
BUY HERE, PAY HERE INDUSTRY BENCHMARKS/TRENDS - 2010 -

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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 910,000 subprime loans aggregating approximately \$8.0 billion to identify loss rates and patterns.**



2010 BUY HERE, PAY HERE YEAR-END REVIEW & A LOOK AHEAD!

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

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 approximately \$8 billion (over 910,000 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 16-17, 2011 and the Thirteenth (13th) Annual National Buy Here, Pay Here Conference (NABD 2011) in Las Vegas, to be held on May 18-20, 2011, I will explain these benchmarks and industry trends to help operators identify future profit opportunities. For further information or to register for these important events, visit www.bhphinfo.com.

2010 Year In Review!

The BHPH industry had another challenging year in 2010. Just as capital became more readily available for many operators, a shortage of inventory constrained their growth. The after-effects of the “cash for clunkers” program in 2009 reduced the supply of older trucks and SUV’s and the decline in franchise sales during the last two years reduced the supply of trade-ins. In addition, many franchise dealers opted to hold more vehicles for resale, thereby reducing auction consignments. Although good BHPH inventory was still available, the shortened supply and heavy demand caused a sharp increase in inventory acquisition cost.



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In an attempt to maintain profit margins many BHPH operators opted to purchase higher mileage vehicles in order to “hold the line” on acquisition costs. Others paid more, and increased sales prices to consumers in order to maintain their margins.

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 2008-2010.

	2010	2009	2008
Sales	100%	100%	100%
Cost of vehicle sales	(59%)	(59%)	(60%)
Subtotal	41%	41%	40%
Financing Income	15%	16%	18%
Bad Debts	(18%)	(20%)	(21%)
Gross Profit	38%	37%	37%

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 2010 is as follows:

1. Unit sales in 2010 were generally lower versus the year ended 2009 although some operators offset these lower unit sales volumes with sales price increases. Only where operators expanded their operations and added additional lots did unit sales increase significantly. The inventory shortages explained above constrained growth, particularly for those who had capital limitations and who were unable to compete in the rising vehicle acquisition cost environment.
2. Many operators controlled vehicle acquisition costs by purchasing higher mileage vehicles. They increased their reconditioning costs in order to make ready these higher mileage vehicles for resale. Average reconditioning costs increased almost \$250 per unit in 2010!
3. Even the most profitable operators could not “cover” bad debt losses with finance income (where income equals or exceeds bad debt expense). This was largely because interest income was reduced as the average age of receivable portfolios increased due to a lower number of originations. (Interest revenue declines when the average age of the portfolio matures.) Bad debt defaults remained relatively constant with 2009 levels. Collections were



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strong where consumers had enough income to continue making payments in lieu of purchasing another vehicle.

4. The decline in bad debt expense expressed as a percentage of sales resulted from increased recoveries. The most prudent operators increased the yields on repo disposals, and used payment devices to recover repos quicker. Maximizing recoveries has become an essential ingredient of BHPH profitability. Increased recycling of repos will continue as long as “good” inventory remains in short supply.
5. Acquiring and reconditioning the “right” inventory at a reasonable cost remains a continuing challenge. Successful operators controlled expenses by implementing new technology which increased efficiency and reduced personnel costs. The best operators continue to reduce leverage in order to maintain maximum financial flexibility. Decreased leverage reduced corresponding interest expense.

Looking Ahead to 2011 and Beyond!

The acquisition of vehicles at competitive costs will be a major challenge for the next several years. Reduced franchise sales in 2008-2010 will adversely impact the availability of these vehicles for BHPH operators in the foreseeable future. Although the industry has adjusted buying patterns, such adjustments should be viewed as temporary. Absent increases in downpayments (which didn’t happen in 2010!) or repayments (constant in 2010), the operators who increase sales prices also increase their risk by extending contract terms. Higher mileage vehicles, even with increased reconditioning, will likely cause higher defaults in the future. The increase in the recycling of repos will also result in more defaults unless the contract term is reduced.

The availability of subprime consumers is growing and the opportunity for significant profits has never been greater! Those operators who have access to capital, build a strong infrastructure, implement new technology, keep abreast of industry developments, and train their staff will achieve the most success. It will take more skill and knowledge for operators to prosper in the future than ever before.

The most successful BHPH business model of the future will not only generate profits, but will also maximize the cash return on money invested in the business. Capital availability will remain limited so operators must maximize their cash flow, control operating costs, and control “cash in deal” to succeed. Those who understand these challenges and adjust accordingly will prosper while others fail. Good luck and I hope to see all of you at both NABD events in May!



