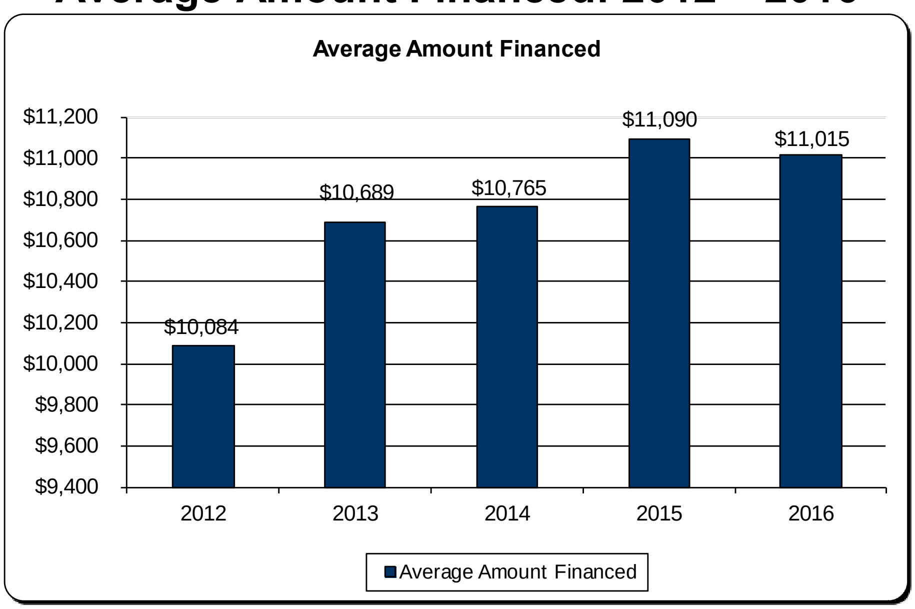
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS
Average Customer Down Payment: 2012– 2016



Source: Subprime Analytics

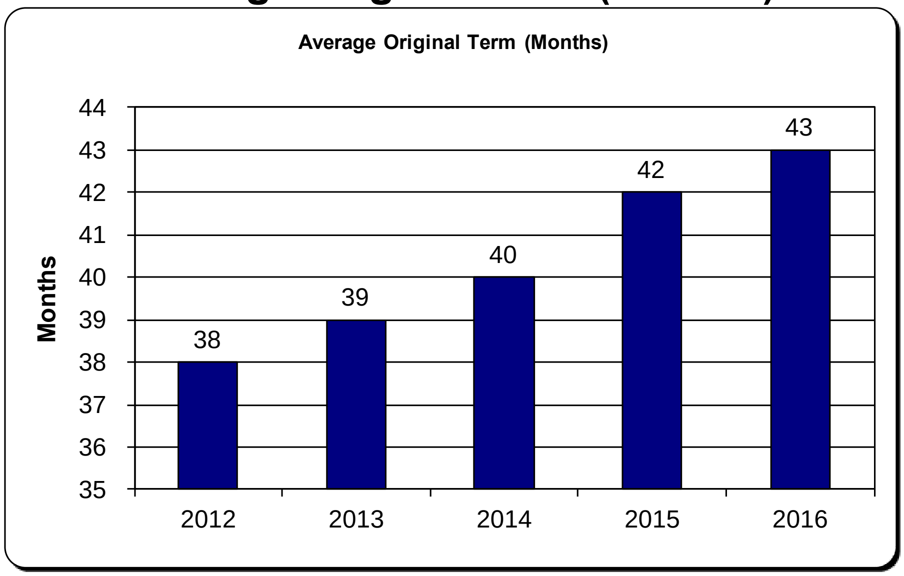
BHPH FINANCIAL TRENDS
Average Amount Financed: 2012 – 2016



Source: Subprime Analytics

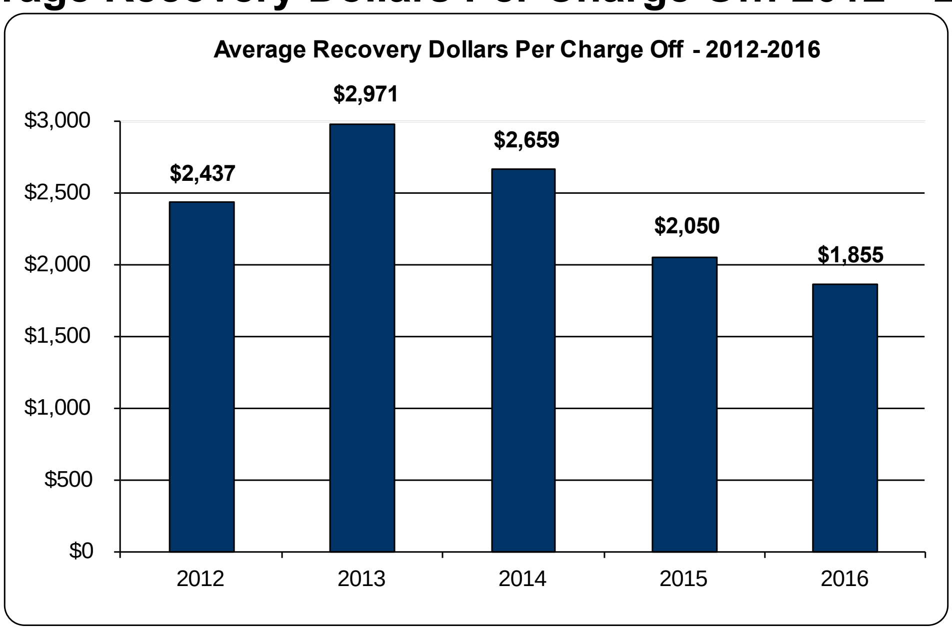
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS
Average Original Term (Months)



