
BUY HERE, PAY HERE INDUSTRY BENCHMARKS/TRENDS - 2011 -

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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 provided by SGC Certified Public Accountants, Houston, Texas.**
- 6) **Loss statistics were electronically determined by Subprime Analytics, who performed computerized portfolio analysis of approximately 1,024,000 subprime loans aggregating approximately \$9.1 billion to identify loss rates and patterns.**



2011 BUY HERE, PAY HERE YEAR-END REVIEW & A LOOK AHEAD!

By Kenneth B. Shilson, CPA
Founder, National Alliance of Buy Here Pay Here Dealers (NABD)
President, Subprime Analytics

Annually 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 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 approximately \$9 billion (over 1,000,000 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 for earlier periods.

At the NABD Dealer Training Academy on May 14-16, 2012 and the Fourteenth (14th) Annual National Buy Here, Pay Here Conference (NABD 2012) in Las Vegas, on May 16-18, 2012, Brent Carmichael of NCM and I will explain these benchmarks and trends to help operators identify future profit opportunities. For further information or to register for these important events, visit www.bhphinfo.com.

2011 YEAR IN REVIEW!

Some important developments occurred in 2011 which will impact the BHPH industry for several years in the future.

In 2011, Experian Automotive determined that approximately 24,000 BHPH dealers nationally financed nearly 15% of all used vehicle sales. These new statistics are important for two reasons:

1. It represents a credible estimate of the size and breadth of the BHPH marketplace (well done, Experian!), and



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2. These estimates show how significant BHPH has become to used vehicle financing in America.

Millions of unbankable consumers depend on the BHPH industry to provide the transportation they need to work and to live. This segment will continue to grow if not otherwise constrained by adverse regulation.

Speaking of regulation, 2011 saw the creation of the Consumer Financial Protection Bureau (CFPB) as a direct by-product of the Dodd-Frank Act. The CFPB has been charged with regulating BHPH and other alternative credit industries. Although it is still too early to predict what new rules and regulations may be forthcoming, the cost of compliance will surely increase for the BHPH operator in the future. The BHPH industry and the consumer must work together to provide “unbankable consumers” with transportation solutions. BHPH operators are advised to make compliance a priority and to appoint a chief compliance officer to address old and new regulatory challenges.

Finding BHPH inventory at competitive costs was a major challenge in 2011. Reduced auction consignments and greater demand kept BHPH vehicle acquisition costs high. Unit sales in 2011 declined slightly due to the unavailability of inventory and from capital constraints. Dealers were forced to purchase higher mileage vehicles and to spend more on reconditioning costs.

Many operators attempted to offset vehicle cost increases with higher selling prices. Down payments in our database remained relatively flat thereby resulting in an approximate 3% increase in the average amounts financed. Repayments were also flat causing operators to increase their contract terms. This trend requires careful monitoring for its impact on future collections and losses.

Even the most profitable operators again could not “cover” bad losses with finance income (where income equals or exceeds bad debt expense). This occurred because bad debt expense increased by 3% while financing income increased by 2% (both expressed as a percentage of sales). The increase in financing income was primarily attributable to longer terms and larger amounts financed.

Many operators increased their reserve for bad debts (expressed as a percentage of receivables) in anticipation of higher net losses in the future. “Cash in deal” continues to increase absent corresponding increases in down payments and/or customer repayments.

As costs and expenses rise with inflation, so too will repo losses. Therefore mitigating these losses becomes more important than even before. Technology, including the use of payment devices now plays a more vital role in collections and recoveries.



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Automating customer repayments by ACH, bank debit cards, and other automated solutions increases efficiency, reduces collection costs and improves cash flow. Technology will play an important role in the future success of the BHPH industry.

LOOKING AHEAD TO 2012 AND BEYOND!

