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# BUY HERE, PAY HERE INDUSTRY BENCHMARKS/TRENDS - 2009 -

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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).**
- 4) **Intercompany activity has been eliminated.**
- 5) **Financial information provided by Shilson, Goldberg, Cheung & Associates, L.L.P. (“SGC”) Certified Public Accountants, Houston, Texas.**
- 6) **Loss statistics were electronically determined by Subprime Analytics, who performed computerized portfolio analysis of approximately 780,000 subprime loans aggregating approximately \$6.7 billion to identify loss rates and patterns.**



# 2009 BUY HERE, PAY HERE YEAR-END REVIEW & A LOOK AHEAD!

BY KENNETH B. SHILSON, CPA  
FOUNDER, NABD  
PRESIDENT, SUBPRIME ANALYTICS

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Annually NABD, with the help of Shilson, Goldberg, Cheung & Associates, LLP (“SGC”), CPA’s, prepares buy here, pay here (“BHPH”) financial benchmarks from a database of more than 500 operators 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 which were 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”) who, to date, has analyzed more than \$6.7 billion (over 780,000 individual accounts) 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 for earlier periods.

At the Twelfth (12<sup>th</sup>) Annual National Buy Here, Pay Here Conference (NABD 2010) in Las Vegas, to be held on May 11-13, 2010, I will explain these benchmarks and industry trends to help operators identify future profit opportunities. For further information or to register for this important event, visit [www.bhphinfo.com](http://www.bhphinfo.com).

## 2009 Year In Review!

The automotive industry had a very challenging year in 2009. A credit “crunch”, rising inventory costs, “cash for clunkers,” and various other economic factors combined to create some unprecedented challenges for both new and used car dealers. While franchise sales and profits declined, the attached benchmarks again show (at least among the better operators) that BHPH profits did not experience the same fate!

A comparison of the most significant changes in BHPH profitability during the last three years follows and the table below compares changes in gross profit from 2007-2009.



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## BUY HERE, PAY HERE INDUSTRY BENCHMARKS / TRENDS 2009

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Sales</b>	100%	100%	100%
<b>Cost of vehicle sales</b>	(59%)	(60%)	(64%)
<b>Subtotal</b>	<b>41%</b>	<b>40%</b>	<b>37%</b>
<b>Financing Income</b>	16%	18%	16%
<b>Bad Debts</b>	(20%)	(21%)	(19%)
<b>Gross Profit</b>	<b>37%</b>	<b>37%</b>	<b>34%</b>

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

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

An explanation of the significant changes in 2009 is as follows:

1. Many operators experienced lower unit sales in 2009. This was particularly true for operators who did not expand their operations or add sales lots. Despite these lower sales volumes, profitability remained stable and in some cases, increased.
2. Operators again struggled to “cover” bad debt losses with finance income (where interest income equals or exceeds bad debt expense). This was, in part, the result of reduced interest income as the average age of receivable portfolios increased due to lower originations. Interest revenue declined as the average portfolio age increased. Further, bad debt defaults increased in 2009 as more consumers surrendered their vehicles “voluntarily” due to reductions in overtime, layoffs and other pay reductions.
3. Although default rates increased, bad debt expense expressed as a percentage of sales declined. This resulted from tighter underwriting which reduced early payment defaults and from increased recoveries attributable to the use of payment devices and improved vehicle remarketing strategies.
4. The “credit crunch” caused a significant decrease in capital availability. An overall lack of capital restricted sales growth and forced operators to reduce overhead and to downsize. Operators who could not locate capital exited the industry. The introduction of new technology amongst better operators increased operating efficiency and decreased operating expenses.



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5. Acquiring and reconditioning the “right” inventory at a reasonable cost remained a major challenge in 2009. The lack of available floor plan financing caused operators to reduce inventory carrying levels and “hold the line” or reduce vehicle acquisition costs. Unfortunately, lower trade-ins, and increasing vehicle acquisition competition resulted in higher mileage on the vehicles acquired. Therefore, more reconditioning cost was required to make these higher-mileage vehicles ready for sale.

