Buy-Here, Pay-Here Trends Market Perspectives 2020

For 2020, The National Alliance of Buy Here, Pay Here Dealers (“NABD”) and Subprime Analytics, with the approval and participation of the National Independent Automobile Dealers Association (NIADA), prepared this industry report from a database of dealers and operators nationwide. The financial information included herein was prepared and contributed by SGC Certified Public Accountants (“SGC”). The financial information they used represents a composite of the “best performing” operators and not an average of the entire industry. This information includes operating data on sales, collections and recoveries, and inventory management, supplied by NCM and NIADA 20 Groups from composite averages. This year we have again included industry perspectives from Tax Refund Services (“TaxMax” on tax refunds), NIADA (on compliance and regulatory), technology, and capital. Also included are portfolio performance metrics compiled electronically by Subprime Analytics (“Subprime”) which, to date, has analyzed approximately $25.5 billion (2.5 million deals) of subprime installment contracts to identify loss rates, patterns, and trends. In the aggregate, these statistics and the industry perspectives provide a comprehensive view of the financial and operating performance of the industry, and important trend information for 2020.

In 2018, NIADA purchased the assets and operations of NABD and merged the two organizations. Subprime Analytics has contracted to provide analytical services, including periodic data to NIADA to support important initiatives for the used car industry. For further information, visit www.bhphinfo.com or www.niada.com. Industry reports for the past five years can be downloaded free of charge at www.subanalytics.com.

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TAX MAX

LEGAL AND GOVERNMENT AFFAIRS SUMMARY

The following commentary was provided by Brett Scott, Vice President of Government Affairs for NIADA.

As 2020 and the Trump administration came to a close, the hot issue throughout the country was COVID-19. As the nation sorted through a lockdown, NIADA took a leading role in advocating for Congress to pass legislation to help independent dealers and other small businesses get through the crisis.

Dealers responded to the association's call to action, telling their representatives and senators to vote for the first Coronavirus Aid, Relief and Economic Security (CARES) Act, a $2.2 trillion relief package that was passed and signed into law by President Trump on March 27. NIADA continued to take a leading role and successfully wrote a letter calling on the Administration to include auto sales as an essential service permissible during the emergency situation.

On the State front, across the nation NIADA and affiliated State associations engaged with representatives over a multitude of issues. NIADA successfully sent letters to all 50 governors urging the state and local governments to include vehicle sales among the essential services permitted to remain open during any lockdown. In addition, NIADA continued to fight the battle of states introducing legislation regarding starter-interrupt devices in the auto industry.

In the regulatory world, 2020 was busy for our members. First, NIADA engaged with Kathy Kraninger, former director of the Consumer Financial Protection Bureau (CFPB) and provided insight into our industry and our concerns. Secondly, following seven years of studies, CFPB issued its final rule updating the Fair Debt Collection Practices Act, clarifying how the 1977 law applies to 21st century communication technology such as email, text and social media. Finally, NIADA joined the National Automobile Dealers Association, the National Auto Auction Association and other auto industry groups in a letter to U.S. Customs and Border Protection regarding the United States-Mexico-Canada Agreement. The USMCA unintendingly includes language that could be interpreted as placing tariffs on used vehicles manufactured before USMCA. With the new Administration, NIADA will continue to engage on behalf of our members.

Furthermore, the Department of Defense announced it was rescinding its controversial interpretation of the Military Lending Act Rule that effectively prevented auto finance providers from financing GAP coverage on auto purchases by military service members.

The compliance risk and concerns led many dealers and finance companies to stop offering those products to individuals covered by the MLA.

In the 116th Congress, several bills were introduced that would impact dealerships including a bill that would prevent the sale of any used vehicle with any open, unrepaired recall and several bills designed to be more consumer protection oriented.

As we look to 2021 with Democrat control of all Houses, NIADA will continue to be the voice of the used car industry with Regulatory Agencies and Members of Congress.

TAX SEASON FOR INDEPENDENT DEALERS

Below is an interview with William Neylan, President/Owner of TaxMax in Tampa, FL.

1. When did the tax filing season start and end in 2020 for Subprime customers?
In January of 2020, the tax season started around the middle of January. However, after the pandemic began in March, the IRS extended the tax filing deadline from April 15 to July 15, 2020.

2. What dealers fared the best in 2020 and why?
With tax season starting in the middle of January, consumers began filing at the beginning of January to get their tax refund checks. In January and February, consumers were in a better financial position as explained later and they did not hurry to get their refunds so filings were constant and spread out during January and February. Consumers would go to car dealerships to get their taxes filed and apply their refund toward the purchase of a vehicle. Consumers would apply for a Refund Advance at the dealership which gave them access to the tax refund up to 6-8 weeks before the IRS released the actual refund. BHPH dealers were able to work with customers as early as October of 2019 putting their 2020 refund money to work. Some BHPH dealers also setup an irregular payment or a pickup payment and had the customer make a promise to pay a special payment in February. Therefore, dealers got money down at the time of the sale and received an additional special tax payment on February 28, 2020. This helped reduce the length of their contracts by up to 20%.

3. What was the average refund in 2020?
The average refund in 2019 was $4,511.74, an increase of 9.4% over the prior year. The reason for the increase in the tax refunds in 2020 was because of the "New Trump Tax Plan". The earned income credit increased 3% while the child tax credit increased from $1,000 to $2,000 per child. The Trump Tax Plan remained in place and the average refund for 2020 (to date) was $5,800.50 which is an increase of 28.6%. This increase can be attributed to adding stimulus checks previously not received to the refund and using the prior year's earned income in the refund calculation (if larger).

