
BUY HERE, PAY HERE INDUSTRY BENCHMARKS/TRENDS - 2013 -

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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 was provided by SGC Certified Public Accountants, Houston, Texas.**
- 6) **Loss statistics were electronically determined by Subprime Analytics, who performed computerized portfolio analysis of nearly 1,300,000 subprime deals aggregating approximately \$12.0 billion to identify loss rates and patterns. Profit Max provides customized credit scoring solutions and is an affiliate of Subprime Analytics.**



2013 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 the entire database. 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 \$12 billion (nearly 1.3 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 Sixteenth (16th) Annual National Buy Here, Pay Here Conference at Wynn Las Vegas on May 20-22, 2014, Brent Carmichael of NCM and Ken Shilson will explain these benchmarks and trends to help operators identify future profit opportunities. For further information, visit www.bhphinfo.com.

2013 YEAR IN REVIEW!

The financial benchmarks for 2013 reflect a higher level of competition within the deep subprime marketplace. The more significant factors that impacted profitability were:

- 1) Unit sales for most operators were flat or declined (some by up to 25%) from 2012, due primarily to increased market competition from special finance sources that extended credit to BHPH customers. Individual operators were affected by varying levels of special finance competition in their local markets. Some operators expanded their facilities (added lots) to increase market share. Market data indicated that the BHPH deep subprime financing market share declined by more than 20% in 2013, while the market share for subprime finance companies grew by a corresponding percentage.
- 2) Subprime finance lenders (including franchise operators) were particularly aggressive in financing deep subprime customers (with credit scores



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below 550) who purchased new and late-model vehicles (less than three years old) with low down payments, high repayments, and terms of more than 60 months. Finance companies originated these “silly loans” in an attempt to “buy” market share quickly.

- 3) Capital poured into the subprime auto markets making special finance lenders overly aggressive in their underwriting policies and practices in search of high yields.
- 4) History indicates that higher default rates occur on deals with “too much vehicle and too little customer”. Recent Experian[®] Automotive Data shows that quarterly repossession rates for the second half of 2013 increased dramatically over the corresponding period in 2012 for special finance lenders. Charge-offs for special finance lenders in the fourth quarter were the highest since 2006 and averaged \$8,772.
- 5) BHPH operators again found inventory acquisition to be challenging. Lower new car sales from 2008-2012 provided a limited supply of BHPH vehicles (usually more than 4 years old), which kept auction prices high. Operators reduced inventory levels commensurate with a limited supply and reduced customer demand.
- 6) Technology played an important role in 2013 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, and other technology into BHPH operations continued. Operators who proactively utilized online marketing fared better than those who did not.
- 7) New regulatory challenges surfaced in 2013 when the FTC, CFPB, and various state attorney generals’ offices monitored compliance and investigated alleged deceptive 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 should expect more compliance scrutiny in 2014 and beyond.
- 8) Operators with greater financial flexibility (more equity and/or available lines of credit) fared best. Increased competition, the limited liquidity of their customers, and a higher cost environment were the major reasons why.
- 9) Given this overall environment, operators who managed risk successfully and opted to pass on making “silly loans” to maintain market share will benefit by avoiding defaults when these customers don’t perform.



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WHAT'S AHEAD FOR 2014?

Although 2013 was challenging for the BHPH industry, unprecedented profit opportunities are ahead for operators positioned to capitalize upon them.

- 1) Sales should increase progressively as the “silly loans” decline, and related defaults increase, and many deep subprime customers return to the BHPH market.
- 2) Although inventory availability will remain challenging, improved sourcing technology is now available to help find the desired vehicles. Operators who utilize these new tools will fare better than those who don't. Operators must 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 deep subprime customers.
- 4) Future “money on the street” must be reduced by greater down payments and larger repayments rather than with higher sales prices and longer financing terms in order to control risk. This strategy will reduce default risk 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 avoid overly aggressive underwriting practices will experience lower defaults from subprime customers who face the reality of unaffordable car payments. Successful operators will rebuild customer relationships and regain these customers. Capital will remain available for operators with good facilities, prudent management, efficient systems, and portfolio performance metrics.

