
BUY HERE, PAY HERE INDUSTRY BENCHMARKS/TRENDS - 2015 -

“Our Goal Is Your Success”



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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, www.ncm20.com.**
- 2) All results have been verified for accuracy and comparability as to accounting policies and practices.**
- 3) Results are combined (dealer and related finance affiliate), where applicable.**
- 4) Intercompany activity has been eliminated, as 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 1,700,000 subprime auto finance deals - aggregating more than \$15.0 billion - to identify loss rates and patterns. Profit Max provides customized credit scoring solutions and is an affiliate of Subprime Analytics, www.subanalytics.com.**



2015 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 their entire client data base. 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 more than \$15 billion (nearly 1.7 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 Eighteenth (18th) Annual National Buy Here, Pay Here Conference in Las Vegas on May 24-26, 2016, Dustin Kerr of NCM and Ken Shilson will discuss these benchmarks and trends to help operators understand the subprime auto finance market. For further information, visit www.bhphinfo.com. Industry metrics for the past five years can be downloaded free of charge at www.subanalytics.com.

2015 YEAR IN REVIEW!

The financial benchmarks for 2015 reflect significantly increased competition within the deep subprime marketplace, which began in late 2013. The more significant factors that impacted the deep subprime market were:

- 1) Unit sales for most operators were generally flat with 2014 volumes. Significant market competition continued from special finance, credit unions, and franchise dealers, who financed deep subprime customers. Individual operators were affected by varying levels of competition in their local markets. Rural markets appeared to be less competitive than urban markets. Some operators expanded their facilities (added lots) to increase market share in an attempt to grow or regain market share. Experian market data indicated that the decline in BHPH deep subprime

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used vehicle financing in 2015 shifted primarily to franchise dealers and unaffiliated finance companies. Franchise operators continue to sell new and late model CPO vehicles to deep subprime customers to increase market penetration and boost sales.

- 2) Subprime competition was particularly aggressive in deep subprime financing (customers with credit scores below 500) who purchased new and late-model CPO (certified pre owned) vehicles (less than two years old) with low down payments, high repayments, and terms of more than 50 months. These aggressive loans were funded by cheap money provided via Wall Street securitizations, which transfer the credit risk to investors.
- 3) History indicates that higher default rates occur on deals with “too much vehicle and too little customer”. Increased charge-offs on these deep subprime auto securitizations should be anticipated in the future. These customers will likely return to the BHPH market and their repossessed vehicles will be available at auction when they default.
- 4) BHPH operators again found inventory acquisition to be challenging given the increased competition. Inventory supplies improved from 2014, resulting from greater availability of trades from increased new car sales and from off-lease and off-rental vehicles, and from repos. Vehicle prices stabilized after several years of steady increases but reconditioning costs increased.
- 5) Technology can play an important role in BHPH operating efficiency. Most customers 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, inventory sourcing, and other technology are now available. Operators who proactively utilized online marketing and social media fared better than those who did not.
- 6) Several new regulatory challenges surfaced in 2015 when the FTC, CFPB, and various state attorney generals’ offices scrutinized BHPH compliance and investigated operating and collection practices. Regulatory investigations began with customer complaints against some small and large operators. Regulatory scrutiny will continue in 2016!
- 7) Operators with greater financial flexibility (more equity and/or available lines of credit) fared best. The increased competition requires that operators preserve their financial flexibility. Absent an increase in sales,

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this must be done by cost cutting, managing credit risk prudently, and by having cash efficient business models.

- 8) Operators who are financially able to withstand competitive challenges from lost market share will prosper in the future when customers return to the BPHH market. In the interim, operators are advised to implement technology that will improve operational efficiencies. Maximizing recoveries is vital to mitigate bad debt losses, which exhibited increased severity. Each business model should maximize cash return on investment (ROI) in the future. Increased borrowing is a temporary source of capital that reduces financial flexibility.
- 9) Lease here, pay here is growing in popularity in several states where sales tax deferral and state regulations favor this business model. Therefore, we have again included lease here benchmark metrics in 2015. These loss metrics are a reference for those considering the lease model and for those already using it. It is recommended that operators understand their applicable state laws and obtain capital before implementing a leasing mode.

WHAT'S AHEAD FOR 2016?