4. When did the IRS start and stop processing refunds in 2020 and what effect did the Covid-19 crisis have on the season?
The IRS started processing tax returns during the middle of January. But, because of The Path Act, all tax refunds that had an Earned Income Credit, an Additional Child Tax Credit or Education Credits could not be processed until after February 15. The COVID-19 crisis began in March and many dealerships were forced to shut down. Therefore, tax filings halted. In response, the IRS extended the tax filing deadline until July 15. With the Covid crisis and the tax season extended, tax filings were sporadic after March.

5. What impact did the Path Act and Covid-19 have on 2020 refunds?
Because of the Path Act, some refunds could not be processed until after February 15. Taxpayers have become more aware of the Path Act and their filing patterns are moving into February vs. January. Consumers that were "hungry" for their refunds alternatively had access to a Refund Advance which they got as early as January 2.

6. How did the 2020 tax refunds impact the selling season for independents last year?
Tax Max has a portfolio of over 3000 franchise and independent dealer clients. We saw all our dealers have a slower start to the tax season as consumers were in a better financial position in January, 2020, and did not rush to file for a tax refund. People were fully employed, wages were rising and some were getting overtime which gave consumers more purchasing and negotiating power.. However, some consumers used their refund to put money down or to buy "more car" by filing for a Refund Advance and receiving their tax refund up to 8 weeks before the IRS actually released it.

7. How would you characterize the financial ability of consumers when tax season ended on July 15, 2020 compared to the start of tax season on January 1, 2020.
Consumers started 2020 in a better financial position with unemployment at record lows; consumers were working full time, getting overtime, wages were rising and they had some savings. Once the pandemic started, employers were laying off and furloughing employees at record paces. Consumers relied on their savings and tax refunds to live, not buy cars. The government provided the first round of stimulus checks of $1200 per adult and $500 for every child. These payments came out in April and May and this kept the consumer going. At July 15, some consumers were getting back to work but many were suffering financially as their savings were exhausted.

TECHNOLOGY THAT INCREASES EFFICIENCY

The following commentary was provided by Ken Shilson, who interviewed various technology providers who serve the subprime auto finance industry.

In the margin-compressed post-pandemic environment, technology plays an important role in the recovery of the subprime auto finance industry. Fortunately, the technology which is available today is the best in history! However, operators must invest and implement it into their operations if they expect to remain competitive and profitable. The current economic environment requires operators to "make more from less" and the following technology helps them do that!

GPS / PAYMENT DEVICES – Collections are the "gas" which fuels the subprime auto finance business. After conducting several independent studies and interviewing many device users, I concluded that there only two types of dealer/operators: those who are using these devices and those who should be using them! Such devices complement, not replace, effective collection departments by improving recoveries, reducing collection costs by increasing efficiency, and providing a psychological incentive for customers to pay. Our studies confirm all of these attributes.

TEXTING SOLUTIONS – Texting is one of the newest ways to collect from and connect with subprime customers. Subprime customers "live inside their smart phones" and utilize Facebook, Instagram and other social media sources as a primary source of entertainment. We noted operators who used texting with social media were more successful during the pandemic than those who did not. Texting technology appears to be an important tool in the future of the subprime auto finance business as customers want to spend less time in dealerships and do more online via social media.

DMS SYSTEMS – Dealer Management software (DMS) has evolved significantly over the past five years. The best systems today are internet based and provide a fully integrated network to other business solutions. Integration is a vital ingredient for improving operating efficiency. The data stored inside these systems provides important artificial intelligence which can be mined and used to make better operating decisions. DMS solutions which integrate with payment devices, CRM technology, texting platforms, credit scoring and portfolio analysis, online credit applications, and which include inventory management and sourcing connectivity together with other integrations are not a luxury; they are a necessity!

INVENTORY ACQUISITION – Inventory availability at higher costs and capital were constraints to sales and profitability in 2020. Although the market for "good" inventory at reasonable prices may improve in 2021, vehicle acquisition remains a major challenge. Fortunately, excellent sourcing tools are now available to find vehicles nationally and to facilitate acquisition searches. Operators who have used online tools to source inventory fared better than those who are still using older, more labor-intensive methods.

OTHER TECHNOLOGY – The aforementioned technology are only examples of what operators need today. Other technologies such as pay portals, alternative credit resources, automated calling devices and ways customers can find and buy vehicles online are needed to compete.

In conclusion, operators must make the necessary technology investments today if they want to remain competitive tomorrow. Automation increases operating efficiencies, profitability and cash flow which will be needed to fully recover from the pandemic.

CAPITAL MARKETS

The following commentary was provided by Ken Shilson, President of NABD and Subprime Analytics, based upon conversations with capital providers to the Subprime Auto industry.

From a buy here, pay here lender's perspective, 2020 was a year like no other. While there is no need to rehash the events of 2020, most lenders focused on how their collateral for auto finance receivable portfolios would perform through the COVID-19 induced economic shutdown. In late March and early April, lenders assessed their collateral positions and assigned more downside risk which resulted in higher expected loss provisions.

