
BUY HERE, PAY HERE INDUSTRY BENCHMARKS/TRENDS - 2008 -

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NOTES TO THESE BENCHMARKS

- 1) **Financial information compiled from our best performing dealers in 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.**
- 3) **Results are combined (dealer and finance affiliate).**
- 4) **Intercompany activity has been eliminated.**
- 5) **Financial information compiled by Shilson, Goldberg, Cheung and 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 613,000 subprime loans aggregating approximately \$5.3 billion to identify loss rates and patterns.**



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2008 BUY HERE, PAY HERE YEAR-END REVIEW & A LOOK AHEAD!

BY KENNETH B. SHILSON, CPA
FOUNDER, NABD

Annually NABD, with the help of Shilson, Goldberg & Cheung, CPA's, compiles 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, 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 who, to date, has analyzed more than \$5 billion (over 600,000 individual accounts) of subprime, BHPH installment loans 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 interesting trend information for earlier periods.

At the Eleventh (11th) Annual National Buy Here, Pay Here Conference (NABD 2009) in Las Vegas, to be held on May 12-14, 2009, along with some other contributors, I will discuss 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.

The automotive industry had a very difficult year in 2008. A credit crisis, volatile gas prices, both inflation and deflation, and other economic factors combined to create some unprecedented economic challenges for both new and used car dealers. While franchise sales and profits declined, the attached benchmarks show that (at least among the better operators) BHPH profits did not experience the same fate!



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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 2006-2008.

	2008	2007	2006
Sales	100%	100%	100%
Cost of vehicle sales	(60%)	(63%)	(64%)
Subtotal	40%	37%	36%
Financing Income	18%	16%	18%
Bad Debts	(21%)	(19%)	(20%)
Gross Profit	37%	34%	34%

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

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

An explanation of the significant changes follows:

1. Wholesale used vehicle prices stabilized (and ultimately declined) during 2008, versus an increasing-price environment in prior years. Volatile gasoline prices during 2008 created a shift from fuel-inefficient vehicles to fuel-efficient ones and then back again! Overall, the economic recession depressed vehicle demand creating some very favorable buying opportunities. Those BHPH dealers who were able to react quickly, capitalized on these buying opportunities by finding the "right vehicles," in better condition (lower make-ready costs) at more favorable acquisition prices. Many of these acquisition opportunities came despite traveling longer distances (and incurring additional transportation costs), in order to acquire that inventory.
2. Financing income (interest) for the third consecutive year failed to cover bad debt losses. The increase in financing income achieved during 2008 is generally attributable to operators who used simple interest contracts and who were prudent and diligent in their underwriting and collection practices. Payment device technology also aided collection performance, in many cases. Operators who covered their losses with finance income (or those who came closest) were the most profitable.
3. Bad debt losses in 2008 were higher as defaults increased, and as operators again increased their "cash in deal." This adverse trend results because increases in down



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payments and repayments did not keep pace with cost increases during the past couple of years. In the future, down payments and repayments must increase or this adverse trend will continue. Operators must also maximize recoveries in order to control and reduce their losses. Bad debt reserves were provided reflecting increasing loss trends.

4. Operating expenses (expressed as a percentage of sales) increased in 2008. However, cost and expense controls remain a key element of profitability. Increases in insurance, advertising, and payroll (non-owners) during 2008 were the primary causes.
5. Interest expense (as a percentage of sales) also increased in 2008 resulting from higher debt levels used to finance growth opportunities. A decline in interest rates during the year was negated by lenders who installed fixed rate “floors” on borrowing costs.
6. The most profitable operators effectively managed inventory, and the other factors above in order to maintain and, in some cases, improve “bottom line” profits and cash flow for 2008.

Looking Ahead to 2009 and Beyond!

The adverse economic environment in 2009 creates some unprecedented BHPH profit opportunities for those who can identify and capitalize on them! The overall tightening in the credit markets will push higher credit-quality customers into the BHPH marketplace in the future. The decline in capital availability will likely lead to further industry consolidation among both franchise and independent dealers, thereby reducing competition. (The industry lost approximately 5,000 franchise and independent operators in 2008.) Prudent operators will provide financing to better credit quality customers only after increasing their down payments and repayments from historical levels. Such increases will enhance their profits and cash flow, reduce losses, and mitigate risk. Such changes are necessary because capital availability, when America emerges from the current recession, will be more limited.

