
BUY HERE, PAY HERE INDUSTRY BENCHMARKS/TRENDS - 2018 -

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NOTES TO THESE BENCHMARKS

- 1) Financial information was prepared from the best performing dealers in the SGC database of more than 500 dealers nationwide. The operating information supplied by NIADA represents composite averages of their top 62 BHPH Twenty Group participants (based upon net profit). The business models of their 20 group participants are different from those surveyed by SGC and Subprime Analytics.**
- 2) The ratio and financial information on pages 5-6 has been verified for accuracy and comparability as to accounting policies and practices.**
- 3) Financial results are combined (dealer and related finance affiliate), where applicable.**
- 4) Intercompany activity has been eliminated from the financial information, where applicable.**
- 5) Financial information was provided by SGC Certified Public Accountants, Houston, Texas.**
- 6) Loss statistics were electronically compiled by Subprime Analytics, who has performed computerized portfolio analysis of approximately 2,200,000 subprime auto finance deals – aggregating over \$22.0 billion – to identify loss rates and patterns.**
- 7) Lease metrics were electronically compiled by Subprime Analytics from a database of Subprime leasing transactions aggregating over \$1 billion, including more than 80,000 deals.**



2018 BUY HERE, PAY HERE YEAR-END REVIEW & A LOOK AHEAD!

For 2018, The National Alliance of Buy Here, Pay Here Dealers (“NABD”) and Subprime Analytics, with the approval and participation of the National Independent Automobile Dealers Association (NIADA), prepared these industry benchmarks from a database of dealers and other operators nationwide. The financial benchmarks included herein were prepared and contributed by SGC Certified Public Accountants (“SGC”). The financial information they used represents a composite of the “best performing” operators and not an average of the entire industry. These benchmarks also include operating information on sales, collections and recoveries, and inventory management, supplied by NIADA 20 Groups from composite averages of their top 62 BHPH members. Also included are portfolio performance metrics compiled electronically by Subprime Analytics (“Subprime”) which, to date, has analyzed approximately \$22 billion (nearly 2.2 million deals) of subprime installment contracts to identify loss rates, patterns, and trends. In addition, subprime lease here, pay here loss metrics compiled by Subprime Analytics have been included for 2018. In the aggregate, these statistics provide a comprehensive look at the financial and operating performance of the industry, and important trend information.

Effective January 1, 2018, NIADA purchased the assets and operations of NABD and merged the two organizations. Subprime Analytics has contracted to provide analytical services, including periodic benchmark data to NIADA to support important legal and regulatory positions for the used car industry. On June 17-20, 2019, NIADA and NABD will hold a combined used car conference in Las Vegas at the Venetian Resort and Casino, where we will discuss these benchmarks and trends to help operators understand the changing subprime auto finance market. For further information, visit www.bhphinfo.com or www.niada.com. Industry benchmark reports for the past five years can be downloaded free of charge at www.subanalytics.com.

2018 YEAR IN REVIEW!

The financial benchmarks for 2018 continue to reflect a high level of competition within the deep subprime market which began in 2013. The more significant factors that impacted subprime auto finance performance in 2018 were:

- 1) Unit sales were generally flat compared with 2017 volumes. The most successful operators did not increase their sales prices and the related amounts financed to avoid further lengthening in the term of their contracts. In addition, down payments (including deferreds) were increased to reduce cash in deal. Repayment amounts remained flat. Individual operators in local markets were affected by varying levels of

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competition. In the third quarter, Wall Street securitization firms shifted their auto bond emphasis from subprime to near prime and prime credit customers, thereby reducing some of the competitive pressures experienced by independents during the last 3 years. However, credit unions continued to aggressively pursue subprime auto finance customers. As a result, Experian automotive market data indicated a decline of 0.3% of total outstanding BHPH receivables compared with 12/31/17 (total automotive receivables aggregated \$1.178 trillion dollars at 12/31/18). Wall Street auto bond securitizations of deep subprime paper slowed dramatically in the second half of 2018. These subprime securitizations previously fueled the significant growth in finance company portfolios during the last three years. Wall Street securitizers in the second half of 2018 also tightened underwriting criteria in connection with their shift to prime and near prime customers.