Here is a checklist of important tips that I see some of the best BHPH operators doing for 2012:

1. Review your business model from a cash return perspective. This starts by using your historical loss rates to project the total cash return (“ROI”) on your portfolio investment. Simply, forecast your ROI and try to increase it.
2. Control expenses by implementing technology to increase profits and cash flow. Learn about all the latest products and services and determine which can help you the most.
3. Control your losses by avoiding trial and error mistakes that cost you millions of dollars. Analyze your historical losses and make underwriting adjustments as may be required.
4. Get compliant now! Have a qualified attorney review your documentation for adherence to all the latest rules and regulations. Determine that your policies and practices match your disclosures. Avoid regulatory mistakes that can bring you down!
5. Retain your best people by investing in their future through dealer education and training. Streamline your systems and processes for success. Set goals and “inspect what you expect”.
6. Expand your inventory sourcing by utilizing technology. Identify new sources of inventory by using the internet.
7. Good underwriting and collections have never been more important. With inventory acquisition costs rising, repo losses will increase. Mitigate your losses by maximizing recoveries.
8. Capital requirements in the future will increase so build good long-term relationships with capital providers and increase your equity. You can’t predict the future so allow for more financial flexibility.
9. Educate yourself to all the latest developments, trends, and regulatory changes through networking, reading, and by attending training conferences. The more you learn, the more you will earn.

In BHPH, it’s not how much you make or collect that really counts, “It Is How Much You Keep” that matters most! This year provides some exceptional profit



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opportunities for operators who adapt to the aforementioned changes quickly and who capitalize on them. It may sound simple, but it is not easy. Good Luck!

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. Ken Shilson is also founder and Convention Chairman 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

Ratio Comparisons: 2009 - 2011

COMBINED BUY HERE / PAY HERE

Balance Sheet

	2011 Average Benchmark	2010 Average Benchmark	2009 Average Benchmark
(Inventory x Days) / Cost of Vehicle Sales	62.29 days	63.40 days	64.11 days
Cost of Vehicle Sales / Average Inventory Dollars	6.13 x	6.40 x	5.98 x
Vehicle Sales / Average Inventory Dollars	11.16 x	11.92 x	11.16 x
Vehicle Sales / Total Assets	0.97 x	0.97 x	0.95 x
Total Assets / Total Liabilities	1.98 x	1.93 x	1.82 x
Allowance for Bad Debts / Finance Receivables*	23%	22%	21%
Total Debt / Total Assets	51%	52%	55%

* Finance receivables are net of unearned finance charges

COMBINED BUY HERE / PAY HERE

Income Statement

	2011 Average Benchmark	2010 Average Benchmark	2009 Average Benchmark
Bad Debts / Vehicle Sales	21%	18%	20%
Cost of Vehicle Sales / Vehicle Sales	59%	59%	59%
Gross Profit*** / Vehicle Sales	37%	38%	37%
Operating Expense / Vehicle Sales	20%	20%	21%
Interest Expense / Financing Income	15%	17%	18%
Operating Income / Vehicle Sales	17%	18%	16%
Financing Income / Vehicle Sales	17%	15%	16%
Compensation** / Vehicle Sales	10%	10%	11%
Reconditioning Cost / Vehicle Sales	7%	7%	7%

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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Prepared for NABD by SGC Certified Public Accountants

Cost of Goods Sold and Operating Expense Detail: 2009 - 2011

	2011 % of Vehicle Sales	2010 % of Vehicle Sales	2009 % of Vehicle Sales
<u>Cost of Vehicle Sales</u>			
Cost of vehicles	48.94%	48.13%	49.03%
Reconditioning costs	7.08%	7.17%	6.68%
Other	3.38%	3.21%	2.85%
Total cost of vehicle sales	59.40%	58.51%	58.56%
<u>Operating Expense</u>			
Advertising	2.76%	2.50%	2.20%
Bank charges	0.29%	0.27%	0.21%
Contributions	0.02%	0.03%	0.01%
Depreciation	0.38%	0.45%	0.40%
Dues and Subscriptions	0.02%	0.10%	0.08%
Insurance	0.52%	0.27%	0.45%
Legal and accounting	0.44%	0.35%	0.51%
Outside services	0.30%	0.50%	0.13%
Office expense	0.73%	0.65%	0.58%
Rent	2.30%	2.33%	2.18%
Repairs and maintenance	0.43%	0.41%	0.22%
Salaries (non-owners)	10.15%	10.26%	10.59%
Taxes - general	0.14%	0.11%	0.26%
Other Operating Expense	0.14%	0.30%	0.94%
Taxes - payroll	0.54%	0.49%	0.77%
Utilities and Telephone	0.49%	0.50%	0.70%
Travel / Training	0.30%	0.26%	0.27%
Total operating expense	19.95%	19.78%	20.50%

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Dealer Operating Information: 2009 - 2011

(Statistics provided by NCM Associates, Inc.)