Operators must work smarter, rather than harder to prosper in the months ahead. Higher skill levels will be required, making training and dealer education more important. Some operators will prosper in this challenging environment and some won't survive. Good luck!



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

Ratio Comparisons: 2006 - 2008

COMBINED BUY HERE / PAY HERE

Balance Sheet

	2008 Average Benchmark	2007 Average Benchmark	2006 Average Benchmark
(Inventory x Days) / Cost of Vehicle Sales	68.57 days	56.21 days	55.03 days
Cost of Vehicle Sales / Average Inventory Dollars	5.96 x	8.51 x	9.22 x
Vehicle Sales / Average Inventory Dollars	9.98 x	13.59 x	14.51 x
Vehicle Sales / Total Assets	.96 x	1.27 x	1.18 x
Total Assets / Total Liabilities	1.61 x	1.82 x	2.01 x
Allowance for Bad Debts / Finance Receivables*	18%	14%	16%
Finance Receivables* / Total Assets	89%	85%	87%
Total Debt / Total Assets	62%	55%	50%

* Finance receivables are net of unearned finance charges

COMBINED BUY HERE / PAY HERE

Income Statement

	2008 Average Benchmark	2007 Average Benchmark	2006 Average Benchmark
Bad Debts / Vehicle Sales	21%	19%	20%
Cost of Vehicle Sales / Vehicle Sales	60%	63%	64%
Gross Profit*** / Vehicle Sales	37%	34%	34%
Operating Expense / Vehicle Sales	21%	19%	18%
Interest Expense / Financing Income	23%	20%	17%
Operating Income / Vehicle Sales	16%	15%	16%
Financing Income / Vehicle Sales	18%	16%	18%
Compensation** / Vehicle Sales	11%	10%	9%
Reconditioning Cost / Vehicle Sales	4%	5%	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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Compiled for NABD by Shilson, Goldberg, Cheung and Associates, LLP

Cost of Goods Sold and Operating Expense Detail: 2006 - 2008

	2008 % of Vehicle Sales	2007 % of Vehicle Sales	2006 % of Vehicle Sales
<u>Cost of Vehicle Sales</u>			
Cost of vehicles	51.03%	54.34%	55.26%
Reconditioning costs	4.12%	4.97%	5.38%
Other	4.52%	3.28%	2.86%
Total cost of vehicle sales	59.67%	62.59%	63.50%
<u>Operating Expense</u>			
Advertising	1.55%	1.21%	1.45%
Bank charges	0.24%	0.07%	0.12%
Contributions	0.01%	0.03%	0.38%
Depreciation	0.54%	0.82%	0.77%
Dues and Subscriptions	0.02%	0.02%	0.03%
Insurance	0.99%	0.23%	0.72%
Legal and accounting	0.50%	0.71%	0.43%
Outside services	0.30%	0.07%	0.35%
Office expense	1.31%	0.89%	1.10%
Rent	1.62%	1.13%	1.46%
Repairs and maintenance	0.27%	0.44%	0.25%
Salaries (non-owners)	10.81%	9.97%	8.85%
Taxes - general	0.30%	0.26%	0.15%
Other Operating Expense	0.60%	0.83%	0.67%
Taxes - payroll	1.11%	0.83%	0.78%
Utilities and Telephone	0.79%	0.64%	0.63%
Travel / Training	0.38%	0.47%	0.20%
Total operating expense	21.35%	18.62%	18.34%



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Dealer Operating Information: 2006 - 2008

(Statistics provided by NCM Associates, Inc.)

