Kenneth Shilson & Associates, PC
Subprime Analysts and Consultants

Subprime Analytics

Kenneth B. Shilson, CPA
ken@kenshilson.com

2180 North Loop W, Ste 270
Houston, TX 77018 - 8014

Jon H. Moreland, CPA
jon@subanalytics.com

Learn From Your Year End Losses So You Don't Repeat Them!

By Kenneth B. Shilson, CPA, President
Subprime Analytics

With 2017 in the rearview mirror, many buy here, pay here (BHPH) operators will evaluate last year's performance by reviewing sales figures and the "bottom line" of their year-end financial statements. I acknowledge that these are typical performance barometers operators use to determine what kind of year they had – but neither individually or collectively – tell how well the company managed portfolio performance or risk. The aforementioned analysis also does not provide any insights into how to improve portfolio performance in the future.

For the past thirteen years, I have performed computerized analysis of BHPH installment portfolios for operators and capital providers using our proprietary software – Subprime Analytics. This analysis is equivalent to giving your portfolio an "MRI", and includes more than 1.7 million subprime installment contracts aggregating more than $19 billion.

The Subprime Analytics reports contain performance metrics and evaluations of installment portfolios for many of the nation's most successful BHPH operators. These metrics include static pool (measures the severity and frequency of losses) and loss to liquidation (measures the pace of losses), and "drill downs" into virtually every aspect of their deals. This analysis looks at customer attributes, vehicle types, and various other components of each deal structure, including the amount financed, contract term, repayment intervals, payment amount, interest rate, markup, etc.

These historical metrics allow us to forecast future loss rates and predict collection performance. In addition, cash recovery projections for each portfolio are compared with the operator's investment in their portfolio to determine return on investment (ROI). ROI performance gradients have been established for below average, average and above average returns. These gradients are then used to compare each portfolio's ROI against an overall master database of comparable peers, and to assess the cash efficiency and profitability of an operator's underlying business model.

The analysis described above has caused me to conclude that superior performance is achieved by studying the losses of each portfolio, and adjusting underwriting and collection procedures where necessary.

When studies are performed utilizing data from multiple periods (over several months and years) of originations, the results provide a more valid barometer of performance than financial statements or sales data.

In conclusion, as you evaluate your company's performance for 2017, take a "deeper dive" into your losses so you don't repeat them. Improve future performance and cash flow by identifying, understanding, and correcting past underwriting mistakes.

Kenneth B. Shilson, CPA*, is President of* ***Subprime Analytics,*** www.subanalytics.com, *a consulting company, which provides subprime portfolio analysis services****.*** *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 call 832-767-4759