Source: Subprime Analytics

BHPH FINANCIAL TRENDS
Average Recovery Dollars Per Charge Off: 2012 – 2016



Source: Subprime Analytics

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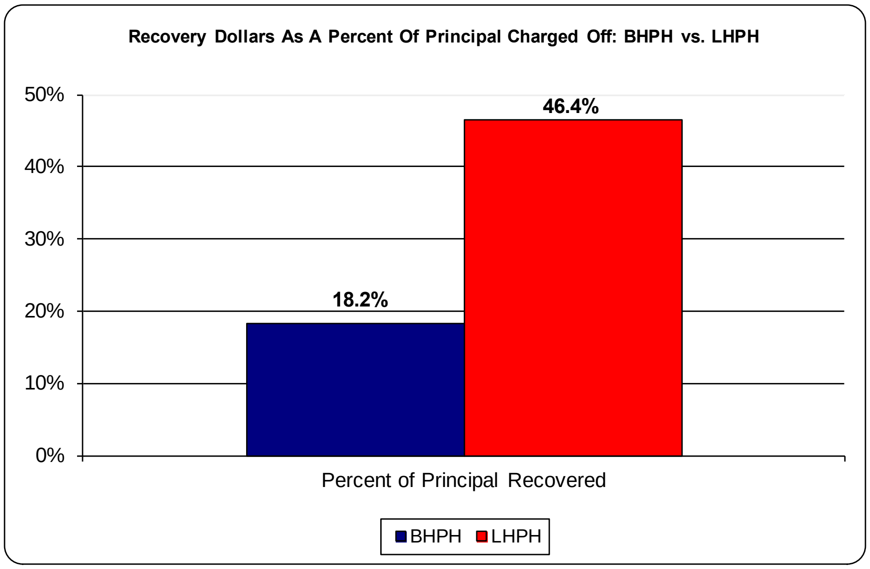
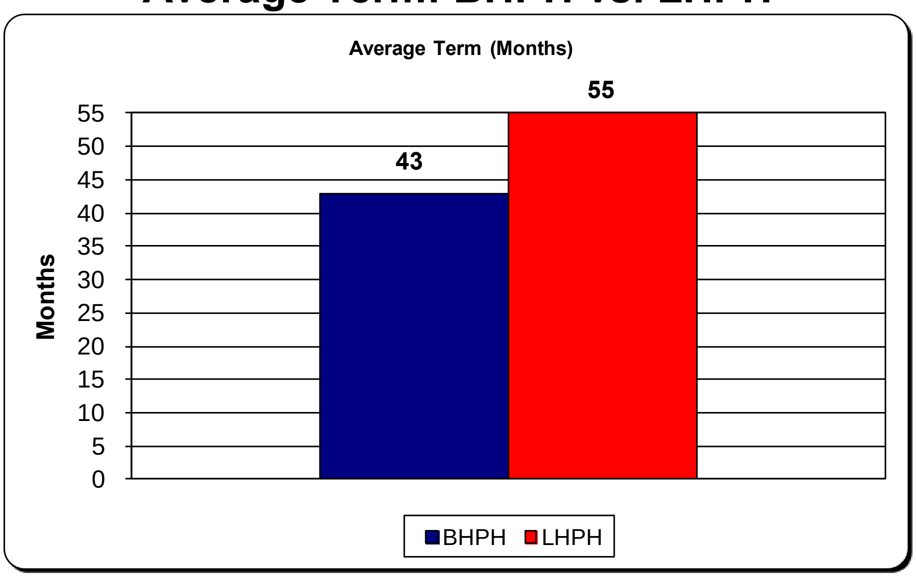
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS
Recovery Dollars As a Percent of Principal Charged Off: BHPH vs. LHPH



Source: Subprime Analytics

BHPH FINANCIAL TRENDS
Average Term: BHPH vs. LHPH



Source: Subprime Analytics