	2008 NCM Benchmarks	2007 NCM Benchmarks	2006 NCM Benchmarks
<u>Sales</u>			
Average units sold per dealer (BHPH deals only)	743	879	838
Average cash in deal per vehicle sold	\$ 4,696	\$ 4,645	\$ 4,480
Average ACV per vehicle sold (includes recon)	\$ 5,284	\$ 5,111	\$ 4,949
Average reconditioning cost per vehicle sold	\$ 499	\$ 634	\$ 610
Average gross per vehicle sold	\$ 4,239	\$ 4,123	\$ 4,344
Average cash down payment	\$ 1,185	\$ 1,084	\$ 1,074
Average amount financed	\$ 9,195	\$ 9,085	\$ 8,844
Average term of loan (in weeks)	129	134	131
<u>Collections / Recoveries</u>			
Average weekly payment amount	\$ 84	\$ 85	\$ 82
Average # of accounts past due	350	384	386
Average # of past due accounts per collector	101	78	83
Average loss per charge off	\$ 5,264	\$ 4,927	\$ 5,009
Average portfolio delinquency			
Current	69.85%	74.80%	71.20%
0-10 days	11.75%	10.10%	11.70%
11-29 days	10.20%	7.60%	8.10%
30-59 days	4.60%	3.50%	4.60%
60-89 days	1.50%	1.50%	1.70%
90+ days	2.10%	2.50%	2.70%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
<u>Inventory Management</u>			
Average number of units in stock	169	201	214
Average inventory aging			
0-30 days	32.10%	42.60%	41.10%
31-60 days	22.40%	24.30%	20.10%
61-90 days	17.10%	13.10%	17.30%
91+ days	28.40%	20.00%	21.50%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>



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 Prepared for NABD by Subprime Analytics

Loss Statistics - 2008
 (Statistics supplied by Subprime Analytics)

<u>Loss Statistics</u>	2008 Subprime Analytics Benchmarks	2007 Subprime Analytics Benchmarks	2006 Subprime Analytics Benchmarks
Average gross dollar loss (before recoveries)	\$ 6,887	\$ 6,753	\$ 6,025
Average net dollar loss (after recoveries)	\$ 5,157	\$ 4,693	\$ 4,370
Average default rate (% of loans written off)	28.43%	27.71%	26.20%
Average gross dollar loss rate (% of principal)	35.54%	37.32%	36.72%
Average net dollar loss rate (% of principal)	24.76%	24.83%	26.63%
Average recovery (% of principal charged off)	28.00%	30.60%	25.70%
Highest cumulative default month after origination	19th Month	17th Month	17th month
Highest frequency of default (month after origination)	4th Month	4th Month	5th month
Worst periodic loss month after origination	February	January	February

Note: The above referenced loss data was determined by electronically analyzing approximately 613,000 loans, aggregating approximately \$5.3 billion to identify loss rates and to understand why they occurred.



Subprime Analytics

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BETTER DEALS • BIGGER PROFITS

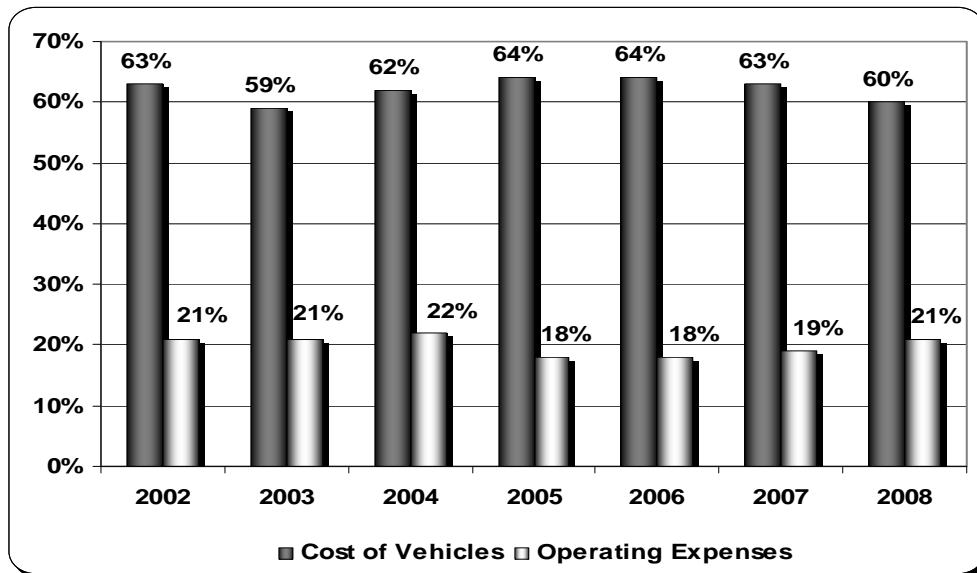
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Gross Profit Comparison: 2006 – 2008