	2011 NCM Benchmarks	2010 NCM Benchmarks	2009 NCM Benchmarks
<u>Sales</u>			
Average units sold per dealer (BHPH deals only)	687	543	728
Average cash in deal per vehicle sold	\$ 3,947	\$ 4,850	\$ 4,865
Average ACV per vehicle sold (includes recon)	\$ 5,792	\$ 5,458	\$ 5,534
Average reconditioning cost per vehicle sold	\$ 806	\$ 798	\$ 556
Average gross profit per vehicle sold	\$ 4,731	\$ 4,314	\$ 4,149
Average cash down payment	\$ 1,504	\$ 1,152	\$ 1,272
Average amount financed	\$ 9,427	\$ 9,380	\$ 9,294
Average term of loan (in weeks)	135	134	132
<u>Collections / Recoveries</u>			
Average weekly payment amount	\$ 86	\$ 85	\$ 84
Percentage of accounts past due	25.9%	21.0%	24.1%
Average # of past due accounts per collector	93	95	86
Average net loss per charge off	\$ 3,542	\$ 4,273	\$ 4,360
Average portfolio delinquency			
Current	85.20%	76.50%	74.40%
0-10 days	8.40%	10.30%	10.30%
11-29 days	4.00%	7.30%	7.80%
30-59 days	1.50%	2.90%	3.60%
60-89 days	0.50%	1.30%	1.70%
90+ days	0.40%	1.70%	2.20%
	100.00%	100.00%	100.00%
<u>Inventory Management</u>			
Vehicle Days Supply (Units)	74	63	51
Average inventory aging			
0-30 days	49.80%	36.00%	40.80%
31-60 days	24.40%	21.10%	19.30%
61-90 days	12.50%	15.40%	12.80%
91+ days	13.30%	27.50%	27.10%
	100.00%	100.00%	100.00%



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Loss Statistics - 2011
 (Statistics supplied by Subprime Analytics)

<u>Loss Statistics</u>	<u>2011 Subprime Analytics Benchmarks</u>	<u>2010 Subprime Analytics Benchmarks</u>	<u>2009 Subprime Analytics Benchmarks</u>
Average gross dollar loss (before recoveries)	\$ 7,245	\$ 7,072	\$ 7,049
Average net dollar loss (after recoveries)	\$ 4,950	\$ 4,786	\$ 4,898
Average default rate (% of loans written off)	31.03%	30.39%	30.11%
Average gross dollar loss rate (% of principal)	38.61%	39.18%	37.51%
Average net dollar loss rate (% of principal)	26.38%	26.52%	26.06%
Average recovery (% of principal charged off)	31.70%	32.30%	30.50%
Highest cumulative default month after origination	22nd Month	21st Month	19th Month
Highest frequency of default (month after origination)	5th Month	4th Month	4th Month
Worst periodic loss month after origination	February	February	February