### **Looking Ahead to 2010 and Beyond!**

The lack of new capital in 2009 forced prudent operators to reduce leverage and increase financial flexibility. This trend will hopefully continue in the future, even as the capital markets reopen. Successful operators must become more cash efficient and make more from less.

Sales in 2009 were restricted by the availability of capital. Operators tightened underwriting practices and increased bad debt recoveries in order to reduce bad debt expense. In some cases, operators increased profitability on lower sales volumes proving the adage “bigger is not always better.” Further industry consolidation is likely in the future.

Acquiring good inventory at favorable costs remains a continuing challenge as new car sales decline and franchise dealers retain trade-ins or enter BHPH themselves. Programs like “cash for clunkers” raised the cost and reduced supplies of SUV’s and trucks. Further, floor plan financing remains in short supply. Reconditioning costs increased as operators were forced to acquire higher mileage vehicles. Those who controlled reconditioning costs enjoyed substantially greater gross profit margins.

Although 2009 was a challenging year for BHPH and for the automotive industry in general, several positive things emerged. Tighter underwriting, reduced leverage, increased recoveries, and smarter vehicle sourcing should benefit BHPH operators in 2010 and beyond. More changes are likely needed to adapt to the new economic conditions. Operators who understand these changes will prosper, while others will resist them. Education and networking have never been more important. For those who recognize and capitalize on the new BHPH opportunities, the best is still ahead!



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# BUY HERE, PAY HERE INDUSTRY BENCHMARKS / TRENDS 2009

Prepared for NABD by Shilson, Goldberg, Cheung and Associates, LLP

## Ratio Comparisons: 2007 - 2009

### COMBINED BUY HERE / PAY HERE

#### Balance Sheet

	2009 Average Benchmark	2008 Average Benchmark	2007 Average Benchmark
(Inventory x Days) / Cost of Vehicle Sales	64.11 days	68.57 days	56.21 days
Cost of Vehicle Sales / Average Inventory Dollars	5.98 x	5.96 x	8.51 x
Vehicle Sales / Average Inventory Dollars	11.16 x	9.98 x	13.59 x
Vehicle Sales / Total Assets	0.95 x	0.96 x	1.27 x
Total Assets / Total Liabilities	1.82 x	1.61 x	1.82 x
Allowance for Bad Debts / Finance Receivables*	21%	18%	14%
Finance Receivables* / Total Assets	93%	89%	85%
Total Debt / Total Assets	55%	62%	55%

\* Finance receivables are net of unearned finance charges

### COMBINED BUY HERE / PAY HERE

#### Income Statement

	2009 Average Benchmark	2008 Average Benchmark	2007 Average Benchmark
Bad Debts / Vehicle Sales	20%	21%	19%
Cost of Vehicle Sales / Vehicle Sales	59%	60%	63%
Gross Profit*** / Vehicle Sales	37%	37%	34%
Operating Expense / Vehicle Sales	21%	21%	19%
Interest Expense / Financing Income	18%	23%	20%
Operating Income / Vehicle Sales	16%	16%	15%
Financing Income / Vehicle Sales	16%	18%	16%
Compensation** / Vehicle Sales	11%	11%	10%
Reconditioning Cost / Vehicle Sales	7%	4%	5%

#### 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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## BUY HERE, PAY HERE INDUSTRY BENCHMARKS / TRENDS 2009