	2008	2007	2006
Sales	100%	100%	100%
Cost of Vehicle Sales	(60)%	(63)%	(64)%
Subtotal	40%	37%	36%
Financing Income	18%	16%	18%
Bad Debts	(21)%	(19)%	(20)%
Gross Profit	37%	34%	34%

Source: Shilson, Goldberg, Cheung & Associates, LLP

BHPH FINANCIAL TRENDS Costs / Expenses: 2002 – 2008



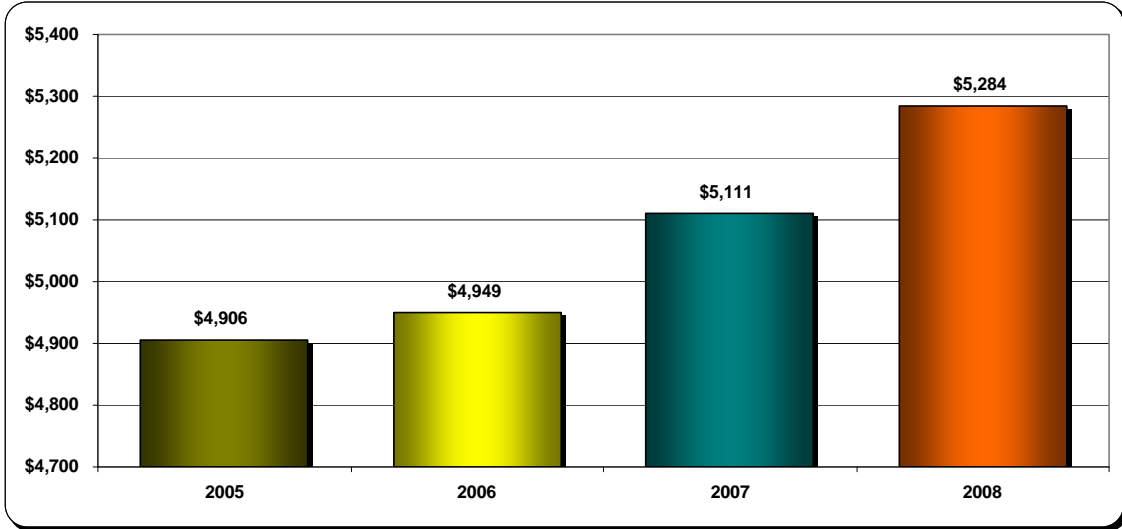
Note: All percentages are expressed as a percentage of total sales.
Source: Shilson, Goldberg, Cheung & Associates, LLP



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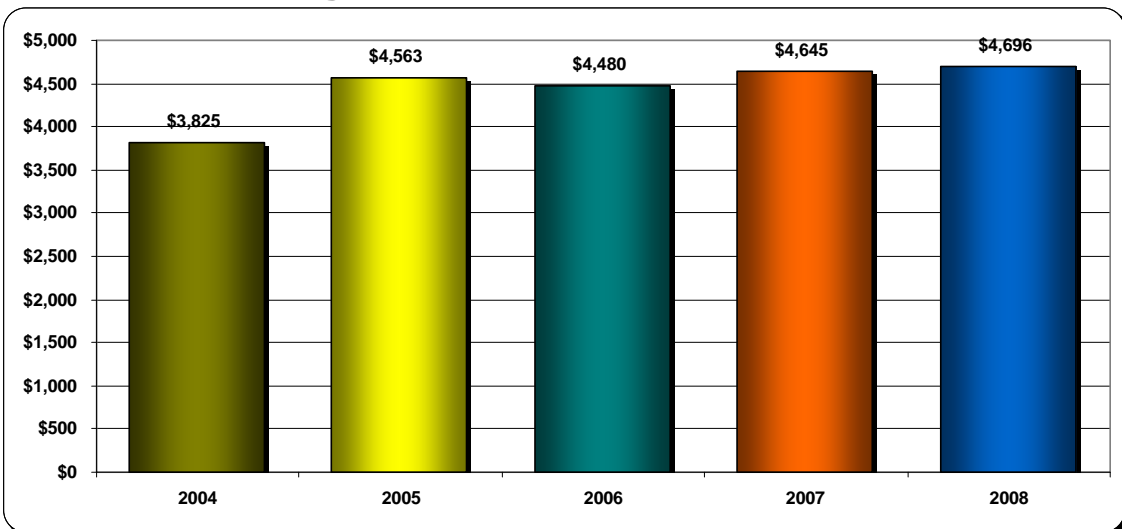
BPHH INDUSTRY TRENDS - GRAPHS