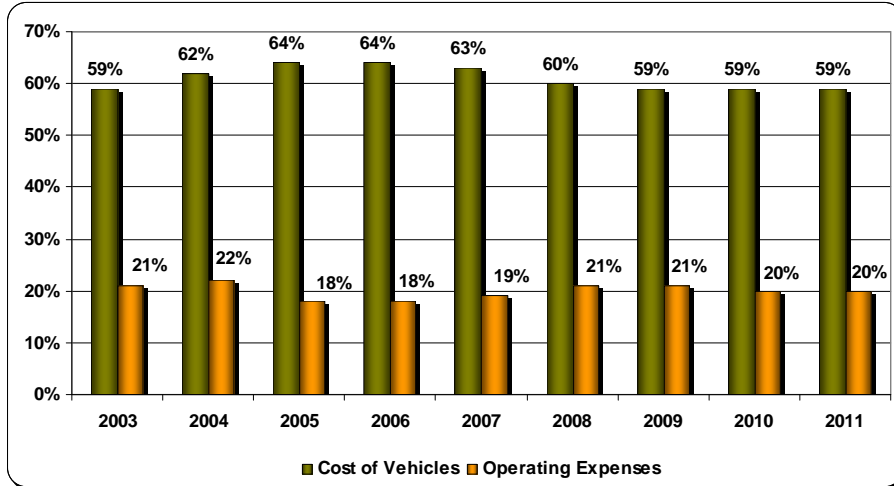
Note: The above referenced loss data was determined by electronically analyzing approximately 1,024,000 loans, aggregating approximately \$9.1 billion to identify loss rates and to understand why they occurred.



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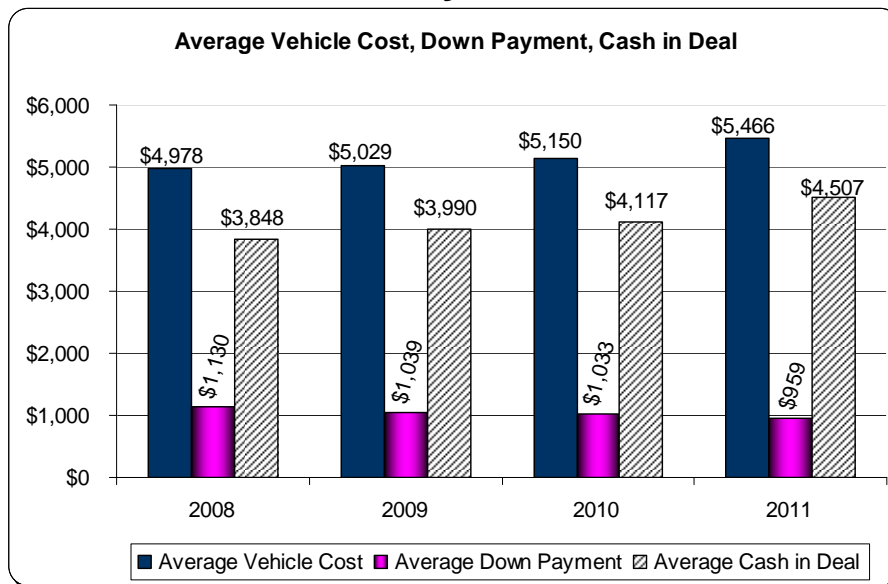
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BHPH FINANCIAL TRENDS Costs / Expenses: 2003 – 2011