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

Ratio Comparisons: 2008 - 2010

COMBINED BUY HERE / PAY HERE

Balance Sheet

	2010 Average Benchmark	2009 Average Benchmark	2008 Average Benchmark
(Inventory x Days) / Cost of Vehicle Sales	63.40 days	64.11 days	68.57 days
Cost of Vehicle Sales / Average Inventory Dollars	6.40 x	5.98 x	5.96 x
Vehicle Sales / Average Inventory Dollars	11.92 x	11.16 x	9.98 x
Vehicle Sales / Total Assets	0.97 x	0.95 x	0.96 x
Total Assets / Total Liabilities	1.93 x	1.82 x	1.61 x
Allowance for Bad Debts / Finance Receivables*	22%	21%	18%
Finance Receivables* / Total Assets	96%	93%	89%
Total Debt / Total Assets	52%	55%	62%

* Finance receivables are net of unearned finance charges

COMBINED BUY HERE / PAY HERE

Income Statement

	2010 Average Benchmark	2009 Average Benchmark	2008 Average Benchmark
Bad Debts / Vehicle Sales	18%	20%	21%
Cost of Vehicle Sales / Vehicle Sales	59%	59%	60%
Gross Profit*** / Vehicle Sales	38%	37%	37%
Operating Expense / Vehicle Sales	20%	21%	21%
Interest Expense / Financing Income	17%	18%	23%
Operating Income / Vehicle Sales	18%	16%	16%
Financing Income / Vehicle Sales	15%	16%	18%
Compensation** / Vehicle Sales	10%	11%	11%
Reconditioning Cost / Vehicle Sales	7%	7%	4%

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 Shilson, Goldberg, Cheung and Associates, LLP

Cost of Goods Sold and Operating Expense Detail: 2008 - 2010

	2010 % of Vehicle Sales	2009 % of Vehicle Sales	2008 % of Vehicle Sales
<u>Cost of Vehicle Sales</u>			
Cost of vehicles	48.13%	49.03%	51.03%
Reconditioning costs	7.17%	6.68%	4.12%
Other	3.21%	2.85%	4.52%
Total cost of vehicle sales	58.51%	58.56%	59.67%
<u>Operating Expense</u>			
Advertising	2.50%	2.20%	1.55%
Bank charges	0.27%	0.21%	0.24%
Contributions	0.03%	0.01%	0.01%
Depreciation	0.45%	0.40%	0.54%
Dues and Subscriptions	0.10%	0.08%	0.02%
Insurance	0.27%	0.45%	0.99%
Legal and accounting	0.35%	0.51%	0.50%
Outside services	0.50%	0.13%	0.30%
Office expense	0.65%	0.58%	1.31%
Rent	2.33%	2.18%	1.62%
Repairs and maintenance	0.41%	0.22%	0.27%
Salaries (non-owners)	10.26%	10.59%	10.81%
Taxes - general	0.11%	0.26%	0.30%
Other Operating Expense	0.30%	0.94%	0.60%
Taxes - payroll	0.49%	0.77%	1.11%
Utilities and Telephone	0.50%	0.70%	0.79%
Travel / Training	0.26%	0.27%	0.38%
Total operating expense	19.78%	20.50%	21.34%

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Dealer Operating Information: 2008 - 2010

(Statistics provided by NCM Associates, Inc.)

<u>Sales</u>	<u>2010 NCM Benchmarks</u>	<u>2009 NCM Benchmarks</u>	<u>2008 NCM Benchmarks</u>
Average units sold per dealer (BHPH deals only)	543	728	743
Average cash in deal per vehicle sold	\$ 4,850	\$ 4,865	\$ 4,696
Average ACV per vehicle sold (includes recon)	\$ 5,458	\$ 5,534	\$ 5,284
Average reconditioning cost per vehicle sold	\$ 798	\$ 556	\$ 499
Average gross profit per vehicle sold	\$ 4,314	\$ 4,149	\$ 4,239
Average cash down payment	\$ 1,152	\$ 1,272	\$ 1,185
Average amount financed	\$ 9,380	\$ 9,294	\$ 9,195
Average term of loan (in weeks)	134	132	129
 <u>Collections / Recoveries</u>			
Average weekly payment amount	\$ 85	\$ 84	\$ 84
Average # of accounts past due	228	366	350
Average # of past due accounts per collector	95	86	101
Average net loss per charge off	\$ 4,273	\$ 4,360	\$ 5,264
Average portfolio delinquency			
Current	76.50%	74.40%	69.85%
0-10 days	10.30%	10.30%	11.75%
11-29 days	7.30%	7.80%	10.20%
30-59 days	2.90%	3.60%	4.60%
60-89 days	1.30%	1.70%	1.50%
90+ days	1.70%	2.20%	2.10%
	100.00%	100.00%	100.00%
 <u>Inventory Management</u>			
Average number of units in stock	128	145	169
Average inventory aging			
0-30 days	36.00%	40.80%	32.10%
31-60 days	21.10%	19.30%	22.40%
61-90 days	15.40%	12.80%	17.10%
91+ days	27.50%	27.10%	28.40%
	100.00%	100.00%	100.00%