BPHH FINANCIAL TRENDS Average Total Actual Cost Per Vehicle (ACV) Per Vehicle Sold: 2005 - 2008



Source: NABD / NCM

BPHH FINANCIAL TRENDS Average "Cash In Deal": 2004 - 2008



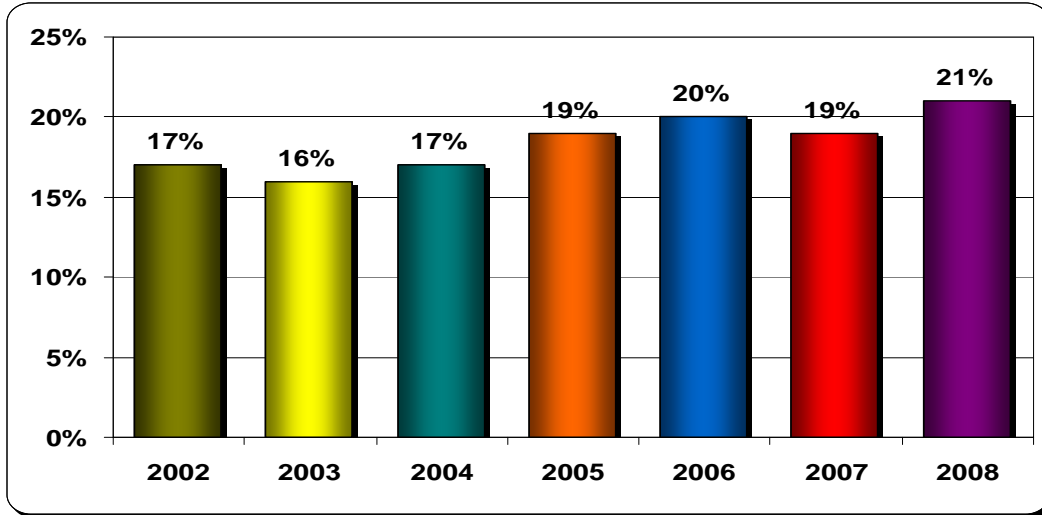
Source: NABD / NCM



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BHPH INDUSTRY TRENDS - GRAPHS

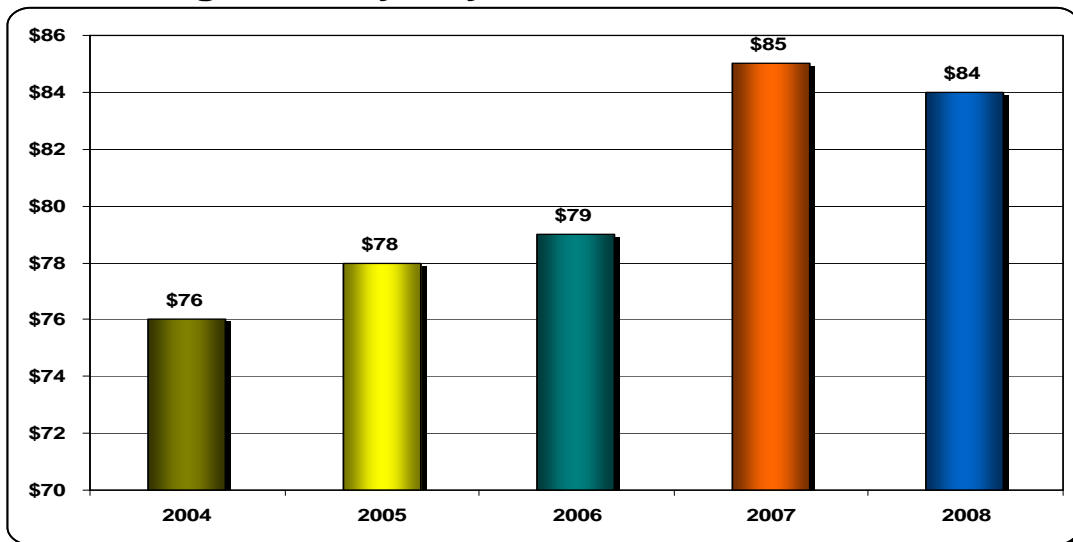
BHPH FINANCIAL TRENDS Bad Debts: 2002 - 2008