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: 2008 – 2011



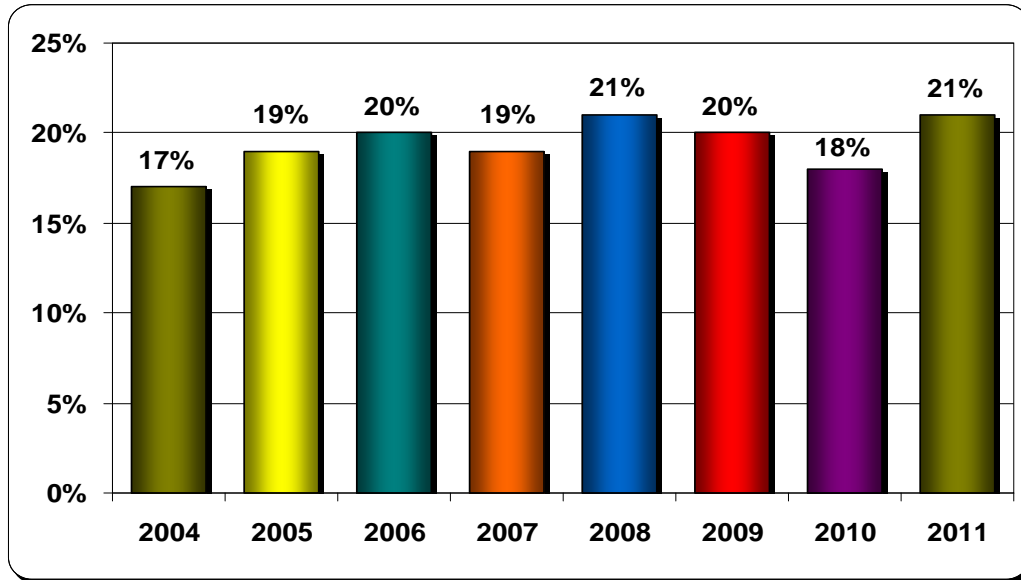
Source: Subprime Analytics



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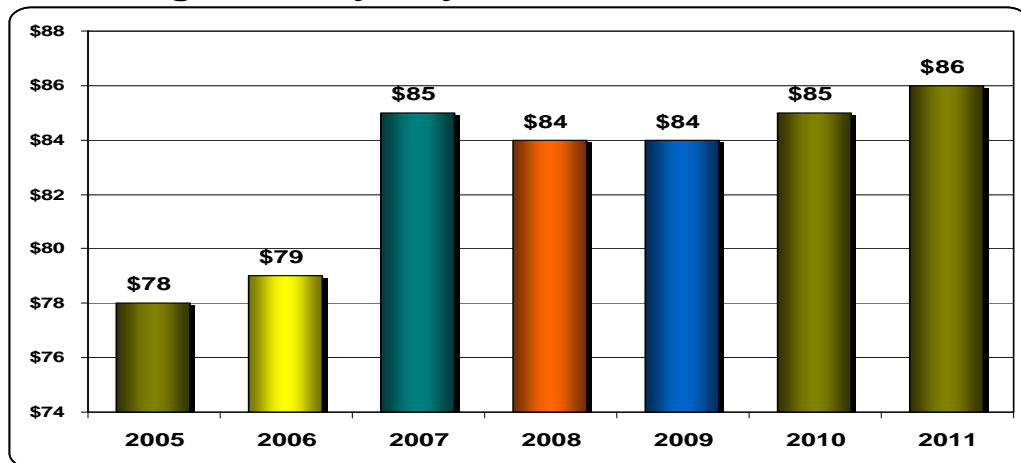
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Bad Debts: 2004 - 2011