Operators who educate themselves to the latest industry developments, trends, technology, and regulations through networking, education and training will prosper. “Learn more and earn more. Education is the “Highway to Success”.

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

Cost of Goods Sold and Operating Expense Detail: 2011- 2013

	2013 % of Vehicle Sales	2012 % of Vehicle Sales	2011 % of Vehicle Sales
<u>Cost of Vehicle Sales</u>			
Cost of vehicles	51.76%	47.62%	48.94%
Reconditioning costs	5.50%	7.38%	7.08%
Other	2.96%	3.28%	3.38%
Total cost of vehicle sales	60.22%	58.28%	59.40%
<u>Operating Expense</u>			
Advertising	3.80%	2.80%	2.76%
Bank charges	0.20%	0.15%	0.29%
Contributions	0.04%	0.06%	0.02%
Depreciation	0.40%	0.27%	0.38%
Dues and subscriptions	0.12%	0.09%	0.02%
Insurance	0.27%	0.22%	0.52%
Legal and accounting	0.42%	0.20%	0.44%
Outside services	0.03%	0.21%	0.30%
Office expense	0.80%	0.63%	0.73%
Rent	2.39%	1.73%	2.30%
Repairs and maintenance	0.47%	0.57%	0.43%
Salaries (non-owners)	10.17%	10.07%	10.15%
Taxes - general	0.10%	0.07%	0.14%
Other operating expense	0.22%	0.13%	0.14%
Taxes - payroll	0.70%	0.66%	0.54%
Utilities and telephone	0.39%	0.53%	0.49%
Travel / Training	0.40%	0.26%	0.30%
Total operating expense	20.92%	18.65%	19.95%

BUY HERE, PAY HERE INDUSTRY BENCHMARKS / TRENDS 2013

Dealer Operating Information: 2011 - 2013

(Statistics provided by NCM Associates, Inc.)

	2013 NCM Benchmarks	2012 NCM Benchmarks	2011 NCM Benchmarks
<u>Sales</u>			
Average units sold per dealer (BHPH deals only)	610	653	687
Average cash in deal per vehicle sold	\$ 4,926	\$ 4,971	\$ 4,863
Average ACV per vehicle sold (includes recon)	\$ 5,487	\$ 5,612	\$ 5,446
Average reconditioning cost per vehicle sold	\$ 1,026	\$ 968	\$ 962
Average gross profit per vehicle sold	\$ 4,509	\$ 4,502	\$ 4,421
Average cash down payment (including trades)	\$ 1,134	\$ 1,209	\$ 1,149
Average amount financed	\$ 9,664	\$ 9,627	\$ 9,427
Average term of loan (in weeks)	143	139	135
<u>Collections / Recoveries</u>			
Average weekly payment amount	\$ 87	\$ 87	\$ 86
Percentage of accounts past due	17.8%	28.6%	25.9%
Average # of past due accounts per collector	88	102	93
Average net loss per charge off	\$ 4,584	\$ 4,216	\$ 3,542
Average portfolio delinquency			
Current	83.70%	83.10%	85.20%
0-10 days	9.30%	10.30%	8.40%
11-29 days	4.10%	3.70%	4.00%
30-59 days	1.70%	1.70%	1.50%
60-89 days	0.60%	0.60%	0.50%
90+ days	0.60%	0.60%	0.40%
	100.00%	100.00%	100.00%
<u>Inventory Management</u>			
Vehicle Days Supply (Units)	94	103	74
Average inventory aging			
0-30 days	40.80%	40.50%	49.80%
31-60 days	25.30%	25.50%	24.40%
61-90 days	14.10%	12.90%	12.50%
91+ days	19.80%	21.10%	13.30%
	100.00%	100.00%	100.00%



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Loss Statistics - 2013
 (Statistics supplied by Subprime Analytics)