Little did lenders know that the federal government would rush to the subprime customers aid with generous stimulus checks that created a tax-season "tidal wave of cash" to auto receivable portfolios. Further, many buy here, pay here dealers received Paycheck Protection Program (PPP) and Economic Disaster Relief loans that injected much needed cash into their businesses to fund short-term working capital needs. Given these influxes of cash, many lenders reduced some of the loss reserves they set aside in the first and second quarters, and became more "cautiously optimistic" about the remainder of the year.

If nothing else, 2020 forced lenders to really "know their dealers' portfolios" and to understand their underlying businesses. Most lenders (starting in March and April) began to actively monitor portfolio trends. Weekly "deep-dive" portfolio review meetings focused on:

- Cash collection rates;
- Delinquency rates;
- Recency rates;
- Deferment rates;
- Repossession rates; and
- Charge-off rates (eventually monthly CRR's).

Delinquency rates (based upon recency) dipped to approximately 90% in April from the sudden rise in unemployment. Many dealers offered payment extensions and/or accepted partial payments in an effort to "keep their customers in their vehicles." As a result, lenders had to grant some exceptions or waivers on collateral performance covenants and/or loan eligibility criteria. These exceptions were short-lived as customers (once they received government stimulus and unemployment benefits) made their car payments and brought their accounts current.

Ultimately, loss rates (net charge offs after recoveries expressed as a percentage of average receivable balances) in 2020 were some of the lowest that dealers and lenders have seen since "The Great Financial Crisis." Undoubtedly, federal stimulus payments and higher repo recovery rates reduced net losses. All in all, most lenders' portfolios performed relatively well in 2020.

Starting in mid-to-late summer, dealer portfolio performance became more normal. As a result, lenders began marketing to prospects and relying on remote due diligence and audits. Some new lenders entered the market in search of yield with new products structured to offer reduced front-end interest rates in exchange for outsourcing collections and the proceeds from remarketing repos.

Like lenders in the buy here pay here space, many contract purchasers did not know what to expect in 2020. The year began with dealers selling contracts to raise cash for inventory acquisitions. After the sudden economic shutdown in March and April, many contract purchasers expected to see an influx of auto finance portfolios for sale with proceeds used to fund dealers' cash operating needs, as vehicle sales came to an abrupt halt. These expectations were not met however as dealers received Paycheck Protection Program (PPP) and Economic Disaster Relief loans. Compounding the issue for contract purchasers was the fact that dealers had a hard time finding inventory to support their normal monthly sales levels. Given the cash infusions and lower sales volumes, most of 2020 proved to be a relatively soft year for contract buyers.

Contract purchasers did experience more normal levels of contract availability in late summer and the fall as dealers restocked with seasonal inventory purchases and contracts garnered more attractive pricing with the additional aging.

SUBPRIME AUTO ASSET BACKED SECURITIES MARKET

According to the New York Fed and Equifax, auto loan originations for consumers below a 620 Riskscore totaled $109.9 billion in 2020, down 9.7% from $121.7 billion in 2019. These levels were the lowest since 2014.

Subprime consumer auto asset-backed securities issues declined in 2020 when compared to 2019 and 2018. During 2020, 49 subprime auto asset-backed securitizations closed (raising approximately $27.7 billion) compared to 56 deals ($29.7 billion in 2019) and 58 transactions ($32.1 billion in 2018).

The subprime auto asset-backed securities market was not immune from COVID-19. Markets essentially shut down in March and April resulting in sharp increases in yields. These rates (which reflected a view of higher credit risk and uncertainty from investors) gradually decreased over the second half of the year. Some issuers experienced historically low yields due to the combination of low interest rates and lower credit premiums required by investors.

Significant investor interest persisted throughout 2020 given the global demand for yield and increased credit enhancements required by the rating agencies. In addition, some issuers opted to temporarily increase reserves and incorporate covenants limiting the number of receivables that had loan extensions or deferments, in an effort to alleviate investor concerns about declines in obligors' payment rates.

WHAT'S AHEAD IN 2021?

The following commentary was provided by Ken Shilson, President/Founder of Subprime Analytics and NABD.

Dealers started 2021 with optimism as stimulus payments were used by subprime customers to make down payments and repayments on used vehicle purchases. These stimulus payments arrived just as their tax filings and related refunds were delayed by several weeks. (The IRS started processing tax refunds on February 12, much later than in 2019.) The good news is that the combination of stimulus checks and delayed tax refunds will create a longer selling season for independent dealers in 2021.

Capital and vehicle inventory availability at reasonable costs will continue to constrain the pandemic recovery in 2021, while COVID-19 vaccinations strive to end the health crisis. Operators should anticipate that it will take at least twelve months for the return of "economic normalcy".

In the interim, operators must be proactive in adapting to existing market conditions. Those who have access to capital, who implement cutting-edge technology, embrace social media to connect with and collect from subprime customers, and who have effective compliance management systems will survive and prosper. The recovery will offer exceptional opportunities for independent operators to regain lost market share and to regrow their portfolios for those who recognize the market changes which resulted from the pandemic. This report will help identify the important changes.

Buy-Here, Pay-Here Financial Perspective / Data 2020

Financial Review / Performance Data

The following commentary and the financial information which follows was provided by SGC Certified Public Accountants, Houston, Texas.