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

BHPH FINANCIAL TRENDS Average Weekly Payment Amount: 2005 - 2011



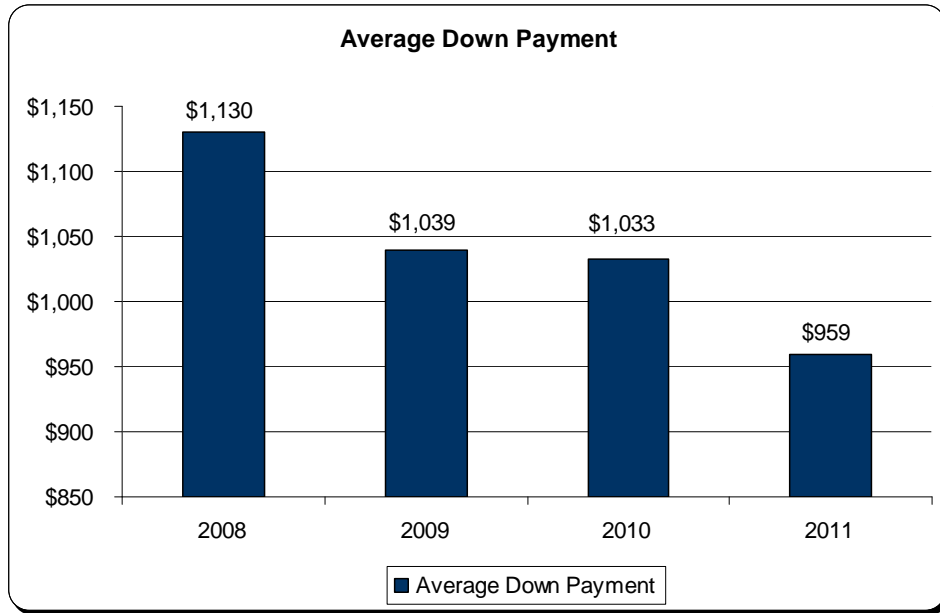
Source: NCM / Subprime Analytics



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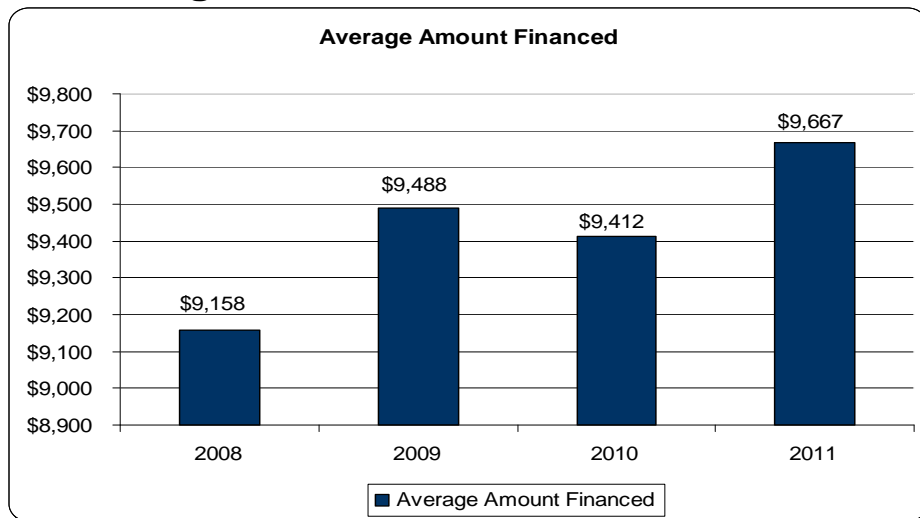
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BHPH FINANCIAL TRENDS Average Customer Down Payment: 2008 – 2011



Source: Subprime Analytics

BHPH FINANCIAL TRENDS Average Amount Financed: 2008 – 2011

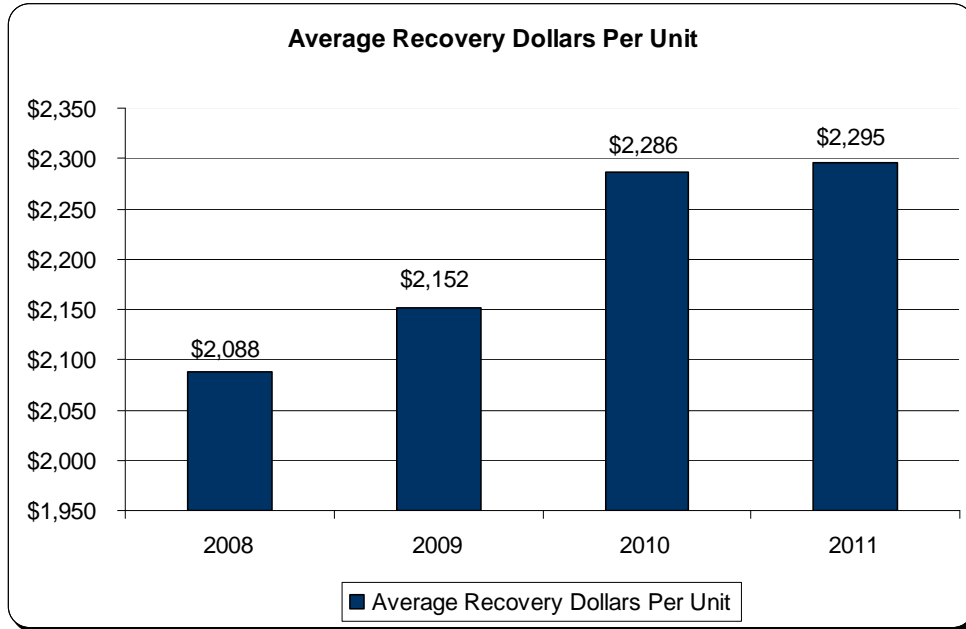


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Source: Subprime Analytics

BHPH FINANCIAL TRENDS Average Recovery Dollars Per Unit: 2008 – 2011



Source: Subprime Analytics



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