Although 2015 was again challenging for the BPHH industry, unprecedented profit opportunities are ahead for operators positioned to capitalize on them.

- 1) Sales by independent operators will increase as competition declines and as some of the deep subprime securitizations default.
- 2) Although inventory availability remains challenging, improved sourcing technology is available to help locate the desired vehicles. Operators who utilize these new tools will fare better than those who don't. Price stabilization will benefit acquisition costs.
- 3) Regulatory scrutiny will continue to force non-compliant "bad apples" from the industry thereby eliminating unwanted and unfair competition. The increased regulatory scrutiny of consumer relationships will cause operators to rebuild bonds with their subprime customers. Collection procedures will be scrutinized.
- 4) "Money on the street" should be reduced by larger down payments and repayments rather than higher sales prices and longer financing periods in order to reduce risk. Shorter repayment intervals produce a higher cash ROI.

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- 5) Risk and portfolio ROI are best managed and monitored by using metrics like static pool and loss liquidation calculations. These metrics are also needed to access the capital markets.
- 6) Operators who embrace technology can increase efficiency and market share without increasing operating costs. Technology has never been more beneficial for those who implement it properly.
- 7) Operators who build positive relationships with their customers and prospects will gain market share. The competition for deep subprime customers in 2015 was focused on transactions while BHPH success is built on relationships!
- 8) The lease model has merit. Leasing can be used to reduce customer repayments, shorten contract terms, and increase recoveries. However, the future popularity and growth of this alternative business model is dependent upon capital availability and the state regulations where it is utilized.

Operators who educate themselves to the latest industry developments, manage risk, implement technology, and are aware of regulatory changes through networking, education and training will prosper – provided they have sufficient capital. Success in the BHPH industry is achieved over time, not overnight! Financial management and flexibility are essential to achieving long-term success.

Kenneth B. Shilson, CPA, is President of Subprime Analytics, www.subanalytics.com, a consulting company that 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: 2013- 2015

	2015 % of Vehicle Sales	2014 % of Vehicle Sales	2013 % of Vehicle Sales
<u>Cost of Vehicle Sales</u>			
Cost of vehicles	49.59%	50.06%	51.76%
Reconditioning costs	8.31%	7.63%	5.50%
Other	2.44%	2.72%	2.96%
Total cost of vehicle sales	60.34%	60.41%	60.22%
<u>Operating Expense</u>			
Advertising	3.93%	3.82%	3.80%
Bank charges	0.18%	0.28%	0.20%
Contributions	0.02%	0.03%	0.04%
Depreciation	0.52%	0.46%	0.40%
Dues and subscriptions	0.14%	0.12%	0.12%
Insurance	0.32%	0.29%	0.27%
Legal and accounting	0.28%	0.45%	0.42%
Outside services	0.38%	0.20%	0.03%
Office expense	0.90%	0.83%	0.80%
Rent	2.27%	2.20%	2.39%
Repairs and maintenance	0.34%	0.16%	0.47%
Salaries (non-owners)	11.36%	10.56%	10.17%
Taxes - general	0.07%	0.18%	0.10%
Other operating expense	0.23%	0.03%	0.22%
Taxes - payroll	0.52%	0.84%	0.70%
Utilities and telephone	0.42%	0.67%	0.39%
Travel / Training	0.38%	0.43%	0.40%
Total operating expense	22.26%	21.55%	20.92%

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Dealer Operating Information: 2013 - 2015

(Statistics provided by NCM Associates, Inc.)

