

CAR Financial Services
Perry Allen
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Dealer Solutions

Buy Here / Pay Here Financing Solutions

Agenda

- Wholesale vs Buy Here / Pay Here (BHPH)
- Avenues into the BH/PH Marketplace
 - Point of Sale (DSA)
 - “In House” Financing
 - PIPP (Payment Interval Purchase Program)
 - Bulk Purchase Program
 - Servicing
- Questions & Answers

Wholesale vs BH/PH

- **Wholesale Example**

- 2004 Chevrolet Cavalier 4 cylinder – 4dr
 - 100 K miles
 - \$2,250 Auction Value
- Dealer picked up on trade for \$2000
- Sells wholesale for \$2250-\$2500
- **Profit = \$250-\$500**
 - **12.5%-25% Profit**

- **BH/PH Example**

- Same vehicle
- Dealer Retail for \$4,500
 - TTL = \$360 (8%)
 - Down Pmt = \$900 (20%)
 - Amt Fin = \$3,960
 - Term = 18 months
 - APR = 24%
 - Customer Pmt = \$264.14
 - TOP = \$4,754.53
 - **Profit = \$3,294.53**
 - **140% Profit**

Wholesale vs BH/PH

- **Wholesale Pros**
 - Avoid auction and transportation costs
 - Quicker trade in vehicle turn over
 - Business to Business networking
- **BH / PH Pros**
 - Avoid auction cost and transportation costs
 - Much higher return on investment
 - Increase business to customer networking
 - Increases customer base for potential 1st time buyers from your dealership
 - Increases the customer base for referral and/or repeat buyers for your dealership
 - Discount on receivables you sell can reduce your taxable income

Rules for market entry strategies

- Must be easy to use & implement
- Must contain some underwriting criteria to help support portfolio performance
 - Regardless of Secondary Financing or “In House” Finance Solution
 - See NABD for statistical underwriting support
- Must provide short and long term value
- Must provide dealer with flexibility
- Must provide the dealer with leverage on capital
- Must provide risk mitigation
- Dealer must want to be in this business!
 - Accept the BH / PH customer has a 20-30% bad rate.

Point of Sale for BH / PH

- Dealer Select Advance (DSA)
 - Real time / Web based decision engine
 - Easy to use & available 24 / 7
 - Majority of customer contractual paperwork provided by system via “Banker Systems / AppOne” document engine at no additional cost to dealer
 - Underwriting criteria set by the system helps to ensure predictable performance
 - Dealer makes solid up front profit and owns a portion of the customer payments going forward
 - 1st Payment default contractual recourse
 - Active pool management and reporting for dealers
 - Discounted trade in benefit to encourage repeat sales

Point of Sale for BH / PH

- Example:
 - 2004 Chevy Cavalier / 100K miles / \$2,000 ACV
 - \$500 reconditioning cost
 - NADA Retail value \$5,000
 - Dealer can sell for up to 135% of NADA Retail (\$6,750)
 - Dealer Sells for \$5,499.99
 - TTL @ 8% = \$440
 - Down Payment @ 20% = \$1100
 - Amount Fin = \$4,839.99 @ 24% for 24mo = \$255.90 pmt
 - CAR advances (estimated) = \$2,656.49
 - Dealer Net Cash Flow = \$816.49 (27.77% Profit)
 - Remember wholesale only made \$250-\$500
 - Plus the dealer would participate in an estimated 30% of every payment = \$1,842.48 of potential extra profit

Point of Sale for BH / PH

- **Point of Sale Pros**

- Easy to access and use system
- Easy access to capital leverage
- Built in underwriting and risk mitigation
- Built in collection and portfolio management
- Limited Recourse
 - Dealer will always be offered ability to buy contract back and reclaim asset, however, is only obligated to 1st payment default
- Discount trade in benefit can bring repeat sales

- **Point of Sale Cons**

- Dealer does not control all underwriting as customer and vehicle must fit system criteria

“In House” Financing

- Gives dealer complete control of underwriting
- Can be capital intensive given that dealer must “float” the accounts from 8-12 months on average before seeing profit.
- Dealer incurs overhead expense for collections, management, and potentially repo costs.
- All accounts are “full recourse” to the dealer but backed by the automotive asset