To say 2020 was an interesting year is an understatement. The year started with one of the most serious threats the industry has ever seen yet ended with record profits generally across the board. The Pandemic, although devastating to the country, forced dealers to cut costs, decrease debt levels and invest in technology, all of which made dealers stronger at the end of the day. Who would have thought we would see the day when local BHPH dealers would be delivering vehicles to customers homes and doing virtual appointments? How times are changing!

The financial benchmarks definitely reflect these changing times. Sales were generally flat or even down compared to 2019 but BHPH dealers are not sales driven, they are portfolio driven, and luckily portfolio performance was spectacular. Charge offs declined more than 20% compared to 2019 most likely due to government stimulus money and customers more likely to hang on to their existing vehicle. With significantly improved charge offs came significantly improved collections and interest income collected from customers rose 17% and for the first time in years, interest collected actually covered the bad debt expense. Strong collections and Paycheck Protection Program funds allowed dealers to reduce their debt levels and improve their equity position. Reduced debt levels and falling interest rates also resulted in lower interest expense.

During 2020, vehicle scarcity and strong demand did drive up vehicle costs and the benchmarks do show an uptick in inventory costs, but not nearly as much as expected. Many dealers simply refused to pay premium inventory prices and ran their inventory levels down and changed their inventory mix to hold pricing.

Surprisingly operating expenses actually increased slightly over 2019. Dealers did make significant cuts to advertising and travel and training expenses but had no choice but invest more in technology and we saw significant increases in dues and subscriptions as well as outside services.

As we enter 2021, dealers need to be cautious. When stimulus money stops and foreclosures begin there will likely be a significant hit to the portfolio. Dealers who have deleveraged, cut costs and improved their technology will be in the best position to tackle whatever 2021 and beyond brings us.

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C | Accountants

NOTES TO FINANCIAL DATA

1) Financial information was prepared from the best performing dealer/operators in the SGC database of BHPH dealers nationwide.

2) The ratio and financial information which follows has been verified for accuracy and comparability.

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

4) Intercompany activity has been eliminated from the financial information, where applicable.

Ratio Comparisons: 2018-2020

(STATISTICS SUPPLIED BY SGC CERTIFIED PUBLIC ACCOUNTANTS)

COMBINED BUY HERE-PAY HERE BALANCE SHEET

	2020 AVERAGE BHPH BENCHMARK	2019 AVERAGE BHPH BENCHMARK	2018 AVERAGE BHPH BENCHMARK
(Year End Inventory X Days) / Cost Of Vehicle Sales	64.96 days	51.89 days	50.51 days
Cost Of Vehicle Sales / Average Inventory Dollars	5.79 x	7.42x	7.35 x
Vehicle Sales / Average Inventory Dollars	9.00 x	11.77x	12.03 x
Vehicle Sales / Total Assets	0.78 x	0.90x	0.89 x
Total Assets / Total Liabilities	1.81 x	1.70x	1.61 x
Allowance For Bad Debts / Finance Receivables*	22%	23%	25%
Total Debt / Total Assets	56%	59%	63%

* FINANCE RECEIVABLES IS PRINCIPAL BEFORE ALLOWANCE FOR DOUBTFUL ACCOUNTS

COMBINED BUY HERE-PAY HERE INCOME STATEMENT

	2020 AVERAGE BHPH BENCHMARK	2019 AVERAGE BHPH BENCHMARK	2018 AVERAGE BHPH BENCHMARK
Bad Debts / Vehicle Sales	19%	24%	29%
Cost Of Vehicle Sales / Vehicle Sales	64%	63%	61%
Gross Profit*** / Vehicle Sales	38%	31%	30%
Operating Expense / Vehicle Sales	21%	20%	20%
Interest Expense / Financing Income	10%	17%	15%
Operating Income / Vehicle Sales	17%	11%	10%
Financing Income / Vehicle Sales	21%	18%	20%
Compensation** / Vehicle Sales	11.38%	10.20%	10.11%
Reconditioning Cost / Vehicle Sales	8.7%	8.5%	8.5%

NOTES TO RATIO COMPARISONS:
**COMPENSATION EXCLUDES THAT OF THE OWNERS
***GROSS PROFIT IS NET OF BAD DEBTS AND FINANCING INCOME
X = TIMES

Income Statement: 2018-2020

(STATISTICS SUPPLIED BY SGC CERTIFIED PUBLIC ACCOUNTANTS)

	2020 BEST DEALER BENCHMARK	2019 BEST DEALER BENCHMARK	2018 BEST DEALER BENCHMARK
Vehicle Sales	100%	100%	100%
Cost Of Vehicle Sales	-64%	-63%	-61%
Gross Profit BEFORE Bad Debts and Financing Income	36%	37%	39%
Bad Debts Expense	-19%	-24%	-29%
Financing Income	21%	18%	20%
Gross Profit	38%	31%	30%
Operating Expense	-21%	-20%	-20%
Operating Income	17%	11%	10%
Interest Expense	-2%	-3%	-3%
Income Before Income Taxes And Officers Compensation	15%	8%	7%

Cost of Goods Sold and Operating Expense Detail: 2018-2020

(STATISTICS SUPPLIED BY SGC CERTIFIED PUBLIC ACCOUNTANTS)

COST OF VEHICLE SALES

	2020 % OF VEHICLE SALES	2019 % OF VEHICLE SALES	2018 % OF VEHICLE SALES
Cost of vehicles	52.51%	52.20%	49.81%
Reconditioning costs	8.65%	8.53%	8.53%
Other	2.84%	2.27%	2.66%
Total cost of vehicle sales	**64.00%**	**63.00%**	**61.00%**