Prepared for NABD by Shilson, Goldberg, Cheung and Associates, LLP

### Cost of Goods Sold and Operating Expense Detail: 2007 - 2009

	2009 % of Vehicle Sales	2008 % of Vehicle Sales	2007 % of Vehicle Sales
<b><u>Cost of Vehicle Sales</u></b>			
Cost of vehicles	49.03%	51.03%	54.34%
Reconditioning costs	6.68%	4.12%	4.97%
Other	2.85%	4.52%	3.28%
<b>Total cost of vehicle sales</b>	<b>58.56%</b>	<b>59.67%</b>	<b>62.59%</b>
<b><u>Operating Expense</u></b>			
Advertising	2.20%	1.55%	1.21%
Bank charges	0.21%	0.24%	0.07%
Contributions	0.01%	0.01%	0.03%
Depreciation	0.40%	0.54%	0.82%
Dues and Subscriptions	0.08%	0.02%	0.02%
Insurance	0.45%	0.99%	0.23%
Legal and accounting	0.51%	0.50%	0.71%
Outside services	0.13%	0.30%	0.07%
Office expense	0.58%	1.31%	0.89%
Rent	2.18%	1.62%	1.13%
Repairs and maintenance	0.22%	0.27%	0.44%
Salaries (non-owners)	10.59%	10.81%	9.97%
Taxes - general	0.26%	0.30%	0.26%
Other Operating Expense	0.94%	0.60%	0.83%
Taxes - payroll	0.77%	1.11%	0.83%
Utilities and Telephone	0.70%	0.79%	0.64%
Travel / Training	0.27%	0.38%	0.47%
<b>Total operating expense</b>	<b>20.50%</b>	<b>21.35%</b>	<b>18.62%</b>

# BUY HERE, PAY HERE INDUSTRY BENCHMARKS / TRENDS 2009

## Dealer Operating Information: 2007 - 2009

(Statistics provided by NCM Associates, Inc.)

	<b>2009 NCM Benchmarks</b>	<b>2008 NCM Benchmarks</b>	<b>2007 NCM Benchmarks</b>
<b><u>Sales</u></b>			
Average units sold per dealer (BHPH deals only)	728	743	879
Average cash in deal per vehicle sold	\$ 4,865	\$ 4,696	\$ 4,645
Average ACV per vehicle sold (includes recon)	\$ 5,534	\$ 5,284	\$ 5,111
Average reconditioning cost per vehicle sold	\$ 556	\$ 499	\$ 634
Average gross per vehicle sold	\$ 4,149	\$ 4,239	\$ 4,123
Average cash down payment	\$ 1,272	\$ 1,185	\$ 1,084
Average amount financed	\$ 9,294	\$ 9,195	\$ 9,085
Average term of loan (in weeks)	132	129	134
<b><u>Collections / Recoveries</u></b>			
Average weekly payment amount	\$ 84	\$ 84	\$ 85
Average # of accounts past due	366	350	384
Average # of past due accounts per collector	86	101	78
Average loss per charge off	\$ 4,360	\$ 5,264	\$ 4,927
Average portfolio delinquency			
Current	74.40%	69.85%	74.80%
0-10 days	10.30%	11.75%	10.10%
11-29 days	7.80%	10.20%	7.60%
30-59 days	3.60%	4.60%	3.50%
60-89 days	1.70%	1.50%	1.50%
90+ days	2.20%	2.10%	2.50%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
<b><u>Inventory Management</u></b>			
Average number of units in stock	145	169	201
Average inventory aging			
0-30 days	40.80%	32.10%	42.60%
31-60 days	19.30%	22.40%	24.30%
61-90 days	12.80%	17.10%	13.10%
91+ days	27.10%	28.40%	20.00%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>



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**Loss Statistics - 2009**  
 (Statistics supplied by Subprime Analytics)

<u>Loss Statistics</u>	<u>2009 Subprime Analytics Benchmarks</u>	<u>2008 Subprime Analytics Benchmarks</u>	<u>2007 Subprime Analytics Benchmarks</u>
Average gross dollar loss (before recoveries)	\$ 7,049	\$ 6,887	\$ 6,753
Average net dollar loss (after recoveries)	\$ 5,090	\$ 5,157	\$ 4,693
Average default rate (% of loans written off)	30.11%	28.43%	27.71%
Average gross dollar loss rate (% of principal)	37.51%	35.54%	37.32%
Average net dollar loss rate (% of principal)	26.06%	24.76%	24.83%
Average recovery (% of principal charged off)	29.80%	28.00%	30.60%
Highest cumulative default month after origination	21st Month	19th Month	17th Month
Highest frequency of default (month after origination)	4th Month	4th Month	4th Month
Worst periodic loss month after origination	February	February	January