- 2) Increased defaults on deep subprime auto bond securitizations created regulatory pressures which have tightened credit availability for subprime auto operators. Banks and other regulated capital providers have implemented more stringent underwriting criteria and shifted to higher credit quality customers. Unregulated capital providers, like hedge funds, private equity firms, and specialty finance companies, have entered the subprime financing market to supplement the capital needs but not at the same pace.
- 3) Operators who reduced their sales prices and the amounts financed, tightened underwriting, and increased down payments enjoyed higher returns on their portfolio investments and better collection results.
- 4) Recovery values on repossessed vehicles (which were not retailed) declined slightly in 2018 and are still much lower than realizations from a few years ago. Therefore, average recoveries expressed as a percentage of the deficiency balances were lower.
- 5) Average financing rates approximated 20% per annum and have remained relatively consistent for the last three years in those states that do not have a regulated rate cap.
- 6) A comparison of the business models used by the independent operators we surveyed, compared with those models used in the deep subprime auto bond securitizations, indicated lower sales prices and amounts financed, shorter terms, and lower average monthly payments for the independents.

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- 7) “Cash in deal”, an important measure of portfolio risk, decreased by approximately 5% for operators who reduced the average cost of the vehicles they sold and required higher down payments.
- 8) Overall profitability improved slightly in 2018 when compared with 2017 due primarily to reductions in operating and bad debt expenses and increased finance income.

WHAT’S AHEAD IN 2019?

Although 2018 was a challenging and competitive year, new profit opportunities are ahead for independents in 2019 as follows:

- 1) Although capital availability for subprime auto remains challenging, competition from finance companies and captives will decline as they shift to higher credit quality customers. This creates an excellent opportunity for independents to regain market share if they have capital available to fund the growth.
- 2) New car prices coupled with higher interest rates make new car vehicle prices unaffordable to many customers. This should result in an increase in used car sales for 2019.
- 3) Cash efficient business models continue to provide higher returns on portfolio investments and reduce portfolio risk and the need for additional capital.
- 4) Customer relationships are needed to regain and to retain the best subprime customers. Operators who proactively use social media to connect and collect with subprime customers will do better. Subprime operators can no longer rely on tax refund business to regain lost market share.
- 5) In order to control operating costs, implementing new technology to improve efficiencies is recommended. The biggest historical BHPH “game changers” have been pay portals (ACH, debit cards, etc.), GPS that improve recoveries and collections, and the use of related finance companies to reduce federal income taxes on “phantom income”. Texting and the increased evolution of social media are the best prospects for the future.
- 6) As Congress enacts changes at the CFPB, compliance still remains very important. The state Attorneys’ General have become the new enforcers as the CFPB transfers its enforcement power to them.

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- 7) Competition for the best subprime customers has diluted their overall credit quality. Therefore, a better matching of customer income with the cost of the vehicle and its operating expense is needed to “keep the subprime vehicles sold”.
- 8) While used car values remained relatively stable in 2018, further declines should be expected in later model inventory as off lease and off rental vehicles remain in abundant supply.
- 9) The subprime leasing model has merit in states where compliance rules favor it. However, very limited capital availability, differing state compliance, limited software options, and the lack of secondary markets continue to limit leasing opportunities. Our metrics indicate that higher recoveries are possible with the leasing business model.

Operators must educate themselves on new market developments and market changes, the latest technology, enforcement actions, and capital market availability to prosper on the opportunities ahead. The best way to “accelerate your success” is to attend the NIADA/NABD Conference and Expo in Las Vegas on June 17-20, 2019.

BUY HERE, PAY HERE INDUSTRY BENCHMARKS / TRENDS 2018

Prepared by SGC Certified Public Accountants

Ratio Comparisons: 2016 - 2018

COMBINED BUY HERE / PAY HERE

Balance Sheet

(Inventory x Days) / Cost of Vehicle Sales
Cost of Vehicle Sales / Average Inventory Dollars
Vehicle Sales / Average Inventory Dollars
Vehicle Sales / Total Assets
Total Assets / Total Liabilities
Allowance for Bad Debts / Finance Receivables*
Total Debt / Total Assets

* Finance receivables is principal before allowance for doubtful accounts.