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 Prepared for NABD by Subprime Analytics

Loss Statistics - 2010
 (Statistics supplied by Subprime Analytics)

<u>Loss Statistics</u>	<u>2010 Subprime Analytics Benchmarks</u>	<u>2009 Subprime Analytics Benchmarks</u>	<u>2008 Subprime Analytics Benchmarks</u>
Average gross dollar loss (before recoveries)	\$ 7,072	\$ 7,049	\$ 6,887
Average net dollar loss (after recoveries)	\$ 4,526	\$ 5,090	\$ 5,157
Average default rate (% of loans written off)	30.39%	30.11%	28.43%
Average gross dollar loss rate (% of principal)	39.18%	37.51%	35.54%
Average net dollar loss rate (% of principal)	26.52%	26.06%	24.76%
Average recovery (% of principal charged off)	35.50%	29.80%	28.00%
Highest cumulative default month after origination	25th Month	21st Month	19th Month
Highest frequency of default (month after origination)	4th Month	4th Month	4th Month
Worst periodic loss month after origination	February	February	February

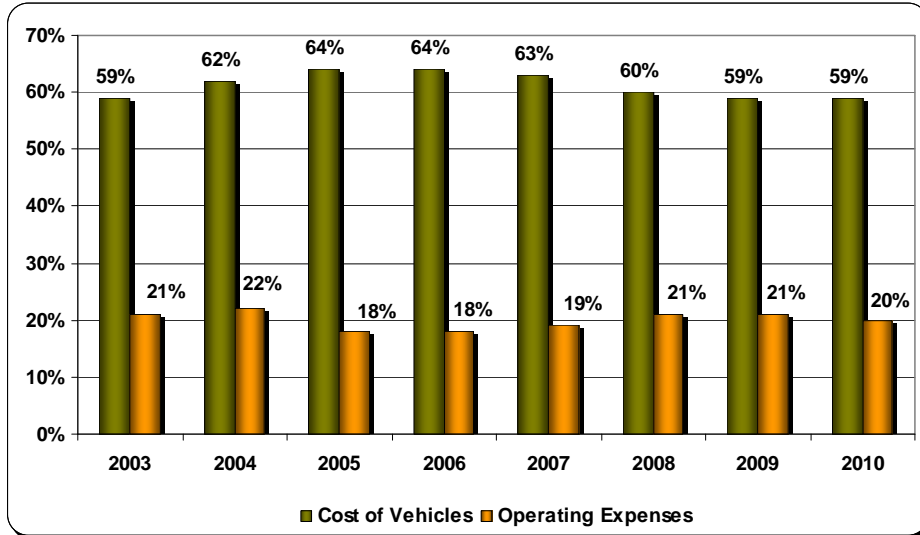
Note: The above referenced loss data was determined by electronically analyzing approximately 910,000 loans, aggregating approximately \$8.0 billion to identify loss rates and to understand why they occurred.



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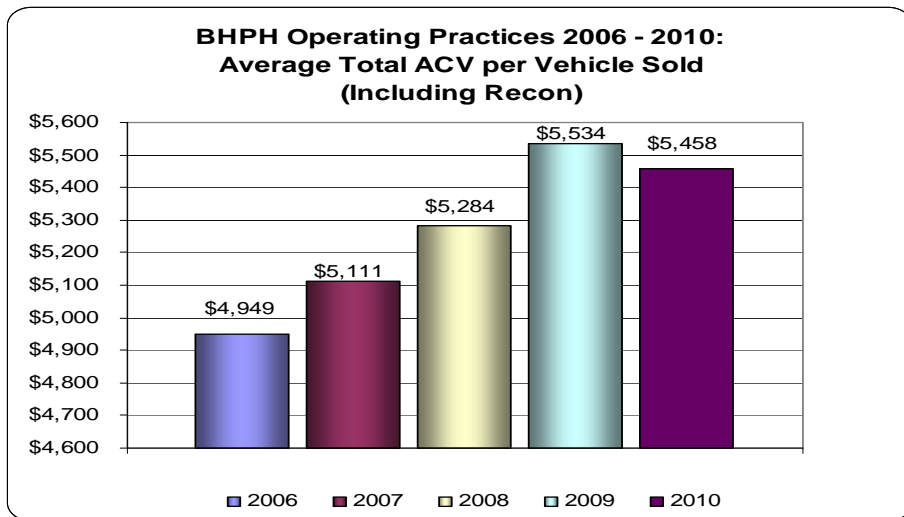
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Costs / Expenses: 2003 – 2010