	2015 NCM Benchmarks	2014 NCM Benchmarks	2013 NCM Benchmarks
<u>Sales</u>			
Average units sold per dealer (BHPH deals only)	635	550	610
Average cash in deal per vehicle sold	\$ 6,353	\$ 5,777	\$ 4,926
Average ACV per vehicle sold (includes recon)	\$ 6,403	\$ 6,237	\$ 5,487
Average reconditioning cost per vehicle sold	\$ 1,221	\$ 1,207	\$ 1,026
Average gross profit per vehicle sold	\$ 4,675	\$ 4,484	\$ 4,509
Average cash down payment (including trades)	\$ 1,091	\$ 1,089	\$ 1,134
Average amount financed	\$ 10,909	\$ 10,567	\$ 9,664
Average term of loan (in weeks)	159	153	143
<u>Collections / Recoveries</u>			
Average weekly payment amount	\$ 91	\$ 89	\$ 87
Percentage of accounts past due	17.6%	16.3%	17.8%
Average # of past due accounts per collector	82	101	88
Average net loss per charge off	\$ 5,058	\$ 4,820	\$ 4,584
Average portfolio delinquency			
Current	83.10%	83.80%	83.70%
0-10 days	9.70%	8.60%	9.30%
11-29 days	3.90%	3.90%	4.10%
30-59 days	1.90%	2.30%	1.70%
60-89 days	0.80%	0.90%	0.60%
90+ days	0.60%	0.50%	0.60%
	100.00%	100.00%	100.00%
<u>Inventory Management</u>			
Vehicle Days Supply (Units)	84	91	94
Average inventory aging			
0-30 days	41.30%	42.40%	40.80%
31-60 days	22.20%	23.70%	25.30%
61-90 days	14.70%	15.50%	14.10%
91+ days	21.80%	18.40%	19.80%
	100.00%	100.00%	100.00%



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Loss Metrics - 2015
 (Data supplied by Subprime Analytics)

<u>Loss Metrics</u>	<u>2015 BHPH Benchmarks</u>	<u>2014 BHPH Benchmarks</u>	<u>2013 BHPH Benchmarks</u>
Average gross dollar loss (before recoveries)	\$ 8,111	\$ 8,408	\$ 8,381
Average net dollar loss (after recoveries)	\$ 6,061	\$ 5,749	\$ 5,410
Average default rate (% of loans written off)	31.45%	31.16%	31.41%
Average gross dollar loss rate (% of principal)	37.35%	38.57%	37.75%
Average net dollar loss rate (% of principal)	27.91%	26.37%	24.37%
Average recovery (% of principal charged off)	25.30%	31.60%	35.40%
Highest cumulative default month after origination	21st Month	18th Month	19th Month
Highest frequency of default (month after origination)	7th Month	7th Month	5th Month
Worst periodic loss month after origination	February	February	February

Note: The above referenced loss data was determined by electronically analyzing nearly 1,700,000 loans, aggregating approximately \$15.0 billion to identify loss rates and to understand why they occurred.



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 Prepared for NABD by Subprime Analytics

Loss Metrics - 2015
 (Data supplied by Subprime Analytics)

<u>Loss Metrics</u>	2015 LPH Benchmarks	2014 LPH Benchmarks	2015 BPH Benchmarks
Average gross dollar loss (before recoveries)	\$ 13,733	\$ 9,556	\$ 8,111
Average net dollar loss (after recoveries)	\$ 7,596	\$ 5,801	\$ 6,061
Average default rate (% of loans written off)	32.21%	25.31%	31.45%
Average recovery (% of principal charged off)	44.69%	39.29%	25.30%
Highest cumulative default month after origination	22nd Month	14th Month	21st Month
Highest frequency of default (month after origination)	10th Month	4th Month	7th Month
Worst periodic loss month after origination	March	May	February