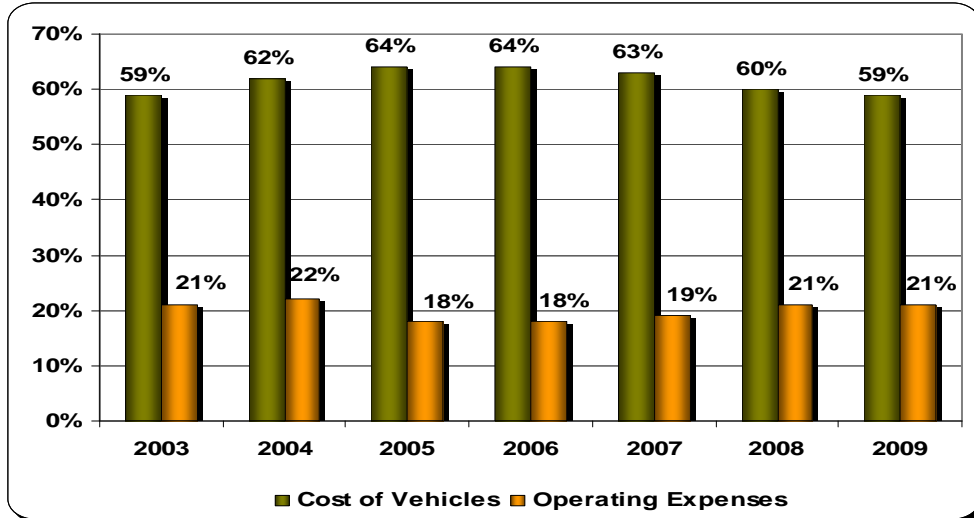
Note: The above referenced loss data was determined by electronically analyzing approximately 780,000 loans, aggregating approximately \$6.7 billion to identify loss rates and to understand why they occurred.



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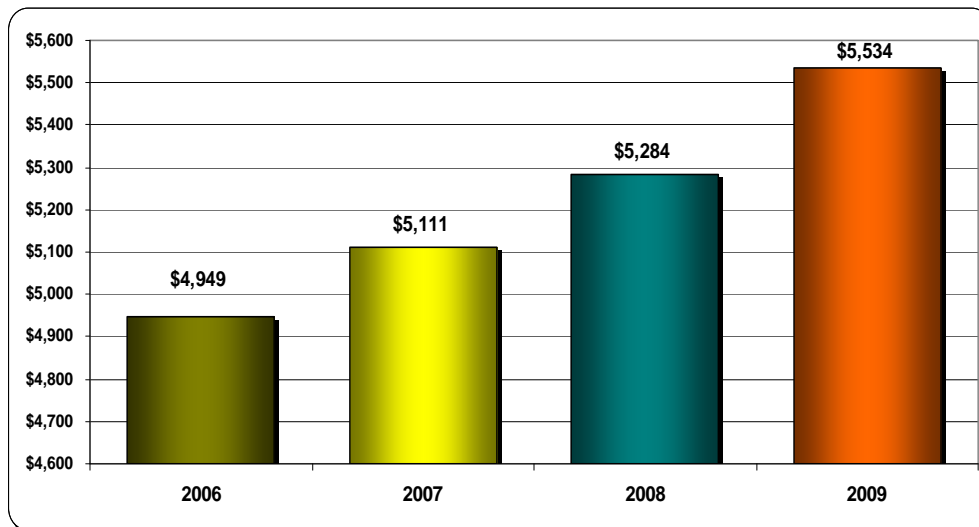
# BHPH INDUSTRY TRENDS - GRAPHS

## BHPH FINANCIAL TRENDS Costs / Expenses: 2003 – 2009



*Note: All percentages are expressed as a percentage of total sales.  
Source: Shilson, Goldberg, Cheung & Associates, LLP*