COMBINED BUY HERE / PAY HERE

Income Statement

Bad Debts / Vehicle Sales
Cost of Vehicle Sales / Vehicle Sales
Gross Profit*** / Vehicle Sales
Operating Expense / Vehicle Sales
Interest Expense / Financing Income
Operating Income / Vehicle Sales
Financing Income / Vehicle Sales
Compensation** / Vehicle Sales
Reconditioning Cost / Vehicle Sales

2018 Average BPHH Benchmark	2017 Average BPHH Benchmark	2016 Average BPHH Benchmark
50.51 days	50.54 days	53.21 days
7.35 x	7.02 x	6.89 x
12.03 x	11.72 x	11.39 x
0.89 x	0.87 x	0.89 x
1.61 x	1.63 x	1.63 x
25%	28%	26%
63%	62%	62%
2018 Average BPHH Benchmark	2017 Average BPHH Benchmark	2016 Average BPHH Benchmark
29%	30%	27%
61%	60%	61%
30%	29%	29%
20%	21%	23%
15%	16%	18%
10%	8%	6%
20%	19%	17%
10.11%	11.00%	12.00%
8.5%	7.9%	8.4%

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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BUY HERE, PAY HERE INDUSTRY BENCHMARKS / TRENDS 2018

Prepared by SGC Certified Public Accountants

Cost of Goods Sold and Operating Expense Detail: 2016- 2018

	2018 % of Vehicle Sales	2017 % of Vehicle Sales	2016 % of Vehicle Sales
<u>Cost of Vehicle Sales</u>			
Cost of vehicles	49.81%	49.47%	49.24%
Reconditioning costs	8.53%	7.87%	8.39%
Other	2.66%	2.66%	3.13%
Total cost of vehicle sales	61.00%	60.00%	60.76%
<u>Operating Expense</u>			
Advertising	3.29%	3.53%	3.74%
Bank charges	0.23%	0.17%	0.17%
Contributions	0.02%	0.03%	0.03%
Depreciation	0.34%	0.43%	0.49%
Dues and subscriptions	0.19%	0.21%	0.15%
Insurance	0.38%	0.39%	0.31%
Legal and accounting	0.48%	0.22%	0.24%
Outside services	0.24%	0.46%	0.79%
Office expense	0.77%	0.76%	0.79%
Rent	2.13%	2.09%	2.28%
Repairs and maintenance	0.27%	0.31%	0.15%
Salaries (non-owners)	10.11%	11.00%	11.97%
Taxes - general	0.10%	0.12%	0.09%
Other operating expense	0.05%	0.06%	0.16%
Taxes - payroll	0.72%	0.50%	0.51%
Utilities and telephone	0.39%	0.41%	0.59%
Travel / Training	0.29%	0.31%	0.33%
Total operating expense	20.00%	21.00%	22.79%



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Prepared by NIADA 20 Groups

20 Group Dealer Operating Information: 2016 - 2018

	2018 NIADA Benchmarks	2017 NIADA Benchmarks	2016 NIADA Benchmarks
<u>Sales</u>			
Average units sold per dealer (BHPH deals only)	816	612	708
Average cash in deal per vehicle sold	\$ 6,116	\$ 5,922	\$ 6,466
Average ACV per vehicle sold (includes recon)	\$ 6,820	\$ 6,838	\$ 7,438
Average reconditioning cost per vehicle sold	\$ 1,018	\$ 824	\$ 811
Average gross profit per vehicle sold	\$ 5,802	\$ 5,013	\$ 5,868
Average cash down payment (including trades, excluding deferreds)	\$ 835	\$ 916	\$ 972
Average amount financed	\$ 11,917	\$ 10,935	\$ 12,862
Average term of loan (in weeks)	186	182	186
<u>Collections / Recoveries</u>			
Average weekly payment amount	\$ 97	\$ 92	\$ 98
Percentage of accounts past due	19.7%	17.3%	17.9%
Average # of past due accounts per collector	79	88	94
Average net loss per charge off	\$ 6,624	\$ 5,393	\$ 6,807
Average portfolio delinquency			
Current	80.30%	82.70%	82.10%
1-15 days	11.10%	10.00%	10.50%
16-29 days	3.60%	3.10%	3.60%
30-59 days	2.60%	2.40%	2.30%
60-89 days	1.00%	0.90%	0.80%
90+ days	1.40%	0.90%	0.70%
	100.00%	100.00%	100.00%
<u>Inventory Management</u>			
Vehicle Days Supply (Units)	55	53	59
Average inventory aging			
0-30 days	49.20%	44.60%	48.70%
31-60 days	23.40%	24.80%	23.50%
61-90 days	14.10%	14.00%	14.30%
91+ days	13.30%	16.60%	13.50%
	100.00%	100.00%	100.00%