<u>Loss Statistics</u>	<u>2013 Subprime Analytics Benchmarks</u>	<u>2012 Subprime Analytics Benchmarks</u>	<u>2011 Subprime Analytics Benchmarks</u>
Average gross dollar loss (before recoveries)	\$ 8,381	\$ 7,737	\$ 7,245
Average net dollar loss (after recoveries)	\$ 5,410	\$ 5,300	\$ 4,950
Average default rate (% of loans written off)	31.41%	31.32%	31.03%
Average gross dollar loss rate (% of principal)	37.75%	38.64%	38.61%
Average net dollar loss rate (% of principal)	24.37%	25.95%	26.38%
Average recovery (% of principal charged off)	35.40%	31.50%	31.70%
Highest cumulative default month after origination	19th Month	20th Month	22nd Month
Highest frequency of default (month after origination)	5th Month	5th Month	5th Month
Worst periodic loss month after origination	February	February	February

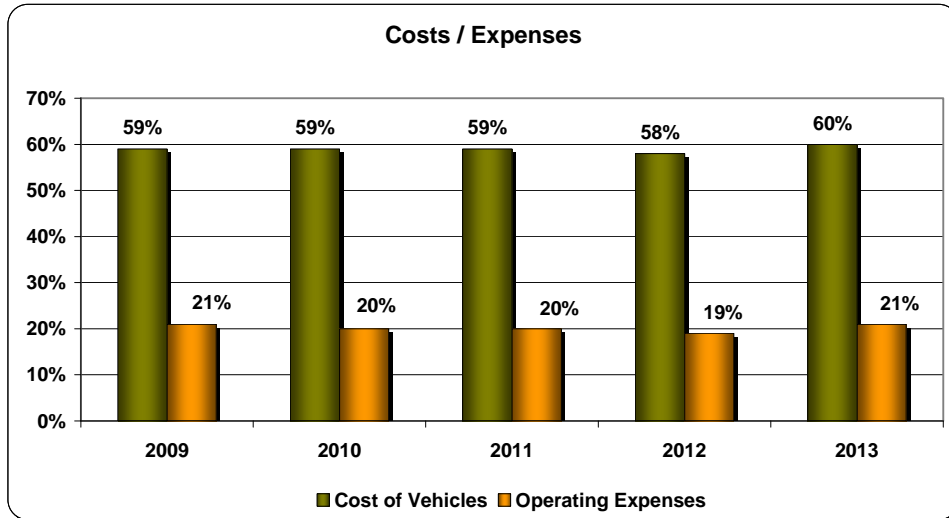
Note: The above referenced loss data was determined by electronically analyzing nearly 1,300,000 loans, aggregating approximately \$12.0 billion to identify loss rates and to understand why they occurred.



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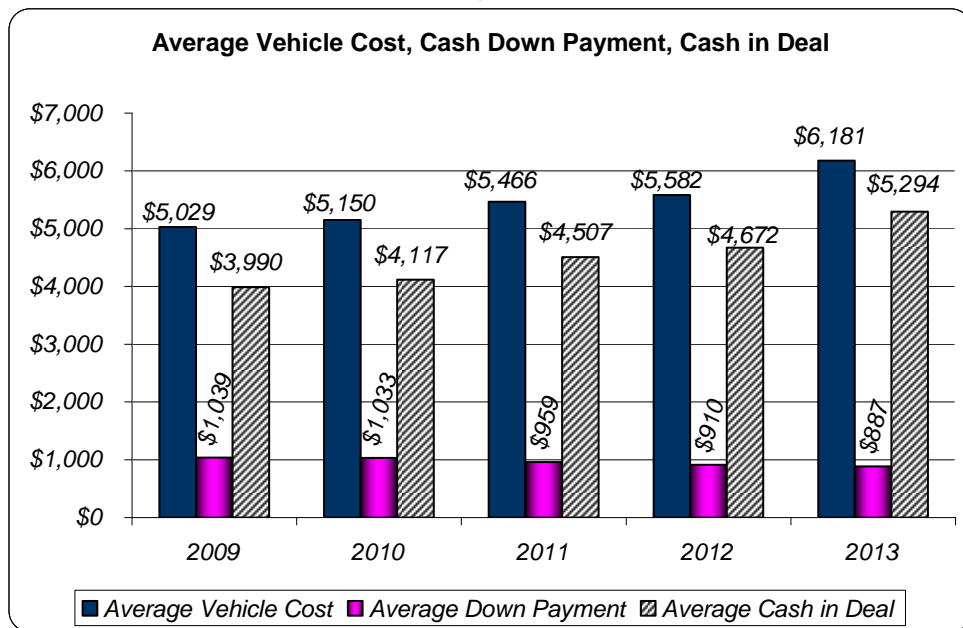
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Costs / Expenses: 2009 – 2013