## BHPH FINANCIAL TRENDS Average Total Actual Cost Per Vehicle (ACV) Per Vehicle Sold: 2006 - 2009



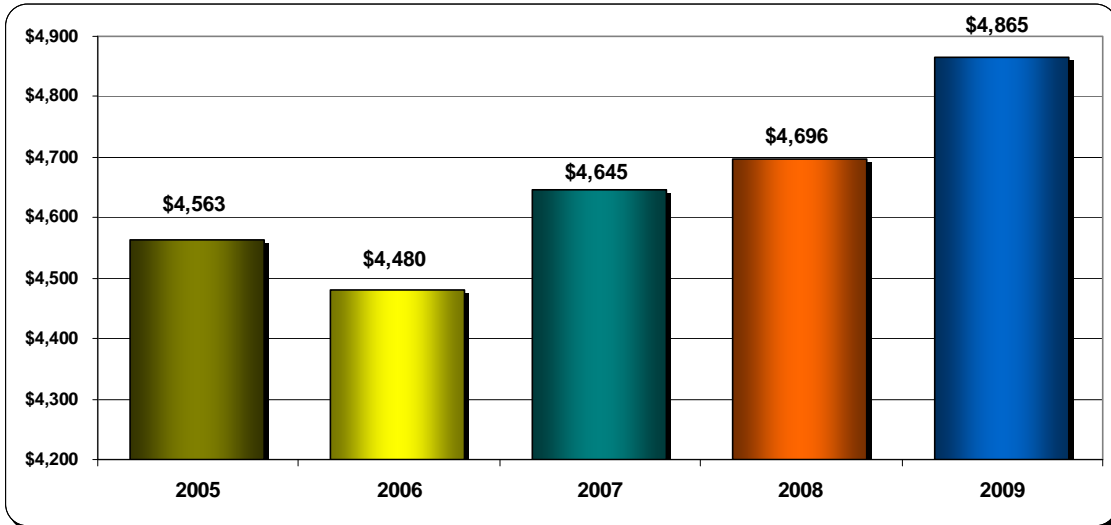
*Source: NABD / NCM*



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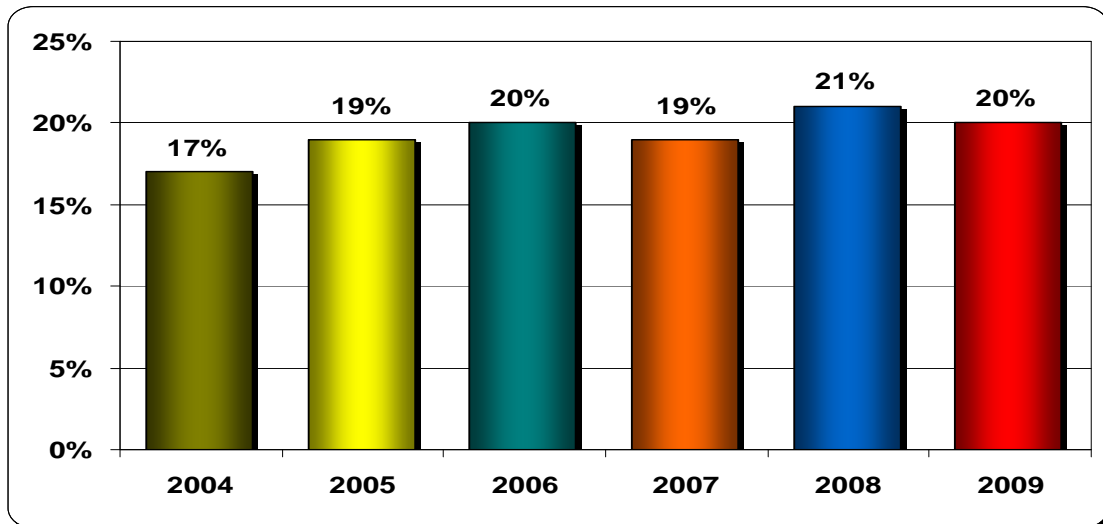
# BPHH INDUSTRY TRENDS - GRAPHS