OPERATING EXPENSE

	2020 % OF VEHICLE SALES	2019 % OF VEHICLE SALES	2018 % OF VEHICLE SALES
Advertising	2.24%	3.07%	3.29%
Bank Charges	0.33%	0.27%	0.23%
Contributions	0.03%	0.03%	0.02%
Depreciation	0.28%	0.30%	0.34%
Dues and Subscriptions	0.35%	0.20%	0.19%
Insurance	0.48%	0.34%	0.38%
Legal and Accounting	0.43%	0.58%	0.48%
Outside Services	0.40%	0.27%	0.24%
Office Expense	0.70%	0.70%	0.77%
Rent	2.08%	2.00%	2.13%
Repairs and Maintenance	0.26%	0.21%	0.27%
Salaries (Non-Owners)	11.38%	10.20%	10.11%
Taxes - General	0.32%	0.14%	0.10%
Other Operating Expense	0.14%	0.04%	0.05%
Taxes - Payroll	0.82%	0.84%	0.72%
Utilities and Telephone	0.54%	0.50%	0.39%
Travel / Training	0.22%	0.31%	0.29%
Total Operating Expense	**21.00%**	**20.00%**	**20.00%**

SGC Certified Public Accountants

The following Dealer operating information was provided by NIADA and NCM 20 Groups and represent composite averages from their group participants.

NIADA Commentary / Data

METHODOLOGY: The NIADA BHPH Benchmarks are based upon the 2020 results of over 160 BHPH Dealers from around the country. These benchmarks are the averages of the top half of performers based on their business efficiency or Pre-tax profits as a percent of sales. This allows the cross section of dealers to include all sizes of dealerships, not just large ones, and these benchmarks represent the averages of this sample group. The mix of dealers included in the 2020 sample differs from those in 2019 thereby creating some comparability differences.

INVENTORY & RECONDITIONING: 2020 was a roller coaster ride to say the least. We saw a normal increase in wholesale values in the first two months, then the pandemic lockdowns began. From mid-March through most of April, there was a significant drop in wholesale values. Dealers with adequate capital took advantage of this situation, buying everything they could find. By the beginning of May, as dealerships reopened, (as essential businesses) prices rose dramatically, supply dwindled to extremely low levels and Auctions shut down. Price increases remained high after Auctions reopened (physically or virtually) and the supply remained low due to lower volumes in franchise stores, virtually no cars coming off lease and diminished fleet sales. Prices have remained high to date and that trend will likely continue into the third quarter of 2021.

SALES & MARKETING: Sales results were off slightly from 2019 volumes but most of the decline was due to second quarter shutdowns and the need for dealers to shift into digital and remote retailing. Many dealers suffered during the pandemic lockdown months but followed with record sales months during the summer. The fourth quarter saw another decline in sales as leads plummeted. This was likely due to the presidential election and the gap in stimulus payments.

COLLECTIONS & PORTFOLIO PERFORMANCE: Portfolio performance as evidenced by cash collections, recency and charge-off results were the best in years. Dealers in our sample were more conservative and avoided the trap of underwriting too deep. This approach resulted in lower sales volumes and lower approval rates on applications submitted. Dealers recorded record cash collections during several months in 2020, but that trend began to wane near the end of the year (which explains why no significant changes in December 31 delinquency and recency rates). Dealers experienced lower net losses (after recoveries) due to lower repossession rates and higher ACV values of repossessed vehicles.

EXPENSES: Dealers spent the spring reviewing their operating expenses in anticipation of a possible long term (recession-like) event. They made changes to their operating processes and increased automation to reduce the need for personnel and realize cost savings.

NCM Commentary / Data

OVERVIEW: COVID-19 was the main focus in 2020. Maintaining a safe environment for both employees and customers was the number one priority for dealers. We saw the dealers that were willing to adapt and embrace federal, state, and local safety guidelines perform better than expected. Federal stimulus funds bolstered sales increases and improved portfolio collection performance. Dealers who were able and willing to do business saw year over year increases in sales and better than expected collections.

SALES - Unit sales were down slightly in 2020 for our dealer clients as a whole bolstered by an increase from our Large Volume (Over $10m A/R) dealer clients, with Small Volume (Under $10m in A/R) dealer clients showing a double digit reduction in sales volume. For those who experienced an increase in volume, it can be directly attributed to a willingness to operate virtually within federal, state, and local safety guidelines. Restrictive state and local safety guidelines were the primary reason for dealers that experienced a decline. A few operators chose to take a more conservative approach from an employee and customer safety standpoint, resulting in sales declines.

INVENTORY - Average cost of vehicles for both Large and Small Volume dealers increased significantly with Large Volume dealers experiencing the bulk of the increase. The lack of available new inventory for franchise dealers caused a significant increase in demand in used vehicles pushing prices up substantially. The increase in demand and subsequent price increases caused a reduction in overall inventory carrying levels. Reconditioning costs remained static across our dealer client base.

COLLECTIONS - Delinquencies remained static for both Large and Small Volume dealers. The number of accounts charged off dropped by 12% with the average net loss increasing by a combined 13%. This was aided in part by a 6% increase in Cash in Deal which was a direct result of an increase in average ACV that outpaced the increase in average down payments as well as slight increases in gross profit.