Note: Percentages are expressed as percentage of total sales

Source: Shilson, Goldberg, Cheung and Associates, Inc. / Subprime Analytics

BHPH FINANCIAL TRENDS Average Weekly Payment Amount: 2004 - 2008



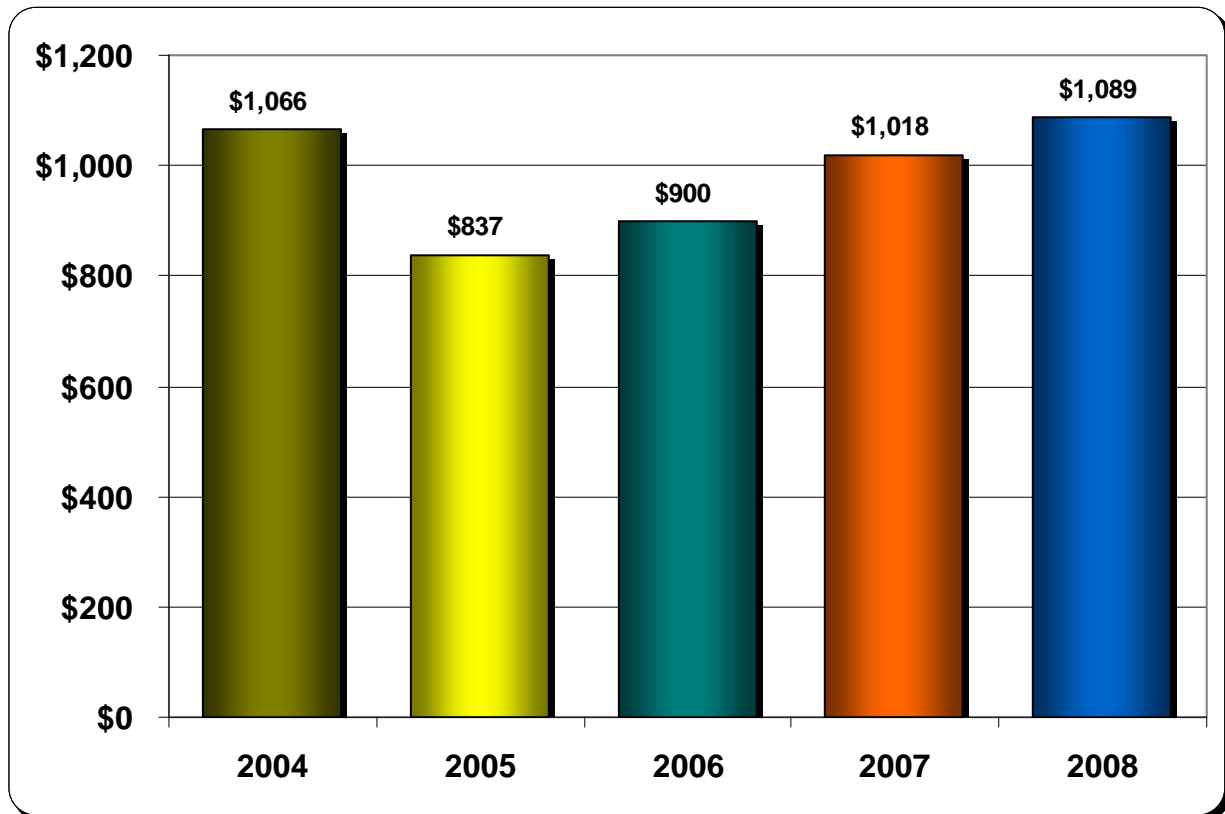
Source: NCM / Subprime Analytics



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BPHH FINANCIAL TRENDS Average Customer Down Payment: 2004 – 2008



Source: NCM / Subprime Analytics



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