

BHPH BENCHMARKS

BY JASON Y. CHEUNG, CPA

ABOUT SGC...

Since 1985, our firm has provided public accounting services to a variety of industries across the nation. Our professional services extend beyond public accounting, to include, auditing, tax return preparation & compliance, financial institution due-diligence, business planning, mergers & acquisitions, and litigation support. We specialize in providing services to the subprime industry, with a special emphasis on used car operations; serving auto dealers and their related finance companies nationwide.

To learn more about Shilson, Goldberg, Cheung & Associates, LLP, please visit us at www.sgcaccounting.com.

The latest Buy Here, Pay Here industry benchmarks are now available at www.sgcaccounting.com. The financial benchmarks are compiled by our firm for NABD from a database of more than 500 operators nationwide. These benchmarks also include operating information supplied by NCM Twenty Groups and portfolio performance metrics supplied by Subprime Analytics. Following are some highlights of these benchmarks:

	2008	2007	2006
Sales	100%	100%	100%
Cost of vehicle sales	(60%)	(63%)	(64%)
Subtotal	40%	37%	36%
Financing Income	18%	16%	18%
Bad Debts	(21%)	(19%)	(20%)
Gross Profit	37%	34%	34%

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

Source: NABD and compiled by Shilson, Goldberg, Cheung & Associates, CPA's

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ACCOUNTING FOR LEASE HERE, PAY HERE

BY STEVEN A. CARSTENS, CPA

In the past six months, Lease Here, Pay Here has jumped to the forefront of dealer conversation, promising improved cash flows through deferred sales tax and deferred federal tax. While many dealers rushed to jump on the leasing bandwagon, few stopped to consider the implications that leasing would have on the accounting of their business.

Firstly, lets define a few leasing basics. There are two types of leases for accounting purposes. An operating lease is generally a short term lease that is treated similarly to a rental operation, in which the inventory remains on your books as an asset and you simply collect rental income each month.

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Ratio Comparisons: 2006 - 2008

COMBINED BUY HERE / PAY HERE

Balance Sheet

	<u>2008 Average Benchmark</u>	<u>2007 Average Benchmark</u>	<u>2006 Average Benchmark</u>
(Inventory x Days) / Cost of Vehicle Sales	68.57 days	56.21 days	55.03 days
Cost of Vehicle Sales / Average Inventory Dollars	5.96 x	8.51 x	9.22 x
Vehicle Sales / Average Inventory Dollars	9.98 x	13.59 x	14.51 x
Vehicle Sales / Total Assets	.96 x	1.27 x	1.18 x
Total Assets / Total Liabilities	1.61 x	1.82 x	2.01 x
Allowance for Bad Debts / Finance Receivables*	18%	14%	16%
Finance Receivables* / Total Assets	89%	85%	87%
Total Debt / Total Assets	62%	55%	50%

* Finance receivables are net of unearned finance charges

COMBINED BUY HERE / PAY HERE

Income Statement

	<u>2008 Average Benchmark</u>	<u>2007 Average Benchmark</u>	<u>2006 Average Benchmark</u>
Bad Debts / Vehicle Sales	21%	19%	20%
Cost of Vehicle Sales / Vehicle Sales	60%	63%	64%
Gross Profit*** / Vehicle Sales	37%	34%	34%
Operating Expense / Vehicle Sales	21%	19%	18%
Interest Expense / Financing Income	23%	20%	17%
Operating Income / Vehicle Sales	16%	15%	16%
Financing Income / Vehicle Sales	18%	16%	18%
Compensation** / Vehicle Sales	11%	10%	9%
Reconditioning Cost / Vehicle Sales	4%	5%	5%

NOTES TO RATIO COMPARISONS:

**Compensation excludes those of the owners

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

x = times

Interested in comparing your financial results with these benchmarks? Contact us at 713.290.8171 to find out how we can assist you!

*Comments or questions?
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Send an email to debra@sgcaccounting.com*

MISTY M. HAYS
SENIOR ACCOUNTANT

My name is Misty Hays and I have been a part of the SGC team for almost four years. My career with SGC began in 2005, when I joined the firm as an intern. I am currently a Senior Accountant for SGC; and while I am part of the tax department here at the firm, I also oversee the financial statement preparation for our clients.



I was born and raised in the Houston area. In 2006, I graduated from the University of Houston, receiving a Bachelors of Business in Accounting. I have since completed graduate school along with parts I & II of the CPA exam. I am set to complete parts III & IV by year's end.

Outside of SGC, during my free time I enjoy crossword puzzles, biking, and spending time with my family and friends.

My role at SGC allows me to interact with clients across the country on a day-to-day basis, and I continue to enjoy meeting so many hardworking & friendly people. If I haven't had the opportunity to work with you yet, I am sure we will sometime in the future.

A capital lease, on the other hand, is generally a longer term lease that is treated similarly to a Buy Here, Pay Here sale, in which the inventory's sold off the books and a lease receivable is established for the balance due from the customer.

Does it matter which type of lease I do? Well, if you need a bank loan, then yes it does. Very few banks have lines of credit specifically for Lease Here, Pay Here operations, but because a capital lease is treated very similarly to a Buy Here, Pay Here sale, bankers are often able to retrofit Buy Here, Pay Here lines of credit to support capital leases.

While capital leasing may be the answer to your banking woes, capital leases do have draw backs. Capital leases do not have the same favorable federal tax treatment that operating leases enjoy and there are certain legal issues related to capital leases. Capital leases can appear very similar to a sale; a sale is subject to Regulation Z disclosures, however, which lease contracts are not. If a court finds your lease is too similar to a sale, you could end up in a lot of legal trouble because you did not make the required Regulation Z disclosures. But with careful planning there may be middle ground between legal and accounting considerations.

Accounting rules and legal rules are not the same; therefore, it is possible to structure a lease such that your attorney can feel comfortable the lease will not be construed as a sale and at the same time meet the accounting requirements for capital lease treatment. Accounting for leases is governed by FAS No. 13, which states that if a lease meets any one of the following four criteria, it may be treated like a capital lease:

- 1) The lessor transfers ownership of the asset to the lessee at the end of the lease term.
- 2) A bargain purchase option is given to the lessee. This is an option that allows the lessee, upon termination of the lease, to purchase the leased asset at a price significantly lower than the expected fair market value of the asset.
- 3) The life of the lease is equal to or greater than 75% of the economic life of the asset.
- 4) The present value of the minimum lease payments (MLP) is equal to or greater than 90% of the fair market value of leased property.

Rule 4 effectively states that if the present value of the customer's lease payments exceed 90% of the value of the vehicle, the lease is a capital lease. While most dealers will try and collect the most money possible during the lease, state laws regarding lease residuals and interest rates will ultimately determine whether or not you can meet the 90% rule.

Leasing may be the future in certain states, but until lines of credit become available for operating leases, dealers will continually have to jump through hoops to make leasing work in the Buy Here, Pay Here environment.