20 Group Dealer Operating Information: 2018-2020

(PREPARED BY NIADA AND NCM 20 GROUPS)

SALES	2020 NIADA BENCHMARKS	2019 NIADA BENCHMARKS	2018 NIADA BENCHMARKS	2020 NCM BENCHMARKS	2019 NCM BENCHMARKS	2018 NCM BENCHMARKS
Average Units Sold Per Dealer (BHPH Deals Only)	1,080	684	816	571	579	569
Average Cash In Deal Per Vehicle Sold	$6,403	$6,206	$6,116	$6,529	$6,192	$5,848
Average ACV Per Vehicle Sold (Includes Recon)	$6,364	$6,275	$6,820	$7,035	$6,596	$6,086
Average Reconditioning Cost Per Vehicle Sold	$1,100	$870	$1,018	$1,227	$1,171	$1,021
Average Gross Profit Per Vehicle Sold	$6,450	$6,029	$5,802	$5,035	$4,704	$4,536
Average Cash Down Payment (Excluding Trades, deferred downs)	$703	$735	$835	$1,267	$1,134	$1,046
Average Amount Financed	$12,206	$12,484	$11,917	$12,037	$11,824	$10,735
Average Term Of Loan (In Weeks)	174	184	186	154	149	145

COLLECTIONS / RECOVERIES	2020 NIADA BENCHMARKS	2019 NIADA BENCHMARKS	2018 NIADA BENCHMARKS	2020 NCM BENCHMARKS	2019 NCM BENCHMARKS	2018 NCM BENCHMARKS
Average Weekly Payment Amount	$98	$96	$97	$95	$91	$85
Percentage Of Accounts Past Due	20.4%	18.3%	19.7%	18.5%	17.2%	17.8%
Average # Of Past Due Accounts Per Collector	86	69	79	81	95	92
Average Net Loss Per Charge Off	$5,130	$6,646	$6,624	$5,665	$4,991	$4,665
Average portfolio delinquency						
Current	79.50%	81.70%	80.30%	81.50%	82.80%	82.20%
1-15 days	11.10%	9.80%	11.10%	12.80%	10.40%	11.20%
16-29 days	4.30%	3.50%	3.60%	3.60%	3.30%	2.90%
30-59 days	3.20%	2.70%	2.60%	1.20%	1.70%	2.00%
60-89 days	1.40%	1.00%	1.00%	0.30%	0.80%	0.60%
90+ days	0.50%	1.30%	1.40%	0.60%	1.00%	1.10%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

INVENTORY MANAGEMENT	2020 NIADA BENCHMARKS	2019 NIADA BENCHMARKS	2018 NIADA BENCHMARKS	2020 NCM BENCHMARKS	2019 NCM BENCHMARKS	2018 NCM BENCHMARKS
Vehicle Days Supply (Units)	65	61	55	69	76	58
Average inventory aging						
0-30 days	46.30%	45.50%	49.20%	44.20%	38.90%	44.10%
31-60 days	26.30%	22.70%	23.40%	22.70%	23.20%	25.10%
61-90 days	12.90%	16.70%	14.10%	10.30%	13.30%	12.30%
91+ days	14.50%	15.10%	13.30%	22.80%	24.60%	18.50%
TOTAL	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

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Portfolio Performance / Metrics

The following commentary was provided by Subprime Analytics, Houston, Texas. The loss metrics data and the graphs which follow were compiled using averages for the last four years (2017-2020 which represents the average original length of the contracts analyzed).

The impact of the COVID-19 pandemic on the industry is not apparent when viewing the four year metrics averages. Therefore, the commentary below isolates the performance metrics and trends attributable to the pandemic period from March through December. Although the pandemic threatened to have an adverse impact on the subprime auto finance industry, government stimulus and additional unemployment benefits saved the year! Dealer / operators (who were classified as essential businesses) received PPP loans and grants which provided them with the supplemental capital they needed to survive and prosper.

The most important metrics and trends during the pandemic period from March through December 2020 were as follows:

- Average Amounts Financed increased by approximately $400 (3.4%) per unit sold as dealers increased vehicle sales prices in an attempt to offset pandemic related declines in the volume of unit sales.
- Average Cash In Deal per unit sold increased by $550 (8.3%) as vehicle inventory was more expensive, caused by supply shortages, resulting in an 8.8% increase in the average ACV of the vehicles acquired.
- Operators Tightened Underwriting standards and increased down payments to preserve capital. This strategy helped reduce default rates and had a positive effect on collection results.
- Average Gross Dollar Chargeoffs (before recoveries) increased by 12.7% due to higher ACV of the vehicles collateralizing repayment defaults. However, net chargeoffs (after recoveries) benefitted from significant increases in the average value of recoveries on repossessions.
- Average Customer Repayments were increased to approximately $95 per weekly equivalent to keep from extending the average contract length at origination.
- Capital Availability was limited during the pandemic period as lenders took a more conservative lending approach given the uncertainties of the market conditions. In response, dealers were forced to cut operating expenses and place more emphasis on maximizing their internal cash flow. Although vaccinations may end the pandemic in the future, the recovery will likely extend well into 2021 and possibly beyond. In the interim, dealers must find ways to "make more from less" by avoiding costly, aggressive underwriting mistakes and by sourcing cost-effective inventory as they attempt to grow or to regrow their portfolios.