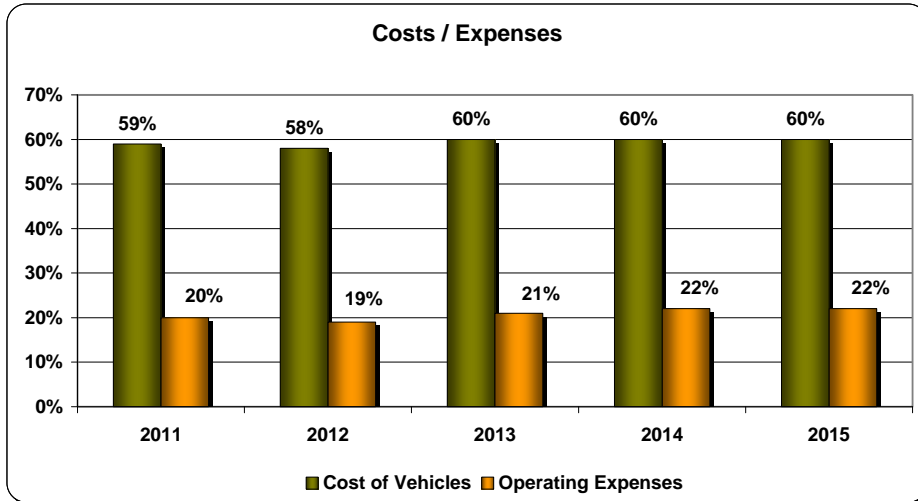
Source: Subprime Analytics



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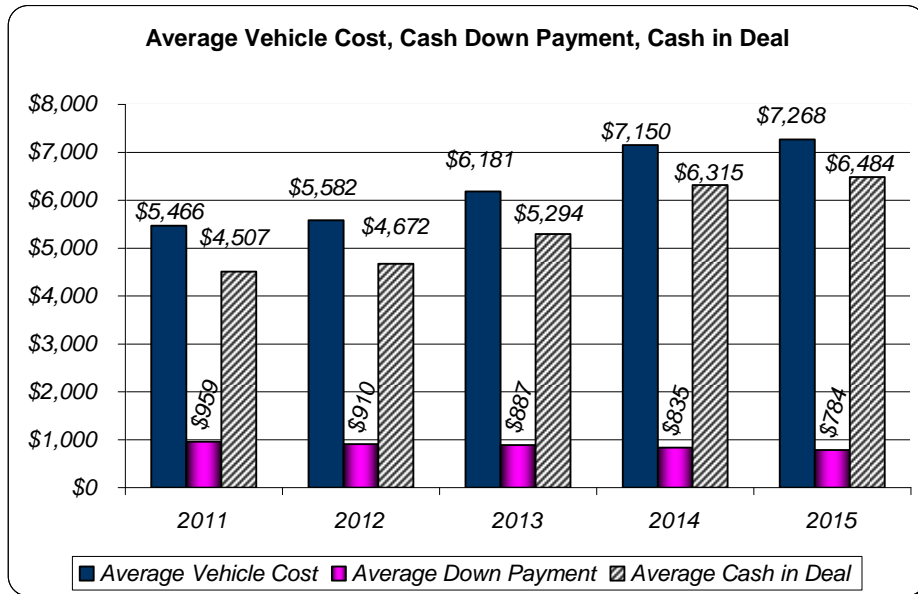
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Costs / Expenses: 2011 – 2015