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) Sold: 2006 - 2010



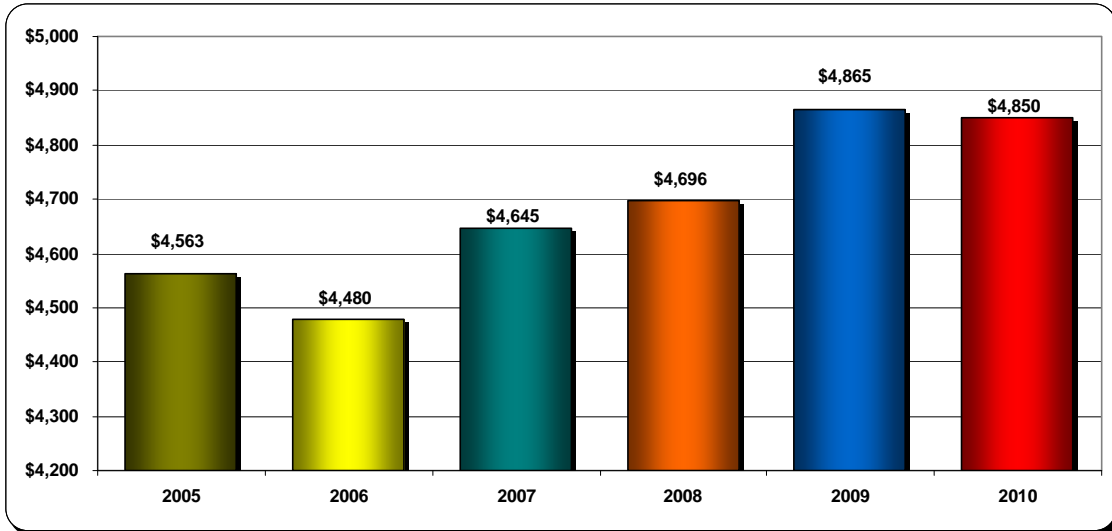
Source: NABD / NCM



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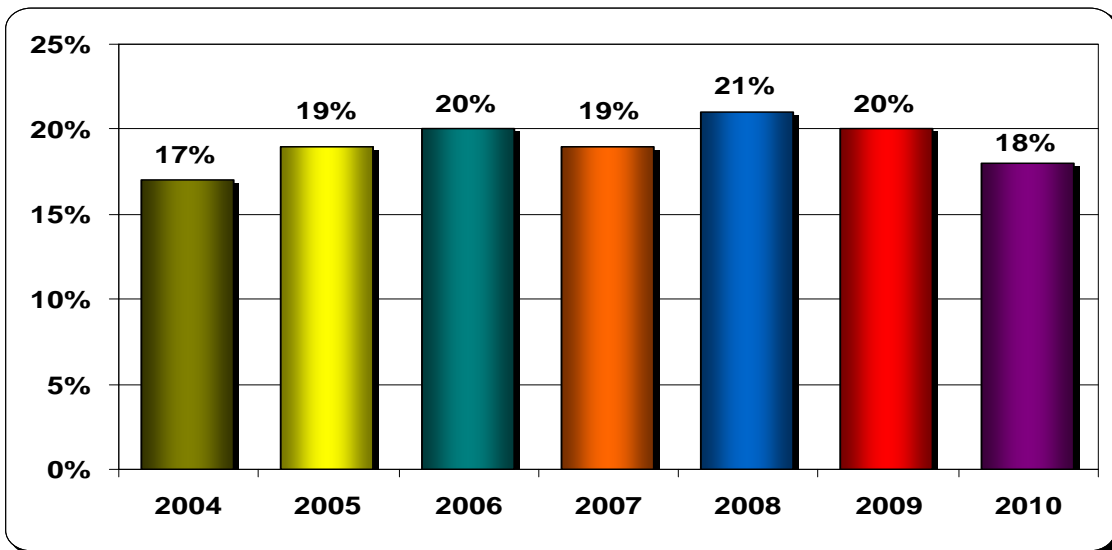
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Average "Cash In Deal": 2005 – 2010