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: 2009 – 2013



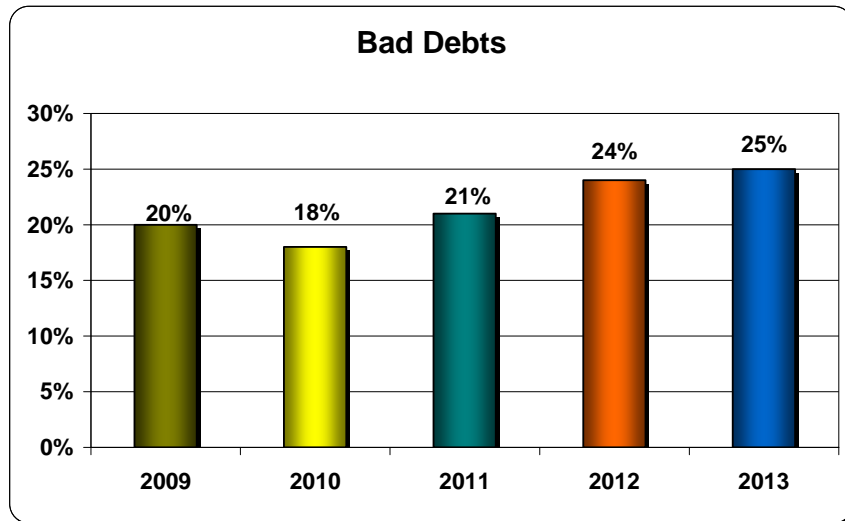
Source: Subprime Analytics



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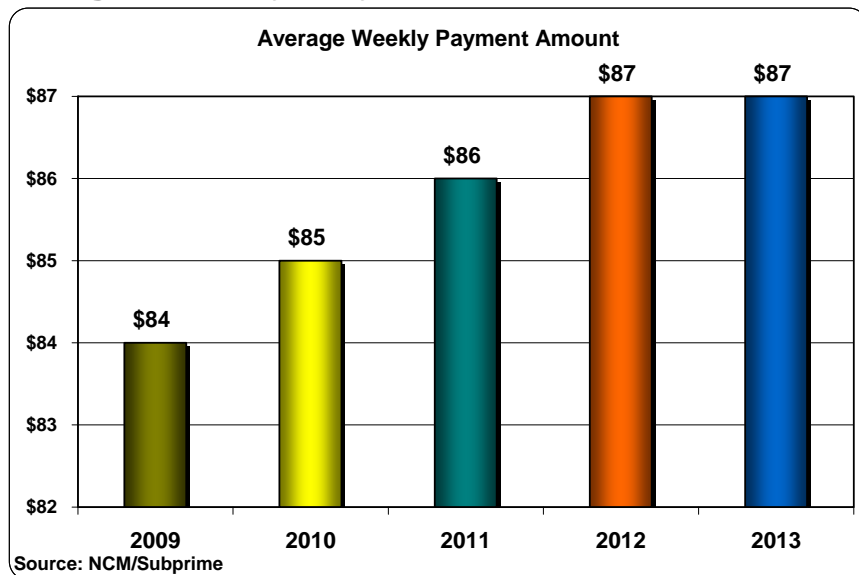
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Bad Debts: 2009 - 2013