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: 2011 – 2015



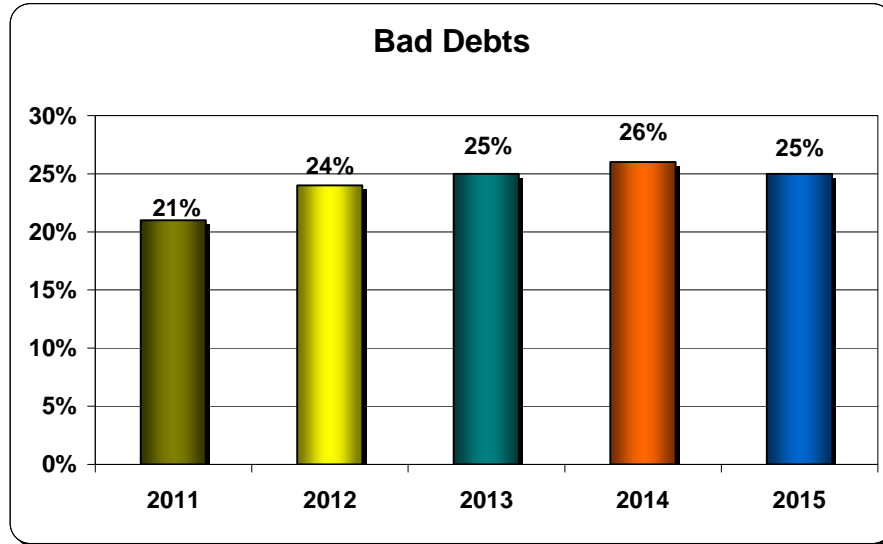
Source: Subprime Analytics



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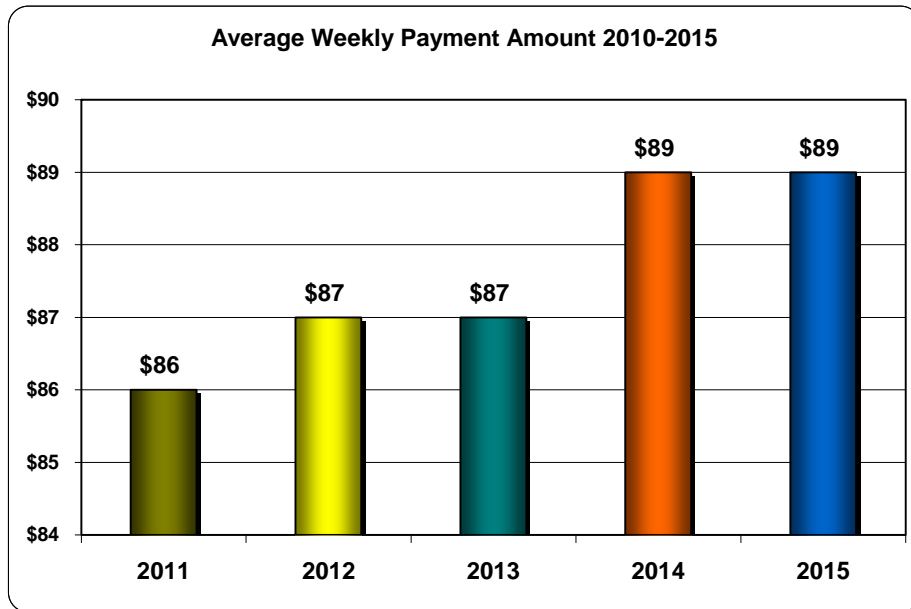
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Bad Debts: 2011 - 2015