Source: NABD / NCM

BHPH FINANCIAL TRENDS Bad Debts: 2004 - 2010



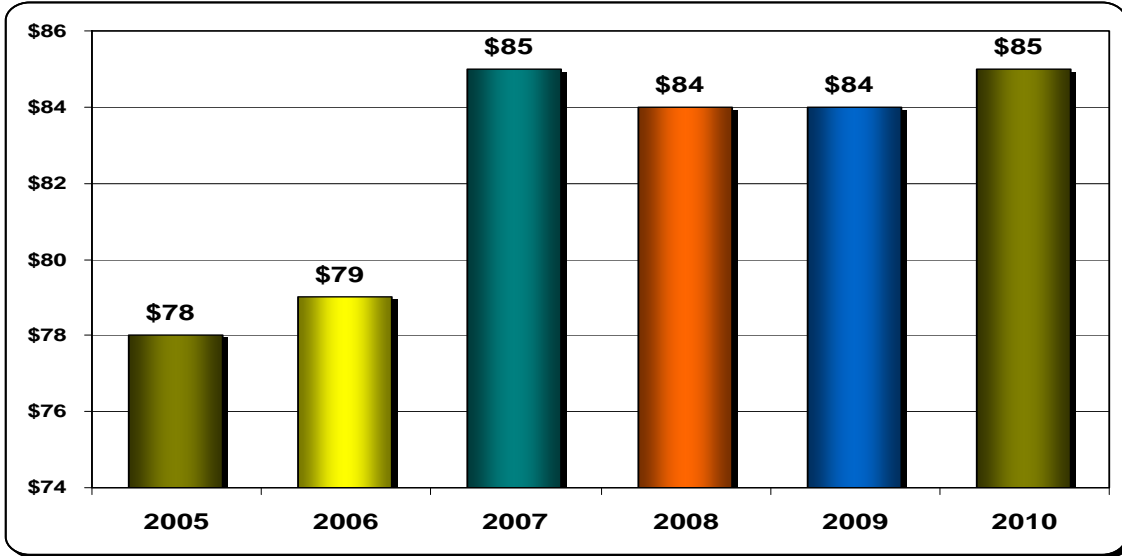
Note: Percentages are expressed as percentage of vehicle sales
Source: Shilson, Goldberg, Cheung & Associates, LLP



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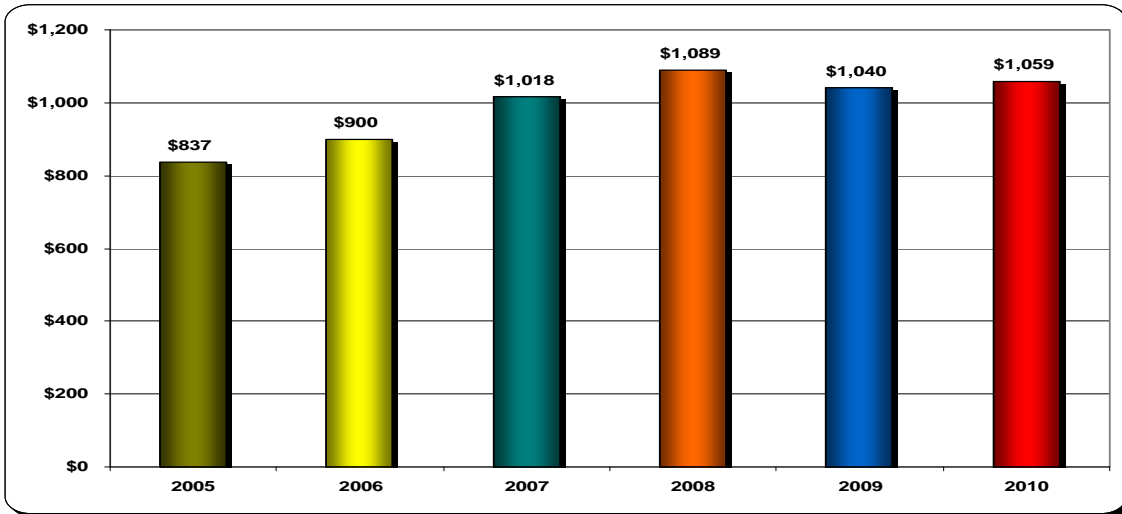
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Average Weekly Payment Amount: 2005 - 2010



Source: NCM / Subprime Analytics

BHPH FINANCIAL TRENDS Average Customer Down Payment: 2005 - 2010



Source: Subprime Analytics



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