## BPHH FINANCIAL TRENDS Average "Cash In Deal": 2005 – 2009



Source: NABD / NCM

## BPHH FINANCIAL TRENDS Bad Debts: 2004 - 2009



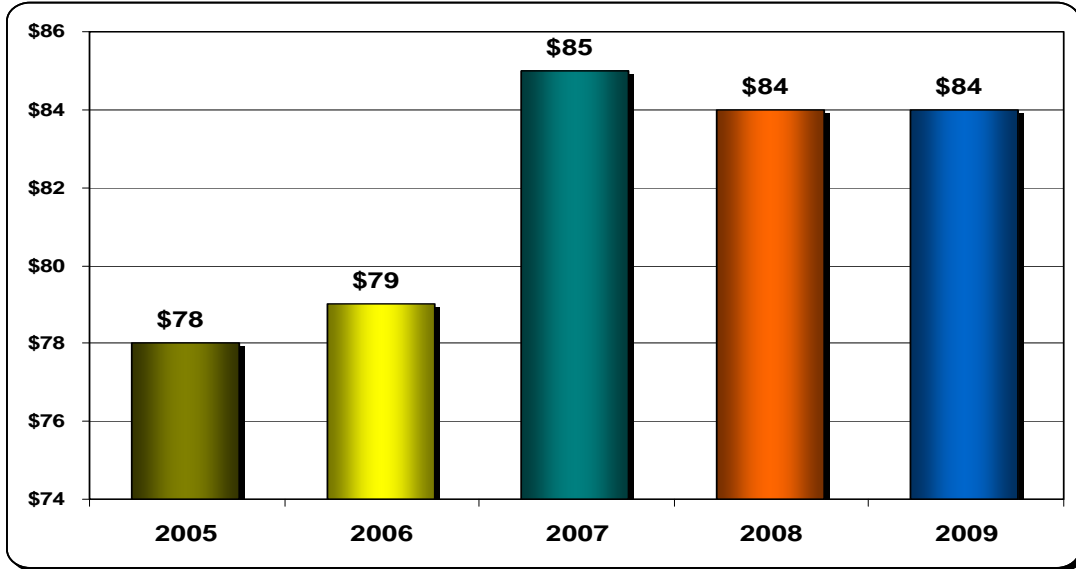
Note: Percentages are expressed as percentage of vehicle sales  
Source: Shilson, Goldberg, Cheung & Associates, Inc. / Subprime Analytics



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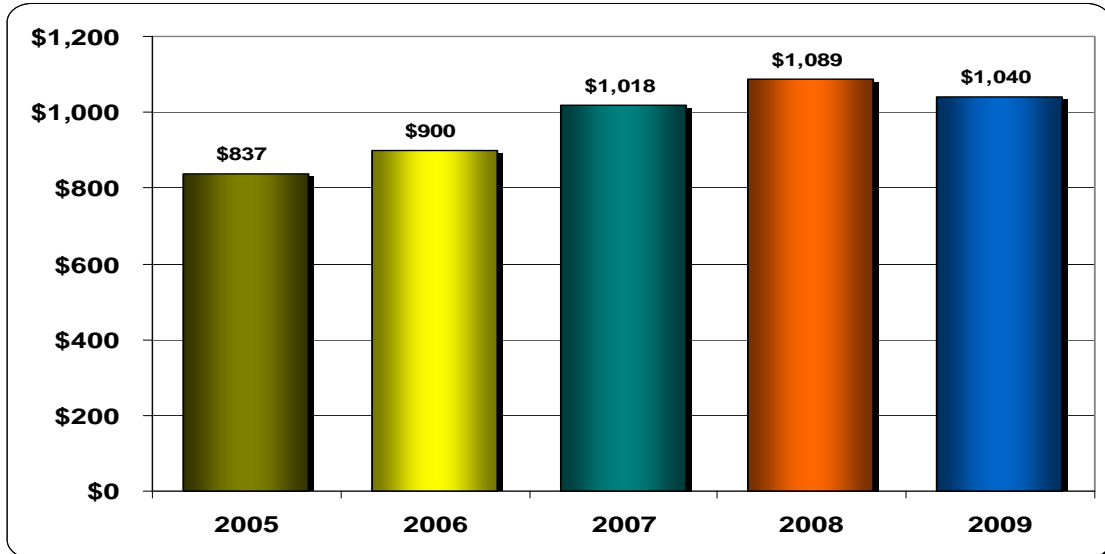
# BPHH INDUSTRY TRENDS - GRAPHS

**BPHH FINANCIAL TRENDS**  
**Average Weekly Payment Amount: 2005 - 2009**



*Source: NCM / Subprime Analytics*

**BPHH FINANCIAL TRENDS**  
**Average Customer Down Payment: 2005 - 2009**



*Source: Subprime Analytics*



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