NATIONAL INDEPENDENT
AUTOMOBILE DEALERS ASSOCIATION

BUY HERE, PAY HERE INDUSTRY PERFORMANCE METRICS / TRENDS

Loss Metrics - 2018

<u>Loss Metrics</u>	<u>2018 BHPH Benchmarks</u>	<u>2017 BHPH Benchmarks</u>	<u>2016 BHPH Benchmarks</u>	<u>2018 LPHH Benchmarks</u>
Average gross dollar loss (before recoveries)	\$ 8,910	\$ 9,175	\$ 7,771	\$10,555
Average net dollar loss (after recoveries)	\$ 7,033	\$ 7,034	\$ 5,916	\$6,197
Average default rate (% of loans written off)	35.58%	34.97%	33.96%	32.87%
Average gross dollar loss/liquidation rate (% of principal)	39.56%	40.66%	38.76%	32.72%
Average net dollar loss/liquidation rate (% of principal)	27.34%	29.29%	28.42%	22.20%
Average recovery (% of deficiency recovered)	21.07%	23.33%	23.87%	41.29%
Highest cumulative default month after origination	22nd Month	22nd Month	22nd Month	22nd Month
Highest frequency of default (month after origination)	8th Month	7th Month	7th Month	5th Month
Worst periodic loss month after origination	February	February	February	February

Note: The above referenced BHPH loss data were compiled by electronically analyzing approximately 2,200,000 loans, aggregating \$22.0 billion to identify loss rates and trends.

The above referenced LPHH loss data were compiled by electronically analyzing approximately 80,000 leases aggregating \$1.0 billion to identify loss rates and trends.

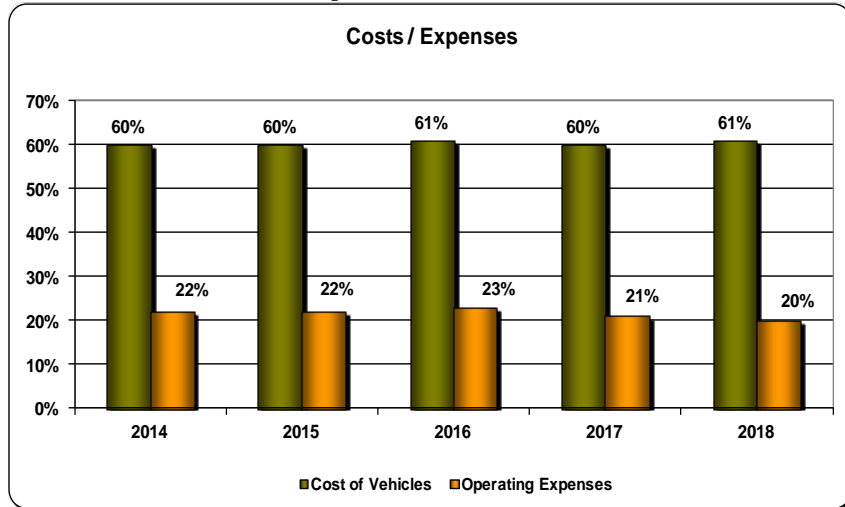
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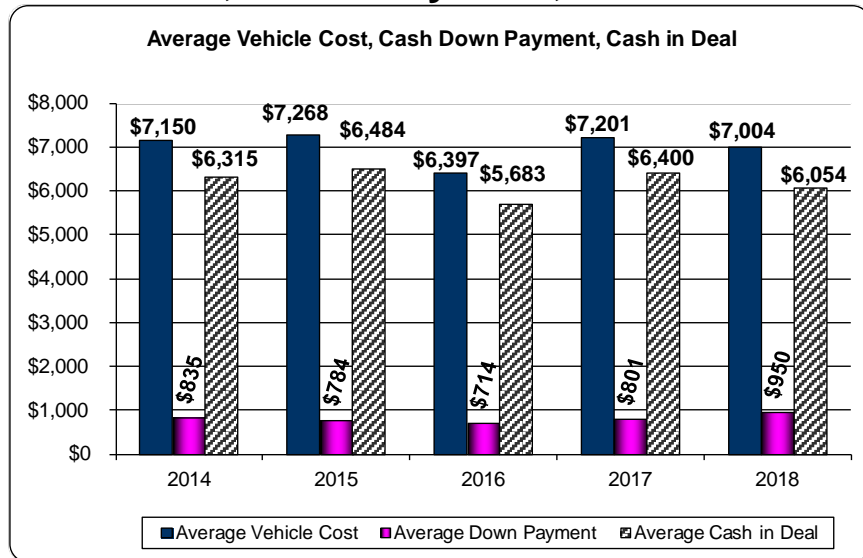
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Costs / Expenses: 2014 – 2018