“In House” Financing

- Example:
 - 2004 Chevy Cavalier / 100K miles / \$2,000 ACV
 - \$500 reconditioning cost
 - NADA Retail value \$5,000
 - Dealer Sells for \$5,499.99
 - TTL @ 8% = \$440
 - Down Payment @ 20% = \$1100
 - Amount Fin = \$4,839.99 @ 24% for 24mo = \$255.90 pmt
 - Dealer Net Cash Flow = **-\$1,840.**
 - Dealer must carry note for 8 months before he nets any profit.
 - 150 accounts = \$276,000 in capital ... plus inventory costs
 - 150 cars @ \$2,500 = \$375,000 in capital ...
 - Capital needs over time can easily exceed \$1 Million

“In House” Financing Solutions

- *Capital Solutions:*
 - Bulk Purchase of Receivables (Bulk)
 - Payment Interval Purchase Program (PIPP)
 - Both of these cash flow solutions are available on both retail installment contracts and lease contracts.
- *Servicing Solutions*
 - Control Overhead Cost
 - Allow seamless transition from dealer to CAR
 - Especially when dealer intends to sell receivable anyway
 - Report to all 3 Credit Bureaus
 - CAR Representative provides dealer with regular reporting on portfolio performance.
 - Accounts are managed in accordance to state law and the dealers operational standards.

PIPP Purchase Cash Flow

- **PIPP Purchase Program:**

- Using Prior Account as the Example.
- Dealer day 1 = **-\$1,840**
- Customer Pmt = \$255.90
- Dealer collects for 1st pmt.
- CAR then comes in and purchases 9 months worth of payments @ 75% = \$1,727.33

- Dealer Day 1 = -(\$1,840)
- Day 30 collects = \$255.90
- Day 31 PIPP = \$1,727.33
- **Dealer Net = \$143.23**
- **Dealer becomes net cash positive in 31 days**
- Limits dealer capital output
 - Dealer still owns the acct
- At the end of 9 month PIPP dealer can:
 - Reclaim acct and collect out
 - Have CAR service acct
 - Sell another stream (PIPP)
 - Sell remaining acct balance

PIPP to Bulk Purchase Cash Flow

- **Bulk Purchase Program:**

- Using Prior Account as the Example.
- Dealer day 1 = **-\$1,840**
- Customer Pmt = \$255.90
- Dealer collects for 1st pmt.
- CAR purchases 9 months worth of payments @ 75% = \$1,727.33
- Customer Balance after PIPP = \$3,097.94
- CAR Bulk (\$2,748.22)
- Advance (Net) = \$1,973.74
- Reserve = \$774.78

- *Cash Flow Timeline*

- Dealer Day 1 = -(\$1,840)
- Day 30 collects = \$255.90
- Day 31 PIPP = \$1,727.33
- **Dealer Net = \$143.23**
- **Dealer becomes net cash positive in 31 days**
- Beginning Month 11 CAR does Bulk Purchase
- Bulk Advance = \$1,973.74
- Bulk Reserve = \$774.78
 - Reserve is paid Qtrly
- Dealer Profit = \$2,116.97
- Total Potential = \$2,891.75

“In House” BH / PH

- **“In House” Pros**
 - Dealer controls all aspects of underwriting
 - Dealer has total control of operations
 - Builds larger customer base
 - Helps to build referrals and repeat sales in the future
- **“In House” Cons**
 - Dealer required to invest large amounts of capital
 - No immediate returns without help from outside cash flow solutions
 - Dealer incurs costs of total operations (collections, management, repo, & legal)
 - Dealer has tax liability on accrued profits
 - Dealer on full recourse because he owns the accounts.
 - Accounts are really backed by the asset, not the customer

“In House” with PIPP to Bulk Support

- **“In House” with PIPP to Bulk Pros**
 - Dealer controls all aspects of underwriting
 - Dealer supervises operations through his CAR rep
 - Builds larger customer base
 - Helps to build referrals and repeat sales in the future
 - Limits Capital Exposure
 - Increases cash flow for business growth
 - Reduces time to profitability per account
 - Reduces recourse period
 - Discount on receivable sales can provide tax benefit
- **“In House” with PIPP to Bulk Cons**
 - Reduction of total profit due to discount

Other useful tips

- Don't over invest in a BH / PH customer (asset)
 - Keep them in an affordable asset (for you)
 - ACV between 2-5K is optimal for this consumer
 - Mark up is better on this class of vehicle
 - Customer reduction of your vehicle value is limited in cases where you have to recover the asset.
 - Make sure the customer “has skin in the game”
 - Down payment helps secure your profitability and limits your risk
- Understand this business model and customer before you dive in
 - Utilize resources available
 - NABD – National Association of Buy Here / Pay Here Dealers
 - Years of information – on billions in BHPH portfolios

Q & A

Thank you for your time.

Feel free to contact me at anytime.

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