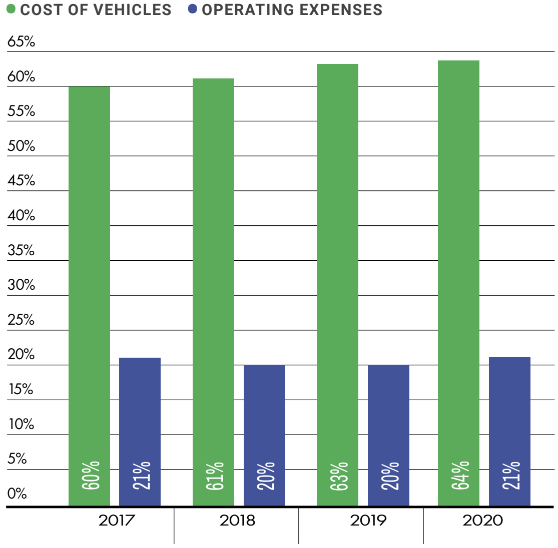
Loss Metrics: 2018-2020

(THE BELOW REFERENCED BHPH LOSS DATA WERE COMPILED BY SUBPRIME ANALYTICS AFTER ELECTRONICALLY ANALYZING APPROXIMATELY 2,519,000 CONTRACTS, AGGREGATING APPROXIMATELY $25.5 BILLION TO IDENTIFY LOSS RATES AND TRENDS.)

LOSS METRICS	2020 BHPH BENCHMARKS	2019 BHPH BENCHMARKS	2018 BHPH BENCHMARKS
Average Gross Dollar Loss (Before Recoveries)	$8,628	$8,510	$8,910
Average Net Dollar Loss (After Recoveries)	$6,228	$6,484	$7,033
Average Default Rate (% Of Loans Written Off)	36.77%	37.49%	35.58%
Average Gross Dollar Loss/Liquidation Rate (% Of Principal)	39.84%	41.74%	41.97%
Average Net Dollar Loss/Liquidation Rate (% Of Principal)	28.76%	31.81%	33.02%
Average Recovery (% Of Deficiency Recovered)	27.82%	23.81%	21.07%
Highest Cumulative Default (Month After Origination)	22nd Month	21st Month	22nd Month
Highest Frequency Of Default (Month After Origination)	5th Month	4th Month	8th Month
Worst Periodic Loss Month After Origination	February	February	February

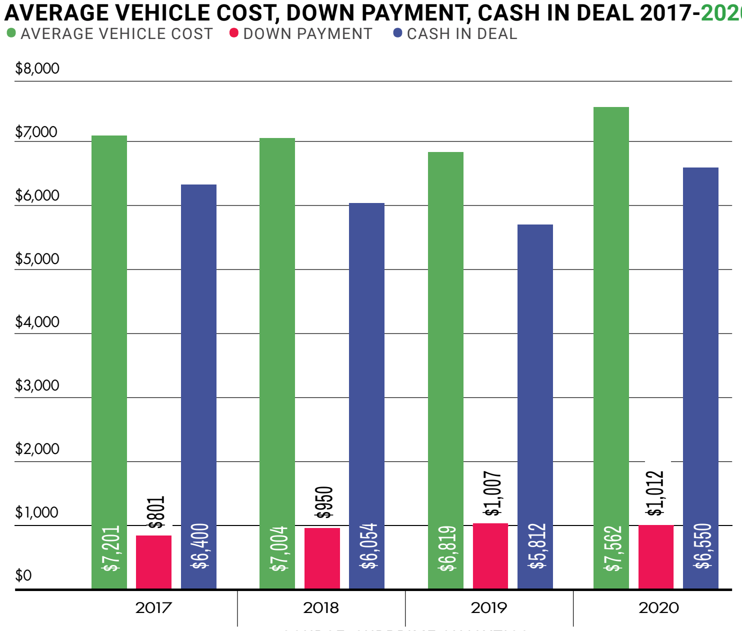
COSTS/EXPENSES 2017-2020

NOTE: PERCENTAGES ARE EXPRESSED AS A PERCENTAGE OF VEHICLE SALES.