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

BHPH FINANCIAL TRENDS Average Weekly Payment Amount: 2009 - 2013



Source: NCM/Subprime

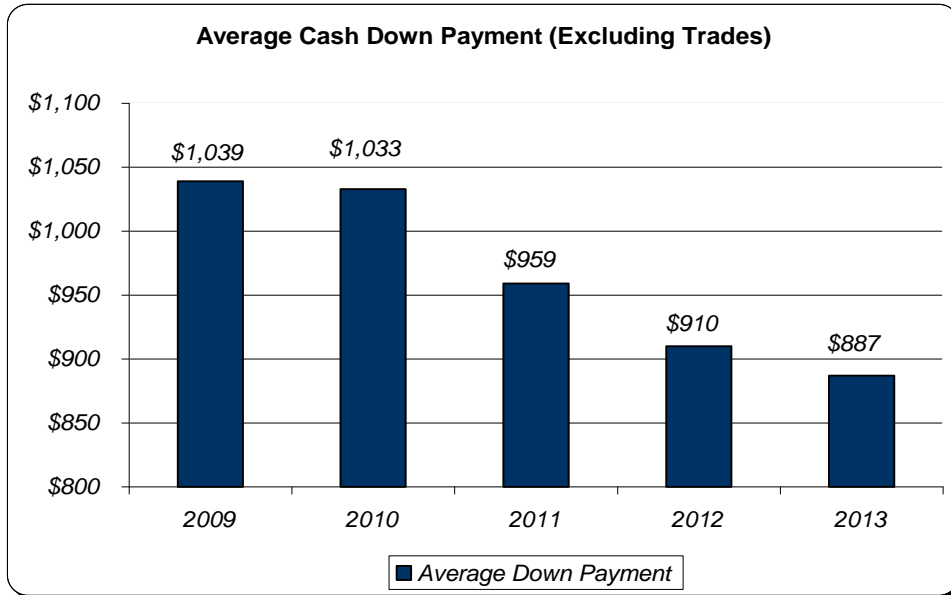
Source: NCM, Subprime Analytics



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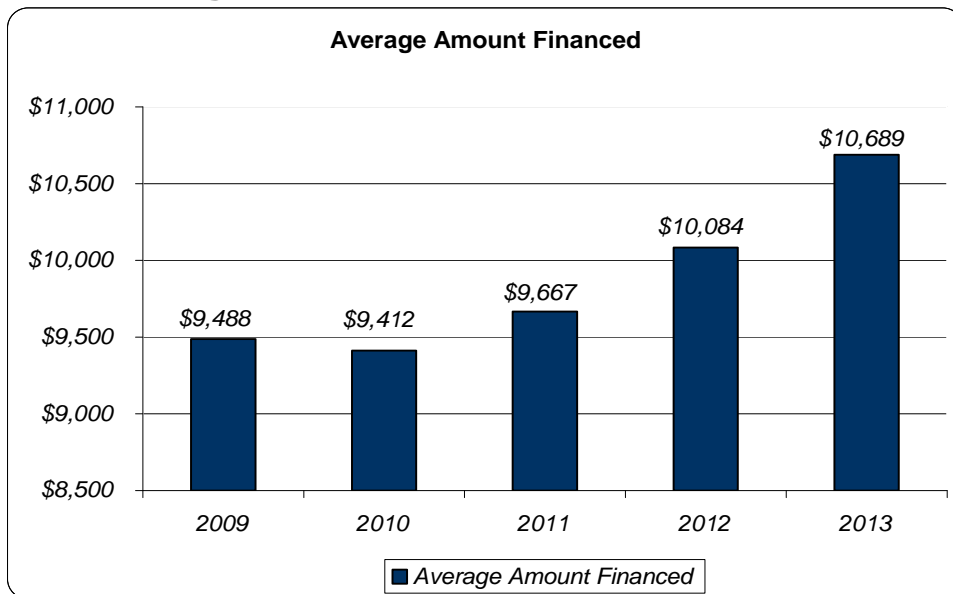
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Average Customer Down Payment: 2009 – 2013