Note: Percentages are expressed as a percentage of total sales.
Source: SGC Certified Public Accountants

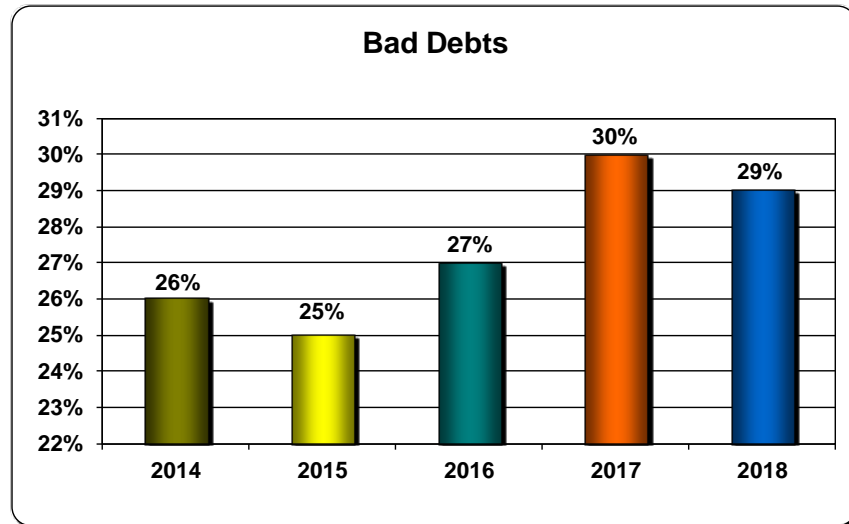
BHPH FINANCIAL TRENDS Average Vehicle Cost, Down Payment, Cash In Deal: 2014 – 2018



Source: Subprime Analytics

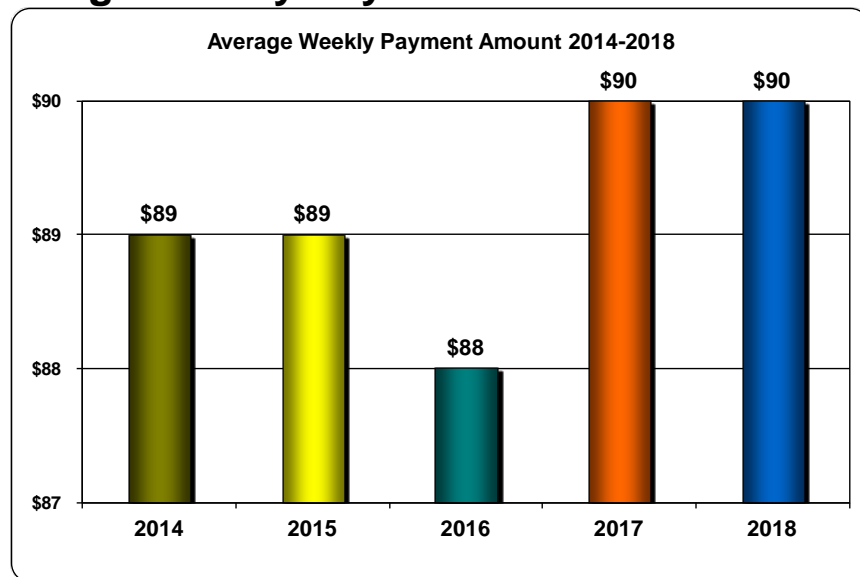
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Bad Debts: 2014 - 2018