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

BHPH FINANCIAL TRENDS Average Weekly Payment Amount: 2011 - 2015



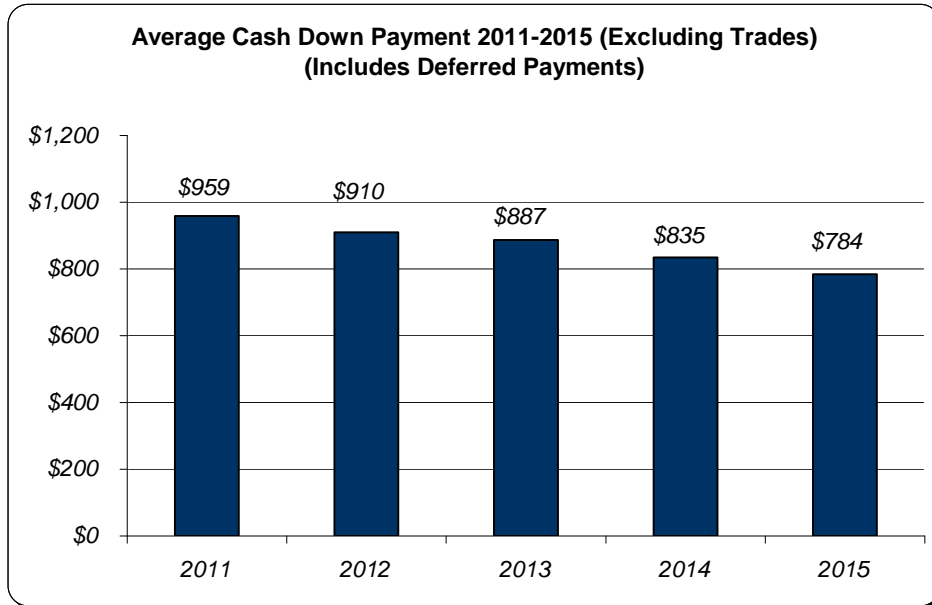
Source: NCM, Subprime Analytics



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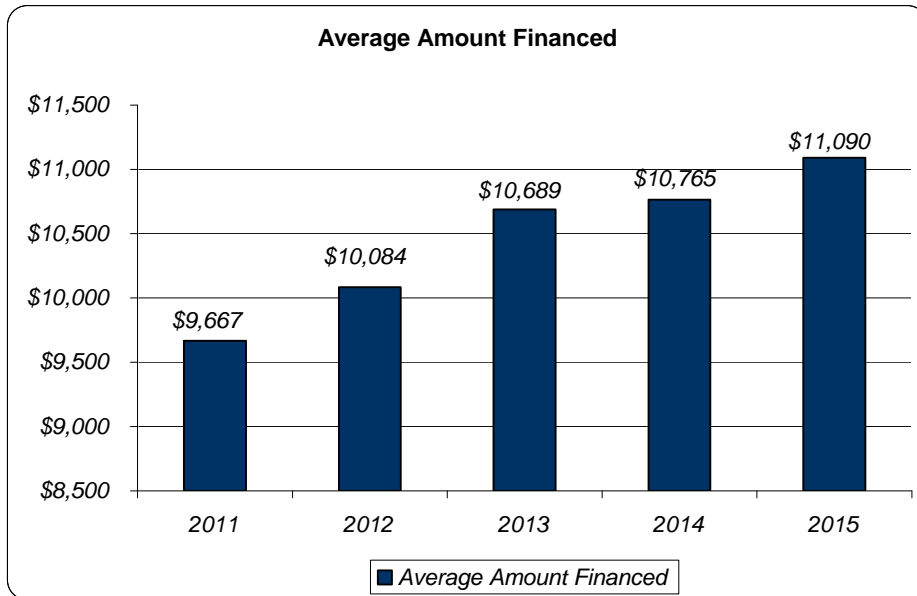
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Average Customer Down Payment: 2011– 2015



Source: Subprime Analytics

BHPH FINANCIAL TRENDS Average Amount Financed: 2011 – 2015



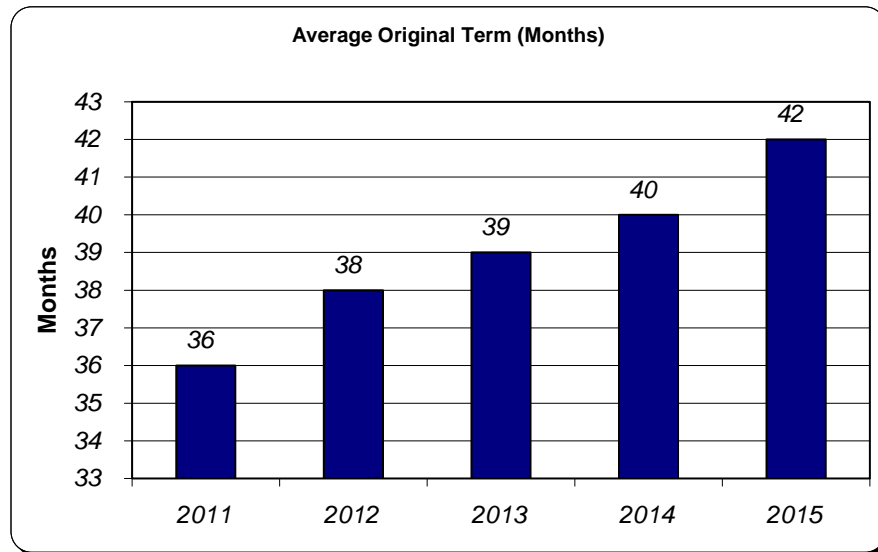
Source: Subprime Analytics



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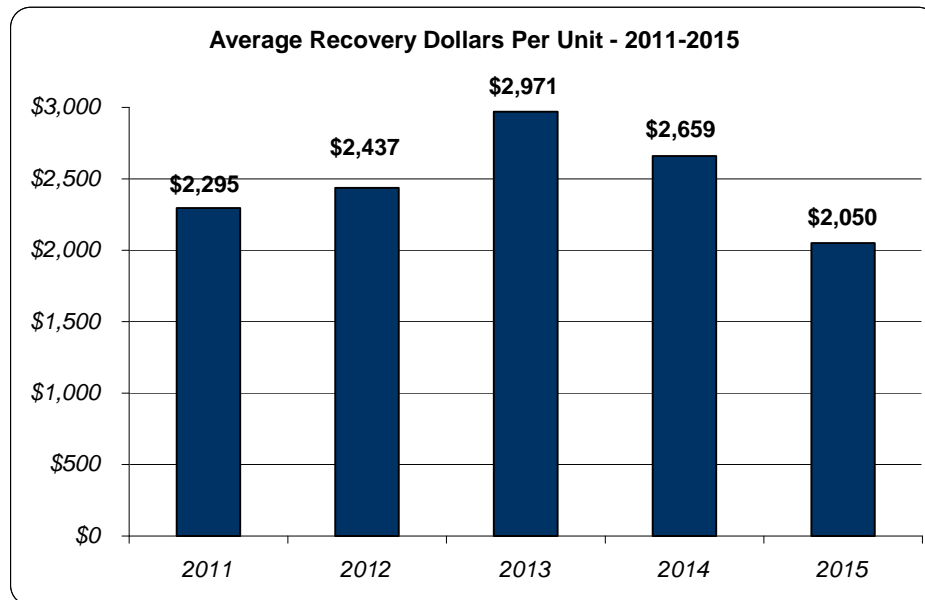
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Average Original Term (Months)