Source: Subprime Analytics

BHPH FINANCIAL TRENDS Average Amount Financed: 2009 – 2013



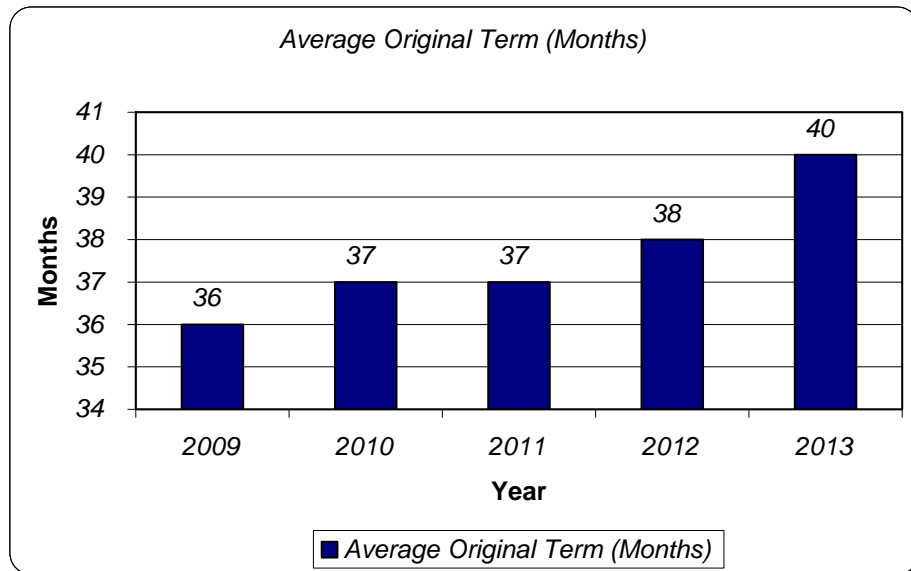
Source: Subprime Analytics



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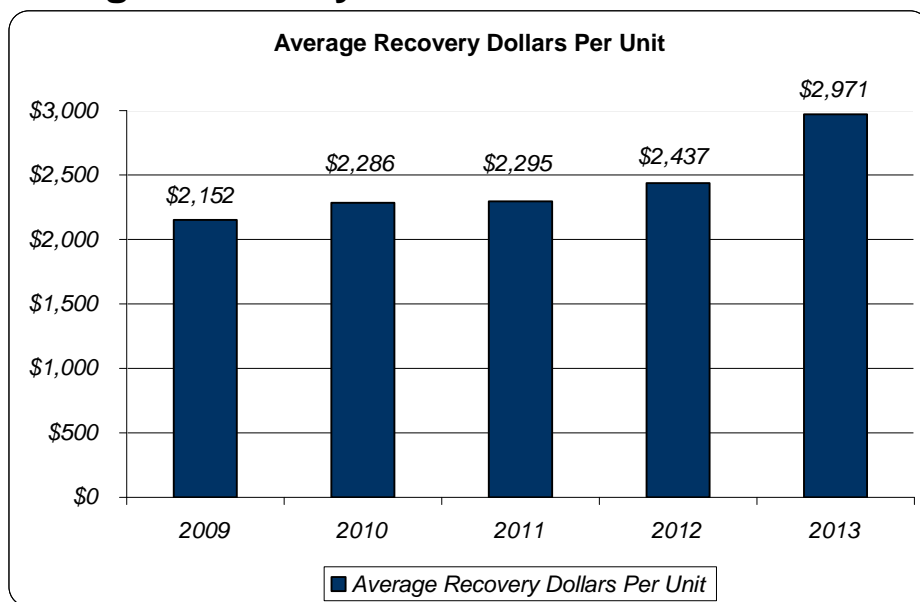
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Average Original Term (Months)



Source: Subprime Analytics

BHPH FINANCIAL TRENDS Average Recovery Dollars Per Unit: 2009 – 2013



Source: Subprime Analytics



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