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

BHPH FINANCIAL TRENDS Average Weekly Payment Amount: 2014 - 2018

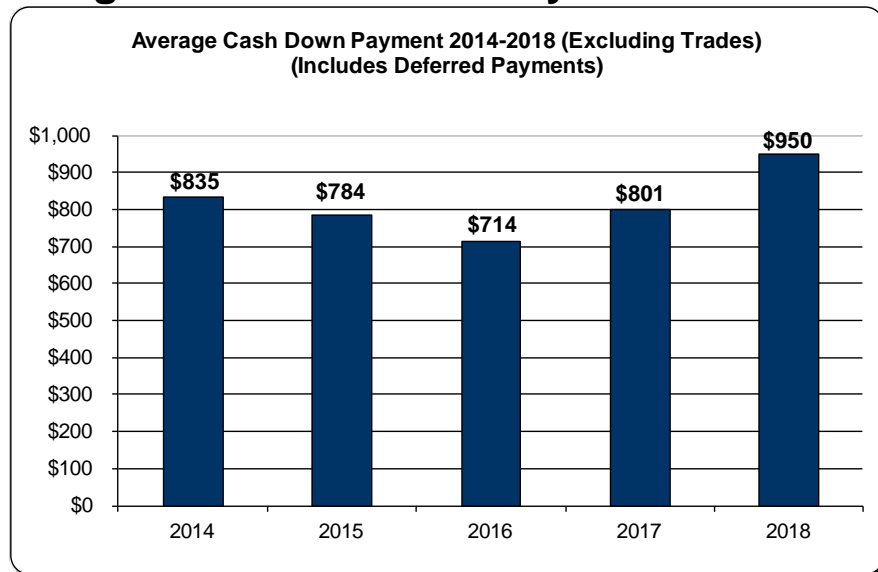


Source: Subprime Analytics

BPHH INDUSTRY TRENDS - GRAPHS

BPHH FINANCIAL TRENDS

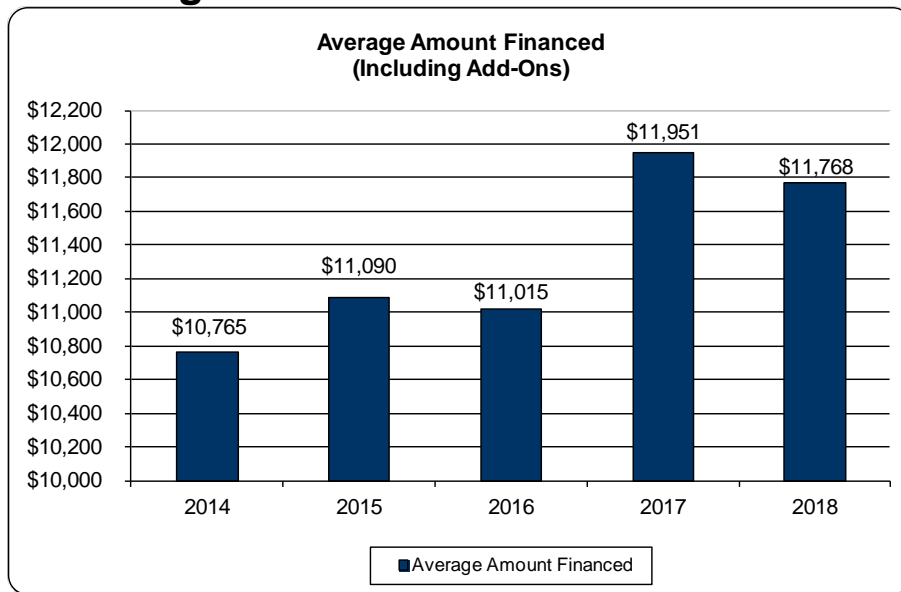
Average Customer Down Payment: 2014– 2018