SOURCE: SGC CERTIFIED PUBLIC ACCOUNTANTS

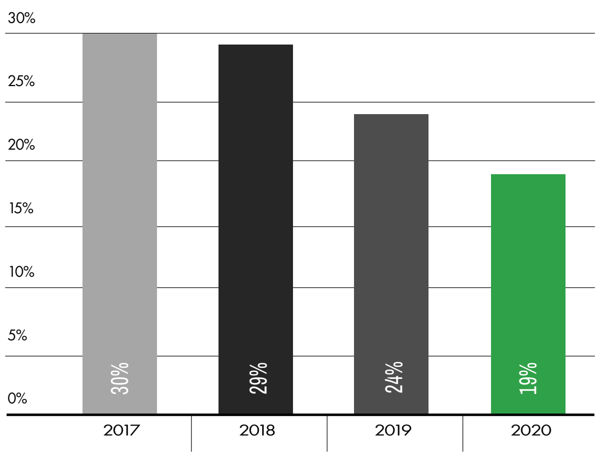
AVERAGE VEHICLE COST, DOWN PAYMENT, CASH IN DEAL 2017-2020



SOURCE: SUBPRIME ANALYTICS

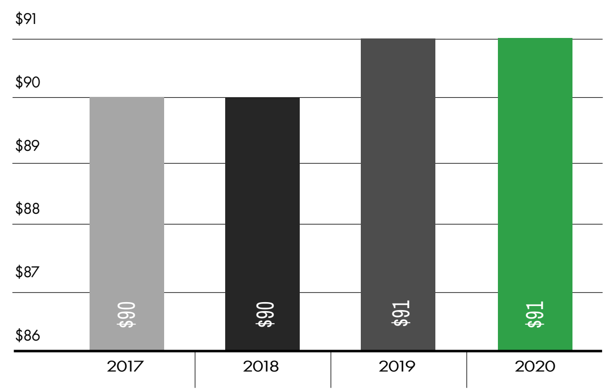
BAD DEBTS 2017-2020

NOTE: PERCENTAGES ARE EXPRESSED AS A PERCENTAGE OF VEHICLE SALES.



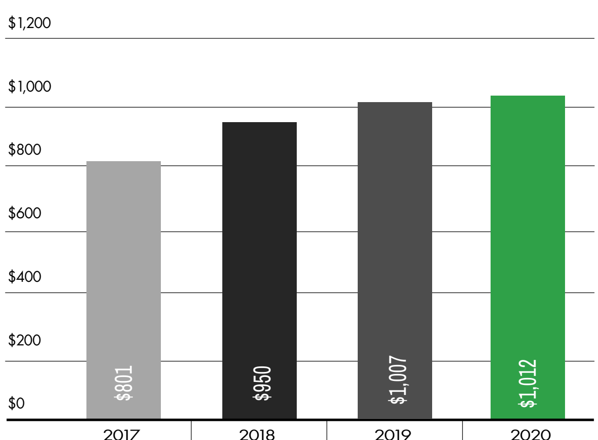
SOURCE: SGC CERTIFIED PUBLIC ACCOUNTANTS

AVERAGE WEEKLY PAYMENT AMOUNT 2017-2020



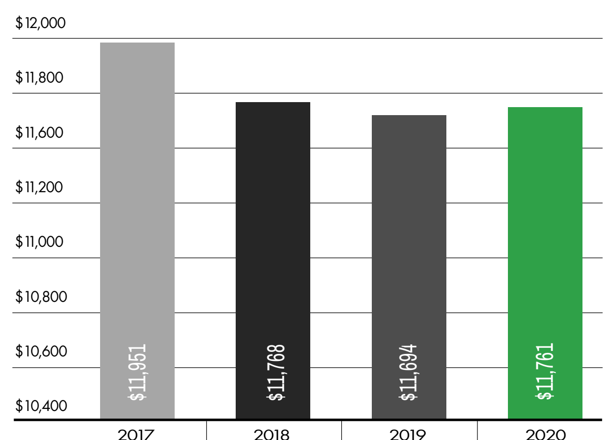
SOURCE: SUBPRIME ANALYTICS

AVERAGE CUSTOMER DOWN PAYMENT 2017-2020 (EXCLUDING TRADES)



SOURCE: SUBPRIME ANALYTICS

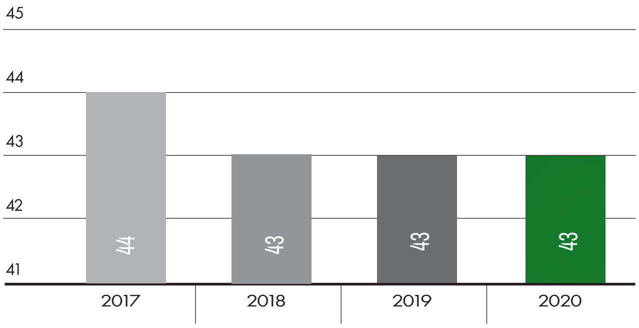
AVERAGE AMOUNT FINANCED 2017-2020 (EXCLUDING ADD-ONS)



SOURCE: SUBPRIME ANALYTICS

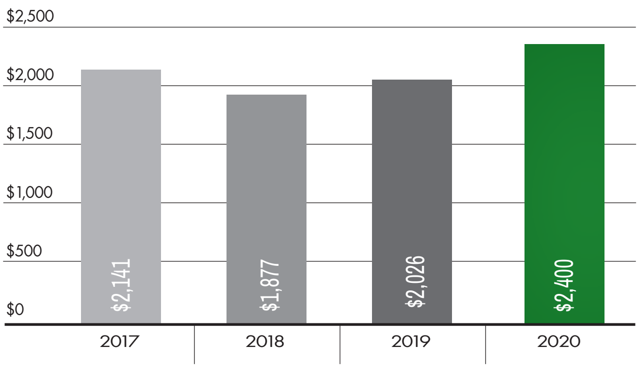
BHPH FINANCIAL TRENDS AVERAGE ORIGINAL TERM 2017-2020

AVERAGE ORIGINAL TERM (MONTHS)



SOURCE: SUBPRIME ANALYTICS

BHPH FINANCIAL TRENDS AVERAGE RECOVERY DOLLARS PER CHARGE OFF 2017-2020



SOURCE: SUBPRIME ANALYTICS

OUR SPECIAL THANKS TO ALL OF THE FOLLOWING CONTRIBUTORS FOR THEIR PERSPECTIVES AND DATA.

Their collective information provides a comprehensive view of the financial and operating performance of the BHPH industry and important trend information for 2020.

NABD

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