Source: Subprime Analytics

BHPH FINANCIAL TRENDS Average Recovery Dollars Per Unit: 2011 – 2015



Source: Subprime Analytics

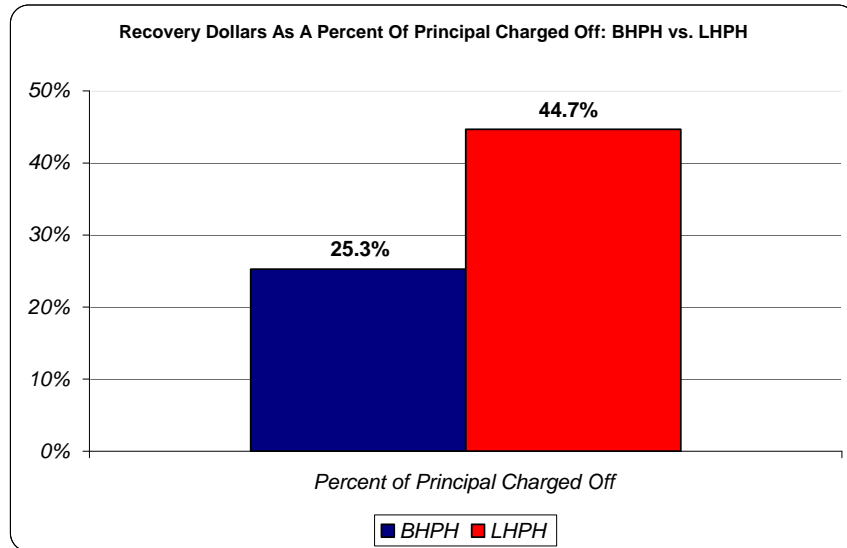


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BPHH INDUSTRY TRENDS - GRAPHS

BPHH FINANCIAL TRENDS

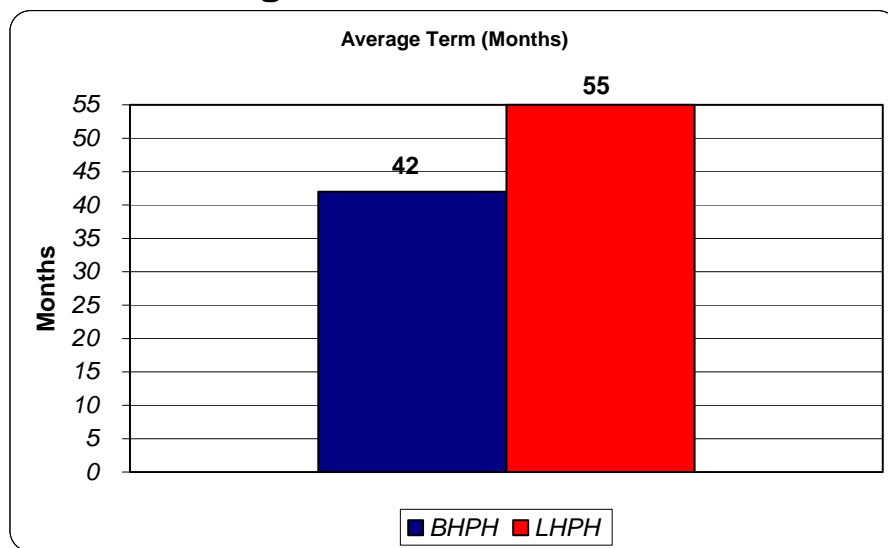
Recovery Dollars As a Percent of Principal Charged Off: BPHH vs. LPHH



Source: Subprime Analytics

BPHH FINANCIAL TRENDS

Average Term: BPHH vs. LPHH



Source: Subprime Analytics



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