Source: Subprime Analytics

BPHH FINANCIAL TRENDS

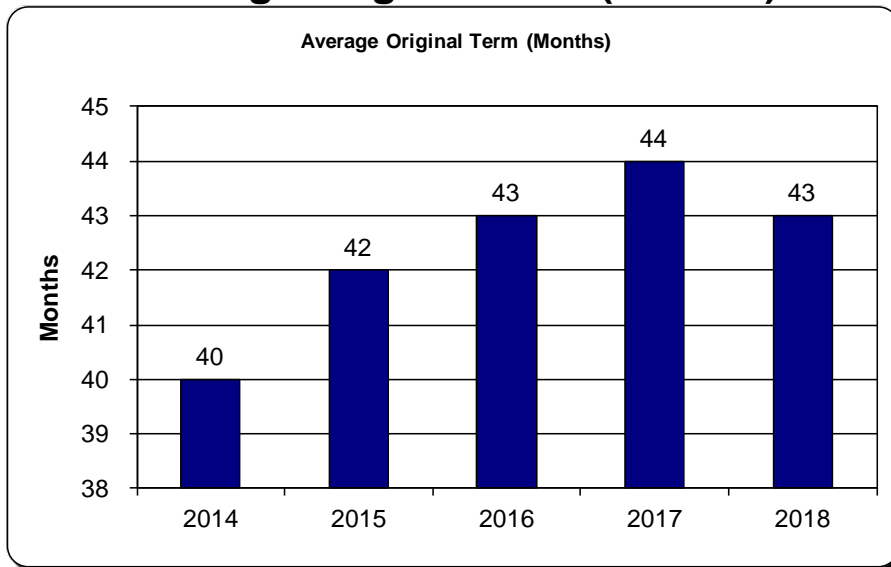
Average Amount Financed: 2014 – 2018



Source: Subprime Analytics

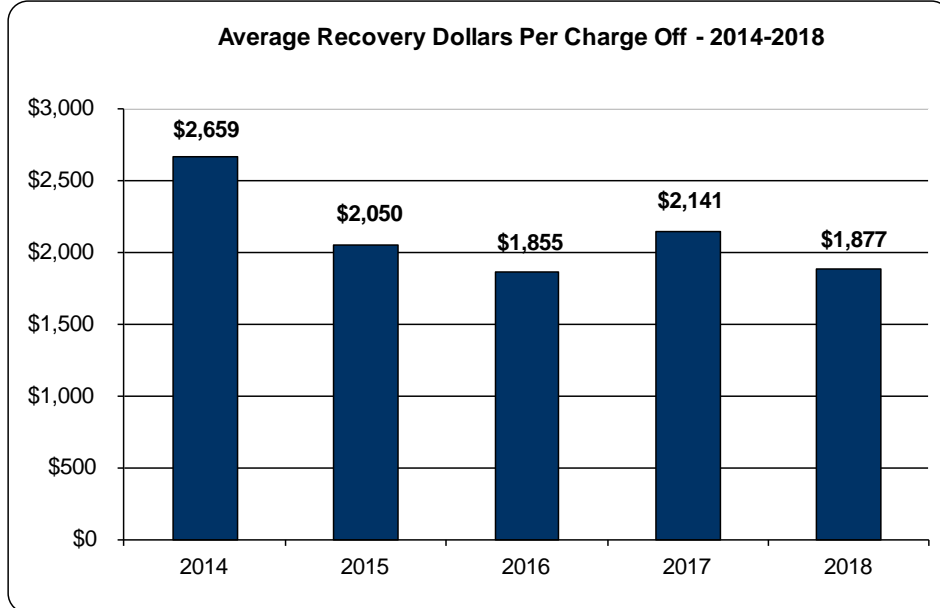
BHPH INDUSTRY TRENDS - GRAPHS

BHPH FINANCIAL TRENDS Average Original Term (Months)



Source: Subprime Analytics

BHPH FINANCIAL TRENDS Average Recovery Dollars Per Charge Off: 2014 – 2018



Source: Subprime Analytics